



Issue Date	April 16, 2010
------------	----------------

Audit Report Number	2010-KC-0001
---------------------	--------------

TO: Milan M. Ozdinec, Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, PE

FROM: **//signed//**  
Ronald J. Hosking, Regional Inspector General for Audit, Kansas City, Region VII, 7AGA

SUBJECT: HUD Took Appropriate Steps to Improve Its Controls over Net Restricted Assets but Overpaid Section 8 Set-Aside Funds to One Public Housing Agency

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing and Voucher Programs' management of public housing agency net restricted assets because Congress directed that HUD use these net restricted assets to replace \$750 million in rescinded Section 8 funds. We also audited HUD's 2009 housing choice voucher set-aside fund awards because funding shortfalls for unforeseen circumstances and higher than average leasing were estimated to be more than \$46 million and \$31 million, respectively, as of August 2009.

Our objectives were to determine whether HUD reasonably ensured that public housing agencies properly managed their housing choice voucher net restricted assets and whether HUD set-aside fund awards for unforeseen circumstances and higher than average leasing rates were appropriate.

## **What We Found**

HUD had already discovered that it did not have accurate information about the net restricted assets of some public housing agencies and was taking appropriate steps to improve its controls over net restricted assets.

Also, for 1 of the 10 set-aside fund awards reviewed, HUD did not ensure that about \$18,000 was used for its intended purpose. HUD immediately remedied the problem.

## **What We Recommend**

We recommend that the Office of Public Housing and Voucher programs (1) rectify the discrepancy for the award overpayment, (2) check the accuracy of other unforeseen circumstance awards made for similar tenant income reductions and rectify any discrepancies, and (3) correct the process for future similar awards.

HUD agreed to implement these recommendations and at the exit conference on March 5, 2010, and in its response to the report, told us it had already addressed the recommendations. Therefore, we plan to close the recommendations upon issuance of the report.

## **Auditee's Response**

We provided the discussion draft to HUD on March 1, 2010 and requested a response by March 31, 2010. HUD provided a response on March 31, 2010. HUD generally agreed with our finding. The complete text of the auditee's response can be found in appendix B of this report.

# TABLE OF CONTENTS

---

Background and Objectives	4
Results of Audit	
Finding 1: HUD Took Appropriate Steps to Improve Its Controls over Net Restricted Assets but Overpaid Section 8 Set-Aside Funds to One Public Housing Agency	5
Scope and Methodology	8
Internal Controls	9
Appendixes	
A. Schedule of Questioned Costs	10
B. Auditee Comments	11

## **BACKGROUND AND OBJECTIVES**

---

The Section 8 Housing Choice Voucher program is the Federal Government's major program for assisting very low-income families, the elderly, and the disabled in obtaining decent, safe, and sanitary housing in the private market. Participants are free to choose any housing meeting program requirements. The U.S. Department of Housing and Urban Development (HUD) provides Federal funds to public housing agencies to make housing assistance payments to landlords on behalf of the families. The families pay the difference between the actual rent and the subsidized amount. According to June 2009 Voucher Management System data, almost 2,400 public housing agencies administer Housing Choice Voucher programs for about two million families.

HUD uses the Voucher Management System to monitor and manage the public housing agencies' use of vouchers. Agencies enter data that enable HUD to fund, obligate, and disburse funding in a timely manner, based on actual agency use.

Since January 2005, HUD has used a budget-based approach for housing choice voucher funding. This funding is a fixed amount based on the prior-year's cost, and public housing agencies must maintain any budget authority that exceeds actual program expenses as net restricted assets.

The objectives of the audit were to determine whether HUD reasonably ensured that public housing agencies properly managed their housing choice voucher net restricted assets and whether HUD set-aside fund awards for unforeseen circumstances and higher than average leasing rates were appropriate.

