



# U.S. Department of Housing and Urban Development, Office of Multifamily Housing Programs, Washington, DC

## Multifamily Section 8 Project-Based Rental Assistance

**Office of Audit, Region 6  
Fort Worth, TX**

**Audit Report Number: 2020-FW-0001  
February 26, 2020**

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**To:** C. Lamar Seats, Deputy Assistant Secretary for Multifamily Housing, HT

**From:** //signed//  
Tracey Carney, Acting Regional Inspector General for Audit, 6AGA

**Subject:** HUD Did Not Have Adequate Oversight To Ensure That Its Payments to Subsidized Property Owners Were Accurate and Supported When It Suspended Contract Administrator Reviews

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Section 8 Project-Based Rental Assistance program in HUD's Southwest Region.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov/>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



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**HUD Did Not Have Adequate Oversight To Ensure That Its Payments to Subsidized Property Owners Were Accurate and Supported When It Suspended Contract Administrator Reviews**

## Highlights

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### What We Audited and Why

In 2016, we began a series of audits in accordance with our goal to review the U.S. Department of Housing and Urban Development's (HUD) multifamily housing programs. We issued five reports detailing violations found at Project-Based Rental Assistance (PBRA) properties in HUD's Southwest Region. This assignment is a rollup of those five reports. In addition, we reviewed HUD's controls to ensure that its housing assistance payment subsidies were based on accurate and supported information. Our audit objective was to determine whether HUD had adequate oversight of its PBRA program in the Southwest Region during the 5 years in which it suspended its project-based contract administrators' management and occupancy reviews.

### What We Found

HUD did not have adequate oversight of its PBRA program in the Southwest Region during the 5 years in which it suspended its project-based contract administrators' management and occupancy reviews. Specifically, during that time, HUD paid subsidies to property owners for nonexistent and unsupported tenants based on falsified, inaccurate, and unverified information. These conditions occurred because when HUD suspended the reviews of the assisted properties, it removed a major tool used by the contract administrators to verify housing assistance payment subsidies. Further, HUD's contract amendment process created instability in the contract administrator's operations. HUD did not adequately implement replacement procedures or its own onsite monitoring to reduce the deterioration and mismanagement risks to the properties it subsidized. This lack of monitoring resulted in owners' not meeting contract requirements and incurring more than \$5.6 million in questioned costs. When HUD reinstated the reviews, contract administrators faced many compliance issues resulting from the lack of onsite monitoring for 5 years.

### What We Recommend

We recommend that the Office of Multifamily Housing Programs (1) enforce its written policies and procedures to ensure that the verification and payment of housing assistance payment subsidies for properties it subsidizes are based on accurate and supported information; (2) establish and implement policies to ensure effective contract administration, including providing project-based contract administrator contract amendments in a timely manner; and (3) develop contingency policies and procedures to ensure that the properties it subsidizes receive adequate and verifiable continuous monitoring.

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# Background and Objective

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The Section 8 Project-Based Rental Assistance (PBRA) program was authorized by Congress in 1974 to provide rental subsidies for eligible tenant families residing in specific multifamily rental properties. Under the program, the U.S. Department of Housing and Urban Development (HUD) enters into long-term housing assistance payments contracts with project owners to provide housing units to eligible tenants. HUD also contracts with project-based contract administrators to monitor and enforce owner compliance with the terms of the contracts and HUD regulations and requirements.

HUD's original annual contributions contract with the contract administrators<sup>1</sup> included 10 core tasks that the contract administrators were responsible for completing. Within these 10 core tasks, there were 16 incentive-based performance standards. The principal compliance and monitoring tool under the contract was core task number 1, conducting management and occupancy reviews.<sup>2</sup> In response to litigation resulting from HUD's attempt to reprocur contract administrators for the PBRA program, in October 2011 HUD suspended 10 of 16 incentive-based performance standards tasks for 42 contract administrators,<sup>3</sup> including the annual management and occupancy review task. HUD also adjusted the contract administrator fee structure.

In April 2014, Congress approved HUD's Office of Multifamily Programs' transformation restructuring plan. Under the plan, over a few years, HUD consolidated its field operations from 52 field offices organized under 17 hubs into 12 locations across 5 regions and streamlined its organizational structure into 4 program offices in its headquarters. HUD completed the Southwest Region transformation in December 2014. The Southwest Region's regional center is in Fort Worth, TX, and its satellite office is in Kansas City, KS.

Contract administrator oversight monitors in HUD headquarters are responsible for overseeing contract administrator performance under their contracts with HUD. The regional and satellite offices are responsible for handling day-to-day interactions with contract administrators within their regions. Eight contract administrators were responsible for 2,239 contracts with property owners in the 9 Southwest Region States, which covered 146,033 subsidized units. During the period May 1, 2016,<sup>4</sup> through February 28, 2019, HUD paid more than \$2.5 billion in housing assistance payment subsidies to the property owners (table 1).

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<sup>1</sup> HUD awarded annual contributions contracts to 37 contract administrators in 53 States and territories in the year 2000. It awarded an additional seven contracts between 2001 and 2003 and the remaining nine contracts between 2003 and 2005.

<sup>2</sup> Conducting management and occupancy reviews was core task number 1 and incentive-based performance standard number 1.

<sup>3</sup> These tasks were not suspended for the Iowa Finance Authority and 10 other States and territories.

<sup>4</sup> These amounts were from the contract administrators. (See the Scope and Methodology section.) HUD was able to provide data for housing assistance payments of \$1.8 billion for only May 1, 2017, through February 28, 2019, not the entire audit period of May 1, 2016, through February 28, 2019.

