



Issue Date December 19, 2007
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Audit Report Number 2008-PH-1004
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TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub,  
3BPH

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Regional  
Office, 3AGA

SUBJECT: The Housing Authority of Baltimore City, Baltimore, Maryland, Generally Had  
Adequate Controls over Its Tenant Files

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Housing Authority of Baltimore City's (Authority) administration of its leased housing under its Moving to Work Demonstration (Moving to Work) program. We conducted the audit based on our analysis of various risk factors relating to the housing authorities under the jurisdiction of the U.S. Department of Housing and Urban Development's (HUD) Baltimore field office. This is the first of two audit reports to be issued on the Authority's program. The audit objective addressed in this report was to determine whether the Authority's controls over its tenant files were adequate to ensure compliance with HUD requirements.

### **What We Found**

The Authority's controls were generally sufficient to ensure that tenant files contained the required documentation according to HUD requirements. The Authority's tenant files were orderly and contained certification and recertification documents in accordance with HUD requirements. However, in 7 of the 22 tenant files reviewed, the Authority incorrectly calculated housing assistance payments, resulting in \$3,193 in overpayments and \$2,596 in

underpayments. The Authority was in the process of strengthening its controls for housing assistance payment determination to ensure that it made future housing assistance payments accurately and in accordance with HUD requirements.

### **What We Recommend**

We recommend that the Director of HUD's Baltimore Public Housing Program Hub require the Authority to reimburse its program from nonfederal funds \$3,193 for the overpayment of housing assistance and reimburse applicable tenants \$2,596 for housing assistance underpayments, thereby putting these funds to better use. We further recommend that HUD conduct a followup review to ensure that the Authority's planned process improvements are implemented to ensure accurate housing assistance payments in the future.

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 provided our discussion draft audit report to the Authority's executive director and HUD officials on November 27, 2007. We discussed the report with the Authority and HUD officials throughout the audit and an exit conference on December 6, 2007. The Authority provided written comments to our draft report on December 12, 2007. The Authority agreed with the report and stated it had either implemented or was in the process of implementing our recommendations.

The complete text of the Authority's response can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The Housing Authority of Baltimore City (Authority) was organized in 1937 under the laws of the State of Maryland to provide federally funded public housing programs and related services for Baltimore's low-income residents. It is the fifth largest public housing authority in the country, with more than 1,000 employees and an annual budget of approximately \$200 million. The Authority currently serves more than 40,000 residents in more than 14,000 housing units. The Authority's portfolio includes 18 family developments, 21 mixed population buildings, and scattered sites throughout the City. A five-member board of commissioners, appointed by the mayor, governs the Authority. The Housing Choice Voucher tenant-based assistance programs are federally funded and administered for the City of Baltimore by the Authority through its Housing Choice Voucher Program Office. Baltimore's Housing Choice Voucher program provides an additional 12,000 families with rental housing subsidies each year.

In 1996, Congress authorized the Moving to Work Demonstration (Moving to Work) program as a U.S. Department of Housing and Urban Development (HUD) demonstration program. The Authority was accepted into the program on March 31, 2005, when HUD's Assistant Secretary for Public and Indian Housing signed the Authority's Moving to Work agreement. The signed agreement requires the Authority to abide by the statutory requirements in Section 8 of the United States Housing Act of 1937 until such time as the Authority proposes and HUD approves an alternative leased housing program with quantifiable benchmarks. On September 7, 2007, the HUD General Counsel provided the Office of Public and Indian Housing with the legal opinion requested by HUD Office of Inspector General Report 2006-PH-0002. The HUD General Counsel agreed with the finding that HUD did not follow applicable statutory requirements when it admitted the Authority to its Moving to Work program. The HUD General Council concluded that "HUD was acting outside the scope of its authority and, accordingly, the Moving to Work Agreement of March 31, 2005 is void."

Under the Section 8 Housing Choice Voucher program, the Authority provides leased housing assistance payments to more than 9,000 eligible households. HUD authorized the Authority the following financial assistance for housing choice vouchers:

<u>Authority fiscal year</u>	<u>Authorized funds</u>	<u>Disbursed funds</u>
2005	\$76,535,556	\$76,535,556
2006	83,368,789	83,346,052
2007	83,097,830	83,097,830
<b>Totals</b>	<b><u><u>\$243,002,175</u></u></b>	<b><u><u>\$242,979,438</u></u></b>

Our objective was to determine whether the Authority's controls over its tenant files were adequate to ensure compliance with HUD requirements.

