

**U. S. Department of Housing and Urban Development  
Office of Inspector General**



**HAP Overpayments to Multifamily Property Owners after  
Hurricane Katrina**

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Inspector General**

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## **Executive Summary**

The Office of Inspector General, Inspections and Evaluations Division, conducts independent, objective examinations of U. S. Department of Housing and Urban Development (HUD) activities, programs, operations, and organizational issues.

We completed an inspection of Section 8 housing assistance payments (HAP) to owners of multifamily properties in Louisiana that were severely damaged or destroyed by Hurricane Katrina in August 2005. The tenants vacated these properties shortly after Katrina struck. In the storm's aftermath, HUD and the Louisiana Housing Finance Agency (LHFA) continued to subsidize property owners, although many properties under HAP contract were vacant and not habitable. In November 2005, HUD notified its New Orleans field office that the owners of the vacant properties were entitled to HAP only for a 1-month grace period (September 2005).

The primary objective of the inspection was to determine the amount of Section 8 HAP overpayments that were made to these property owners and whether HUD had recaptured any of the overpayments. To satisfy this objective, we obtained and analyzed information from relevant HUD management and financial data systems and discussed our data with the Office of Multifamily Housing.

We determined that HUD and the LHFA made HAP overpayments of \$1,607,283 to 27 multifamily property owners in Louisiana. Most of the overpayments were incurred for the month of October 2005. As of July 24, 2008, HUD and the LHFA had recovered a total of \$527,407 related to 7 of the 27 properties. More than \$1 million remains to be recovered, including \$145,362 from two properties for which HAPs were resumed in March 2007 and January 2008, respectively.

HUD plans to send out collection letters to the property owners that have not made repayments. The draft letters inform owners to either remit the total amount of the HAP overpayment within 2 weeks or to have future HAPs reduced by the amounts owed to HUD in cases in which the owners plan to reopen their buildings to Section 8 tenants. Noncompliance with these instructions may result in administrative sanctions against the ownership/management parties.

If you have any questions concerning this report, please call Kenneth R. Taylor, Jr., Special Agent in Charge, at (202) 402-8416.

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## **Introduction**

Hurricane Katrina devastated much of the New Orleans housing stock when it hit the city on August 29, 2005. By August 31, approximately 80 percent of New Orleans was flooded, and the vast majority of its residents had to vacate their homes. One published report<sup>1</sup> stated that the City's population of 485,000 was reduced to fewer than several thousand by the end of the first week of September 2005. Like many homeowners, residents of U.S. Department of Housing and Urban Development (HUD)-subsidized multifamily developments in New Orleans were displaced and forced to find alternative housing.

In November 2005, HUD's Office of Multifamily Housing Programs instructed the affected Gulf Coast field offices to suspend immediately project-based Section 8 voucher payments after September 2005 for properties from which residents had relocated or properties that were not decent, safe, or sanitary. Field office personnel made site visits to the properties, contacted the owners, and determined whether the properties were eligible for continued payments. HUD decided to allow the affected property owners a 1-month grace period and permitted the owners to retain the September 2005 housing assistance payments (HAP). In cases in which Section 8 voucher payments were made for October 2005 and beyond, payments were to be recaptured through offsets to future vouchers.

On December 7, 2005, the Louisiana Housing Finance Agency (LHFA) sent letters to the owners of properties in Louisiana that were affected by Hurricane Katrina. The letters notified the owners that the October 2005 Section 8 voucher payments would be recaptured on all housing units that were either unoccupied or did not meet HUD's requirement of decent, safe, and sanitary housing. The letters repeated HUD's position that the funds were to be recaptured by offsetting future HAPs.

## **Scope and Methodology**

To achieve our objectives, we first identified what actions HUD took after Hurricane Katrina to suspend future Section 8 HAPs and recapture any overpayments made to owners of multifamily properties in Louisiana. We then obtained information from HUD staff on the multifamily properties in Louisiana that had been classified as severely damaged or vacated housing as a result of Hurricane Katrina.