**Table 1: Southwest Region project-based contract administrator portfolios**

Project-based contract administrator	State	Number of contracts	Number of units	Housing assistance payment subsidies paid
Southwest Housing Compliance Corporation	Arkansas Texas	838	60,546	\$1,132,864,494
Iowa Finance Authority	Iowa	215	11,774	172,524,136
Kansas Housing Resources Corporation	Kansas	232	11,059	162,738,213
Louisiana Housing Corporation	Louisiana	175	15,048	280,034,288
Missouri Housing Development Corporation	Missouri	348	23,386	416,620,021
Housing Authority for the City of Bremerton, WA	Nebraska	163	6,267	80,499,829
Mortgage Finance Authority	New Mexico	86	5,189	84,937,473
Oklahoma Housing Finance Agency	Oklahoma	182	12,764	208,736,096
<b>Totals</b>		<b>2,239</b>	<b>146,033</b>	<b>2,538,954,550</b>

HUD did not reinstate the management and occupancy reviews until May 2016, resulting in multifamily Section 8 PBRA-subsidized properties going without onsite monitoring for 5 years. The amended contracts did not require the annual onsite reviews. Instead, the number of reviews contract administrators could perform was based on available funding and required HUD approval. The 2011 fee structure remained, plus a fee of \$3,800 for each completed review and a contingency fee up to \$500 per review, subject to the availability of appropriations.

Based on requests and our goal to review HUD’s multifamily housing programs, we audited the PBRA programs at five subsidized properties in HUD’s Southwest Region (table 2). The reports we issued were for properties located in Texas. HUD’s Fort Worth office had responsibility for three of the properties, and its Kansas City office was responsible for the other two properties.

**Table 2: Southwest Region PBRA program audit reports issued**

Property	Report number	Date report issued	Audit period	Tenant subsidies paid*
Beverly Place Apartments	2017-FW-1009	06/29/2017	01/2013 – 12/2015	\$1.8 million
Villa Main Apartments	2018-FW-1002	01/31/2018	01/2012 – 05/2017	2.2 million
Eastwood Terrace Apartments	2018-FW-1005	08/02/2018	06/2014 – 09/2017	5.1 million
Louis Manor Apartments	2018-FW-1006	08/31/2018	10/2015 – 03/2018	2.5 million
Northline Point Apartments	2019-FW-1003	06/10/2019	07/2015 – 07/2018	2.4 million

\* The amounts are rounded. HUD paid these five property owners tenant subsidies totaling \$14,215,230 for various audit periods between January 2012 and July 2018.

Our audit objective was to determine whether HUD had adequate oversight of its PBRA program in the Southwest Region during the 5 years in which it suspended its project-based contract administrators’ management and occupancy reviews. We also summarized the results of our five audits to identify common areas of concern or systemic deficiencies.

# Results of Audit

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## **Finding: HUD Did Not Have Adequate Oversight To Ensure That Its Payments to Subsidized Property Owners Were Accurate and Supported When It Suspended Contract Administrator Reviews**

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HUD did not have adequate oversight of its PBRA program in the Southwest Region during the 5 years in which it suspended its project-based contract administrators' management and occupancy reviews. Specifically, during the 5 years in which HUD stopped its contract administrators from conducting management and occupancy reviews, it paid subsidies to owners for nonexistent and unsupported tenants based on falsified, inaccurate, and unverified information. These conditions occurred because when HUD suspended the reviews of the assisted properties, it removed a major tool used by the contract administrators for verifying housing assistance payment subsidies. Further complicating this issue, contract administrators had been operating under short-term contract renewals, which created instability in their operations. HUD did not adequately implement replacement procedures or its own onsite monitoring to reduce the deterioration and mismanagement risks to the properties it subsidized. This lack of monitoring resulted in owners' not meeting contract requirements and incurring more than \$5.6 million in questioned costs. In addition, when HUD reinstated the reviews, contract administrators faced many compliance issues resulting from 5 years without onsite monitoring.

**HUD Did Not Have Adequate Oversight of its PBRA Program in the Southwest Region**  
Before 2011, HUD's contract administrators were responsible for performing management and occupancy reviews at 100 percent of the properties covered under their respective contracts. In 2011, when HUD attempted to reprocure the project-based contract administrator contracts, many protests were filed with the U.S. Government Accountability Office,<sup>5</sup> followed by litigation<sup>6</sup> against HUD affecting 42 States and territories regarding the procurement.<sup>7</sup> As a result, HUD decided to stop the reviews pending settlement of the litigation. In 2016, HUD reinstated the performance of management and occupancy reviews to the 42 contract administrators' contracts. However, during the 5 years in which its contract administrators' reviews were suspended, HUD did not adequately implement replacement procedures or its own onsite monitoring. HUD staff members reported that some desk reviews were performed and

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<sup>5</sup> U.S. Government Accountability Office decision B-406738 et al., dated August 15, 2012

<sup>6</sup> CMS Contract Management Services v. United States, U.S. Court of Federal Claims Nos. 12-852C, 12-853C, 12-862C, 12-864C, and 12-869C, filed April 19, 2013; CMS Contract Management Services v. Massachusetts Housing Finance Agency v. United States, U.S. Court of Appeals for the Federal Circuit, No. 2013-5093, filed March 25, 2014, and August 8, 2014; United States v. CMS Contract Management Services, et. al., Supreme Court Docket No. 14-781, denied April 20, 2015

<sup>7</sup> Eleven States and territories, including Iowa, were the only bidders for their respective contracts and did not join the litigation. HUD entered into Section 8 PBRA contracts with these 11 States and territories, and they continued completing the 10 core tasks and 16 incentive-based performance standards in their annual contributions contracts.

that they visited some high-risk properties when possible. However, HUD staff members were limited in what they could do because of funding and staffing limitations. HUD has referred to the contract administrator reviews as acting as its eyes and ears regarding property operations. The lack of owner oversight during the 5 years in which HUD suspended the contract administrator reviews resulted in the property owners' assisting at least 325 tenants in the Southwest Region whose eligibility and unit physical condition standards they could not support.

