



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

September 22, 2014

MEMORANDUM NO:
2014-FW-1807

Memorandum

TO: Lorraine Walls
Director, Public Housing Programs Center, 6EPH

FROM: //signed//
Gerald Kirkland
Regional Inspector General for Audit, 6AGA

SUBJECT: The Beaumont Housing Authority, Beaumont, TX, Needs To Improve Controls Over Its Housing Programs

INTRODUCTION

In accordance with our regional plan to review public housing programs, we reviewed the Beaumont Housing Authority, Beaumont, TX. Our objective was to determine whether the Authority's controls over tenant and unit eligibility were sufficient to ensure that it administered its low-rent public housing and Housing Choice Voucher programs in accordance with U.S. Department of Housing and Urban Development (HUD) regulations and guidance.

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.

METHODOLOGY AND SCOPE

The review generally covered the period January 1, 2011, through December 31, 2013. We expanded the scope as necessary to meet the review objectives. We conducted the review at the Authority's administrative offices in Beaumont, TX, and the HUD field office and our office in Houston, TX, from January through May 2014.

To accomplish our objectives, we performed the following:

- Reviewed relevant laws, regulations, contracts, and other HUD requirements and guidance.
 - Reviewed the Authority's policies and procedures.
 - Reviewed the Authority's board meeting minutes for the review period.
 - Selected and reviewed two samples of tenant files.
1. The first sample consisted of 23 tenant files, which included both the public housing and Housing Choice Voucher programs. We reviewed the 23 files to determine compliance with tenant and unit eligibility requirements. We selected a nonstatistical sample of 10 public housing files from a universe of 1,027 public housing tenants and 13 Housing Choice Voucher tenant files from a universe of 2,230 Housing Choice Voucher tenants who received assistance during the review period. We selected a nonstatistical sample because we wanted to focus on certain items in the population that were potentially problematic. Of the 23 sample items selected, 9 were selected because they included repayment agreements between the tenant and the Authority. We randomly selected the remaining 14 from a list of tenants provided by the Authority.
 2. The second sample consisted of 10 Housing Choice Voucher tenant files. We reviewed the 10 files to determine whether the Authority provided vouchers for the appropriate number of bedrooms based on family composition. Initially, we compared the vouchers with the family composition for the 2,230 Housing Choice Voucher tenants and determined that the Authority provided 85 families with vouchers that exceeded the authorized number of bedrooms. From the 85 families, we selected a nonstatistical sample of 10 families with high contract rents for review. We selected a nonstatistical sample because we wanted to focus on items in the population that were potentially problematic. During the review, we noted that the Authority did not always use appropriate payment standards. We randomly selected 10 of 13 Housing Choice Voucher tenant files from the first sample and reviewed them to ensure that the inappropriate payment standard use was not limited to tenants whose voucher size exceeded their family size. Therefore, total testing for payment standard use included 20 files.
- We used for our Performed LexisNexis reviews to search for potential conflicts of interest and obtained independent background checks on the sample tenants.
 - Analyzed data supporting tenant repayment agreements.
 - Analyzed Authority records for subsidy standards and voucher sizes and conducted limited rent recalculations to determine the effect of using incorrect standards and sizes.
 - Interviewed selected HUD, Authority, and contractor staff.
 - Performed driveby observations of two Authority-owned apartment complexes and two scattered-site homes.

We used low rent and Housing Choice Voucher computer processed tenant lists to select our samples. We did not rely on this data to base our conclusions, and therefore, did not assess the

reliability of the data. We used computer processed aging reports to determine the number and amounts of repayment agreements and their status. Since the reports were not voluminous, we performed manual data validity tests and did not find any errors. We determined that the data shown in the aging reports was sufficiently reliable for our review purposes.

BACKGROUND

The Authority was established in 1941 under the laws of the State of Texas to fulfill the need for adequate affordable housing for low-income residents. The Authority is located at 1890 Laurel, Beaumont, TX. During the review period, it owned 714 housing units. It managed 482 public housing units and contracted with a management agent to manage the remaining 222 units at 3 mixed-finance projects. The Authority also administered 2,230 Housing Choice Voucher program units.

