



Issue Date December 5, 2007

Audit Report Number 2008-FW-1003

TO: Justin R. Ormsby
Director, Office of Public and Indian Housing, 6APH
Gerald R. Kirkland

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

SUBJECT: The Dallas Housing Authority, Dallas, Texas, Mismanaged its Portable Vouchers

HIGHLIGHTS

What We Audited and Why

As part of our strategic plan objective to assist the U. S. Department of Housing and Urban Development's (HUD) efforts to reduce rental assistance overpayments, we audited the portability features of the Dallas Housing Authority's (Authority) Housing Choice Voucher program (voucher program). Our objective was to determine whether the Authority managed and administered the portability features of its voucher program in accordance with HUD requirements.

What We Found

The Authority mismanaged its portable vouchers. The Authority could not identify its portable vouchers and attempted to collect portability payments from other housing agencies based on inaccurate, unreliable and altered records. It also collected \$3.7 million from HUD based on this information. Further, the Authority violated HUD requirements by

denying and discouraging families from using portability to transfer into its voucher program.

What We Recommend

We recommend that the Director of the Fort Worth Office of Public and Indian Housing require the Authority to (1) reconcile its portability accounts; (2) establish and implement adequate and effective controls to ensure that the portability features of its voucher program operates in compliance with HUD requirements; (3) repay administrative fees associated with the portable vouchers since it did not administer its program in accordance with requirements; and (4) support or repay \$3,789,254 that it requested from HUD.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the findings with the Authority and HUD officials during the audit. We provided the draft report to Authority officials on October 24, 2007, for their comments and discussed the report with the officials at the exit conference on November 13, 2007. We requested the Authority respond by November 14, 2007. We granted the Authority's request for additional time to respond. The Authority provided its written comments to our draft report on November 19, 2007.

The Authority agreed that improvements are needed and listed positive actions that it has taken or plans to take, but disagreed with some of our conclusions. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. The attachment to the Authority's comments was not included in the report, but it is available for review upon request.

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BACKGROUND AND OBJECTIVES

In 1938, the Dallas city council established the Dallas Housing Authority (Authority) to provide housing to low income persons. A five member board of commissioners (board)¹ governs the Authority. The board appoints a president and chief executive officer to administer the operations of the Authority. The Authority's main office is located at 3939 North Hampton Road, Dallas, Texas 75212.

The Authority administers the U. S. Department of Housing and Urban Development's (HUD) Housing Choice Voucher program (voucher program). Under the voucher program, HUD pays rental subsidies so eligible families can afford decent, safe, and sanitary housing. HUD provides housing assistance and administrative fees to housing agencies to administer the program. The Authority received more than \$141 million and \$145 million to operate its voucher program in 2005 and 2006, respectively.

The voucher program allows for mobility meaning a family in the program can move throughout the country without losing their assistance. An "initial" housing agency provides the family with a voucher. The family can take the voucher and lease a unit in another "receiving" housing agency's jurisdiction. HUD provides the housing assistance and administrative funds to the "initial" housing agency. The "receiving" housing agency either bills the "initial" housing agency for the participating family or absorbs the family into its own voucher program. The term "portability" refers to the process of leasing a voucher unit outside of the initial housing agency's jurisdiction.

HUD has specific rules governing housing agency responsibilities related to portability moves. These rules include billing deadlines, providing annual re-certification notifications, transferring units when billing deadlines are not met, and providing timely notification when billing arrangements are terminated. Further, the Authority must establish internal controls to plan, organize, direct, and control program operations including systems for measuring, reporting, and monitoring performance.

Our objective was to determine whether the Authority managed and administered the portability features of its voucher program in accordance with HUD requirements. This is the first of three planned reports on the Authority's voucher program.

¹ The Mayor of Dallas appoints board members.

RESULTS OF AUDIT

Finding: The Authority Mismanaged its Portable Vouchers

The Authority failed to administer its portable vouchers in accordance with HUD requirements. The Authority could not identify its portable vouchers because its records were inaccurate, unreliable and altered. Yet, the Authority used this information to request portability payments from other housing agencies and to support its request to HUD for \$3.7 million to cover what it claimed were unreimbursed portability payments. In addition, the Authority discouraged and denied families from transferring into its program using portable vouchers. This occurred because the Authority's management did not establish and implement controls that ensured it maintained complete and accurate records and that it properly administered the program. Unless the Authority significantly improves its procedures, it cannot ensure that it will operate the portability features of its voucher program in compliance with HUD requirements.

The Authority Could Not Identify and Account for its Portable Vouchers

The Authority could not identify and properly account for its portable vouchers because it failed to establish and implement necessary controls and procedures. Multiple departments handled portable vouchers; however, the departments did not communicate effectively. The processes undertaken by the different departments were duplicative and error prone. The Authority did not bill for portable vouchers in a timely manner and its books and records could not support what it billed or received from other housing agencies. Further, it sent confusing forms to other housing agencies and continued to bill them after absorbing families into its voucher program even though it could not show with any reliability which vouchers it absorbed.

The Authority Could Not Identify its Portable Vouchers

The Authority's method of recordkeeping for its portable vouchers was inefficient and ineffective. When requested to identify its 2005 and 2006 portable vouchers, the Authority provided several printed reports.² The

² The Authority could not provide these reports electronically. The printed copies of some of the reports exceeded 100 pages.

reports were not reliable, complete or accurate as required by HUD.³ For example, the reports contained-

- Families who left the program as far back as 1997;
- Records that did not identify the initial housing agency for billing purposes;
- Inaccurate and unsupported cumulative and monthly billed and received amounts;
- Amounts that were obviously not monthly housing assistance payment amounts; and
- Previously absorbed families.

Fragmented Responsibilities over Portable Vouchers

The Authority's leased housing, finance, and information systems departments⁴ each had roles in processing portable vouchers. The Authority had no written procedures defining the departments' roles and responsibilities. For example, staff in the finance department stated the leased housing department was responsible for billing while staff in the leased housing department believed the responsibility belonged to the finance department. It was not clear which department held the responsibility which may have attributed to the Authority not billing for portable vouchers in a timely manner.