### **HUD Paid Subsidies to Owners for Nonexistent and Unsupported Tenants**

Property owners billed HUD for nonexistent tenants and tenants who had moved out of their subsidized units, based on falsified, inaccurate, and unverified information. They also billed HUD for tenants whose eligibility they could not support and for uninspected units. None of the five property owners had adequate oversight of their Section 8 PBRA programs. Property owners did not implement adequate controls to assist in detecting and preventing potential fraud or to ensure that managers correctly calculated and processed rent subsidies. These conditions left property management staff unable to support that the subsidies HUD paid benefited eligible tenant families or that the subsidized units were in decent, safe, and sanitary condition. The following examples show how HUD subsidized nonexistent and unsupported tenants.

*Beverly Place Apartments, Groves, TX, Subsidized Nonexistent Tenants, Unqualified Tenants, and Tenants With Questionable Qualifications, Audit Report 2017-FW-1009* – Beverly Place improperly submitted housing assistance payment vouchers for units with nonexistent tenants and tenants who had moved out of their subsidized units. According to HUD requirements, Beverly Place could bill HUD only for occupied units. A comparison of utility records to rent rolls showed that 68 tenants did not live in their units at the time HUD paid their housing subsidies. Further research showed that the tenants were nonexistent or “ghost” tenants because they either never lived in those units or had moved out of the units while HUD continued to pay subsidies for them.

*Villa Main Apartments, Port Arthur, TX, Subsidized Nonexistent Tenants, Unsupported Tenants, and Uninspected Units, Audit Report 2018-FW-1002* – Villa Main owners improperly submitted housing assistance vouchers for units with tenants who had moved out of their subsidized units or for vacant units. A comparison of utility records to rent rolls and housing assistance payments showed that 39 tenants did not live in Villa Main units at the time HUD paid their housing subsidies. Further, interviews confirmed that the onsite staff set up nonexistent “ghost” tenants by filing subsidy information for tenants who had moved out of units and renting those units to non-Section 8 tenants to collect rent for themselves. This scheme allowed the former onsite managers to collect and keep rent from the non-Section 8 tenants, while the owner received housing subsidies from HUD for “ghost” tenants. Through their fraudulent actions, former onsite managers used tenant personal identification information to maximize HUD assistance, while creating their own personal enrichment opportunities and harming low-income tenants. HUD paid the owner \$534,741 in subsidies for ineligible “ghost” tenants and incurred more than \$1 million in unsupported subsidies.

### **Owners Did Not Have Controls To Detect and Prevent Fraud and Mismanagement**

Property owners lacked controls to detect and prevent program fraud and mismanagement. The Office of Inspector General's (OIG) Office of Investigation (OI) conducted an investigation at



the Beverly Place Apartments and determined that onsite managers engaged in identity theft and manipulated tenant income documents. It further determined that managers and a local law enforcement officer stole more than \$230,000 in more than 5,000 reimbursable utility allowance checks intended for 176 assisted tenants. During its investigation, OI discovered that Villa Main Apartments staff members were also involved in the fraud. OI obtained five convictions and the individuals received prison sentences for offenses including money laundering, conspiracy, and theft of public money.

*Beverly Place Apartments* – The owner did not detect the fraud or prevent the apartment managers from committing fraud against it and the tenants because it had not implemented adequate controls to ensure that managers correctly calculated and processed rent subsidies. Further, the owner did not verify the information that managers provided when it certified the accuracy of its monthly requests to HUD for subsidy payments. On the requests for subsidy payments, the owner certified that each eligibility and assistance payment was computed in accordance with HUD requirements and the unit billed was occupied. The certifications were incorrect, and HUD paid the owner \$802,633 in subsidies for ineligible and unsupported tenants.

*Villa Main Apartments* – The owner did not have appropriate oversight or controls to detect the onsite managers' fraud or prevent the managers from committing fraud against HUD and the tenants. The managers routinely used the same amounts and sources of income each year in tenant eligibility submissions to HUD. The owner did not verify the information that the onsite managers provided when it certified the accuracy of its monthly requests to HUD for subsidy payments. For example, for 5 consecutive years, Villa Main reported that a tenant had gift income of \$1,920 annually but no employment income. However, Enterprise Income Verification (EIV) reports<sup>8</sup> in the tenant's file showed that he had employment income during this time, including an annual salary of more than \$55,000 per year for 2 of the 5 years, which significantly exceeded the eligibility limit of \$20,150 for his family size. In this instance, one of the prosecuted former onsite managers generated the EIV report but failed to adjust the subsidy payment to the accurate amount in Villa Main's certification for payment to HUD. Had the onsite manager reported the income, the owner would not have received housing subsidies for this tenant.

*Eastwood Terrace Apartments, Nacogdoches, TX, Subsidized Questionable Tenants, Overhoused Tenants, and Uninspected Units, Audit Report 2018-FW-1005* – For day-to-day operations, the owner relied on its former onsite staff, which engaged in questionable practices and mismanaged its program. The files reviewed contained multiple issues, which the onsite staff should not have allowed. These issues included overhoused tenants, income discrepancies, missing required documents, and a lack of required inspections and signatures. In some instances, it appeared that the onsite staff had conflicts of interest or actively engaged in questionable behavior.

