



U.S. Department of Housing and
Urban Development, Office of Public
and Indian Housing, Washington, DC

HUD's Oversight of Portability in the Housing Choice
Voucher Program

Office of Audit, Region 5
Chicago, IL

Audit Report Number: 2020-CH-0006
September 9, 2020



OFFICE OF INSPECTOR GENERAL
U.S. Department of Housing and Urban Development

To: Danielle L. Bastarache, Deputy Assistant Secretary for Public Housing and Voucher Programs, PE

From: //signed//
Kelly Anderson, Regional Inspector General for Audit, 5AGA

Subject: HUD Could Improve Its Oversight of Portability in the Housing Choice Voucher Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's oversight of portability in the Housing Choice Voucher Program.

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.

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HUD Could Improve Its Oversight of Portability in the Housing Choice Voucher Program

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of portability in the Housing Choice Voucher Program based on a congressional inquiry from Senator Grassley's office. Our audit objective was to determine whether HUD had adequate oversight of portability in the Housing Choice Voucher Program; specifically, to determine whether (1) HUD had adequate policies and procedures to identify and evaluate the impacts portability may have on public housing agencies' Housing Choice Voucher Programs and (2) HUD's financial information relating to portability set-aside and additional administrative fees was correctly calculated and distributed in accordance with its requirements.

What We Found

HUD's Office of Public and Indian Housing generally had adequate oversight of portability in the Housing Choice Voucher Program; however, improvements could be made. Although HUD reviews public housing agencies' programs, it did not specifically identify and evaluate the effects of portability. As a result, HUD could miss the opportunity to assess the impact of portability on public housing agencies' programs and use the information to make decisions that could (1) assist public housing agencies experiencing difficulties with managing the portability component of the program and (2) result in programmatic or process improvements. In addition, HUD generally calculated portability set-aside funding for increased costs and special administrative fees for portability correctly with a few exceptions. As a result, HUD overpaid \$115,335 in set-aside funding and \$133,179 in special administrative fees. It also underpaid \$35,189 in special administrative fees.

What We Recommend

We recommend that HUD (1) conduct an assessment of the impact of portability and determine whether technical assistance is necessary for certain public housing agencies, (2) pursue collection or recapture \$248,514 for the overpayments and distribute \$35,189 for the underpayments of set-aside funds and special administrative fees, and (3) review the calculations and distributions of funds for category 2b portability set-aside and special administrative fees for portability to ensure accuracy.

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Background and Objectives

Housing choice vouchers are administered locally by public housing agencies. Public housing agencies receive Federal funds from the U.S. Department of Housing and Urban Development (HUD) to administer the Housing Choice Voucher Program. Under the Housing Choice Voucher Program, housing assistance is provided on behalf of the participating family, which is responsible for finding a suitable housing unit of its choice for which the owner agrees to rent under the program. The participant is free to choose any rental housing, including single-family homes, townhouses, and apartments, that meets the requirements of the program and is not limited to units located in subsidized housing projects. Under certain circumstances, if authorized by the public housing agency, a family may use its voucher to purchase a modest home.

A key feature of the Housing Choice Voucher Program is the mobility of the voucher assistance. Section 8(r) of the United States Housing Act of 1937 provides that Housing Choice Voucher Program participants may choose a unit that meets program requirements anywhere in the United States, provided that a public housing agency administering the tenant-based program has jurisdiction over the area in which the unit is located. The term “portability” refers to the process of leasing a dwelling unit with tenant-based housing voucher assistance outside the jurisdiction of the public housing agency that initially issued the family its voucher (the initial public housing agency). The Housing Choice Voucher Program regulations, found at 24 CFR (Code of Federal Regulations) 982.353 through 982.355, detail where a family may move and the responsibilities of the initial public housing agency and the receiving public housing agency (the public housing agency with jurisdiction over the area to which the family desires to move). When the receiving public housing agency administers the subsidy, it bills the initial public housing agency for the housing assistance associated with the port-out voucher, unless the port-out voucher has been absorbed by the receiving public housing agency. When the receiving public housing agency administers the subsidy, the initial public housing agency retains 20 percent of the ongoing administrative fee for that housing choice voucher unless both public housing agencies agree on a different amount.

In 2018, approximately 11 percent of vouchers used were portable. Of the portable vouchers used in 2018, more than 22 percent totaling more than \$634 million was billed by receiving public housing agencies to an initial public housing agency. The total amount billed in 2018 was nearly 3 percent¹ of all voucher funding.

In the administration of the Housing Choice Voucher Program, some public housing agencies may experience a funding shortfall² or be in danger of being in a shortfall. In a shortfall

¹ Total program funding, including administrative fees for 2018, was more than \$22 billion. $\$634,146,624/\$22,015,000,000 = 2.88$ percent.

² A shortfall is defined as the need to terminate participating families from the Housing Choice Voucher Program due to the public housing agency having insufficient funds, despite taking reasonable cost-saving measures as determined by HUD. HUD reviews public housing agencies’ anticipated funding and expenditures to determine

situation, public housing agencies are to deny portability for households seeking to move if it would result in higher housing assistance payment costs. However, if an agency is not projected to be in shortfall and portability is denied, HUD requires the public housing agency to notify its respective HUD field office that it is denying portability. In addition to the notification, HUD requires the public housing agency to provide certain financial information to show that it cannot afford the port-out and that it has stopped issuing vouchers because of its financial position.³

In addition, HUD provides set-aside funding to public housing agencies' annual funding allocations for four categories to mitigate shortfalls. Specifically, if an initial public housing agency's portability cost exceeds 110 percent of the average housing assistance payments, the public housing agency may apply for set-aside funding under category 2b. In the eligibility calculation, HUD considers a percentage of program reserves, when available, to decrease the amount of the set-aside funds awarded.

