



Mesilla Valley Public Housing Authority, Las Cruces, NM

Low-Rent and Housing Choice Voucher Programs



To: Floyd R. Duran, Program Center Coordinator, Office of Public Housing, 6BPHO

//signed//

From: Gerald R. Kirkland, Regional Inspector General for Audit, Fort Worth Region, 6AGA

Subject: The Mesilla Valley Public Housing Authority, Las Cruces, NM, Miscalculated Housing Choice Vouchers and Incorrectly Paid Rental Assistance

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 Mesilla Valley Public Housing Authority's low-rent and Housing Choice Voucher programs.

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 Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

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



Audit Report Number: 2015-FW-1004

Date: August 17, 2015

The Mesilla Valley Public Housing Authority, Las Cruces, NM, Miscalculated Housing Choice Vouchers and Incorrectly Paid Rental Assistance

Highlights

What We Audited and Why

At the request of the U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing in Albuquerque, NM, we conducted a review of the Mesilla Valley Public Housing Authority. The Office of Public Housing estimated that the Authority could lose nearly \$1 million by the end of 2014 because it had leased only 983 of its 1,607 vouchers. Our objectives were to determine the extent, cause, and impact of not leasing all of its vouchers, and whether the Authority implemented its low-rent and Housing Choice Voucher programs in accordance with HUD regulations.

What We Found

We did not determine the extent, cause, and impact of the Authority not leasing all of its vouchers because HUD's Office of Public Housing changed the housing assistance payment reserve offset formula, which meant that the Authority would no longer lose nearly \$1 million at the end of 2014. The Albuquerque, NM, Office of Public Housing began working with the Authority to lease more vouchers, and the Authority took other actions to resolve the other deficiencies.

However, we found deficiencies in 9 of 10 randomly selected program participant files. Each of the files contained one or more deficiencies, including payment calculation errors, incorrect payments, and missing documents to support participant and unit eligibility. These errors occurred because the Authority did not maintain knowledgeable in-house program staff, did not maintain continuity when it switched between contractors and in-house staff to process program files, and did not ensure staff followed the Housing Choice Voucher program policies and procedures. As a result, the Authority overpaid \$2,139 in assistance and required participants to overpay \$22. Further, it paid \$21,426 for participants and units with unsupported eligibility and made an additional \$53 in unexplained payments. We found no deficiencies in the Authority's low-rent program.

What We Recommend

We recommend that the Authority (1) repay \$2,139 for incorrect housing assistance payments, (2) reimburse \$22 to a family that was overcharged, (3) support or repay \$21,479, and (4) take steps to ensure staff follows procedures when calculating rent and maintain adequate supporting documentation.

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Background and Objectives

On January 1, 2012, the City of Las Cruces and Dona Ana County had an intergovernmental agreement that established the Mesilla Valley Public Housing Authority. The Authority was previously known as the Housing Authority of the City of Las Cruces. The Authority has a five-member board of commissioners, two of whom are appointed by the mayor of Las Cruces and two of whom are appointed by the Board of County Commissioners. The fifth member of the Authority's board is a public housing resident. The primary purpose of the Authority is to provide safe, decent, and sanitary housing for low- and moderate-income families in Las Cruces, NM, and Dona Ana County, NM.

The Authority owns and manages 253 low-rent public housing units and has authority to issue up to 1,607 housing choice vouchers. The U.S. Department of Housing and Urban Development (HUD) provided operating subsidies, Public Housing Capital Fund program funds, and American Recovery and Reinvestment Act funds to the Authority to manage, maintain, and operate its public housing developments. The Authority disbursed more than \$3 million in Housing Choice Voucher program funds in fiscal year 2012, \$4.9 million in 2013, and \$5.6 million in 2014.