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<sup>8</sup> The EIV system is a web-based computer system containing employment and income information on individuals participating in HUD's rental assistance programs. Regulations at 24 CFR (Code of Federal Regulations) 5.233 and HUD Handbook 4350.3, REV-1, require its use as a third-party verification source.

The owner acknowledged that there were subsidy issues in 2015 and that he saw “things that were not right,” which led to the management and occupancy review. The owner stated that the low score Eastwood Terrace received was a result, in part, of suspected instances of employee dishonesty and collusion related to tenant eligibility, including underhousing and overhousing. He also said that he met with the contract administrator, who pointed out signatures in files that were not correct. The owner said that he believed the employees took advantage of him. However, on the requests for subsidy payment, the owner certified that each tenant’s eligibility and assistance payment was computed in accordance with HUD regulations and the facts and data submitted were true and correct; the required inspections had been completed; and the units for which assistance was billed were decent, safe, and sanitary. The certifications were incorrect, and HUD paid the owner more than \$1.8 million in subsidies for 81 unsupported tenants.

*Northline Point Apartments, Houston, TX, Multifamily Section 8 Program, Subsidized Unsupported Tenants and Uninspected Units, Audit Report 2019-FW-1003* – The owner and its management agent lacked oversight of their staff and did not have appropriate controls to prevent or detect the conditions cited in our report. Instead, they relied on the previous onsite property managers to operate the program properly. These former managers engaged in questionable practices and mismanaged the program. The files reviewed contained multiple issues, which the onsite staff should not have allowed. These issues included falsified move-ins, incorrect move-out or unit transfer dates, income discrepancies, missing required documents, and a lack of required inspections and signatures. HUD paid the owner more than \$1 million in subsidies for tenants whose eligibility and unit physical condition standards it could not support. Further, the owner could not assure HUD that its certifications were based on accurate information, which could adversely affect the program.

#### **HUD Paid Owners for Uninspected Units**

In addition to suspending the management and occupancy review task in October 2011, HUD also suspended incentive-based performance standard number 16, monitoring performance and compliance indicators of unacceptable physical inspection results. During the 5 years that HUD suspended the monitoring tasks, property owners billed HUD for units that they could not show met physical condition standards or passed annual inspections.

*Eastwood Terrace Apartments* – Of the 77 files reviewed, 75 (97 percent) had missing inspection reports, or the inspection reports were not completed for the entire review period. HUD required the owner to complete annual inspections to ensure that the units for which it provided subsidies were decent, safe, sanitary, and occupied or available for occupancy.

*Northline Point Apartments* – All 47 tenant files had missing inspection reports, or inspection reports were not completed for the entire review period. The files did not always contain inspection reports for move-ins, unit transfers, and annual inspections. Further, three of seven tenants interviewed said that the management staff did not always perform annual inspections.

*Villa Main Apartments* – All 34 reviewed files had missing inspection reports, or the inspection reports were not completed. However, the owner billed HUD and received payment for these uninspected units.

*Louis Manor Apartments, Port Arthur, TX, Subsidized Unsupported Tenants and Uninspected Units, Audit Report 2018-FW-1006* – All 14 files had missing inspection reports for 1 or more years. For example, one tenant file did not contain inspection reports for 3 consecutive years. Further, more than half of the files had inspection reports when a family moved in but were missing at least one report in later years. HUD paid the owner \$268,452 in subsidies for 14 tenants whose eligibility and unity physical condition standards it could not support.

### **HUD Removed a Major Tool Used To Ensure Contract Compliance and Did Not Replace It**

HUD removed a major tool used by project-based contract administrators to ensure that property owners complied with the terms of their contracts with HUD and applicable regulations. However, it did not adequately implement replacement procedures or its own monitoring to reduce the deterioration and mismanagement risks to the properties it subsidized, such as those cited in our five audit reports. HUD required its project-based contract administrators to perform comprehensive assessments of the owners' procedures for directing and overseeing project operations as part of the 100 percent management and occupancy reviews for properties under the pre-2011 annual contributions contracts. It also required an assessment of the adequacy of the owners' procedures for carrying out day-to-day, front-line activities. The contract administrators audited areas, such as financial management, project maintenance, physical condition, security, leasing, occupancy, certification and recertification of family income, and determination of the family payments.

Both HUD and contract administrator staff said that stopping the reviews caused a major risk to HUD. HUD staff members said that they initially performed some desk reviews and periodically performed onsite visits. However, due to limited funding and staffing issues they were unable to perform the level of onsite review and assistance that the contract administrators had provided. According to the contract administrators, in addition to assessing the property owners' compliance with HUD requirements, their reviews also served as the only training some property owners, especially those in rural areas, received as they were unable to afford to send staff to other formal training offered by housing consultants. One contract administrator said that it continued giving voluntary training to property staff but quickly found that it was not a cost-effective exercise because it was undertaking the training at its own cost.<sup>9</sup> The contract administrators reported that they requested to continue performing the management and occupancy reviews at their own expense to prevent the deterioration of the projects. However, HUD determined that this practice would cause greater legal risks and did not allow it to happen.

When HUD reinstated the reviews after 5 years, three of four contract administrators<sup>10</sup> reported experiencing various issues, with one person describing the process as a nightmare. For example, they said that it took 2 to 3 years to review most or all of their properties. One contract administrator provided a list of 53 properties, which showed that 48 of them (90 percent) scored below average and unsatisfactory ratings for properties that had been rated higher when it conducted reviews under the pre-2011 annual contributions contracts. HUD conducted 5

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<sup>9</sup> The contract administrator estimated that the training lasted around 6 months.