We performed our detailed analyses of the data in three steps. First, we compared the more severely damaged properties with data from the Tenant Rental Assistance Certification System (TRACS). The TRACS data included Section 8 voucher payments made to the owners of specific properties from August 2005 through October 2006. We limited our inspection to properties that were totally vacant. Second, the results of this comparative analysis were adjusted by using data from the LHFA on properties in its portfolio that received Section 8 voucher payments after September 2005 and matching those properties to the list of damaged properties. Lastly, we updated the combined data gathered from HUD and the LHFA as of July 24, 2008, by comparing the original data to Section 8 voucher payment data reported in the HUD

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<sup>1</sup> "The Repopulation of New Orleans After Hurricane Katrina," Rand Gulf States Policy Institute, 2006.

Line of Credit Control System for each of the identified properties. We then reviewed the data on HUD's Integrated Real Estate Management System to determine whether any of the 27 properties had been repaired and reoccupied.

We requested that the HUD Office of Multifamily Housing Programs review our data and update and/or correct the data as needed. Information regarding HUD's efforts to recover the HAP overpayments was updated by HUD management. As of July 24, 2008, we had not received comments concerning other data collected on the 27 properties.

We conducted the inspection in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

### **Observation 1: Section 8 HAP Overpayments Were Made to Louisiana Property Owners after Hurricane Katrina**

Our inspection disclosed that owners of 27 multifamily properties in Louisiana received Section 8 HAPs after the HUD-approved September 2005 grace period. No tenants were occupying these properties because of the extensive damage caused by Hurricane Katrina. The HAP overpayments amounted to \$1,607,283. All 27 properties were overpaid for the month of October 2005, in aggregate totaling \$1,398,623. Four of the properties received additional overpayments of \$157,892 for November 2005, and three of these properties received overpayments of \$50,768 for December 2005. No overpayments were received after December 2005.

The LHFA administered 24 of the 27 properties, and the HUD New Orleans field office administered the other three properties. Neither office/agency was at fault for the October HAP overpayments. HUD headquarters did not notify the HUD field offices until November to terminate entitlement to HAPs made after September 2005.

## Observation 2: Status of HUD's Efforts to Recapture Overpayments

The following table summarizes the status of HUD's efforts to recapture the \$1,607,283 in Section 8 voucher overpayments made to the 27 properties. See appendix A for further details.

| Number of properties | Status of HUD's efforts to recapture funds  | Amount of funds |
|----------------------|---|-----------------|
| 7                    | Section 8 funds recaptured  | \$527,407       |
| 1                    | HUD resumed HAPs, and property is planned for demolition by owner- overpayments will be applied for relocation of tenants | \$56,326        |
| 1                    | HUD resumed HAPs-negotiating with owner to offset overpayments  | \$89,036        |
| 18                   | Funds not recaptured-to be either collected in full or offset against future Section 8 voucher payments                   | \$934,514       |
| 27                   | Total Section 8 voucher overpayments  | \$1,607,283     |

As of July 24, 2008, HUD had recaptured \$527,407 (or approximately 33 percent) of the Section 8 HAP overpayments. The recaptured funds came from 7 of the 27 properties, including one property with two different HAP contracts. HUD recaptured the overpayments through direct repayments from the owners in August and October 2007 and May and June 2008. For one of the seven properties, HUD did not recapture the full overpayment amount, collecting \$38,040 of the \$57,060 overpaid.

No recapture has occurred for the remaining 20 properties. Most of the properties have not been repaired or rebuilt, stand vacant, and have not received Section 8 voucher payments since December 2005. A total of \$934,514 in unrecovered overpayments was made for 18 of these properties. In two other cases, Section 8 HAPs have resumed (more than \$930,000 in additional HAPs paid since Katrina), and HUD has not recaptured, either by direct repayment or by offsets to current voucher payments, the 2005 HAP overpayments made to these properties totaling \$145,362. According to HUD multifamily management, the owner of one of the properties has decided to demolish the property, and the Section 8 voucher overpayments of \$56,326 will be used to relocate the tenants who resided in the development. Regarding the second property, HUD is working with the owner to collect the overpayments of \$89,036.

HUD did suspend the relevant HAP contracts to ensure that no Section 8 overpayments would be made after December 2005. However, it appears that the Office of Multifamily Housing Programs did not actively pursue the collection of the Section 8 overpayments, except for the letters sent to the HUD field offices in November 2005, instructing them to recapture the overpayments from future vouchers. According to New Orleans field office management, early HUD efforts did not emphasize the recapture of the Section 8 overpayments. Other urgent

matters, such as relocating residents who lost their homes and tracking the progress of repairs to damaged properties, took priority.