In addition, both the information systems and leased housing departments prepared HUD-required portability forms⁵ but the forms were often contradictory and there was no record of which form the Authority mailed to the initial housing agency, if any. To complicate this process further, the finance department often mailed out billing summaries that were inconsistent with the portability forms prepared by the other departments. In addition to being duplicative, this process led to inconsistencies, uncertainty, and multiple errors.

The Authority Sent Confusing Portability Forms

HUD required the Authority to promptly notify the initial housing agency whether it would absorb a family into its own voucher program or bill for the voucher.⁶ If the Authority chose to absorb a family into its voucher program, the initial housing agency had no further obligations. If the Authority elected to bill for a family, it had to notify the initial housing

³ 24 Code of Federal Regulations (CFR) 982.158.

⁴ All three departments reported to different managers. The Authority had no centralized organization for processing portable vouchers.

⁵ HUD requires housing agencies to bill using form HUD-52665, "Family Portability Information."

⁶ 24 CFR 982.355(c)(5).

agency within 10 days of executing a housing assistance contract.⁷ As shown below, the Authority sent out portability forms that stated it was both absorbing and billing for families.

Check each statement below that applies:

1. The above family has failed to submit a request for lease approval for an eligible unit within the allotted time period. You may therefore reissue your voucher or certificate to another family and if applicable, modify any records concerning local preference usage. Do not complete remainder of form.

2. We have executed a HAP contract on behalf of the family and **are absorbing the family into our own program** effective 08/01/05. You may reissue your certificate or voucher to another family. Do not complete remainder of form.

3. We execute a HAP contract effective 08/01/05 on behalf of the family and **are billing your agency**. A copy of the new form HUD-50058 is attached to this form. no other documentation is required. (receiving HAS are required to complete and submit a form HUD-50058 for families moving into their jurisdiction under portability. The receiving HA may elect to conduct a special recertification of the family to conform the dates of the unit inspection and recertification, but is not required to do so by HUD in order to complete the form HUD-50058 for a portability move-in.) Go to line 9 below.

4. The HAP amount has changed effective 08/01/05 for the family because of: (Check applicable items. A current copy of the form HUD-50058 must be attached to this form. No other documentation is required.) Go to line 9 below

annual recertification

interim/special recertification

rent increase to owner (certificate program only)

change in payment standard (voucher program only)

the family moved to another unit in the receiving HA jurisdiction.

other: (specify)

Figure 1: Excerpt from form HUD-52665, Family Portability Information.

The Authority Continued to Bill after Absorbing Families

The Authority frequently did not notify the initial housing agency when it absorbed a portable voucher and continued to collect portability payments from them. In these cases, the Authority was responsible for returning the full amount of the overpayment⁸ to the initial housing agencies. In addition, in cases when the payments continued for at least three months, the Authority should have notified the local HUD office of the date and amount of reimbursement to the initial housing agencies.⁹ The Authority did not do so.

The Authority Could Not Provide Accurate Reports of its Absorbed Vouchers

The Authority could not provide consistent information showing which portable vouchers it absorbed. For example, a report from its finance department showed the Authority absorbed 730 families in 2005 while a report from its leased housing department showed it absorbed 822 families in 2005. In comparing two other reports from the finance department, each showed different absorbed dates for the same families. The Authority's staff could provide no logical explanation for the

⁷ The billing included the full housing assistance payment for the family's unit and 80 percent of the ongoing administrative fee earned by the initial housing agency for that unit.

⁸ Including the administrative fee.

⁹ Public and Indian Housing (PIH) Notice 2004-12 paragraph 13 (extended by PIH Notice 2005-28 and PIH Notice 2006-25).

discrepancies or the actual number of vouchers it absorbed. In December 2006, the Authority absorbed more than 250 vouchers from an initial housing agency. According to the director of that agency, staff from the Authority contacted them in September 2007 to verify which families it had absorbed. The Authority should have known which families it absorbed into its voucher program.

The Authority should be able to readily identify the universe of its portable vouchers and basic information such as the tenants' names, initial housing authorities, and payment amounts without manually searching through its more than 16,000 paper tenant files.

The Authority Attempted to Collect Portability Payments Based on Inaccurate Information

The Authority did not maintain accurate historical billing data for its portable vouchers. As shown in figure 2, Authority employees changed data in its accounting system with no audit trail documenting who made the change, why or when the change was made. All finance employees had the ability to change information in the Authority's computer system without an audit trail.¹⁰

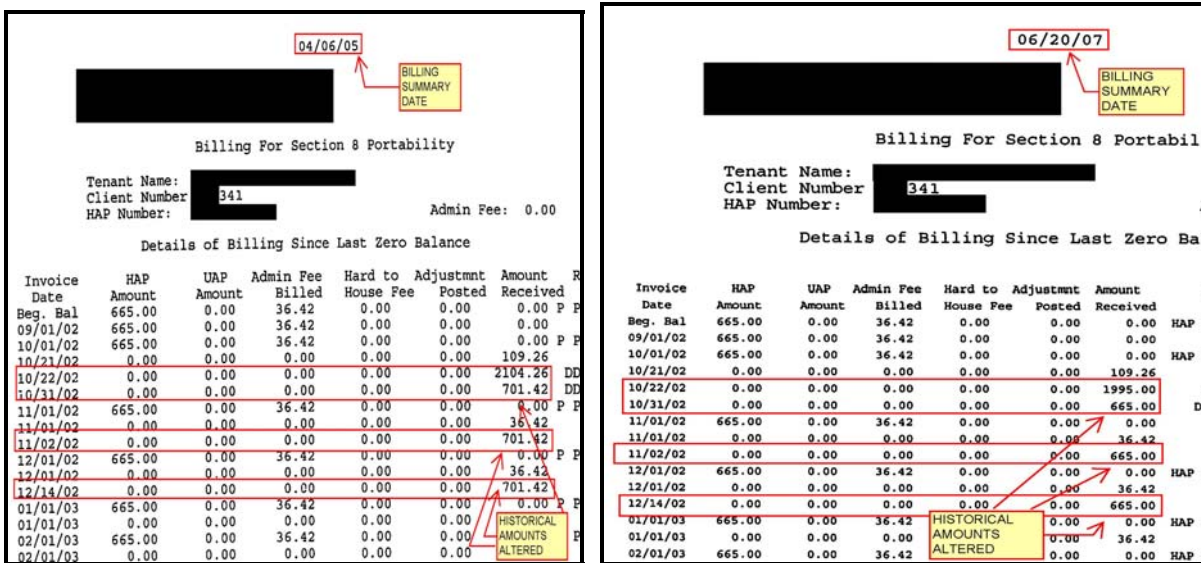


Figure 2: Excerpts from the Authority's billing summaries. These billing summaries were for the same family. Sometime between April 6, 2005 and June 20, 2007, Authority employee(s) altered historical financial data from 2002.