## RESULTS OF AUDIT

---

### Finding 1: HUD Took Appropriate Steps to Improve Its Controls over Net Restricted Assets but Overpaid Section 8 Set-Aside Funds to One Public Housing Agency

HUD took steps to ensure that public housing agencies properly managed their housing choice voucher net restricted assets but incorrectly calculated 1 of the 10 set-aside fund awards reviewed. The incorrect calculation occurred because HUD considered it reasonable to award funds for housing assistance payment increases not yet known or reported. As a result, HUD awarded \$17,992 more than the public housing agency was authorized to receive.

---

#### **HUD Discovered a Weakness in Its Voucher Management System Management**

The 2009 Omnibus Appropriations Act (Act) reduced HUD's Section 8 funding allocation of \$16 billion by \$750 million. Congress directed HUD to make up the reduction by adjusting the funding allocations of public housing agencies based on the amount of each agency's net restricted assets shown in HUD's Voucher Management System. To ensure that it had accurate information upon which to base the funding allocations, HUD advised public housing agencies in January 2009 to update their net restricted asset balances in the Voucher Management System. During this validation, HUD discovered that the Voucher Management System did not always have accurate information and some agencies did not have the amount of net restricted assets they should have had.

HUD hired a contractor to determine the cumulative amount of each agency's net restricted assets. HUD plans to compare this amount to the agency's net restricted assets reported in the audited financial statements and reconcile any differences. It will also use this amount as the baseline amount for future agency financial statement analysis.

During this process, HUD also identified agencies that might have been required to terminate vouchers due to funding shortages and worked with them to prevent any effect on voucher holders.

### **HUD Established Requirements for Awarding Set-Aside Funds**

The Act also set aside \$100 million to help public housing agencies pay for increased program costs due to unforeseen circumstances, higher than average leasing rates, and other things. In Public and Indian Housing Notice 2009-13, HUD required agencies to provide sufficient evidence for HUD to determine a funding amount. HUD gave one agency \$17,992 more than the supporting documentation warranted because it based the award on projected rather than actual need. HUD considered it reasonable to award funds for housing assistance increases not yet known or reported and intended the extra funds to pay for any increases that might have occurred from July through December 2009. However, HUD's policy of awarding set-aside funds based on a projection of need did not ensure that the \$17,992 would be used in accordance with the Act.

### **HUD Immediately Resolved the Issue**

When we informed HUD of the discrepancy, the Office of Public Housing and Voucher Programs immediately contacted the agency and obtained documentation showing that the agency spent the funds for eligible expenses.

We did not pursue similar awards because the unsupported amounts are likely to be small and because the public housing agencies would likely have had similar additional increases in housing assistance payments for which the funds were intended.

### **Management Decision and Recommendation Implementation**

The Office of Public Housing and Voucher Programs reached and implemented acceptable management decisions for the recommendations. The management decisions and final actions will be entered in the department audit resolution and tracking system upon report issuance. We did not verify the implementation.

## Recommendations

We recommend that the Office of Public Housing and Voucher Programs

- 1A. Review the accuracy of other set-aside fund awards made for similar unforeseen circumstances, rectify any discrepancies, and pursue the return of any excess funding not used for the intended purpose.<sup>1</sup>
- 1B. Ensure that the policies for any similar future set-aside fund awards provide for proper use of the funds.

---

<sup>1</sup> The Office of Public Housing and Voucher Programs has already resolved the one exception reported in this finding. The amount that would have been classified as unsupported in this finding, had it not been resolved, would have been \$17,992. Accordingly, we included that amount in appendix A, Schedule of Questioned Costs.

## SCOPE AND METHODOLOGY

---

Our scope was net restricted assets from January 2007 through June 2009. We also reviewed 2009 Federal fiscal year housing choice voucher set-aside fund awards HUD made for public housing agency unforeseen circumstances and increased leasing.

To accomplish our objectives, we reviewed applicable laws, regulations, and other HUD requirements; interviewed HUD officials; and reviewed HUD's supporting documentation for and calculations of selected set-aside fund award amounts.