If a receiving public housing agency administers port-in vouchers equal to 20 percent or more of its total leased vouchers, the public housing agency is eligible to receive an additional special administrative fee for its port-in vouchers. The receiving agency does not have to apply for or request these funds. HUD automatically calculates and distributes the special fees to the receiving agencies.

We became aware of concerns about the potential impacts of portability on smaller housing agencies' programs through communication with Senator Charles Grassley's office and the Iowa Chapter of the National Association of Housing and Redevelopment Officials (NAHRO). According to NAHRO, due to Iowa's low housing costs in comparison to those of many public housing agencies across the Nation, Iowa public housing agencies may incur higher housing assistance payments for families porting out of the State. In addition, if the receiving public housing agency does not absorb the voucher, the initial Iowa public housing agency must continue to make the increased housing assistance payments. Further, because the receiving public housing agency receives 80 percent of an initial Iowa public housing agency's administrative fees, the initial Iowa public housing agency would lose funding to administer its program.

We generally substantiated the concerns expressed by Senator Grassley's office and NAHRO. We determined that some public housing agencies with port-out households paid higher housing assistance for one or more port-out households than would have been paid in the public housing agencies' jurisdiction. However, HUD has implemented measures to assist with the cost increases associated with portability, but improvements could be made.

Our audit objective was to determine whether HUD had adequate oversight of portability in the Housing Choice Voucher Program.

whether a shortfall is projected. If a shortfall is projected, then the public housing agency is to implement cost saving measures to limit the shortfall. A shortfall does not occur until the public housing agency has disbursed all of its available Housing Choice Voucher Program funding.

³ HUD Public and Indian Housing Notice 2016-09 (See appendix C).

Results of Audit

Finding 1: HUD Could Improve Its Oversight of Portability in the Housing Choice Voucher Program.

HUD's Office of Public and Indian Housing generally had adequate oversight of portability in the Housing Choice Voucher Program; however, improvements could be made. Although HUD reviews public housing agencies' programs,⁴ it did not specifically identify and evaluate the effects of portability. HUD expected public housing agencies to properly manage their own programs, which included portability. In addition, public housing agencies could apply for additional funding to defray the increased program costs due to portability. While HUD attempted to address some public housing agencies' concerns with portability, it could miss the opportunity to assess the impact of portability on public housing agencies' programs and use the information to make decisions that could (1) assist public housing agencies experiencing difficulties with managing the portability component of the program and (2) result in programmatic or process improvements.

HUD Did Not Specifically Identify and Evaluate the Impacts of Portability

HUD could improve its oversight of portability in the Housing Choice Voucher Program. As part of HUD's program oversight activities, it reviewed a public housing agency's financial operations. If a public housing agency was identified as having a potential shortfall,⁵ HUD could then consider the impact of portability on the public housing agency's financial operations as applicable. However, HUD did not specifically identify and evaluate the impact portability could have on the public housing agency's program.

During our review, we did not identify a public housing agency that was in a shortfall due to portability. However, we identified public housing agencies that had higher housing assistance payments due to portability, which could contribute to a shortfall. These increased costs could prevent a public housing agency from being able to lease vouchers in its own jurisdiction, particularly if a public housing agency spends at or above its annual budget authority.⁶

Portability Affected Public Housing Agencies' Programs

Using the most recent, complete leasing data from HUD's Voucher Management System for calendar year 2018, we determined that of the 1,740 public housing agencies with port-out

⁴ HUD completes multiple reviews of public housing agencies' programs, at varying intervals throughout the year. These reviews do not specifically identify, or evaluate the impact of portability; the reviews focus on a public housing agency's whole Housing Choice Voucher Program.

⁵ When a public housing agency is in a shortfall, it must discontinue leasing vouchers and may deny portability if the receiving public housing agency does not intend to absorb the household. The public housing agency must resume leasing and permit port-outs when it is no longer in a shortfall.

⁶ A public housing agency may spend above its annual budget authority by using its reserves if the number of leased units is within its annual contributions contract allotment.

households, 1,462 (84 percent) paid higher housing assistance for at least 1 port-out household than the average housing assistance paid for households residing in a public housing agency's own jurisdiction.