During our inspection, HUD multifamily management stated that current efforts would focus on recapturing the outstanding overpayments. To that end, HUD multifamily management has drafted two separate letters to be sent by the New Orleans field office to the property owners. One letter will be sent to owners who may still reopen their property and provides them two options: repay HUD directly for the total overpayment or have the overpayments offset against future Section 8 voucher payments. The second letter will be sent to owners who do not have a recovery plan for their property, demanding immediate repayment to HUD within 2 weeks of the date of the letter for the amount of the overpayment. Further, this letter states that noncompliance may result in sanctions against all ownership and management parties.

HUD multifamily management advised that the two letters will be sent to the property owners after the appropriate review process is completed. That review process was continuing as of August 31, 2008.

## **Recommendations**

We recommend that the Deputy Assistant Secretary for Multifamily Housing ensure that

1. Appropriate collection efforts are taken to recapture the Section 8 HAP overpayments totaling \$934,514 made to 18 property owners. In this regard, the proposed draft letters should be finalized and promptly distributed to the owners by the HUD field office.
2. The HAP overpayments totaling \$145,362 related to the two projects for which HAPs resumed in 2007 and 2008 are either repaid or used for relocation of the affected tenants.
3. Appropriate sanctions are taken against those owners that do not comply with HUD's demand for repayment of the Section 8 HAP overpayments either directly to HUD or through offsets to future vouchers.
4. All Section 8 HAP overpayments have been identified and collection efforts initiated. HUD should examine its databases on Section 8 voucher payments made after September 2005 to ensure that overpayments were not made to multifamily properties located in Gulf Coast States other than Louisiana that were damaged or destroyed by Hurricane Katrina.

## **Acknowledgements**

This inspection was conducted and the report prepared under the responsibility of Ruth A. Ritzema, Deputy Assistant Inspector General for Inspections and Evaluations, Office of Investigation.

The assignment was directed by Kenneth R. Taylor, Jr., Special Agent in Charge, Inspections and Evaluations Division, Office of Investigation.

The fieldwork was supervised by Mark Klein, Supervisory Forensic Auditor. Norman A. Krieger, Forensic Auditor, conducted the fieldwork.