<sup>10</sup> The contract administrator that continued conducting the management occupancy reviews (as 1 of the 11 States and territories not involved in the litigation) said that had it stopped the reviews for 5 years, things would have been a mess, especially because it conducted the reviews in small towns and rural areas.

reviews for these 53 properties during the 5-year suspension. The contract administrators reported that it was evident that not conducting the management and occupancy reviews allowed owners and management agents to not operate their programs according to HUD requirements. Three years after resuming the reviews, the contract administrators found that some property owners were still not performing their required duties correctly. They reported that HUD's risk had increased in three areas: physical condition of the properties, obtaining and using EIV reports as required when verifying tenant income, and fraud.

### **HUD's Contracting Process Created Instability in Contract Administrator Programs**

Although the management and occupancy reviews were reinstated in 2016, HUD limited the funding available to contract administrators to perform the reviews as a result of directives from Congress to work with the contract administrators to identify savings and reduce costs. Contract administrators were no longer required to review 100 percent of the properties covered in their contracts. HUD allocated a specific amount of funding to each contract administrator to review a certain percentage of the properties. Based on funding availability, HUD funded the management and occupancy reviews through short-term contract renewals of their annual contributions contracts. Contract administrators reported that they sometimes did not receive their next renewal until shortly before their current appropriation was due to expire. For example, one contract administrator<sup>11</sup> reported receiving a 3-month renewal on June 3, 2019, for July through September 2019. Receiving contract renewals so close to the requirement to give property owners a 2-week notice before starting a management and occupancy review made scheduling and prioritizing the reviews challenging.

In addition, contract administrators reported that having a contract for no more than 3 months at a time made it difficult to plan and caused instability in their operations. Most contract administrators either reduced staff or reassigned staff members to other duties when HUD suspended the property reviews. One contract administrator reported letting 25 people go when HUD suspended the reviews. Because of the funding process, in addition to the significant difficulty in budgeting and planning, the ability of contract administrators to hire and retain staff to perform reviews had been significantly reduced. The contract administrators reported being worried about adding staff and then not having available funding, thereby affecting staff morale due to uncertainty regarding potential future litigation. They acknowledged that the situation was largely beyond HUD's control and empathized with HUD's dilemma.

### **Property Owners Did Not Meet Contract Requirements and Incurred More Than \$5.6 Million in Questioned Costs**

We found common violations of HUD requirements at the five properties audited. Specifically, the owners did not meet contract requirements and incurred more than \$5.6 million in ineligible and unsupported costs. During the 5 years in which contract administrators did not conduct management and occupancy reviews, owners at the audited properties routinely billed HUD for unsupported tenants and uninspected units based on unverified and inaccurate information. Table 3 below shows the common violations identified in the five audit reports.

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<sup>11</sup> This contract administrator reported that it did not receive any HUD funding for June 2017 management and occupancy reviews.

**Table 3: Common property owner violations identified in five OIG audit reports**

Common violations identified	Apartment complex				
	Beverly Place	Villa Main	Eastwood Terrace	Louis Manor	Northline Point
HUD paid owners for nonexistent tenants	X	X			
HUD paid owners for unsupported and questionable tenants	X	X	X	X	X
HUD paid owners for uninspected units		X	X	X	X
Managers defrauded tenants, HUD, and owners	X	X			X
Owners relied on staff, which had questionable practices and mismanaged the programs	X		X		X
Owners lacked oversight and did not have controls to detect or prevent fraud and deficiencies	X	X	X		X
Missing income, falsified and questionable income, income discrepancies	X	X	X	X	X
Lack of EIV, third-party income verification, or both		X	X		X
Missing tenant files	X		X		X
Lack of required signatures		X	X		X
Overhoused tenants			X	X	
<b>Total questioned costs</b>	<b>\$802,633</b>	<b>\$1,630,105</b>	<b>\$1,865,344</b>	<b>\$268,452</b>	<b>\$1,054,150</b>

The owners certified to HUD that (1) each tenant’s eligibility was verified and assistance payments were computed in accordance with HUD’s regulations, administrative procedures, and the contract and assistance was payable under the contract; (2) all required inspections had been completed; (3) the units for which assistance was billed were decent, safe, sanitary, and occupied or available for occupancy; and (4) all the facts and data on which the request for payment was based were true and correct. The issues identified in these five reports showed that the owners’ certifications were often based on falsified, incorrect, or unverified information.

**There Were Missing Income, Falsified and Questionable Income, and Income Discrepancies**

*Beverly Place Apartments* – Of 193 assisted tenants at Beverly Place, 113 claimed regular cash contributions of \$30 to \$200 per month as their sole source of income. HUD required third-party verification of contributed or gift income. Beverly Place obtained this verification through a notarized statement or affidavit signed by both the tenant and the person providing the assistance. In interviews and other verification efforts, 11 former and current tenants stated that they either did not know the person listed as a contributor or did not receive money from that person. Further, two contributors confirmed that they did not contribute money to the tenants. Both tenants and contributors denied signing the notarized statements and affidavits.

*Villa Main Apartments – falsified income:* Two tenants confirmed with auditors that their income was falsified. In one instance, a Section 8 tenant stated that she informed the former onsite manager that she had two jobs but the manager responded, “I did not hear that.” The tenant said that she paid \$300 per month in rent. However, forms HUD-50059 in the tenant’s file showed that the tenant’s rent ranged from \$0 to \$68 per month from March 2012 through February 2016. Further, the tenant said that the onsite manager asked her to sign certifications sporadically, backdate them, or sign the certifications without dating them. Falsifying income allowed this tenant to receive more housing assistance than she was entitled to, while the former onsite manager could keep the difference between the amount the tenant paid and the total tenant payment. Although we did not interview all tenants, our review of the 34 tenant files suggested that the example described above was not an isolated incident. *Income discrepancies:* Of the 34 reviewed files, 8 contained income discrepancies. Income on the forms HUD-50059 did not include income from other household members, or the tenant files contained EIV reports showing that tenants had employment income. However, the forms HUD-50059 submitted to HUD showed much lower income from nonwage sources, such as child support or gifts, which were also questionable.