The table below shows the top 10 public housing agencies that had more than 10 percent of their total units porting out of their jurisdictions and paid at least twice the cost for a port-out voucher than for an average voucher in the public housing agencies' jurisdictions. The table also shows the total housing assistance paid for port-out households.⁷

Public housing agency name	Public housing agency code	Port-out unit months leased	Non-port-out unit months leased	Percentage of port-out unit months leased	Housing assistance paid for port-outs 2018	Housing assistance for non-port-out vouchers 2018	Percentage of housing assistance paid for port-outs	Average housing assistance cost for port-outs	Average housing assistance cost for non-port-out vouchers	Estimated number of vouchers one average port-out could support in public housing agency jurisdiction
North Iowa Regional Housing Authority	IA127	403	3,295	12.23%	\$384,132	883,006	43.50%	\$953	\$268	3.6
Johnstown Housing Authority	PA019	920	8,181	11.25%	895,688	3,037,774	29.49%	974	371	2.6
HA City of Pasco and Franklin County	WA021	292	2,570	11.36%	321,516	1,108,495	29.00%	1,101	431	2.6
Albia Housing Agency	IA114	263	418	62.92%	183,753	125,878	145.98%	699	301	2.3
Brown County Housing Authority	WI186	4,141	30,349	13.64%	3,773,061	12,002,361	31.44%	911	395	2.3
North Delta Regional Housing Authority	MS128	696	5,553	12.53%	566,616	2,003,025	28.29%	814	361	2.3
HRA of Worthington	MN034	213	1,759	12.11%	164,691	623,060	26.43%	773	354	2.2

⁷ Although this table shows the increased costs of portability, it does not assess the housing need in each jurisdiction.

Public housing agency name	Public housing agency code	Port-out unit months leased	Non-port-out unit months leased	Percentage of port-out unit months leased	Housing assistance paid for port-outs 2018	Housing assistance for non-port-out vouchers 2018	Percentage of housing assistance paid for port-outs	Average housing assistance cost for port-outs	Average housing assistance cost for non-port-out vouchers	Estimated number of vouchers one average port-out could support in public housing agency jurisdiction
Dodge City Housing Authority	KS006	140	609	22.99%	127,111	257,863	49.29%	908	423	2.1
Marion County Housing Authority	OR014	1,821	9,053	20.11%	1,817,992	4,226,055	43.02%	998	467	2.1
Housing Authority of the City of East Chicago	IN029	1,629	7,959	20.47%	1,889,495	4,345,244	43.48%	1,160	546	2.1

Portability also impacts the amount of administrative fees that an initial public housing agency can earn. Specifically, for each port-out voucher leased, the initial public housing agency would earn approximately 20 percent of its administrative fee. In addition, for each voucher that the public housing agency cannot lease due to the increased housing assistance payments associated with port-out households, it would lose the entire administrative fee it would otherwise be eligible to earn if it leased a unit in its own jurisdiction. For instance, the North Iowa Regional Housing Authority (identified in the table above) could lease an estimated three vouchers in its own jurisdiction per one port-out unit.⁸ Therefore, the public housing agency would also lose the opportunity to earn the full amount of the associated administrative fees for those units.

HUD Expected Public Housing Agencies To Appropriately Manage Their Own Programs

HUD expected public housing agencies to properly manage their own programs, including portability. In a meeting with HUD’s management officials and staff on September 26, 2019, a Real Estate Analyst with the Public and Indian Housing Real Estate Assessment Center said that she believed that public housing agencies’ concerns with portability were more of a perception than an actual problem because HUD provided additional set-aside funding to assist public housing agencies that experienced increased housing assistance costs due to portability. However, HUD’s Director of the Housing Voucher Management and Operations Division acknowledged that port-outs to areas with higher housing assistance payment costs could impact

⁸ This example shows the increased costs of portability and potential loss of administrative fees. It does not assess the leasing potential and housing need in the North Iowa Regional Housing Authority’s jurisdiction.

a public housing agency's ability to serve families from its own waiting lists.⁹ In addition, the Deputy Assistant Secretary for the Office of Public Housing and Voucher Programs said that increased housing assistance payments would be captured in a public housing agency's following calendar year's funding calculation,¹⁰ thus potentially increasing the public housing agency's annual budget authority in the following year.

HUD also provided special administrative fees to receiving public housing agencies when port-in vouchers made up 20 percent or more of their programs. Further, if a public housing agency was in a shortfall situation, to conserve costs, it had to deny portability for households seeking to move if the move would result in higher housing assistance payments. However, HUD's Director of the Housing Voucher Management and Operations Division acknowledged that discontinuing port-outs to higher cost areas was only a temporary cost-saving measure and when a public housing agency was no longer in shortfall, the public housing agency would need to approve households that wanted to port out of its program.

Although public housing agencies should properly administer their own programs, some may need additional assistance and training from HUD on how to best manage their programs when they have portable vouchers or have portable vouchers that result in higher housing assistance payments. As previously mentioned, during our audit we did not readily identify a public housing agency that was in a financial shortfall due to portability. However, we did identify the effect of portable vouchers on a public housing agency's housing assistance payments. Although HUD offered set-aside funding to initial public housing agencies that experienced an increase in portability costs, if available,¹¹ the public housing agencies had to apply and qualify¹² to receive the funds.

Further, if a public housing agency applied and qualified to receive set-aside funds, the funds would not generally be available until around the end of the calendar year, which could impact the public housing agency's utilization rate.¹³ Further, if the set-aside funds were not spent by the end of the calendar year, the funds could offset increases in housing assistance for the following year. Portability not only impacts a public housing agency's funding, it may limit its ability to provide assisted housing for additional low-income families within its own jurisdiction,

⁹ Federal Register Notice FR-5453-F-02

¹⁰ According to the Director of HUD's Financial Management Division, HUD calculated each public housing agency's renewal funding based on the agency's previous calendar year housing assistance payments. In addition to the previous calendar year housing assistance payments, HUD could consider offsets (reductions in funding) due to various reasons, such as the amount of a public housing agency's available reserves (restricted net position or HUD-held reserves).

¹¹ HUD has the discretion on the use of set-aside funding each year.