The Authority hired a contractor to manage its program from March 2010 through October 2013. In 2013, the Authority decided to bring its program back in-house. Between August 2013 and February 2014, the Authority hired two managers for the program and fired them because they did not meet the executive director's expectations. When the in-house managers did not work out, the Authority signed a contract with the Eastern Regional Housing Authority to manage the program from February through December 2014 and placed it under the oversight of the public housing program manager. The Eastern Region Housing Authority revised the contract in August 2014 from "managing" to "overseeing" the program for the Authority. The Authority hired Bernalillo County Housing Authority to manage its program in February 2015, but this was after our audit period ended.

Our objectives were to determine (1) whether the Authority operated its low-rent and Housing Choice Voucher programs in accordance with HUD regulations; (2) the extent, cause, and impact of not leasing all of its vouchers; and (3) whether the factors that led to the reduction in Housing Choice Voucher program participants impacted its low-rent program.

Results of Audit

The Authority Incorrectly Calculated and Paid Assistance and Could Not Support Program Participant and Unit Eligibility for Its Housing Choice Voucher Program

The Authority had deficiencies in 9 of 10 randomly selected program files. Five of the nine files had calculation and payment errors. One file was missing documentation. The three remaining files had both calculation and payment errors and were missing documentation. These errors occurred because the Authority did not maintain knowledgeable in-house program staff, did not maintain continuity when it switched between contractors and in-house staff to process the program files, and did not ensure staff followed the Housing Choice Voucher program policies and procedures. As a result, for the 10 files reviewed, the Authority overpaid \$2,139 in program assistance and required participants to overpay \$22. Further, it paid \$21,426 for participants and units with unsupported eligibility and made an additional \$53 in unexplained payments.

Deficiencies in Program Files

The Authority's files contained several types of errors. These errors included incorrect payment standards, incorrect allowance deductions, not implementing payment changes at the appropriate time, unexplained payments, and missing eligibility documents. Table 1 shows the types of errors. Table 2 shows the effect of the errors on assistance payments.

Table 1

Types of errors					
Sample item	Incorrect payment standard	Incorrect allowance	Failure to implement new payments timely	Unexplained payment	Missing eligibility documentation
2	X				X
3	X		X		
4	X				X
5		X	X		
6			X		
7	X	X		X	X
8		X	X		
9	X	X		X	X
10					X
Totals	5	4	4	2	5

Table 2**Effect of errors on assistance payments**

Sample item	Overpayments	Underpayments	Unsupported payments
2	\$464		\$15,144
3	215		
4		\$22	
5	57		
6	7		
7	865		2,117 ¹
8	231		
9	300		2,481 ²
10			1,737
Totals	\$2,139	\$22	\$21,479

Incorrect Payment Standards

As shown in table 1, the Authority did not use correct payment standards for 5 of 10 randomly selected program participants. A payment standard is the amount generally needed to rent a moderately priced dwelling unit in the local housing market, which is used to calculate the amount of housing assistance a family will receive. The payment standard for the family is the lower of the payment standard amount for the family unit size or the size of the dwelling unit rented by the family.

In sample 2, for example, the Authority failed to use appropriate payment standards during recertification of a two-bedroom unit. In July 2012, the Authority correctly calculated the family's move-in payment standard of \$622 and paid it correctly. However, it incorrectly calculated the payment standard when it recertified the family in 2013, resulting in overpayments.

The Authority increased a payment standard before it should have. An approved payment standard increase from \$622 to \$696 was effective January 2013. It later decreased back to \$622, effective May 2013. According to 24 CFR (Code of Federal Regulations) 982.505(c)(4), when there is an increase in the payment standard amount during the housing assistance payment contract term, the increased payment standard amount must be used to calculate the monthly housing assistance payment for the family beginning at the effective date of the family's first regular reexamination on or after the effective date of the increase. Rather than using the \$622

¹ \$45 unexplained payment + \$2,072 payments based on missing documentation = \$2,117 unsupported payments

² \$8 unexplained payment + \$2,473 payments based on missing documentation = \$2,481 unsupported payments

payment standard, the Authority used the \$696 payment standard. As a result, in July 2013 it paid \$531 in housing assistance rather than the appropriate amount of \$493, an overpayment of \$38.