¹⁰ According to the Authority's information systems vice president, this weakness has been corrected.

The Authority sent letters to numerous housing agencies demanding payment for portable vouchers based on its inaccurate information. In the letters, the Authority threatened to terminate assistance for families with portable vouchers if the initial housing agencies did not pay the amounts the Authority claimed they owed. While there were housing agencies that owed the Authority, in most instances, the amounts the Authority demanded were inappropriate because the initial housing agencies had been making housing assistance payments, the Authority had not fulfilled its administrative obligations, or the Authority's records were inaccurate. For example

- The Authority sent a letter to Nacogdoches Housing Authority reflecting that it owed \$16,451 for 14 families. The Executive Director at the Nacogdoches Housing Authority disagreed with the amounts the Authority's claimed was owed and provided documentation showing it made regular monthly housing assistance payments to the Authority for the families.
- The Authority sent a letter to the Oklahoma City Housing Authority (Oklahoma City) reflecting that it owed for unreimbursed housing assistance payments for 16 families. Oklahoma City's reimbursement records showed that it had paid \$47,446 that was not reflected in the Authority's records.
- On February 28, 2005, HUD sent a letter on behalf of the Authority to the Waterloo Housing Authority (Waterloo) stating it owed \$4,156¹¹ on behalf of one family. Waterloo responded to HUD and the Authority with documentation disputing the claim. In its response, Waterloo provided evidence of monthly direct deposit payments for the family starting in October 2002. Instead of recording the payments to the family's account monthly, the Authority recorded all the payments from August 2004 through February 2005 in one amount on April 4, 2005.
- The Authority billed the Housing Authority of the City of Huntsville, Alabama (Huntsville) for two families. A Huntsville employee, a former Authority contractor responsible for pursuing debts owed to the Authority by initial housing agencies, disputed that the payment was owed. Huntsville provided documentation to the Authority and HUD supporting its position. The Authority collected \$22,574 from HUD for these two families.

¹¹ On its request to HUD, the Authority showed the amount outstanding as \$5,964.

In some instances, the Authority attempted to correct its billing problems by issuing refunds to initial housing agencies. However, the refunds tended to compound the confusion because the Authority refunded amounts based on balance figures that included unexplained adjustments and altered amounts. Therefore, the Authority did not know whether it refunded the correct amount and other housing agencies could not reconcile the refund amounts to their accounts.

The Authority Could Not Support its Request for \$3.7 Million it Received from HUD

On March 4, 2005, the Authority requested that HUD approve the release of more than \$3.7 million from its annual contributions contract (ACC) reserves¹² as reimbursement for rental payments made on behalf of portable families. On May 20, 2005, HUD approved the Authority's request noting that "the documentation submitted on behalf of [the Authority] demonstrates the [Authority] failed to bill other [housing agencies] in the amount of \$3,789,254.63 for portable vouchers for 2001, 2002, and 2003. Since the program reserves that are available to [the Authority] are pre-2003, the use of the reserves for this purpose is permissible under the statute: therefore, the request is approved." Although HUD approved the payment, it relied upon inaccurate information provided by the Authority.

The records the Authority provided us did not support the \$3.7 million in unreimbursed rental payments. On several occasions during the audit, the Authority provided different documents to support its request; however, the documents did not reconcile to the amounts claimed. One set of reports the Authority provided as support for the request only totaled \$1.4 million.¹³

Following are examples of the Authority's unsupported claims included in its request to HUD:

- A family transferred its portable voucher to the Authority on June 2, 2003. On multiple occasions in July and August 2003, the initial housing agency notified the Authority that it would not make payments¹⁴ for the family because it had terminated them due to eviction for unpaid rent. After the notification, the

¹² HUD established and maintains an unfunded ACC reserve account for the Authority's voucher program. The amount in the ACC reserve account is determined by HUD. HUD may approve payments for the Authority from available amounts in the account.

¹³ As with other reports provided by the Authority, these were not reliable, complete or accurate.

¹⁴ 24 CFR 982.353(b).

Authority entered into a housing assistance contract on December 10, 2003, on the family's behalf. In its request to HUD, the Authority sought and received \$32,707 for this family when it never should have.

- An initial housing agency notified the Authority on August 11, 2004, that it would not pay portability because the Authority failed to conduct a required annual reexamination for the family as required.¹⁵ In its request to HUD, the Authority sought and received \$21,351 for unreimbursed rental payments it paid for this voucher.

Further, the Authority collected duplicate payments from various housing agencies for the same amounts reimbursed by HUD. The Authority had not reconciled the payments more than two years after receiving the reimbursement from HUD. Nor did it return the duplicate payments to HUD. The Authority provided two reconciliations dated June 19, 2007, and June 27, 2007. In the reconciliations, the Authority applied amounts to accounts that were more than the reimbursements it requested from HUD. For example, in its request the Authority asked to be reimbursed \$10,507 for payments made on behalf of a portable family, but in its records, it applied \$14,455 to this account. There were multiple accounts handled in this manner. The Authority's June 27, 2007 reconciliation showed it owed HUD a refund of \$1,047,267.¹⁶ However, since staff changed records without support or approval, the reconciliations were unreliable.

Further, as illustrated in figure 3 below, during the audit, finance department staff began applying the HUD reimbursement to families not included in its original request.

¹⁵ 24 CFR 982.355(c)(9).

¹⁶ As of July 17, 2007, the refund request had not been processed.