¹² Public housing agencies must experience a 110 percent or more increase in the cost of providing housing assistance to be eligible.

¹³ The utilization rate is HUD's annual assessment of the leasing rate and use of budget authority by each public housing agency. The utilization rate is determined when HUD processes the public housing agency's yearend settlement statement, approximately 4 months after the end of the public housing agency's fiscal year. Therefore, if the public housing agency receives set-aside funding, but does not use the funding to lease additional units by the end of the year, the budget authority rate will decrease; thus, impacting the public housing agency's utilization rate.

as acknowledged by HUD. Therefore, we do not believe that the concerns about portability by some public housing agencies were only perceived.

HUD Attempted To Address Certain Portability Concerns

According to Federal Register Notice FR-5453-P-01, issued March 28, 2012, HUD proposed changes to the portability regulations to clarify requirements already established in the existing regulations and improve the process involved with processing portability requests to enable public housing agencies to better serve families and expand housing opportunities. HUD stated in the proposed rule that it was interested in finding ways to reduce or eliminate portability billing arrangements between public housing agencies or minimize the administrative burdens associated with the portability feature for public housing agencies and families.

HUD proposed mandatory absorption of portability vouchers when a receiving public housing agency used less than 95 percent of its available budget authority and had a leasing rate of less than 95 percent as an option. In the Federal Register Notice Final Rule, FR-5453-F-02, published on August 20, 2015, HUD decided not to adopt the mandatory absorption requirement as proposed but, instead, reserved the authority to mandate absorption on a case-by-case basis with a notice, comment period, and HUD's final determination.

In Federal Register Notice FR-5453-F-02, HUD also stated that previous commenters suggested that transferring annual contributions contract units¹⁴ would be an opportunity to reduce the administrative burden or cost of portability. However, HUD agreed with the commenters on the notice that the transfers could have a negative effect on public housing agencies, especially those with a high percentage of outgoing portability vouchers. Also, the administrative burden of such transfers on HUD and public housing agencies would outweigh eliminating or minimizing portability billings. Therefore, HUD did not incorporate this change into the final rule.

Although the Federal Register notice did not specifically address the concerns of the Iowa public housing agencies, with respect to the amount of administrative fees earned for port-out households or the increased costs of housing assistance payments for households that port out to higher costs areas, HUD did suggest mandatory absorption and considered transfers of annual contributions contract units as opportunities to reduce the administrative burden or cost of portability. However, because the commenters expressed opposition and concern, respectively, the suggestions were not incorporated into the final rule.

Therefore, while HUD attempted to address certain concerns regarding portability, without an assessment of the impact of portability on a public housing agency's program, especially smaller public housing agencies with a high percentage of portable vouchers, HUD could miss the opportunity to assess the impact of portability on a public housing agency's programs and use the information to make decisions that could (1) assist public housing agencies experiencing difficulties with managing the portability component of the program and (2) result in programmatic or process improvements.

¹⁴ Public housing agencies sign an annual contributions contract with HUD. This contract identifies the maximum number of units that HUD will provide funding for under the Housing Choice Voucher Program. These units are identified as annual contributions contract units.

Conclusion

HUD expected public housing agencies to properly manage their program, which included portability. In addition, public housing agencies could apply for additional funding to defray the increased program costs due to portability. While HUD considered making some changes to reduce or eliminate portability billing arrangements or minimize the administrative burdens associated with portability, it could miss the opportunity to assess the impact of portability on a public housing agency's programs and use the information to make decisions that could (1) assist public housing agencies experiencing difficulties with managing the portability component of the program and (2) result in programmatic or process improvements.

Recommendations

We recommend that HUD's Director of Housing Voucher Programs

- 1A. Conduct a nationwide assessment of the impact of portability and determine whether technical assistance is necessary for certain public housing agencies. Consider seeking input from public housing agencies and industry groups to evaluate the potential impact of portability and (1) determine whether improvements to the portability aspect of the program are warranted, and (2) if deemed warranted, determine how the improvements will be implemented for public housing agencies portable vouchers (both port-in and port-out).

Finding 2: HUD’s Office of Public and Indian Housing Generally Calculated Set-Aside and Special Administrative Fees for Portability Correctly

HUD’s Office of Public Indian Housing’s Financial Management Division generally calculated set-aside funding for increases in portability costs and special administrative fees for portability correctly, with a few exceptions. Specifically, HUD’s workbooks contained calculation errors that were not identified and corrected before funds were distributed. The weaknesses occurred because HUD made errors when calculating set-aside funding and special administrative fees for Moving to Work agencies and public housing agencies in federally declared disaster areas. As a result, HUD overpaid \$115,335 in set-aside funding and \$133,179 in special administrative fees and underpaid \$35,189 in special administrative fees.

HUD Generally Calculated and Distributed Set-Aside Funding and Special Administrative Fees Appropriately With a Few Exceptions

HUD generally calculated and distributed set-aside funding and special administrative fees correctly. However, it could benefit from improvements to its calculation process to ensure that funds are distributed appropriately.

Category 2b Set-Aside Funds for Portability Cost Increases

During calendar year 2018, HUD determined that 115 public housing agencies were eligible¹⁵ to receive set-aside funding totaling more than \$8.4 million after applicable offsets. We reviewed HUD’s eligibility determination and recalculated the amounts awarded to the 115 public housing agencies. We determined that one public housing agency received \$115,335 more than it was eligible to receive.