The Authority is governed by a five-member board of commissioners appointed by the mayor of Beaumont, who serve staggered multiyear terms. The board hires the executive director, who serves as the board secretary and is responsible for the daily operations of the Authority.

HUD's Public Housing Assessment Score rated the Authority as substandard management in 2011 and 2012, although the Authority was an overall standard performer at that time. There was no rating during 2013.

RESULTS OF REVIEW

While the Authority generally had effective internal controls to ensure that public housing and Housing Choice Voucher tenants and units were eligible for assistance, some of its controls need to be strengthened. Specifically, (1) the Authority did not always use correct housing choice voucher payment standards or require families to move to smaller units when reductions in family composition warranted changes, (2) tenant files contained miscellaneous errors and were missing documents, (3) the Authority did not have a form or formal process to identify tenant conflicts of interest, and (4) the Authority did not consistently track and enforce its tenant repayment agreements for public housing and housing choice vouchers or follow its policies for reporting tenant fraud to the Office of the Inspector General (OIG).

The Authority Did Not Always Use Correct Payment Standards or Reduce Voucher Sizes When Reductions in Family Composition Warranted Changes

The Authority did not always use correct housing choice voucher payment standards when it calculated housing assistance payments. In 14 of 20 cases reviewed, the Authority did not follow HUD's requirements in applying the correct payment standards, resulting in its paying incorrect rent subsidies.

In addition, the Authority did not always adjust rent subsidies to the appropriate unit size when it performed annual tenant recertifications. When changes in family composition warranted changes to the number of authorized bedrooms, the Authority was required to adjust the families' subsidies. In 7 of 10 cases reviewed, the Authority provided families subsidized units that did

not have the appropriate number of bedrooms according to its occupancy plan and HUD requirements.

These errors occurred because Authority staff was unfamiliar with HUD regulations regarding subsidy and payment standards and the Authority lacked written procedures for applying the payment standards. Further, the Authority's internal monitoring, which should have detected and prevented the improper payments, was not sufficient to do so.

As a result, the Authority overpaid \$10,184 in rent subsidies for eight families and underpaid \$1,224 in rent subsidies for four families. If the Authority does not take corrective action, it will overpay an additional \$3,816 and underpay an additional \$1,240, respectively, for these families before their next annual recertification dates.

Housing Choice Voucher Tenant Files Contained Miscellaneous Errors and Were Missing Documents

While the Authority generally correctly determined tenant and unit eligibility, 11 of 23 tenant files reviewed had one or more of the following minor errors:

- 1 file did not contain sufficient documentation to verify that the Authority properly determined tenant and unit eligibility during the first 2 years of the review period. The Authority was unable to provide documents for 2011 and 2012 because it could not locate one folder of a two-folder file.
- 4 files contained problems with criminal background checks. In 1 file, the Authority could not provide copies of the required criminal background checks for 2011 and 2012. 3 files did not contain documentation of criminal background checks for 1 year; however, the Authority was able to obtain a copy of 1 background check from other sources. Further, 1 criminal background check was not approved by management.
- 6 files did not contain annual inspection reports for 1 year; however, the Authority was able to obtain a copy of 4 of the inspection reports from other sources.
- 1 required annual inspection was not completed until after the recertification date and the new lease had been signed.
- The required rent survey to assess the rental amount for 1 family was not performed until 5 months after the family moved into the unit.
- For 1 family, the Authority used an incorrect flat rent when it calculated the subsidy.

These errors occurred because the Authority's procedures were inadequate to ensure that its staff (1) appropriately maintained and filed pertinent documents in tenant files; (2) performed timely inspections, rent surveys, and related reviews; and (3) properly calculated subsidies.