	Original Request	June 19, 2007 reconciliation	June 27, 2007 reconciliation	Difference
Amount from HUD posted on May 20, 2005	\$3,789,254	\$3,789,254	\$3,789,254	\$0
Amounts received from other housing agencies for the same families included in the HUD request.	----	\$1,613,492	\$1,621,534	\$8,042
Additional amounts applied against HUD payment for families not on the original HUD request.	----	\$436,163	\$574,267	\$138,104
Number of families	1143	1143	1268	125

Figure 3: Information from the Authority's reconciliation reports. The Authority posted the HUD payment on May 20, 2005, and was still working on a reconciliation of the payment in June 2007.

HUD approved the release of the ACC reserves based on the Authority's assertions. In approving the release of funds, HUD expected that the Authority would make the necessary improvements to its program by October 2005.¹⁷ The Authority did not implement new processes or procedures to correct the deficiencies. The Authority should support its request or repay HUD \$3,789,254.

The Authority Discouraged and Denied Families from Transferring into its Voucher Program

In violation of HUD requirements,¹⁸ the Authority denied and discouraged families from transferring into its voucher program using portable vouchers. HUD required the Authority to administer assistance for

¹⁷ HUD memorandum dated July 5, 2005.

¹⁸ 24 CFR 982.301(a)(2).

portable families.¹⁹ The Authority provided letters to families and other housing agencies advising that it “is not accepting nor processing any additional portable vouchers until further notice.” The letter included a listing of other local housing agencies that administered the housing choice voucher program.

The Authority claimed that it had a verbal agreement with neighboring housing agencies to accept the ports that it refused. However, the Authority did not provide evidence of any such agreement(s). In addition, HUD received complaints from several housing agencies concerning the Authority’s portability practices. HUD prohibited the Authority from discouraging or denying families the use of portability under the voucher program. The Authority’s records indicate it did so, regardless of any unwritten understanding(s).

Conclusion

While the Authority has recently taken positive steps to improve operations, during the audit period, the Authority failed to administer its portable vouchers in accordance with HUD requirements. The Authority could not identify its portable vouchers because its records were inaccurate, unreliable and altered. Yet, based on this information the Authority requested portability payments that it was not owed from other housing agencies and to support its request a \$3.7 million from HUD, which HUD paid. In addition, the Authority discouraged and denied families from transferring into its program using portable vouchers. Since at least 2002, HUD and the Authority’s own independent public accountant have provided reports to the Authority outlining the Authority’s systemic internal control weaknesses. However, the Authority has not corrected the weaknesses. Unless the Authority significantly improves its procedures, it cannot ensure that it will operate the portability features of its voucher program in compliance with HUD requirements. In addition, since the Authority failed to adequately manage or account for its portable vouchers, it should repay HUD the administrative fees it collected.²⁰

¹⁹ 24 CFR 982.355(a).

²⁰ 24 CFR 982.152(d)

Recommendations

We recommend the Director of the Fort Worth Office of Public and Indian Housing require the Authority to

- 1A. Reconcile its portability accounts so that it accurately bills and accounts for its portable vouchers. The Authority should collect amounts owed from housing agencies in arrears and refund amounts improperly collected.
- 1B. Establish and implement adequate and effective controls to ensure that the portability features of its voucher program operates in compliance with HUD requirements and common business practices.
- 1C. Repay to HUD administrative fees associated with the portable vouchers since it did not administer its program in accordance with requirements.
- 1D. Support or repay to HUD \$3,789,254 that HUD paid it from ACC reserves.

SCOPE AND METHODOLOGY

Our objective was to determine whether the Authority managed and administered the portability features of its voucher program in accordance with HUD requirements. To accomplish our objective we

- Reviewed relevant criteria;
- Interviewed HUD and Authority personnel regarding the Authority's portability operations;
- Analyzed and evaluated Authority portability data;
- Reviewed portability data from HUD's Public and Indian Housing Information Center;
- Reviewed correspondence between the Authority and other housing agencies;
- Interviewed personnel from other housing agencies; and
- Reviewed family billing records.

While we were able to evaluate the program, the Authority could not identify or provide reliable information about families that held portable vouchers during 2005 and 2006. The Authority did not know the universe of portable vouchers during the audit period or the dollar amounts associated with them. Based upon the conditions of the records, the lack of internal controls, and the ability to alter records without support or audit trail, it may be very difficult for the Authority to determine the universe and account balances of portable vouchers during the audit period.

To select a sample of portable vouchers for review, we used a report generated by the Authority and provided to HUD on March 4, 2005. The Authority used this report to support its request for more than \$3.7 million for reimbursement of rental payments for portable vouchers not paid by other housing agencies. According to documentation provided, the Authority neglected to bill other housing agencies for more than \$3.7 million. We used the March 4, 2005, report for our sample selection because it was the same report HUD used to approve the request for reimbursement. Using computer audit software, we selected a random sample of 63 families from the list of 1,143 families on the report to form our conclusions.

We conducted the audit in accordance with generally accepted government auditing standards. The audit covered the period from January 2005 through December 2006. We performed audit fieldwork at the Authority's administrative offices in Dallas, Texas, from June 2007 through September 2007.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Control

We determined the following internal controls were relevant to our audit objectives:

- Policies and procedures meant to reasonably ensure that certifications and billing for portable vouchers met program requirements.
- Policies and procedures meant to reasonably ensure that maintenance of records for portable families met program requirements.
- Policies and procedures meant to reasonably ensure that portability features of its voucher program were properly managed.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

As discussed throughout the report, we identified significant weaknesses in the controls identified above. The Authority did not have policies and procedures meant to ensure that its certifications and billings met program

requirements, its records were properly maintained, or the portability features of its voucher program were properly managed.

Since at least 2002, HUD and the Authority's independent public accountant have provided reports to the Authority outlining the Authority's systemic internal control weaknesses. However, the Authority has not corrected the weaknesses.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported <u>1/</u>
1D	\$3,789,254

1/ 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 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.


Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1



Dallas Housing Authority

Ann Lott
President/CEO
November 19, 2007

Mr. Gerald Kirkland
Regional Inspector General for Audit
HUD – Office of Inspector General
819 Taylor Street Room 13A09
Fort Worth, Texas 76102


Delivered Via Email

Subject Matter: Draft Report – Dallas Housing Authority
Housing Choice Voucher Program – Portability Feature

Dear Mr. Kirkland:

Enclosed you will find the Dallas Housing Authority's response to the draft report prepared by the Office of Inspector General on the agency's Section 8 Housing Choice Voucher Program. As mentioned in the exit interview, the Dallas Housing Authority disagrees with the overall tone of the report, the use of language and some of the findings of the Office of Inspector General. The agency outlines its position in its response and hopes that you are amenable to modifying the draft report.

I greatly appreciate the opportunity to meet with you and your staff regarding this matter. If you have any questions regarding this response please do not hesitate to contact me at (214) 951-8301 or ajlott@dhadal.com.

Sincerely,

Ann Lott

Cc: W. Nixon

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Dallas Housing Authority

**U.S. Department of Housing and Urban Development
Office of Inspector General (HUD OIG)**

**2007 Audit of the Section 8 Program – Concentration Area: Portability
Audit Period: January 2005 – December 2006**

Dallas Housing Authority (DHA) – Official Response

Comment 1

This document is prepared and submitted in response to the OIG's draft Audit Report of the Portability feature of the Section 8 Housing Choice Voucher Program (hereinafter the "Draft Report") and the administration thereof by The Housing Authority of the City of Dallas, Texas (hereinafter referred to sometimes as "DHA" and sometimes as the "Authority"). DHA disagrees with most of the findings in the Draft Report and is able and prepared to produce documents that support its position. DHA further disagrees with the overall tone and use of language contained in the audit summary as it is inflammatory in nature and inappropriate for an agency whose stated mission is "independent and objective reporting to the Secretary and the Congress for the purpose of bringing positive change in the integrity, efficiency and effectiveness of HUD operations," Office of Inspector General – HUD website.

HUD OIG Audit Finding

The Authority mismanaged its portable vouchers and failed to administer portability in accordance with HUD requirements. The Authority could not identify its portable families and attempted to collect portability payments from other housing authorities based on unreliable and altered billing information. It also collected \$3.7 million from HUD based on this erroneous information. Further, the Authority violated HUD requirements by denying and discouraging families from using portability to transfer into its voucher program.

Assertions

- 1 The Authority Could Not Identify and Account for its Portable Vouchers
 - 1.1 The Authority Could Not Identify its Portable Vouchers
 - 1.2 Fragmented Responsibilities over Portable Vouchers
 - 1.3 The Authority Sent Confusing Portability Forms
 - 1.4 The Authority Continued to Bill after Absorbing Families
 - 1.5 The Authority Could Not Account for Absorbed Families
- 2 The Authority Attempted to Collect Portability Payments Based on Erroneous Information
- 3 The Authority Cannot Support its Request for \$3.7 Million it Received from HUD
- 4 Absorbing Families had Adverse Effects
- 5 The Authority Discouraged and Denied Families from Transferring into its Voucher Program

HUD OIG Conclusion

The Authority's management provided poor stewardship over the funds HUD entrusted to it. The Authority mismanaged its portable vouchers and failed to administer portability in accordance with HUD requirements. This occurred because the Authority's management did not establish and implement controls needed to ensure accurate and responsible operation of its program. Unless the Authority significantly improves its procedures, it will continue to ineffectively operate the portability features of its voucher program to the detriment of participating families, other housing authorities, and HUD.

Recommendations

HUD OIG recommends the Director of the Fort Worth Office of Public and Indian Housing require the Authority to:

- IA: Reconcile its portability accounts so that it accurately bills and accounts for its portable vouchers. The Authority should collect amounts owed from housing authorities in arrears and refund amounts improperly collected.
- IB. Establish and implement adequate and effective controls to ensure that the portability features of its voucher program operates in compliance with HUD requirements and common business practices.
- IC. Repay administrative fees associated with the portable vouchers since it did not administer its program in accordance with requirements.
- 1D. Support or repay \$3,789,254 that it requested from HUD without adequate support.

Comment 1

DHA's Response

It is the mission of DHA to provide quality, affordable housing to low-income families and individuals through the effective and efficient administration of housing assistance programs; and to create and cultivate opportunities for program participants to achieve self-sufficiency and economic independence. DHA has been recognized at national and local levels for achieving its mission and continually striving to reach its goals.

While DHA acknowledges there were inconsistencies in documentation provided to the auditors, DHA disagrees with the overall tone and word choices contained in the Draft Report. Many of the words used by the OIG are inflammatory in nature and suggest the Authority was incompetent and incapable of managing the Portability feature of the voucher program. The connotations associated with words like "mismanaged," "unreliable," and "altered" are especially problematic because they serve to cast the Authority in an inaccurate, misleading and negative light to the public, including the people it serves.

A more accurate Audit Finding statement would be, "*DHA's internal controls were inadequate to maintain complete and accurate records in a manner that permitted a speedy and effective audit.*" DHA acknowledges the internal controls and information systems in place during the period audited required updating so as to improve its overall operation; but denies the total lack of internal controls implied by the OIG in the Draft Report. The demands of its daily operation and numerous audits, reviews, external inspections and national studies prohibited a timely response to the auditors' requests.

Assertions

6 The Authority Could Not Identify and Account for its Portable Vouchers

6.1 The Authority Could Not Identify its Portable Vouchers

Comment 2

DHA disagrees with this claim

DHA acknowledges it failed to provide HUD form 52665 to initial housing authorities in a timely manner, DHA denies the claim it could not identify its Portable vouchers. DHA has and can produce for inspection, physical files for all clients that have used the Portability feature to lease decent, safe and sanitary housing in DHA's area of operation and can account for all of the vouchers that were administered under the Portability feature and those vouchers that it absorbed into its own Section 8 program.

DHA identifies and tracks all payments to Section 8 landlords utilizing an eight digit Housing Assistance Payment (HAP) number. The first three numbers (prefix) identify the allocation of funding from HUD. Families with vouchers absorbed into DHA's program were given a different HAP prefix allowing for easy identification and tracking. In an effort to facilitate reporting under HUD's Voucher Management System (VMS), DHA reassigned regular HAP

Comment 3

prefix numbers to those vouchers absorbed by DHA and given a distinct HAP prefix. While the consolidation of the HAP prefix numbers streamlined DHA's reporting to HUD, it made it difficult to generate computer reports that could readily identify portable and/or absorbed vouchers during a given date range. However, the client files for all relevant families contained the necessary documentation to determine the status of all Section 8 families including families initially porting in from other housing authorities and absorbed into DHA's program.