The Director of HUD’s Housing Voucher Financial Management Division agreed with our calculation and said that due to an error in the formula on the workbook the wrong information was used when calculating per unit cost¹⁶ for this public housing agency. As a result, the average per unit cost was calculated as zero, rather than \$384,¹⁷ which inappropriately increased the amount the public housing agency was eligible to and did receive.

Special Administrative Fees 2017

During calendar year 2017, HUD determined that 121 receiving public housing agencies were eligible¹⁸ to receive special administrative fees for portability totaling more than \$1.3 million. We reviewed HUD’s eligibility determination and recalculated the amounts awarded to the 121 public housing agencies. We determined that eight Moving to Work public housing agencies were not eligible to receive special administrative fees totaling \$133,179.

¹⁵ Public and Indian Housing Notice 2018-09, section 12.a

¹⁶ HUD must consider three scenarios when calculating per unit costs: whether the public housing agency is a (1) Moving to Work, (2) non-Moving to Work, or (3) Moving to Work treated as a non-Moving to Work agency. The third scenario applied to the public housing agency with the calculation error.

¹⁷ This number was rounded for reporting purposes.

¹⁸ Public and Indian Housing Notice 2017-10, section 7.B.3

The Director of HUD's Housing Voucher Financial Management Division agreed with our calculation. HUD's financial specialist said that to determine a Moving to Work public housing agency's eligibility for special administrative fees, HUD's staff determined the total number of port-in households divided by the average unit months available. However, for these eight Moving to Work public housing agencies, the formula to calculate the average unit months available divided the total unit months available by 12 months twice, thus causing the percentage of port-in households to be inflated. As a result, the eight Moving to Work public housing agencies appeared to be eligible to receive the special administrative fees when they did not meet the required threshold.¹⁹

Special Administrative Fees 2018

During calendar year 2018, HUD determined that 112 receiving public housing agencies were eligible²⁰ to receive special administrative fees for portability totaling more than \$3.7 million. We reviewed HUD's eligibility determination and recalculated the amounts awarded to the 112 public housing agencies. We determined that two additional public housing agencies were eligible to receive special administrative fees totaling \$35,189.

The Director of HUD's Housing Voucher Financial Management Division agreed with our calculation and said that these two public housing agencies were identified as public housing agencies in major disaster declaration areas, in HUD's 2018 renewal workbook; thus, their leasing information was maintained on a separate tab of the workbook. Therefore, when the worksheet pulled the leasing data for all public housing agencies, these two public housing agencies appeared to have no units leased. As a result, no eligibility determination was made.

Conclusion

Overall, HUD correctly calculated set-aside funding for increases in portability costs and special administrative fees but made errors when calculating for Moving to Work agencies and public housing agencies in federally declared disaster areas. As a result, HUD overpaid \$115,335 in set-aside funding and \$133,179 in special administrative fees and underpaid \$35,189 in special administrative fees.

Recommendations

We recommend that HUD's Director of the Housing Voucher Financial Management Division

- 2A. Pursue collection or recapture \$248,514 (\$115,335 + \$133,179) from the applicable public housing agencies for the overpayment of category 2b portability set-aside funds and special administrative fees cited in this finding.
- 2B. Distribute \$35,189 to the applicable public housing agencies for the underpayment of special administrative fees for portability cited in this finding.

¹⁹ Public and Indian Housing Notice 2017-10, section 7.B.3

²⁰ Public and Indian Housing Notice 2018-09, section 7.B.3

- 2C. Review the calculations and distributions of funds for the 2019 category 2b portability set-aside and special administrative fees for portability to ensure that the spreadsheet errors did not carry forward from the previous calculations.

Scope and Methodology

We performed our audit work between March 2019 and January 2020. The audit covered the period January 1, 2017, through December 31, 2018. We expanded our scope to include calendar year 2016 because that information was used to determine public housing agencies' eligibility for set-aside and special administrative fees distributed in 2017 as applicable.

To accomplish our audit objective, we reviewed

- Applicable laws; Federal Register Notices 5453-P-01 and 5453-F-02; HUD's regulations at 24 CFR parts 5 and 982; HUD's Public and Indian Housing Notices 2011-28, 2013-28, 2016-09, 2017-10, and 2018-09; HUD's Guidebook 7420.10G; Public and Indian Housing Real Estate Assessment Center, Accounting Brief Number 18; HUD's Voucher Management System User Manual; HUD's Public and Indian Housing Information Center's user manual; and HUD's Two-Year Projection Tool Manual.
- HUD's frozen²¹ Voucher Management System leasing and housing assistance payments expense data, Inventory Management System and Public and Indian Housing Information Center's portability reports, and Two-Year Projection Tool utilization reports.

We also interviewed HUD headquarters officials and staff, Iowa NAHRO board members, and Public Housing Agencies' staff.

Finding 1

We used frozen Voucher Management System data for calendar year 2018, provided by HUD, to determine the differences between the initial public housing agency's average housing assistance payments per month for a non-port-out household and the average housing assistance payments made per month to receiving public housing agencies for port-out households. We did this for 100 percent of the public housing agencies with portability households; therefore, no sample and no projection was warranted.