The Authority Did Not Have a Process To Identify Tenant Conflicts of Interest

The Authority's internal policy states that the "PHA [public housing agency] must determine that the applicant family is not a member officer or employee of the PHA who formulates policy or influences decisions with respect to the Section 8 (Housing Choice Voucher) program." It further states, "Public officials or members of the local governing body or State legislators who

exercise functions or responsibilities with respect to the Section 8 (Housing Choice Voucher) program are ineligible as well.” However, the Authority did not set up a process to identify such tenants. According to Authority managers, the Authority intended to add a certification form to its admission and recertification packages. In addition, the Authority should add a verification process to ensure that the certifications are accurate. Although we did not identify any conflicts of interest, the certifications and verifications should reduce the risk of such conflicts.

The Authority Did Not Consistently Enforce Its Tenant Repayment Agreements

The Authority executed repayment agreements with tenants who owed it money for special claims (unpaid rent, damages, or vacancy loss) paid on their behalf by the Authority to landlords. In addition, the Authority executed repayment agreements with tenants to reimburse the Authority if it determined that a tenant was charged less rent than required by HUD’s rent formula due to the tenant’s underreporting or failure to report income. In those cases, the tenant was required to reimburse the Authority for the difference between the rent that should have been paid and the rent that was charged. However, the Authority did not consistently track and enforce the agreements. Appendix C is a summary of repayment agreements, including the number of agreements, amounts owed, and amounts in arrears. Further, the Authority did not refer potential fraud to HUD OIG in accordance with its policy.

Eight of Ten Public Housing Repayment Agreements Were Past Due

Eight of the ten active public housing repayment agreements that were on record as of December 31, 2013, were more than 30 days past due according to the Authority’s accounting system. The eight repayment agreements totaled \$5,137 and represented 96 percent of the total outstanding account balances of \$5,373. Further, the Authority was not initially able to identify all of its public housing repayment agreements.

The Authority relied on its project managers and a management company to collect the payments and update its computer system. If a tenant was behind on payments under the agreement, the project managers and the management company were supposed to alert the Authority’s administrative staff to begin enforcement action. However, the Authority did not ensure that the delinquencies were reported.

Housing Choice Voucher Program Repayment Agreements Were Past Due

Thirty-two of the fifty-one active repayment agreements in the Housing Choice Voucher program were in arrears with delinquent payments totaling \$28,859. This amount represented 44 percent of the total outstanding balances of \$65,396 as of December 31, 2013. Although some tenants had made recent payments, their accounts remained delinquent. The 51 repayment agreements were signed from March 2011 through October 2012. Management officials told us that no agreements were executed for 2013 due to staffing shortages.

This condition occurred because the Authority did not have sufficient controls to track whether the Housing Choice Voucher program tenants made timely payments. The only tracking tool for Housing Choice Voucher repayments was an Excel spreadsheet that was maintained by a staff member who left the Authority in November 2013. The spreadsheet was not updated between August and December 2013. The Housing Choice Voucher program director kept copies of the

tenant payments and updated the tracking tool in March 2014. Further, Housing Choice Voucher staff members acknowledged that they had not always fully enforced the repayment agreements due partly to tenant complaints of affordability.

As a result, funds due the Authority were not collected in a timely manner and could become uncollectible. Further, the deterrent effect of requiring tenants to repay the funds or face termination from the program for underreporting income is greatly reduced when the agreements are not enforced.

The Authority Did Not Report Potential Fraud to OIG

The Authority's Admissions and Continued Occupancy Policy and Housing Choice Voucher program Administrative Plan state that if a family owed an amount that equaled or exceeded \$2,500 as a result of program fraud, the Authority would refer the matter to OIG. We noted 21 tenant accounts with beginning balances ranging from \$2,564 to \$5,918, yet the Authority did not report them to OIG. According to Authority management, it generally did not report a case if the tenant agreed to execute a repayment agreement. The Authority should either enforce the policy or change it.