The challenges addressed by the OIG in the two examples illustrated on page 11 of the Draft Report serve to highlight challenges faced by both small and large housing authorities in administering the Portability feature of vouchers. The size of DHA's Section 8 program and the significant turnover in the staff charged with administering that program contributed to errors made by case managers. During the time period in which the audit took place, staff of the Leased Housing department, including many employees still in training, was concentrating on reducing the number of delinquent annual reexaminations as they had been directed to do by HUD in its 2006 RIM audit. To characterize these mistakes as mismanagement is subjective, inaccurate and unnecessarily inflammatory.

This claim should be deleted from the Audit Summary.

6.2 Fragmented Responsibilities over Portable Vouchers

DHA disagrees with this claim

Multiple departments at DHA play a role in processing Portability payments. This practice is common for a large housing authority as administration of the Portability feature requires the cooperation of several departments. The administration through interdepartmental responsibility is not fragmented but rather an efficient delegation of duties to those departments staffed with employees with skill sets best suited for the tasks required. Such an approach is a recognized business model for large organizations and allows for specialization and standardization of jobs and tasks. Contrary to the implication of the Draft Report, DHA staff followed procedures defining the various departmental roles regarding billing of initial housing authorities. Case managers in the Leased Housing department used the HUD-52665 and the PIH Notice 2004-12 as their written guide to process the Portability information. In addition, Information Services used specific written instructions regarding the "keying" process to enter Portability information into ProComm, DHA's DOS based computer system.

When the OIG interviewed the case managers and finance staff regarding their roles in the billing process, their definition of "billing" was not clarified and contributed to the appearance of confusion about departmental responsibilities. The Leased Housing department, as required by the aforementioned PIH Notice and applicable regulations, has always prepared the HUD-52665 which is the official billing record. Leased Housing forwarded the HUD-52665 to the Information Services department to complete the data entry and confirm that the amounts entered on the form were accurate. The HUD-52665 was then mailed to the initial housing authority along with the HUD-50058 which had been printed in the Information Services department after keying the information. A copy of the document was forwarded to the Finance department to

ensure that an Account Payable was recorded. In summary, the official "billing" was generated in Leased Housing and mailed out by Information Services. Finally, Information Services was authorized to create a revised HUD-52665 only when there were errors in the document submitted by the case manager. Finance staff was not involved in "billing" though it did send delinquent housing authorities outstanding billing summaries. These summaries, though not required by any regulation or PIH notice, were designed to assist in collection efforts. In all cases, DHA has records of the forms that were mailed to the initial housing authority.

This claim should be deleted from the Audit Summary.

Comment 4

6.3 The Authority Sent Confusing Portability Forms

DHA agrees with this claim

The limitations of DHA's outdated ProComm software program and its failure to effectively integrate PDF files and populate the required fields contributed to this error. DHA is currently negotiating a contract with a nationally recognized vendor of software developed exclusively for housing authorities and anticipates that the software will alleviate most, if not all, of the problems that developed in trying to integrate its forms with those required by HUD.

Comment 5

6.4 The Authority Continued to Bill after Absorbing Families

DHA agrees with this claim

DHA acknowledges it received payments from initial authorities for vouchers that it had absorbed, however DHA tried to return those payments in most instances. At times the payments were posted to the Account Receivable for the initial housing authority and a portion of the \$3.7 million reimbursement payment from HUD was applied to delinquent HAP and administrative fees owed by other housing authorities who had not been identified when the original request for payment was delivered to HUD. DHA will reimburse its Section 8 reserves for any payments it received over and above documented delinquencies of HAP and administrative fees owed by initial housing authorities.

Comment 6

6.5 The Authority Could Not Account for Absorbed Families

DHA disagrees with this claim

DHA has the physical files for all families porting into its area of operation and can account for vouchers that were utilizing the Portability feature and those that were absorbed into its program. Vouchers that were absorbed were given a different HAP prefix number for tracking and identification purposes. In an effort to consolidate vouchers under one HAP prefix to facilitate reporting under HUD's Voucher Management System, DHA reassigned vouchers absorbed by DHA new HAP prefix numbers consistent with the HAP prefixes assigned to Section 8 vouchers received under its Annual Contributions Contracts. The consolidation of the HAP prefix numbers streamlined reporting under HUD's VMS but made it difficult to provide the OIG with computer reports detailing the families absorbed by DHA during the given date range. However,

the client files contain the required documentation. Inasmuch as the OIG only audited a sample of files, it cannot conclusively say that DHA cannot account for absorbed vouchers.

This claim should be deleted from the Audit Summary or rewritten to reflect the actual facts relating to the inconsistency in the reports produced.

Comment 7

7 The Authority Attempted to Collect Portability Payments Based on Erroneous Information

DHA disagrees with this claim

HUD has provided direction for the procedures and processes required in administering the Portability feature of the Housing Choice Voucher in 24 CFR 982.355 and PIH Notice 2004-12. DHA followed those procedures by sending all initial housing authorities the required HUD forms, 52665 and 50058. Copies of those forms are available at DHA. The Form 52665 notifies the initial authority of the amount of HAP required over a 12 month period and is the only billing required by HUD. DHA exceeded its obligation by providing additional billing statements when the initial authority failed to pay the required HAP and administrative fee. DHA has copies of these documents available.

In the Draft Report, the OIG refers to a former DHA employee who, after seeking to collect delinquent payments from initial housing authorities for DHA, began working for a housing authority that refused to pay an alleged delinquency. The OIG creates the inference that such activity was somehow calculated and malicious. These subjective inferences are misleading and inaccurate. A contractor or employee's duty of loyalty is to its employer and such loyalty is subject to change as the employer changes.

This claim should be deleted from the Audit Summary.