Finding 2

We reviewed and analyzed HUD's calculations of set-aside funding under category 2b and special administrative fees. We reviewed the total unit months' leased information from HUD's Voucher Management System; the total unit months available, when applicable; and the number of port-in households for which receiving public housing agencies billed initial public housing agencies from HUD's Public and Indian Housing Information Center's portability report. We reviewed this information to determine whether (1) initial agencies were eligible for set-aside funding and (2) receiving agencies were eligible for special administrative fees. We did this for

²¹ HUD provides public housing agencies a deadline for when all entries into the Voucher Management System must be completed. After the deadline, HUD extracts the information from the Voucher Management System for the final validation. Once the final validation is complete, the information is considered "frozen." This information is then used as part of public housing agencies' funding calculations for the next calendar year.

100 percent of the public housing agencies with portability households; therefore, no sample and no projection was warranted.

Data, Review Results, and Generally Accepted Government Auditing Standards

We relied in part on the total housing assistance payments and housing choice unit leasing information from HUD's frozen Voucher Management System data and the number of port-in households for which receiving public housing agencies billed initial public housing agencies from HUD's Inventory Management System and Public and Indian Housing Information Center's portability report. Although we did not perform a detailed assessment of the reliability of the data, we found the data to be sufficiently reliable for our purposes.

We provided our review results and supporting schedules to HUD's General Deputy Assistant Secretary for Public and Indian Housing, Deputy Assistant Secretary for Public Housing and Voucher Programs and the Director of HUD's Financial Management Division during the audit.

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

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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of HUD's internal controls.

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
2A	\$248,514	
2B		\$35,189
Totals	248,514	35,189

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if HUD implements our recommendations, it will ensure that public housing agencies that are eligible to receive special administrative fees for portability receive those funds appropriately.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



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

OFFICE OF PUBLIC AND INDIAN HOUSING

July 21, 2020

TO: Kelly Anderson, Regional Inspector General, 5AGA

Danielle Bastarache

FROM: Danielle L. Bastarache, Deputy Assistant Secretary, Office of Public Housing and Vouchers Programs, PE

SUBJECT: **Discussion Draft Audit Report - U.S. Department of Housing and Urban Development's (HUD) oversight of portability in the Housing Choice Voucher Program**

Thank you for the briefing during the Exit Conference on July 9, 2020, and for the opportunity to review the subject audit report and recommendations. Please find below our responses and recommended corrective actions that will be implemented and documented in the near future to provide closure of recommendations 1A, 2A, 2B and 2C.

Recommendation 1A: Conduct a nationwide assessment of the impact of portability and determine whether technical assistance is necessary for certain public housing agencies. Consider seeking input from public housing agencies and industry groups to evaluate the potential impact of portability and (1) determine whether improvements to the portability aspect of the program are warranted, and (3) if deemed warranted, determine how the improvements will be implemented for public housing agencies portable vouchers (both port-in and port-out).

HUD's Response: Concur. HUD's Office of Policy Development and Research issued HUD Research Roadmap FY 2020-2024 report for clearance, which includes Portability in the Housing Choice Voucher Program as a proposed research topic. This project will conduct case studies on PHAs with high portability (port-in and port-out) to examine PHAs program operation and cost outcomes as well as voucher tenant outcomes in terms of pre- and post-portability neighborhood characteristics and earned income. Research areas also include analyzing the pattern and distribution of voucher portability, the impact of portability on the origination and destination PHAs, and potential policy levers that HUD might consider to limit the impact of "port outs" on smaller PHAs' Housing Assistance Payments (HAP) budget and the overall number of families they can serve in their community. The study will highlight best practices in portability policies, including those used by regional PHA consortia with the long-term objective of proposing a portability demonstration to test the impact of different promising strategies

Evidence to provide closure: HUD respectfully requests closure of this recommendation without further requirements because the recommendation has been addressed. This assessment is already part of the HUD Research Roadmap FY 2020-2024 report. HUD

www.hud.gov espanol.hud.gov

Comment 1

Comment 2

**Ref to OIG
Evaluation**

Auditee Comments

Comment 3

OIG staff has access to this document through Departmental Clearance, or could request it from PD&R. PIH could also provide the final version of the document when is published.

Recommendation 2A: Pursue collection or recapture \$248,514 (\$115,335 + \$133,179) from the applicable public housing agencies for the overpayment of category 2b portability set-aside funds and special administrative fees cited in the finding.

HUD's Response: Concur. HUD will collect the overpaid award of \$115,335 for Category 2b Portability HAP Set-Aside and \$133,179 for special administrative fee from the applicable PHAs.

Evidence to Provide Closure: HUD will provide evidence of the collection.

Target deliverable date: October 31, 2020

Comment 4

Recommendation 2B: Distribute \$35,189 to the applicable public housing agencies for the underpayment of special administrative fees for portability cited in this finding.

HUD's Response: Concur. HUD will award \$35,189 to the applicable PHA, for the underpayment of portability special administrative fee.

Evidence to Provide Closure: PIH will provide evidence of the funding assignment of these funds.

Target deliverable Date: October 31,2020

Comment 5

Recommendation 2C: Review the calculations and distribution of funds for the 2019 category 2b portability set-aside and special administrative fees for portability to ensure that the spreadsheet error did not carry forward from the previous calculation.

HUD's Response: Concur HUD will continue to follow quality control measures to ensure the spreadsheet carries the correct formulas.