*Northline Point Apartments* – In addition to falsifying a move-in date, the former onsite manager certified that a tenant had only \$1,200 in gift income for 2017, when the tenant had \$16,914 in employment income in 2017. This tenant was the former assistant property manager’s daughter.

#### **Tenant Files Lacked EIV Reports, Third-Party Income Verification, or Both**

Tenant files at all five properties lacked the required EIV reports, third-party income verification, or both. HUD required the use of the EIV system for (1) verification of employment and income of tenants, (2) reducing administrative and subsidy errors, and (3) required third-party verification of income. In addition, three of the five properties had missing tenant files.

*Villa Main Apartments* – All 34 reviewed files had missing EIV reports, third-party income verification, or both. Even when the staff members had EIV reports, the records showed that they disregarded the information. In some instances, former staff members ignored the information for unlawful purposes.

*Eastwood Terrace Apartments* – All 77 available files were missing EIV reports, third-party income verifications, or both. Even when the staff members had EIV reports, the records showed that they disregarded the information or did not follow up on inconsistent information.

*Northline Point Apartments* – Of the 47 tenant files reviewed, 35<sup>12</sup> had missing EIV reports, or inadequate 3<sup>rd</sup> party income verification, or both. Further, the former property manager used the same amount of income from prior certifications without updated verification or support. The former property manager also relied on tenant certifications without required third-party verifications. She filled out the employment verification or child support verification forms and had tenants sign the forms. However, there was no evidence that the former property manager mailed the forms for verification or contacted the employer for verification.

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<sup>12</sup> These 35 files were not always the same.

## **Contract Administrators Faced Compliance Issues Resulting From the Lack of Onsite Monitoring for 5 Years**

Project-based contract administrators faced property owner compliance issues when they began conducting monitoring and occupancy reviews after the 5-year suspension. Most contract administrators commented on properties' not using the EIV system as required. As a result, many income discrepancies were not addressed during the time when there were no reviews. In addition, property owners often did not keep up with HUD changes and requirements. For example, use of the EIV system was not required until 2010, not long before HUD suspended the review requirement, and it was a struggle to get property staff to use the system. Contract administrators reported that many property owners found EIV compliance administratively burdensome and stopped meeting the requirement and other HUD requirements when there were no reviews, which led to consequences such as having to enter into repayment agreements.

A contract administrator<sup>13</sup> stated that its portfolio was the most challenging it had ever been and it felt the effects of not conducting the reviews. After HUD reinstated the management and occupancy reviews, the Texas contract administrator had completed initial reviews at two of five properties when we conducted the audits, assigning them an unsatisfactory score and requiring 100 percent file reviews. The contract administrator reported that it conducted followup reviews at three of the five audited properties and continued to identify performance issues. We reported that these three property owners had made changes to their Section 8 PBRA programs and repaid HUD for the issues identified. The changes included updating their oversight procedures, hiring consultants and new management agents<sup>14</sup> to help bring their properties into compliance and respond to management and occupancy reviews, and dismissing former property managers and related staff.

The implementation of HUD management and occupancy review replacement procedures or its own onsite monitoring could have reduced the deterioration and mismanagement risks to the Section 8 PBRA program and the HUD subsidies to property owners based on falsified, inaccurate, and unverified information.

## **Conclusion**

Property owners of multifamily Section 8 PBRA-subsidized units in the Southwest Region did not meet contract requirements, resulting in HUD's paying them more than \$5.6 million in questioned costs during the 5 years in which it suspended contract administrator reviews without adequate replacement procedures. We identified several common violations of HUD requirements during our reviews of five Section 8 PBRA-subsidized properties. These violations included the following: (1) HUD paid subsidies to property owners for nonexistent tenants, unsupported tenants, and uninspected units; (2) owners lacked oversight of their onsite management staff and did not have controls to detect or prevent fraud, mismanagement, and deficiencies; (3) owners certified that their subsidy payments were eligible and supported when

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<sup>13</sup> This contract administrator has had a HUD contract since 2000.

<sup>14</sup> Eastwood Terrace, Louis Manor, and Northline Point were previously identity-of-interest management agents for the properties. An identity-of-interest relationship exists when an individual or entity that provides management services to the project has a relationship with the project owner such that selection of the management agent and determination of the management fee will not be determined through an arms-length transaction.

they often were not; (4) tenant files contained income discrepancies, including falsified, questionable, and missing income; and (5) tenant files lacked required EIV reports, third-party income verification, or both. These conditions occurred largely because when HUD suspended the reviews of the assisted properties, it removed a major tool used by the contract administrators to verify housing assistance payment subsidies and was unable to implement adequate replacement procedures for the onsite monitoring due to funding and staffing shortages. Although the results of this audit are specific to only the Southwest Region, similar deficiencies may have occurred nationwide during the five years in which HUD suspended contract administrator reviews in 42 states and territories.

### **Recommendations**

We recommend that the Office of Multifamily Housing Programs

- 1A. Enforce written policies and procedures to ensure that the verification and payment of housing assistance payment subsidies for properties it subsidizes are based on accurate and supported information.
- 1B. Establish and implement policies to ensure effective contract administration, including providing funding approvals for project-based contract administrators in a timely manner.
- 1C. Develop contingency policies and procedures to ensure that the properties it subsidizes receive adequate and verifiable continuous monitoring.