Comment 8

8 The Authority Cannot Support its Requests for \$3.7 Million it Received from HUD

DHA disagrees with this claim

On March 4, 2005, DHA requested access to \$3.7 million of its Section 8 reserves as reimbursement of DHA administrative fees used to pay for vouchers porting in under the Portability feature of the Housing Choice Voucher Program. HUD acknowledged initial housing authorities were not reimbursing DHA. In fact many housing authorities stated candidly to HUD and DHA that they had no intentions of reimbursing DHA for the housing assistance payments provided on behalf of their families.

The OIG incorrectly infers that HUD did not validate DHA's request for payment of delinquent HAP and administrative fees. DHA provided HUD with sufficient evidence and supporting documentation to convince HUD that initial housing authorities were not reimbursing HAP and administrative fees for families using the Portability feature to lease within DHA's area of

operation. The evidence was adequate and HUD gave DHA access to their Section 8 reserves. Since the initial audit, DHA has located additional information, including a master roster detailing all families for whom payment was made. DHA believes adequate documentation has been provided to HUD to support its request.

The OIG should review the complete documentation and delete this claim from the Audit Summary.

Comment 9

9 Absorbing Families had Adverse Effects

DHA disagrees with the claim

HUD's regulation 24 CFR 982.355(d) gives housing authorities the option of absorbing porting families into its program. In fact, Congress is currently considering legislation that would make such absorption mandatory (H.R.1851). DHA exercised its option under the regulations to absorb families with delinquent accounts into its Section 8 program. The claim of the OIG that *"it appears the Authority instituted a practice of absorbing portable families instead of correcting its problems"* is subjective conjecture not based on any facts presented in the Draft Report. As such, it is an inappropriate statement for an audit conducted by an agency whose stated mission is to objectively evaluate programs. Conversely, DHA believes that its failure to absorb families with delinquent accounts into its program would have had an adverse impact on the agency as DHA was using its administrative fees to cover these expenses.

DHA recognizes that it had multiple challenges with billing families within the time frames established with the PIH Notice 2004-12. Moreover, this PIH notice made it virtually impossible for DHA to collect from housing authorities delinquent in their HAP and administrative fee reimbursement. By absorbing families, DHA avoided terminating hundreds of families that had lived in the Dallas area for several years and allowed smaller housing authorities to redirect their funding.

This item should be deleted from the audit summary as it does not support the intent of Congress or HUD's regulation.

Comment 10

10 The Authority Discouraged and Denied Families from Transferring into its Voucher Program (According to HUD OIG, this is a violation of HUD Requirements)

DHA disagrees with this claim

DHA provided referrals to surrounding housing authorities in response to requests to port into its voucher program for several reasons during specific periods of time. DHA was involved in major court litigation (along with the City of Dallas, HUD, and surrounding suburbs) that required DHA to administer vouchers in court-targeted areas, many of which are located in surrounding PHA jurisdictions. As a direct result of this requirement and in an effort to work amicably with surrounding housing authorities -- disturbed because DHA was administering vouchers in their area -- a mutual, unwritten understanding was developed which resulted in local housing

authorities sharing overlapping jurisdiction for its Section 8 program. Since many housing authorities (i.e. Plano, Garland, Grand Prairie, Lancaster, and Dallas County) have overlapping jurisdictions with DHA, families desiring to relocate to the Dallas metropolitan area had the opportunity to port to Dallas and the surrounding cities through housing authorities other than DHA. Families were never denied the use of their voucher's Portability feature and no Section 8 client was denied the opportunity to port outside of Dallas' jurisdiction. Since families relocating from out of state are only familiar with Dallas, DHA case managers assisted families in locating a housing authority that could assist them quickly and in the area that they wished to reside. The outcome of this practice was that many smaller housing authorities were able to build their program and income.

DHA worked closely with its local HUD office, the State of Texas, and the Federal Emergency Management Agency during the 2005 hurricanes by administering disaster housing programs for thousands of clients. Although DHA undertook this massive project willingly, it acknowledges that the effort hampered DHA's ability to effectively manage some of its other programs (the administration of the Portability feature being one such program). During this period, DHA routinely referred voucher holders from outside of its jurisdiction to other housing authorities in a better position to provide relocation families with the time, attention and service they needed. The OIG should note, HUD acknowledged the impact of the additional housing "programs" and granted waivers from SEMAP and PHAS for the 2005 and 2006 calendar years.

This item should be deleted from the audit summary.

Comment 11

Recommendations & Corrective Action Plan

1A: DHA agrees with the recommendation that it retroactively reconcile its Portability accounts

Comment 12

DHA has determined that a complete reconciliation of the Portability program is in order and in the best interest of the agency. DHA will conduct an audit of its program over the next 12 months and reconcile all of its portability accounts.

1B: DHA agrees with the recommendation that it must implement additional internal controls

DHA reviews major program policies annually and several months ago, DHA began developing a master plan to overhaul policies and procedures that govern every area of operation. This activity will ensure sufficient internal controls are in place for all housing programs administered on behalf of HUD. The Establishment of Standards Policy 001-1 is the first step of this project; and was approved by DHA's Board of Commissioners on September 20, 2007 (see Attachment A). As part of its policy/procedure overhaul project, DHA will establish and implement adequate and effective controls to ensure that the Portability feature of its voucher program operates in compliance with HUD requirements and common business practices. DHA has recently outlined the steps involved with administering its Portability program. This outline will be developed into a formal Portability procedure which will be implemented after proper training of staff (see Attachment B).

It must be noted that DHA has been the subject of over 45 audits during the 2006 and 2007 calendar years. DHA is finding it difficult to implement and follow through with corrective action plans, including the implementation of new and additional internal controls, because of the time it is required to spend responding to and assisting in these audits.

Comment 13

1C: **DHA disagrees with the recommendation that it be required to repay administrative fees it collected**

DHA takes pride in administering much needed housing programs in the community it serves. It operates the largest Section 8 Housing Choice Voucher Program in the state and provides decent, safe and sanitary housing for over 16,000 low-income families. While the Portability feature of the voucher is instrumental in providing families with mobility and access to employment, administering this feature is can be labor intensive and complex particularly when administered on a large scale. The administrative fee is designed to pay ongoing expenses of administering a Section 8 program. It is undisputed that DHA provided services to families who used the Portability feature of their vouchers. Families were briefed and their eligibility was confirmed. They were provided a list of landlords with units within DHA's jurisdiction and assistance in locating suitable housing if they encountered difficulties. Their selected housing units were inspected and their landlords paid timely. Families were provided interim and annual re-examination to determine continued eligibility. These are all activities for which the administrative fee is designed to pay. DHA is entitled to payment for the services it rendered. To require DHA to refund the administrative fee is unconscionable and unreasonably punitive. It is not within the purview of the OIG to punish housing authorities. Alternatively, if DHA is required to repay administrative fees, every initial housing authority must be required to repay HUD all HAP and administrative fees they failed and refused to pay DHA.