Evidence to Provide Closure: There are adequate quality procedures in place that the Financial Management Division will continue to follow. This was an anomaly in the review process, hence PIH respectfully requests closure of this recommendation without further requirements.

If your office needs further explanations, please contact Miguel A. Fontánez, Director of Housing Voucher Financial Management Division, at (202) 402-4212.

OIG Evaluation of Auditee Comments

Comment 1 HUD stated that it concurred with recommendation 1A. The Office of Policy Development and Research issued a HUD Research Roadmap Fiscal Year 2020 - 2024 report for departmental clearance, which includes portability in the Housing Choice Voucher Program as a proposed research topic.

We appreciate HUD's willingness to take corrective action and acknowledge that the proposed research project on portability, as written, correlates directly to the recommendation.

Comment 2 HUD requested closure of recommendation 1A without further requirements.

We acknowledge HUD's request; however, we respectfully decline to close the recommendation. HUD's Research Roadmap report has not been approved as of July 23, 2020, and may be subject to change. Also, the draft states that the report is not the final word, and in its entirety, may be more ambitious than HUD's budget would allow. Therefore, sufficient final action has not occurred to close the recommendation. We believe recommendation 1A should remain open until HUD's Research Roadmap report has been approved and the initial research has been completed. This action would allow HUD the opportunity to use the information to determine whether technical assistance is necessary for certain public housing agencies and assess the impact of portability on public housing agencies' programs for future decision making.

Comment 3 HUD stated that it concurred with recommendation 2A.

We appreciate HUD's willingness to take corrective action. We agree with HUD's proposed action; therefore, an initial management decision has been reached. We will enter this information into the audit resolution corrective action tracking system concurrent with the report issuance.

Comment 4 HUD stated that it concurred with recommendation 2B.

We appreciate HUD's willingness to take corrective action. We agree with HUD's proposed action; therefore, an initial management decision has been reached. We will enter this information into the audit resolution corrective action tracking system concurrent with the report issuance.

Comment 5 HUD stated that it concurred with recommendation 2C and will continue to follow its quality control measures to ensure that the spreadsheet that calculates portability set-aside and special administrative fees uses the correct formulas. Additionally, HUD stated that the errors were anomalies and requested closure of this recommendation without further requirements.

We acknowledge that the errors were anomalies as described in finding 2 of this report. We appreciate HUD's willingness to ensure that it follows its quality

control measures and will close this recommendation concurrent with the report issuance.

Appendix C

Applicable Requirements

Finding 1

In Federal Register Notice FR-5453-P-01, HUD proposed mandatory absorption of portability vouchers when a receiving public housing agency uses less than 95 percent of its available budget authority and has a leasing rate of less than 95 percent.

Federal Register Notice FR-5453-F-02, section 5, states that after consideration of several factors such as leasing rates and impact to the receiving public housing agency's waiting list, as absorption would reduce the number of families on the waiting list that a receiving public housing agency could serve, HUD decided not to adopt the mandatory absorption requirement. It further states that the final rule continues to afford HUD the ability to mandate absorption on a case-by-case basis. Should HUD determine to impose such a requirement in the future for all public housing agencies that (1) use less than 95 percent of their available budget authority and (2) have a leasing rate of less than 95 percent, it must do so through a notice in the Federal Register stating such proposed policy and procedures, with an opportunity for public comment for a period of no less than 60 calendar days. After consideration of public comments, HUD will publish a final notice in the Federal Register, advising public housing agencies and the public of HUD's final determination on mandatory absorption.

HUD's regulations at 24 CFR 982.353(c)(2) state that public housing agencies have the option of allowing a household to port immediately or the agency can require the household to wait at least 12 months before porting out.

HUD's Housing Choice Voucher Program Guidebook 7420.10g, section 13.5, states that if the receiving agency has a low utilization rate, absorbing incoming portable families will increase the utilization rate. It further states that when the receiving public housing agency administers the subsidy, the initial public housing agency retains 20 percent of the ongoing administrative fee for that housing choice voucher unless both public housing agencies reach a different agreement. Section 24.1 states that an agency that has not leased 100 percent of the vouchers or has not spent 100 percent of the funds contracted under its annual contributions contract has not used all of the resources provided for its program. The failure of any agency to use all of the funding contracted for the Housing Choice Voucher Program will always mean that a family in need of housing assistance it is not being helped. HUD has a responsibility to Congress to ensure that the funds authorized for housing assistance are used to assist the maximum number of families. Section 24.3 further states that to achieve a standard level of performance, an agency is expected to maintain its utilization at or above 95 percent.

Public and Indian Housing Notice 2011-28, section 2, states that every year, HUD receives annual appropriations from Congress. HUD implements the Appropriations Act and obligates funds to public housing agencies in accordance with the formula required by the Appropriations Act. The public housing agency must manage and monitor its programs within the amounts allocated for the calendar year to ensure that costs remain within appropriated amounts (including unspent funds from prior years, such as the net restricted assets – housing assistance payment equity account).

Public and Indian Housing Notice 2016-09, section 7(b), states that that the public housing agency is required by regulation to provide written notification to the local Office of Public and Indian Housing field office within 10 business days of the date on which the public housing agency determines that it is necessary to deny family moves due to insufficient funding. Public housing agencies do not need prior HUD approval to deny a family move for insufficient funding. Only one notification per calendar year is required. The notice must include (1) a financial analysis showing that insufficient funds are projected to meet the current calendar year projection of expenses, (2) a statement certifying that the public housing agency has stopped issuing vouchers and will not admit families from its waiting list while the limitation on moves is in place, and (3) a copy of the public housing agency's policy stating how the public housing agency will address families who have been denied moves.