## Appendix A

### Schedule of HAP Overpayments and Recoveries

|     | Property name and location                  | HAP overpayments by month |           |          | Total HAP overpayments<br>Oct. to Dec. 05 | HAP overpayments recaptured | HAP overpayments still to be recaptured | Date of recapture | Status of HUD's recapture efforts               |
|-----|---|---------------------------|-----------|----------|---|-----------------------------|---|-------------------|---|
|     |   | Oct. 05                   | Nov. 05   | Dec. 05  |   |                             |   |                   |   |
| 1   | Annunciation Inn, New Orleans, LA           | \$62,342                  | \$0       | \$0      | \$62,342                                  | \$0                         | \$62,342                                | N/A               |   |
| 2   | Chateau Ames, Marrero, LA                   | \$37,406                  | \$0       | \$0      | \$37,406                                  | \$0                         | \$37,406                                | N/A               |   |
| 3   | Curran Place Apartments, New Orleans, LA    | \$107,468                 | \$107,468 | \$0      | \$214,936                                 | \$214,936                   | \$0                                     | 8/28/2007         |   |
| 4   | Delille Inn, New Orleans, LA                | \$30,740                  | \$0       | \$0      | \$30,740                                  | \$0                         | \$30,740                                | N/A               |   |
| 5   | Forest Towers East, New Orleans, LA         | \$31,175                  | \$0       | \$0      | \$31,175                                  | \$31,175                    | \$0                                     | 8/17/2007         |   |
| 6   | Frenchman's Wharf I, New Orleans, LA        | \$8,965                   | \$0       | \$0      | \$8,965                                   | \$0                         | \$8,965                                 | N/A               |   |
| 7   | Frenchman's Wharf Ph II, New Orleans, LA    | \$8,680                   | \$0       | \$0      | \$8,680                                   | \$0                         | \$8,680                                 | N/A               |   |
| 8   | Gulfway Terrace Apartments, New Orleans, LA | \$46,886                  | \$0       | \$0      | \$46,886                                  | \$46,886                    | \$0                                     | 5/22/2008         |   |
| 9   | Haydel Heights Apartments, New Orleans, LA  | \$25,857                  | \$26,519  | \$26,519 | \$78,895                                  | \$78,895                    | \$0                                     | N/A               |   |
| 10  | Josephine Apartments, New Orleans, LA       | \$7,641                   | \$0       | \$0      | \$7,641                                   | \$7,641                     | \$0                                     | 8/9/2007          |   |
| 10a | Josephine Apartments, New Orleans, LA       | \$6,053                   | \$4,885   | \$5,229  | \$16,167                                  | \$16,167                    | \$0                                     | 8/9/2007          |   |
| 11  | Nazareth II, New Orleans, LA                | \$63,876                  | \$0       | \$0      | \$63,876                                  | \$0                         | \$63,876                                | N/A               |   |
| 12  | Nazareth Inn, New Orleans, LA               | \$77,207                  | \$0       | \$0      | \$77,207                                  | \$0                         | \$77,207                                | N/A               |   |
| 13  | New Orleans Towers, New Orleans, LA         | \$155,335                 | \$0       | \$0      | \$155,335                                 | \$0                         | \$155,335                               | N/A               |   |
| 14  | Peace Lake Towers, New Orleans, LA          | \$44,733                  | \$0       | \$0      | \$44,733                                  | \$0                         | \$44,733                                | N/A               |   |
| 15  | Raphael Manor, New Orleans, LA              | \$10,412                  | \$0       | \$0      | \$10,412                                  | \$0                         | \$10,412                                | N/A               |   |
| 16  | St John Berchman's Manor, New Orleans, LA   | \$93,667                  | \$0       | \$0      | \$93,667                                  | \$93,667                    | \$0                                     | 6/17/2008         |   |
| 17  | St. Bernard II, Meraux, LA                  | \$31,517                  | \$0       | \$0      | \$31,517                                  | \$0                         | \$31,517                                | N/A               |   |
| 18  | St. Bernard Manor, Meraux, LA               | \$36,726                  | \$0       | \$0      | \$36,726                                  | \$0                         | \$36,726                                | N/A               |   |
| 19  | St. Martin House, New Orleans, LA           | \$3,558                   | \$0       | \$0      | \$3,558                                   | \$0                         | \$3,558                                 | N/A               |   |
| 20  | St. Martin Manor, New Orleans, LA           | \$57,609                  | \$0       | \$0      | \$57,609                                  | \$0                         | \$57,609                                | N/A               |   |
| 21  | Tivoli Place Apartments, New Orleans, LA    | \$89,036                  | \$0       | \$0      | \$89,036                                  | \$0                         | <b>\$89,036</b>                         | N/A               | <b>Working with owner to repay funds to HUD</b> |
| 22  | Versailles Arms, New Orleans, LA            | \$98,080                  | \$0       | \$0      | \$98,080                                  | \$0                         | \$98,080                                | N/A               |   |
| 23  | Versailles Arms II, New Orleans, LA         | \$94,944                  | \$0       | \$0      | \$94,944                                  | \$0                         | \$94,944                                | N/A               |   |
| 24  | Villa Additions, New Orleans, LA            | \$29,175                  | \$0       | \$0      | \$29,175                                  | \$0                         | \$29,175                                | N/A               |   |

|    | Property name and location                   | HAP overpayments by month |                  |                 | Total HAP overpayments | HAP overpayments recaptured | HAP overpayments still to be recaptured | Date of recapture | Status of HUD's recapture efforts                        |
|----|--|---------------------------|------------------|-----------------|------------------------|-----------------------------|---|-------------------|--|
|    |  |                           |                  |                 |                        |                             |   |                   |  |
| 25 | Villa D'Ames, Marrero, LA                    | \$56,326                  | \$0              | \$0             | \$56,326               | \$0                         | \$56,326                                | N/A               | Funds will be used to relocate residents to new location |
| 26 | Villa St Maurice, New Orleans, LA            | \$64,189                  | \$0              | \$0             | \$64,189               | \$0                         | \$64,189                                | N/A               |  |
| 27 | YWCA Senior Housing Program, New Orleans, LA | \$19,020                  | \$19,020         | \$19,020        | \$57,060               | \$38,040                    | \$19,020                                | 7/16/2007         |  |
|    |  | <b>\$1,398,623</b>        | <b>\$157,892</b> | <b>\$50,768</b> | <b>\$1,607,283</b>     | <b>\$527,407</b>            | <b>\$1,079,876</b>                      |                   |  |