# Scope and Methodology

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We performed our fieldwork at HUD headquarters located in Washington, DC; HUD's Fort Worth regional center located in Fort Worth, TX; HUD's Kansas City satellite office located in Kansas City, KS; the offices of four project-based contract administrators located in Austin, TX, Des Moines, IA, Kansas City, MO, and Topeka, KS; and the OIG Office of Audit in Houston, TX, from March through July 2019. Our audit period was May 1, 2016, through February 28, 2019. However, the various audit periods for the five reports began in January 2012 and ended in July 2018. We expanded the audit to review contracts between HUD and the contract administrators from October 2000 through January 2015.

To accomplish our objective, we

- Reviewed relevant HUD and HUD multifamily housing and asset management program regulations and requirements, including
  - 24 CFR (Code of Federal Regulations) 5.233;
  - 24 CFR 5.705;
  - HUD Handbook 4350.1;
  - HUD Handbook 4350.3, REV-1; and
  - form HUD-52760.
- Interviewed senior management from HUD's Office of Multifamily Housing Programs in Washington, DC.
- Interviewed regional HUD multifamily staff in Fort Worth, TX, and Kansas City, KS.
- Interviewed four of HUD's Section 8 project-based contract administrators responsible for five States in the Southwest Region regarding their processes before and during the management and occupancy suspension, as well as after the reviews were reinstated.
  - Southwest Housing Compliance Corporation (Arkansas and Texas)
  - Iowa Finance Authority (Iowa)
  - Kansas Housing Resources Corporation (Kansas)
  - Missouri Housing Development Corporation (Missouri)
- Obtained and reviewed documents and reports to gain an understanding of HUD's processes for monitoring its project-based contract administrators and assisted housing properties during the time when HUD suspended the management and occupancy reviews.
- Reviewed the five OIG-issued audit reports and compiled the results and recommendations.
  - Beverly Place Apartments, Audit Report 2017-FW-1009, issued June 29, 2017
  - Villa Main Apartments, Audit Report 2018-FW-1002, issued January 31, 2018
  - Eastwood Terrace Apartments, Audit Report 2018-FW-1005, issued August 2, 2018
  - Louis Manor Apartments, Audit Report 2018-FW-1006, issued August 31, 2018
  - Northline Point Apartments, Audit Report 2019-FW-1003, issued June 10, 2019

The reliability of any computer-processed data significant to the objective of the five issued audits was assessed during each audit and discussed in the Scope and Methodology section of each issued report. For this rollup report, we did not rely on computer-processed data to achieve our audit objective. We obtained data compiled by HUD and project-based contract administrators for informational and background purposes only. These data were not significant to our audit results. Therefore, we did not assess their reliability. The results of this audit are specific to only the Southwest Region. However, similar deficiencies may have occurred nationwide during the five years in which HUD suspended project-based contract administrator reviews in 42 states and territories.

During the survey, our audit objective was to determine whether HUD had adequate controls over the management activities of its Section 8 project-based contract administrators in Region 6. We revised the reporting objective to clarify that the audit focused on HUD's oversight of the Section 8 PBRA program while it stopped project-based contract administrators from conducting management and occupancy reviews.

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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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 objective:

- Processes that HUD implemented to ensure that its Section 8 PBRA program was administered in accordance with HUD's rules and regulations during the suspension of management and occupancy reviews.
- Policies and procedures that HUD implemented to provide adequate oversight of property owners.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## **Significant Deficiency**

Based on our review, we believe that the following item is a significant deficiency:

- HUD did not have adequate oversight to ensure that its payments to subsidized property owners were accurate and supported during the five years in which it suspended contract administrator reviews (finding).


# Appendixes

## Appendix A

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

  
OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

December 13, 2019

MEMORANDUM FOR: Danita Wade, Assistant Regional Inspector General for Audit, Region 6

FROM: Tobias L. Halliday, Director, Office of Asset Management and Portfolio Oversight, HTG

SUBJECT: Response to OIG report of Multifamily Section 8 Project-Based Rental Assistance

Thank you for giving us the opportunity to comment on the Draft Audit Report. While we acknowledge the concern raised on HUD's Multifamily oversight and monitoring – which was due to a five-year lapse in Management and Occupancy Reviews (MORs) – it is important to note that the suspension of the MORs was directly related to litigation on the re-bid of the solicitation for Performance-Based Contract Administrators (PBCAs) and resultant program funding shortfalls. This protracted litigation and the budgetary uncertainty it created were wholly outside the control of HUD's Office of Multifamily Housing. When MORs were reinstated as a task for all PBCAs, the amount of appropriated funds available were initially only sufficient to allow for a review of approximately a third of our portfolio each year. To address this challenge, Multifamily HQ team members have worked in collaboration with the PBCAs and field staff to risk-rate the portfolio and perform reviews on properties that are of greatest concern based on prior scores, areas of concern or designated as troubled. Please allow us to share with you our response to recommendations 1A, 1B and 1C below.

*1A. Enforce written policies and procedures to ensure that the verification and payment of housing assistance payment subsidies for properties it subsidizes are based on accurate and supported information.*

**HUD Paid Subsidies to Owners for Nonexistent and Unsupported Tenants**

- Property owners billed HUD for nonexistent tenants and tenants who had moved out of their subsidized units, based on falsified, inaccurate, and unverified information.
- They also billed HUD for tenants whose eligibility they could not support and for uninspected units.
- Property owners did not have controls to detect and prevent fraud and mismanagement.