One month later, the family composition changed from three to four family members, which resulted in a new notice of rent amount. The Authority continued to use the incorrect \$696 (two-bedroom unit) payment standard for recertification, which caused it to overpay a total of \$418 for the period August 2013 through June 2014. Following the family's July 2014 recertification, the Authority overpaid \$2 monthly, a total of \$8 from July through October 2014. In total, the Authority overpaid \$464 in housing assistance for the family. The overpayments were an ineligible cost that the Authority should reimburse to its program.

Incorrect Allowance Deductions

As shown in table 1, the Authority did not use the correct utility allowance deductions for 4 of 10 families reviewed. A utility allowance is the amount that a housing agency determines is necessary to subsidize the resident's reasonable utility costs. The utility allowance schedule must be determined based on the typical cost of utilities and services paid by energy-conservative households that occupy housing of similar sizes and type in the same locality. The Authority must maintain a utility allowance schedule for all tenant-paid utilities, the cost of tenant-supplied refrigerators and ranges, and other tenant-paid housing services.

For example, in sample 5, the Authority failed to use the appropriate utility allowance deductions to calculate payments. In April 2013, the family's utility allowance calculation for a two-bedroom unit with appliances for heating, cooking, air conditioning, water heater, and other electrical services was \$118; however, the Authority entered \$122 as the utility allowance. The error caused the Authority to overpay \$4 per month for rental assistance, or a total of \$48 for the period April 2013 through March 2014. The overpayments were an ineligible cost that the Authority should reimburse to its program.

Failure To Implement New Payments on Time

As shown in table 1, the Authority did not implement new payments at the appropriate time for 4 of the 10 families. The Authority should have paid the landlords the lesser of the monthly housing assistance or the actual rent for the unit.

In sample 3, for example, the Authority mailed a notice of rent adjustment letter on July 15, 2013, notifying the family that effective September 1, 2013, the housing assistance payments to the landlord would change from \$396 to \$349. However, on September 3, 2013, the Authority paid the landlord \$396. Because the Authority did not implement the new payment, effective September 1, 2013, it overpaid \$47 for September 2013. The overpayments were an ineligible cost that the Authority should reimburse to its program.

Unexplained Payments

The Authority made unexplained payments for 2 of 10 sampled families. For example, in sample 7, the Authority correctly paid the landlord \$138 on January 3, 2013. On the same day, the Authority made an adjustment payment to the landlord for \$45 for the same family and unit. The February 1, 2013, payment to the landlord was again \$138. The Authority was unable to

provide supporting documentation or a reasonable justification for the \$45 payment. The Authority made another unexplained payment of \$8 for sample 9 on September 4, 2012. These payments were unsupported costs. The Authority should provide evidence that they were appropriate or reimburse the \$53³ to its Housing Choice Voucher program.

Missing Documentation

Initially, 9 of the 10 sampled paper files were missing a total of 36 necessary documents. During the audit, the Authority located many of the missing documents in its management contractor's online system and in the Eastern Regional Housing Authority's computer system. The Authority located all but five documents from five different files.

The missing documents included an inspection report (one instance), results of a criminal background check (one instance), a form HUD-50058 (one instance), and income verification (two instances). The inspection report, income verification documents, and criminal background check are critical documents supporting the participants' and units' eligibility for assistance. Since the Authority did not have documentation supporting unit and tenant eligibility, it paid \$21,426 on behalf of the participants, which was unsupported and should be repaid to its program if the Authority cannot provide additional documentation. The missing form HUD-50058 is an important document in that it shows how the Authority calculated the family's assistance.

Failure To Fully Lease Vouchers

We did not determine why the Authority failed to fully lease its vouchers. According to the Albuquerque, NM, Office of Public Housing, this issue had been resolved with the replacement of the former executive director and contractor and because the Office of Public Housing had changed its housing assistance payment reserve offset, which resulted in the Authority's not losing funding.