Comment 14

This recommendation should be deleted from the audit summary.

1D: **DHA agrees that it should provide documentation to support the receipt of \$3,789,254 that it requested from HUD**

As stated in item 1A, DHA will conduct a 100% forensic audit of its portability program over a twelve-month period. During this audit it will gather additional documentation outlined by HUD to support its original request for \$3,789,254 in delinquent HAP and administrative fees. To the extent it is not able to provide adequate documentation to satisfy HUD, DHA will reimburse the appropriate amount to its Section 8 reserves, if any.

OIG Evaluation of Auditee Comments

Comment 1 The conclusions reached were based upon the evidence reviewed and analyzed during our audit. Much of this information was supplied by the Authority through data and interviews with staff. As required by auditing standards, the report language is clear and concise and the conclusions are supported by the evidence obtained during the audit. Generally accepted government auditing standards required us to assess the reliability of data used as support for conclusions or recommendations. As detailed in the finding, we concluded that the Authority's records were not complete, accurate or reliable.

While we agree with the Authority that its internal controls were inadequate, it is management's responsibility to implement an adequate system of internal controls to include establishing written policies and procedures. Management's failure to establish a reliable control environment led to the deficiencies identified in the finding. For example, the lack of effective controls allowed staff to inappropriately change recorded data, without supervisory approval, in seventy-three percent of our sample. Given the significance and extent of the deficiencies, we concluded that the Authority mismanaged its portable vouchers. Thus, the subject of the report is appropriate.

We modified some of the terminology in the report.

Comment 2 We maintain our position. We initially planned to review a statistical sample of all portable vouchers during our review period. On multiple occasions throughout the audit, we asked the Authority to provide a listing of its portable vouchers for the audit period. The Authority could not do so. Thus, we revised our audit scope and methodology to review a sample of the vouchers the Authority claimed supported its request for payment of more than \$3.7 million from HUD. As stated in its response, the Authority would need to manually go through documents in all of its tenant files to identify its portable vouchers. Considering that the Authority has more than 16,000 vouchers, this would be a significant undertaking. As a basic management control and to facilitate billings and collections, the Authority should want to know the tenant names, initial housing authorities, payment amounts, and other relevant information about its portable vouchers without manually searching through all of its tenant files.

Comment 3 While it is true a business model such as the one the Authority described in its response can be effective, communication and cooperation between departments is essential to such an operation.

HUD, Authority staff, and the Authority's independent public accountant acknowledged and discussed historical communication problems between the leased housing and finance departments.

The Authority states that case managers followed HUD guidance on forms and a PIH notice; however, the Authority did not have written instructions telling staff to follow the HUD guidance. Further, the Authority's information services staff told us that they also operated under verbal instructions, which sometimes conflicted with HUD requirements. In addition, contradictory to the Authority's response, information services staff told us that they did not mail out the HUD-52665 forms.

Comment 4 We acknowledge steps the Authority has taken to address its internal control weakness. However, the Authority must implement procedures that ensure accurate information is maintained both with the current software and any future software. Ensuring the accuracy of computer generated information is a basic, but vital control.

Comment 5 The Authority's comment recognizes that its request for more than \$3.7 million included amounts for which it received payments from the initial housing agencies. Rather than applying amounts owed by other housing agencies, the Authority should have refunded HUD since it should not have requested payment from HUD for these vouchers. The Authority's agreement to reimburse unsupported amounts is appropriate. However, the funds should be reimbursed to HUD and placed in the ACC reserve account.

Comment 6 See comment 2 evaluation.

As stated in the finding, information the Authority provided to identify its absorbed vouchers was contradictory and the Authority's staff could not explain or provide documentary evidence that explained those contradictions or definitively showed which vouchers were absorbed.

Comment 7 Documents the Authority provided included copies of letters sent to more than 200 initial housing agencies demanding portability payments it claimed they owed. Several of the letters contained excerpts from the reports that we found to be inaccurate. In addition, the billing summaries used to support the reports often had unsupported changes and adjustments. The correspondence we reviewed from initial housing agencies overwhelmingly disputed the Authority's claims.

- Comment 8** We maintain our position that the Authority could not support its request for \$3.7 million. During the audit, we reviewed the documentation provided by the Authority and spoke with HUD officials. HUD's review did not include tracing the amounts listed to supporting documentation. Further, the Authority has agreed in comments 4 and 5 that its records contained errors and it received payments from agencies for vouchers it absorbed. We have discussed our conclusions with HUD.
- Comment 9** We removed this section from the finding.
- Comment 10** HUD prohibited the Authority from discouraging or denying families the use of portability under the voucher program. The Authority's records indicate it did so, regardless of any unwritten understanding(s). Further, these practices occurred before Hurricane Katrina.
- Comment 11** We acknowledge steps the Authority intends to take to address this internal control weakness.
- Comment 12** We are encouraged to see the establishment of standards policy statement. Further, the implementation of written procedures and proper training of staff are major steps toward resolving systemic weaknesses. The development and implementation of policies and procedures should further improve weaknesses.
- Comment 13** The OIG neither agrees nor disagrees with the Authority's assertions regarding its administration of other areas of its voucher program because we did not review those areas as part of this audit.
- The OIG is tasked with reporting the conditions and making recommendations for corrective actions. In this case, the recommendation is based on the poor program administration. HUD has the authority to reduce or offset the Authority's administrative fee if it failed to perform administrative responsibilities correctly or adequately. HUD will make the determination, with OIG concurrence, as to the extent of any amounts required to be repaid.
- Comment 14** We acknowledge steps the Authority intends to take to resolve the recommendation. Any reimbursements should be to HUD.