RECOMMENDATIONS

We recommend that the Director, Public and Indian Housing, Houston, TX, require the Authority to

- 1A. Develop and implement procedures to ensure that families are provided the appropriate voucher based on family composition.
- 1B. Develop and implement procedures to ensure that it complies with the payment standards in its Administrative Plan.
- 1C. Repay \$10,184 in Housing Choice Voucher ineligible overpayments to its program. Repayment must be from non-Federal funds.
- 1D. Repay \$1,224 in Administrative Reserve funds to four families whose subsidies were underpaid.
- 1E. Review all Housing Choice Voucher program families to determine whether their subsidies are correct based on the payment standards and repay any overpayments to its program and any underpayments to the affected families. Overpayments repaid to its Housing Choice Voucher program must be made from non-Federal funds, while underpayments repaid to tenants should be from the Authority's Administrative Reserve.
- 1F. Develop and implement appropriate written procedures to reduce the risk of future overpayments and underpayments in its Housing Choice Voucher program.
- 1G. Review its quality control system to determine why the tenant file errors went undetected and implement appropriate controls to minimize the risk of future errors.

- 1H. Implement procedures to identify tenant conflicts of interest, including requiring applicant families to certify that they do not have any conflicts of interest and developing and implementing a process to verify the certifications.
- 1I. Develop and implement a system to initiate, track, and enforce tenant repayment agreements and payments under those agreements.
- 1J. Either enforce its policy to refer cases of tenant fraud to the OIG, or change the policy.

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/ |
|--------------------------|---------------|-------------------------------------|
| 1C | \$10,184 | |
| 1D | | \$1,224 |

- 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 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, the amount represents funds that the Authority needs to remit to the tenants because it overcharged them for their housing choice vouchers.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



HOUSING AUTHORITY

of the City of Beaumont, Texas

September 11, 2014

Gerald R. Kirkland, Regional Inspector General for Audit
Office of Audit (Region 6)
819 Taylor Street, Suite 13A09,
Fort Worth, TX 76102

RE: Responses to Recommendations in the Draft Memorandum regarding the OIG review of the
Beaumont Housing Authority, Beaumont, TX

Dear Mr. Kirkland,

Attached please find our responses to the recommendations for improvements in your draft memorandum.

We sincerely appreciated the time that your audit team spent with our staff. The review was informative, educational and also very satisfying to learn that there were no glaring issues or concerns identified.

Attached we have indicated the action(s) that have been taken or are being taken to address and improve the operations or controls identified by your staff.

We thank you and your staff for the comments and guidance during our exit interview. We all must ensure the highest integrity of our programs is established and maintained. We completely understand and agree that it is only through such quality control reviews that we can all be assured regulations are being followed and that the best interests of the tax payer and clients are being served.

Sincerely,

Robert L. Reyna
Executive Director

cc: Jacob Williams Assistant Regional Inspector General, HUD-Houston
Lorraine Walls, Director, Public Housing Programs Center, 6EPH

1890 Laurel Street • Beaumont, TX 77701 • (409) 951-7200 • (409) 951-7275-fax

A Fair Housing and Equal Opportunity Agency
Hearing impaired may contact Relay Texas at 1-800-735-2989 or 7-1-1.



HOUSING AUTHORITY

of the City of Beaumont, Texas

RECOMMENDATIONS

We recommend that the Director, Public and Indian Housing, Houston, TX, require the Authority to:

RECOMMENDATION: 1A. Develop and implement procedures to ensure that families are provided the appropriate voucher based on family composition.

RESPONSE: BHA has requested, and our software vendor has agreed, to revise the HCV program to achieve what we need to better monitor and eliminate the problems discovered

RECOMMENDATION: 1B. Develop and implement procedures to ensure that it complies with the payment standards in its Administrative Plan.

RESPONSE: CFR 982.505-3 has been added as a procedure to the Admin Plan and staff has been properly trained on the procedure. The HCV and Compliance staff also recently attended a 5 day training provided by the Texas Housing Association.

RECOMMENDATION: 1C. Repay \$10,184 in Housing Choice Voucher ineligible overpayments to its program. Repayment must be from non-federal funds.