Steps Taken To Improve Deficiencies

In response to the review, the Authority began taking corrective action. It hired a new executive director and a new contractor to manage and administer its program and train its staff. The new executive director acknowledged the Authority's longstanding difficulty in maintaining knowledgeable staff to effectively administer its program and stated that it would implement corrective actions. Further, after we notified the outgoing executive director about the missing documents, she stated that the Authority had notified its staff to put all appropriate documentation into the participants' files. She further stated that the current contractor had begun a quality control review of the files in February 2015, to include ensuring that files were complete and accurate.

Conclusion

The Authority had deficiencies in 9 of 10 randomly tested program files. The deficiencies included payment calculation errors, incorrect payments, and missing documents to support

³ \$45 + \$8 = \$53

program participant and unit eligibility. We found no deficiencies in the Authority's low-rent program. We did not determine why the Authority failed to fully lease its vouchers because HUD's Office of Public Housing changed its offset formula, meaning that the Authority would no longer lose its funding.

Recommendations

We recommend that HUD require the Authority to

- 1A. Repay its Housing Choice Voucher program \$2,139 in incorrect housing assistance. Payment must be from non-Federal funds.
- 1B. Reimburse \$22 to the family that was overcharged. Reimbursement should be from the Authority's reserves.
- 1C. Provide support for or reimburse the \$21,426 in unsupported payments to its program. Payment must be from non-Federal funds.
- 1D. Provide support or repay its program \$53 for the unexplained payments. Payment must be from non-Federal funds.
- 1E. Take steps to ensure staff follows policy and procedures when calculating rent and maintain adequate supporting documentation.

Scope and Methodology

We conducted our review at the Authority's office in Las Cruces, NM, and the HUD and Office of Inspector General (OIG) offices in Albuquerque, NM, from November 2014 through April 2015. The review covered the period July 1, 2012, through October 31, 2014. To meet the objectives, we

- Obtained and reviewed background information and criteria related to the Authority's administration of its Housing Choice Voucher and low-rent programs;
- Obtained and evaluated the Authority's written policies and procedures for determining and processing program payments;
- Reviewed relevant laws, regulations, and HUD guidance;
- Reviewed meeting minutes of the Authority's board of commissioners;
- Reviewed the Authority's audited financial statements for fiscal years 2013 and 2014;
- Reviewed the Authority's annual plan and 5-year action plan;
- Interviewed HUD and Authority management and staff regarding the Authority's operations;
- Reviewed a nonstatistical random sample of 10 Housing Choice Voucher program participant files and 4 public housing program participant files; and
- Performed analytical procedures on the Authority's data related to voucher payments and client eligibility reexaminations.

We selected two samples using the random function in Excel. The random function assigned each participating family in the download of Housing Choice Voucher program families a random number between zero and one. We sorted the random numbers and selected the first 10 families. Similarly, we used the random function on the download of public housing tenants, sorted the random numbers, and selected the first four public housing families.

We used nonstatistical random samples because we were determining what types of errors might exist and did not plan to project the test results on the population. We did not evaluate the reliability of the data because we used the data for background purposes only.

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 objectives.

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 objectives:

- Program operations – Policies and procedures in place to reasonably ensure that the program met its objectives.
- Compliance with laws and regulations – Policies and procedures in place to reasonably ensure that resource use was 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.

Significant Deficiency

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

- The Authority did not ensure staff followed the Housing Choice Voucher program policies and procedures (finding).

Appendixes

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$2,139		
1B			\$22
1C		\$21,426	
1D		53	
Totals	\$2,139	\$21,479	\$22

- 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/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ 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, it is the amount the Authority needs to repay to an overcharged family.

Appendix B

Auditee Comments and OIG's Evaluation

Auditee Comments

The Authority's executive director advised us on July 15, 2015, that the Authority did not have any comments to the draft report. The former executive director submitted the Authority's response to the finding on March 27, 2015. The Authority agreed with the finding and said it would attempt to resolve the noted issue. We considered the response when writing the final report.