Public and Indian Housing Notice 2016-09, section 10(c), states that once the initial public housing agency contacts the receiving public housing agency to inquire whether the receiving public housing agency will bill or absorb, the receiving public housing agency must respond by email or other confirmed delivery method to the initial public housing agency's inquiry. Section 10(k) of the Notice further states that the receiving public housing agency may absorb the family into its own program if it has funding available under its annual contributions contract to do so and such a decision will not result in overleasing for the calendar year.

Public and Indian Housing Notice 2016-09, section 14(c), states that the initial public housing agency is generally not required to honor initial billings that are not received by the initial billing deadline. If the initial public housing agency has not received a billing notice by the deadline and determines that it will not accept a late billing, the initial public housing agency must inform the receiving public housing agency of this decision in writing. If the initial public housing agency later receives a late billing notice on behalf of the family, it returns the late form HUD-52665 to the receiving public housing agency. A receiving public housing agency that failed to send the initial billing by the deadline is generally required to absorb the family into its own program unless the initial public housing agency is willing to accept the late submission.

HUD's Accounting Brief Number 18, section 1.1, page 4, states that only the initial public housing agency is allowed to use housing assistance payment funding sources, including current year appropriations and restricted net assets, to fund the housing assistance cost of the port-out voucher. The initial public housing agency will report the housing assistance payment costs in the housing assistance payments' equity section of the financial data schedule. The receiving public housing agency will not report the housing assistance payments in the equity section of the financial data schedule, as only the initial public housing agency may fund the costs from housing assistance payments received from HUD. Unless absorbed, the receiving public housing agency will use the administrative fee equity section of HUD's Financial Data Schedule to report all portability-in activity, including the housing assistance payments and revenues related to billing the initial public housing agency.

Finding 2

Public and Indian Housing Notice 2017-10, section 7.B.3, states that receiving public housing agencies, where portability vouchers comprise a significant portion of their vouchers under lease,

are eligible for a special fee. Public housing agencies must administer port-in vouchers, which equal 20 percent or more of the public housing agencies' total number of leased vouchers as of December 31, 2016, to be eligible for special portability fees. For each eligible port-in voucher, the receiving public housing agencies will receive 12 months of funding equal to 5 percent of the public housing agencies' 2017 column A rate for administrative fees. This is a one-time award of special fees and will be calculated based on a public housing agency's portability data found in HUD's Public and Indian Housing Information Center for actions through December 31, 2016, and leased data from the Voucher Management System as of December 31, 2016 (from the same Voucher Management System database used to determine the 2017 Housing Choice Voucher Program renewal allocations). Public housing agencies do not need to apply for these funds as HUD provides these fees automatically based on Public and Indian Housing Information Center data and the Voucher Management System data used for the 2017 renewal allocation. Public housing agencies were advised through Public and Indian Housing Notice 2017-07 of the deadline date of May 22, 2017, to ensure that all Public and Indian Housing Information Center data were updated and successfully submitted.

Public and Indian Housing Notice 2018-09, section 7.B.3, states that receiving public housing agencies where portability vouchers comprise a significant portion of their vouchers under lease are eligible for a special fee. Public housing agencies must have administered a number of port-in vouchers equal to 20 percent or more of the public housing agencies' total number of leased vouchers as of December 31, 2017, to be eligible for special portability fees. For each eligible port-in voucher, the receiving public housing agency will receive 12 months of funding equal to 15 percent of the public housing agency's 2018 column A rate for administrative fees. This is a one-time award of special fees and will be calculated based on public housing agency portability data found in HUD's Public and Indian Housing Information Center for actions through December 31, 2017, and leased data from the Voucher Management System as of December 31, 2017 (from the same Voucher Management System database used to determine the 2018 housing choice voucher renewal allocations). Public housing agencies do not need to apply for these funds as HUD provides these fees automatically based on Public and Indian Housing Information Center data and the Voucher Management System data used for the 2018 renewal allocation. Public housing agencies were advised through Public and Indian Housing Notice 2018-07 of the deadline date of March 20, 2018, to ensure that Public and Indian Housing Information Center data were updated and successfully submitted.

Public and Indian Housing Notice 2018-09, section 12.a, states that to be eligible for set-aside funding under category 2b, the public housing agency must have experienced a significant increase in renewal costs due to portability for tenant-based rental assistance. To calculate eligibility under this category, HUD will compare the average housing assistance payment per unit cost for the rebenchmarking period (January 1 to December 31, 2017) to the average housing assistance payment per unit cost for "port vouchers paid" during the rebenchmarking period, both based on reporting in HUD's Voucher Management System. If the portability average housing assistance payment exceeds 110 percent of the programwide average housing assistance payment per unit cost for the rebenchmarking period, the public housing agency will be eligible for set-aside funding. The difference between the portability average per unit cost and 110 percent of the programwide average per unit cost is multiplied by the total unit months

leased for the “port vouchers paid” reported in HUD’s Voucher Management System during the rebenchmarking period to determine funding eligibility. HUD calculates eligibility under this category; therefore, no additional documentation will be required or accepted other than 2018 attachment B, which must be completed, signed, and submitted by the deadline date.