Our response:  
The OIG based this finding on utility bills they have received directly from utility companies for the selected units in these properties. As part of the review, the names on the utility bills were compared to the names on the owners rent rolls.

During the exit conference, representatives from Multifamily Housing (MFH) advised OIG that in many cases tenants have poor or no credit history and therefore are often unable to obtain accounts

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#### Comment 1

#### Comment 2

## Appendix A

### Ref to OIG Evaluation

### Auditee Comments

#### Comment 3

in their own names. As such, these accounts are sometimes in the names of relatives or other members in the household.

MFH additionally advised that the level of effort it would take a PBCA to conduct such a detailed review could take months. OIG responded that it had taken them 7 months to complete these reviews for selected units on the subject properties.

*1B. Establish and implement policies to ensure effective contract administration, including providing project-based contract administrator contract amendments in a timely manner.*

***HUD's Contracting Process Created Instability in Contract Administrator Programs***

- *Contract administrators reported that having a contract for no more than 3 months at a time made it difficult to plan and caused instability in their operations.*
- *When HUD reinstated the MORs, it limited the funding available to contract administrators to perform the reviews as a result of directives from Congress.*
- *HUD funds the MORs through 3-month contract extensions of their 2011 annual contributions contracts.*
- *Contract administrators reported that they sometimes did not receive their next extension until shortly before their current appropriation was due to expire.*

Our response:

MFH clarified that these were not 3-month "contract extensions," but rather were periods for obtaining incremental funding needed to conduct MORs. Further explanation of our short-term Continuing Resolutions for agency funding and ability to process funding packages was shared with OIG. This included the fact that when the annual appropriation level for PBCAs was unknown, it presented many challenges in approving funding and applying it to the PBCA contracts prior to conducting MORs. In summary, funds needed to be applied to PBCA contracts before they could implement the next phase of the MOR work plan.

OIG acknowledged their misinterpretation of "contract extensions" and thanked us for clarifying this was for MOR funding.

*1C. Develop contingency policies and procedures to ensure that the properties it subsidizes receive adequate and verifiable continuous monitoring.*

Our response:

MFH advised OIG of our newly implemented increases in funding MORs through January 2021. This will allow for PBCAs to complete MORs for up to two-thirds of their portfolio annually.

If additional information is required, please contact Yvette Viviani at (202) 402-2366 or via email at [Yvette.m.viviani@hud.gov](mailto:Yvette.m.viviani@hud.gov).

#### Comment 4

## OIG Evaluation of Auditee Comments

Comment 1 HUD acknowledged the concern raised in the audit report regarding its oversight and monitoring during the five-year lapse in Management and Operations Reviews (MOR). HUD stated that the MOR suspension was directly related to protracted (lengthy) litigation from a group of PBCAs and resultant funding shortfalls which it had no control over. HUD also asserted that when the MORs were reinstated, it worked with the contract administrators and field staff to perform reviews on properties of greatest concern based on risk determinations.

We reported that the MOR suspension was the result of the PBCA litigation against HUD, and that the PBCAs worked with HUD and performed fewer reviews of properties based on limited funding once the MORs were reinstated. However, while HUD could not control the litigation against it, we maintain our position that HUD did not implement adequate replacement controls to lessen the effects of its oversight being drastically reduced. We acknowledge that HUD understands the challenges it faces and commend it for taking action to begin reviewing properties when the MORs were reinstated.

Comment 2 HUD commented that our finding that it paid subsidies to owners for nonexistent and unsupported tenants was based on comparing names from utility bills with the names of tenants on the owners' rent rolls. HUD advised that tenants sometimes use others' names to obtain utilities and that it could take months for PBCAs to perform this type of review.

We maintain our position that HUD paid subsidies to owners for nonexistent and unsupported tenants. We disagree that the finding was based solely on a review of utility records. All five audit reports showed that HUD paid for nonexistent tenants, unsupported tenants, or both. Utility record comparisons were performed in only 2 of the 5 audits. One of those audits was initiated by a complaint from a prior tenant that she was shown as a subsidized tenant long after she had moved out. Further, in those two audits some past and current tenants verified in interviews that they either never lived there or did not live there during the time that HUD paid subsidies for them, as well as confirmed that tenant income information had been falsified. In addition, our conclusions regarding unsupported tenants in all five audits was also based on reviews of tenant files, which revealed the lack of HUD-required documentation to support tenants' eligibility to receive assistance. Regarding tenants using others' names to obtain utilities, we determined that some utility bills were in the name of the apartment complex, indicating that the unit was empty at the time the owner billed HUD for tenants reportedly living in the unit.

We disagree with HUD's assertion that we told HUD it took seven months to perform the utility bill reviews. While the audit timeframes differed in the two audits in which utility records were obtained and reviewed, neither audit was limited to reviewing only utility records.

Comment 3 HUD stated that it clarified to OIG that what we referred to as 3-month contract extensions were actually periods for obtaining incremental funding to conduct MORs. HUD further stated that it could not implement the incremental funding until the funding was applied to the PBCA contracts in its accounting system.

We revised the report to clarify that HUD funded the MORs through short-term annual contributions contract renewals based on funding availability.

Comment 4 HUD stated that it informed OIG of newly implemented increases in funding through January 2021 which will allow for PBCAs to complete MORs for up to two-thirds of their portfolio annually.

We acknowledge that HUD advised OIG of an expected increase in funding which will allow it to work under a new process for funding MORs. However, this increase was not yet in effect during our audit and HUD did not provide support for the new procedures implemented after our audit period ended. We maintain our recommendation that HUD develop contingency policies and procedures to ensure that the properties it subsidizes receive adequate and verifiable continuous monitoring.