We used representative, nonstatistical samples to determine whether HUD had supporting documentation for the set-aside fund awards made for unforeseen circumstances and increased leasing and to test the calculations of the amounts. We randomly selected 5 agencies from the 74 receiving set-aside fund awards for unforeseen circumstances and 5 from the 152 receiving set-aside fund awards for increased leasing under Public and Indian Housing Notice 2009-13, Implementation of the Federal Fiscal Year 2009 Funding Provisions for the Housing Choice Voucher Program, issued May 6 2009.

We relied on electronic data from HUD's Voucher Management System for background use only. We used Voucher Management System data in our calculations but because our objective was only to determine the accuracy of HUD's calculations using the same electronic data, we did not assess the reliability of the electronic data.

We performed portions of the audit in our Seattle, WA, office from October through December 2009 and conducted the fieldwork at the Office of Public Housing and Voucher Programs at HUD headquarters in Washington, DC, in October and November 2009.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



# INTERNAL CONTROLS

---

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

---

## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Policies and procedures intended to ensure that program funds were used only for authorized purposes.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

We assessed the relevant controls identified above and found no significant weaknesses.

# APPENDIXES

---

## Appendix A

### SCHEDULE OF QUESTIONED COSTS

---

Recommendation number	Unsupported 1/
1A	\$17,992

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. When we notified HUD officials of the discrepancy, they immediately took steps to confirm that the public housing agency spent this amount for the legislated purpose.

## Appendix B

# AUDITEE COMMENTS

---

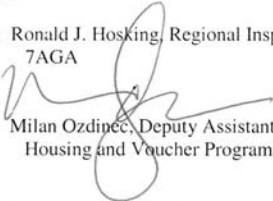
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-5000



OFFICE OF PUBLIC AND INDIAN HOUSING

MAR 31 2010

MEMORANDUM FOR: Ronald J. Hosking, Regional Inspector General for Audit,  
7AGA

FROM:   
Milan Ozdipeć, Deputy Assistant Secretary, Office of Public  
Housing and Voucher Programs, PE

SUBJECT: Response to the OIG Draft Audit Report: HUD Took  
Appropriate Steps to Improve Its Controls over Net  
Restricted Assets but Overpaid Section 8 Set-Aside Funds  
to One Public Housing Agency.

Thank you for meeting with the Office of Public Housing and Voucher Programs (OHVP) during the week of March 1, 2010, to discuss the subject draft audit report. For your consideration, the OHVP respectfully requests closing this audit report at receipt of this memorandum, without further actions needed. The justifications for our request are summarized in this memorandum.

When the Housing Voucher Financial Management Division (FMD) published the PIH Notice 2009-13, *Implementation of the 2009 Funding Provisions for the Housing Choice Voucher Programs*, over 900 applications for the set aside funding were received for processing. The notice told the public housing agencies (PHAs) to justify and to fully document their applications for some of the funding provisions, such as the unforeseen circumstances category, and that the PHAs had to demonstrate a direct correlation between the unforeseen circumstances and their HCV families.

In the specific case that the OIG brought up to the FMD's attention, the PHA had estimated their increased costs through June 2009 which the PHA asserted were caused by decreases in tenant contributions toward rent. The reviewer of this set aside application had confirmed the PHA's funding adjustment request; however, during the quality assurance review, it was determined that a conservative adjustment would be a more accurate calculation of the PHA's increased costs, because it would cover the increased costs through December 2009. When the auditor questioned the adjustment, the FMD contacted the PHA immediately to request an updated calculation of the increased costs through December 2009, which affirmatively demonstrated that the

questioned \$18,000 were additional funds needed by the PHA. The OIG commended the promptness of the FMD's reaction and resolution of this finding in the subject report.

In order to improve analyses and funding determination of future set aside funding requests, the FMD has requested more standard documentation for the unforeseen circumstances applications, and will continue giving reasonable consideration to the diversity of circumstances that PHAs could endure in their jurisdictions. The FMD will continue reinforcing the internal control processes and quality control for accurateness and reasonableness.

If you need further information, please contact Miguel A. Fontánez, Director, FMD, at 202-402-4212.