RESPONSE: Our fiduciary responsibilities to the tax payers and to our programs have always been our highest priority. We deeply regret any amounts were overpaid and will strive for 100% accuracy in the future. A repayment to the program will be immediately made.

RECOMMENDATION: 1D. Repay \$1,224 in Administrative Reserve funds to four families whose subsidies were underpaid.

RESPONSE: Accuracy in our calculations has always been stressed to all staff involved in calculating rental assistance payments to clients. We deeply regret any amount that was under paid to any of our families and we will immediately reimburse those identified participants for their underpayment.

RECOMMENDATION: 1E. Review all Housing Choice Voucher program families to determine whether their subsidies are correct based on the payment standards and repay any overpayments to its program and any underpayments to the affected families. Overpayments repaid to its Housing Choice Voucher program must be made from non-Federal funds, while underpayments repaid to tenants should be from the Authority's Administrative Reserve.

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Comment 1



HOUSING AUTHORITY

of the City of Beaumont, Texas

RESPONSE: An RFP has been published seeking a third party contractor to come to our offices to perform a 100% comprehensive review of all our families to determine whether their subsidies are correct based on the payment standards. Simultaneously, the contractor shall review all the files to determine if there were any over or underpayments made that need to be corrected. Any such over or underpayments will be reimbursed per the instructions outlined and in full compliance with the OIG directives.

RECOMMENDATION: 1F. Develop and implement appropriate written procedures to reduce the risk of future overpayments and underpayments in its Housing Choice Voucher program.

RESPONSE: Procedures will be developed no later than December 30, 2014.

RECOMMENDATION: 1G. Review its quality control system to determine why the tenant file errors went undetected and implement appropriate controls to minimize the risk of future errors.

RESPONSE: Tenant file audits cited in 1D above will be the beginning of that process. BHA will broaden the number of files audited annually to 10% of vouchers leased.

RECOMMENDATION: 1H. Implement procedures to identify tenant conflicts of interest, including requiring applicant families to certify that they do not have any conflicts of interest and developing and implementing a process to verify the certifications.

RESPONSE: We appreciate the OIG acknowledging that no problems were identified. A new tenant Conflict of Interest statement has been included in the certifications to be signed by all applicants and existing tenants at their annual recertification.

RECOMMENDATION: 1I. Develop and implement a system to initiate, track, and enforce tenant repayment agreements and payments under those agreements.

RESPONSE: A new electronic database has been created to monitor and track all future bad debts and payments. A report will be generated monthly to identify any delinquent payments for immediate follow-up and collection efforts. Monthly statements are also mailed to the clients.

RECOMMENDATION: 1J. Either enforce its policy to refer cases of tenant fraud to the OIG, or change the policy.

RESPONSE: Policies exist for such matters. The case identified was an attempt by staff to give the family an opportunity to correct the problem. Unfortunately that did not happen. All staff has been advised that in the future, consistency in policy application is paramount.

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OIG Evaluation of Auditee Comments

Comment 1 The Authority agreed with the audit memorandum and each of the recommendations, and outlined the steps that it has taken or is taking to improve the operation and control issues identified.

We acknowledge that the Authority said it has taken or is in the process of taking action to improve the operations and controls. However, we have not evaluated the improvements and do not have an opinion on their effectiveness. The Authority will need to work with HUD to ensure that appropriate corrective actions are taken.

Appendix C

SUMMARY OF REPAYMENT AGREEMENTS AS OF DECEMBER 31, 2013

| Program | Active accounts | Outstanding balance | Accounts more than 30 days past due | Amount in arrears (dollars) | Amount in Arrears (percentage) |
|------------------------|-----------------|---------------------|-------------------------------------|-----------------------------|--------------------------------|
| Public housing | 10 | \$5,373 | 8 | \$5,137 | 96 |
| Housing Choice Voucher | 51 | \$65,396 | 32 | \$28,859 | 44 |
| Totals | | \$70,769 | | \$33,996 | |