## RESULTS OF AUDIT

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### Finding: Improved Controls Should Ensure Accurate Housing Assistance Payments

The Authority was implementing controls that would eliminate or significantly reduce errors in calculating allowances for housing assistance payments. The Authority's tenant files were orderly and contained certification and recertification documents according to HUD requirements. However, of the 22 tenant files reviewed, the Authority incorrectly calculated housing assistance payments for seven tenants, resulting in \$3,193 in overpayments and \$2,596 in underpayments from June 1, 2005, through September 30, 2007. These administrative errors should be reduced or eliminated after the Authority fully implements improved controls.

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#### **The Authority Incorrectly Calculated Some Housing Assistance Payments**

The Authority incorrectly calculated some housing assistance payments, resulting in overpayments of \$3,193 and underpayments of \$2,596 from June 1, 2005, through September 30, 2007. To determine whether the Authority correctly calculated the housing assistance payments, we reviewed annual reexaminations from 22 randomly selected tenant files. The Authority incorrectly calculated housing assistance payments in seven (32 percent) of the 22 tenant files. The errors identified are as follows:

- Heating utility allowance was incorrectly selected as electric and should have been gas,
- Fiscal year 2007 utility allowance schedule was incorrectly used instead of 2006,
- Refrigerator allowance was not given for 22 months,
- Incorrect bedroom size and structure type were used for calculating the utility allowance,
- Dependent allowance was mislabeled, and
- Heating type was incorrectly processed combining oil and electric.

## **Improved Controls Should Ensure Accurate Housing Assistance Payments**

The problems discussed in this audit report occurred because the Authority had not fully implemented procedures and controls to ensure that it followed HUD requirements for calculating housing assistance payments.

The Authority was migrating to the use of a housing assistance payment calculation module in the Modern Software Technology information system to calculate housing assistance payments. The Authority's associate deputy director stated that in late 2003, the Authority implemented a Section 8 management information system. However, some of the Housing Choice Voucher program data requirements had not been included in the initial system development. A request for proposal was submitted, and Nan McKay and Associates, Inc. (Nan McKay), was awarded the contract to update the database with the data requirements. The Authority was implementing changes that would eliminate or significantly reduce errors in calculating allowances for housing assistance payments. It expected the upgrades to be completed by Spring 2008. The Authority had

- Created a quality control unit under the direct supervision of the administrator of administration, independent of the Housing Choice Voucher program's operational division. The quality control staff was responsible for randomly selecting samples to track in all areas of the program and identifying program weaknesses in processes and procedures.

The Authority was

- Implementing mandatory Housing Choice Voucher program eligibility and occupancy training presented by Nan McKay for all new employees.
- Instituting a change in procedures that required all completed recertification files to be rechecked by other program specialists for accuracy and completeness.
- Implementing team leader reviews of tenant files processed by new program specialists.
- Requesting automated system changes to decrease human error by
  - Limiting authorization to enter unit type, unit size, tenant utilities, and utility types to rental units.
  - Automating the process of identifying and implementing appropriate utility allowances. The system would autopopulate the

utility allowance amount based on unit size, unit type, tenant-paid utilities, utility types, and effective date of transaction or action.

- Autopopulating the appropriate payment standard.
- Requiring verification of unit information, such as housing type and size and types of utilities as part of the scheduled housing quality standards inspections.
- Requiring program specialists to assure that information was consistent and correct by comparing documents and system information during scheduled recertification. Any discrepancies would trigger further investigations.

## Conclusion

The Authority's tenant files were in an orderly and auditable condition, and all required documents were available for our review. Although we found exceptions in the calculations of the housing assistance payments for seven tenants, the Authority was implementing actions to correct these exceptions and prevent future miscalculations. HUD will need to ensure that these process improvements are implemented and that the Authority has made reimbursements and repayments based on deficiencies disclosed in our review of tenant files.

## Recommendations

We recommend that the Director of HUD's Baltimore Public Housing Program Hub require the Authority to

- 1A. Reimburse its program \$3,193 for the overpayment of housing assistance from nonfederal funds.
- 1B. Reimburse the appropriate tenants \$2,596 for the underpayment of housing assistance from program funds.

We recommend that the Director of HUD's Baltimore Public Housing Program Hub

- 1C. Conduct a followup review to ensure that the Authority's needed process improvements are implemented.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws and regulations including the Authority's administrative plan, HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Part 982, the Moving to Work agreement, and HUD-applicable rules and regulations and the Housing Choice Voucher Program Guidebook, 7420.10g.
- The Authority's tenant housing assistance payments and HUD-50058 (Family Report) data; tenant files; organizational chart; correspondence; and Moving to Work program documents including the agreement, plans, and reports.

We performed our audit in accordance with generally accepted government auditing standards.

We performed our on-site audit work between August and September 2007 at the Authority's office located at 1225 West Pratt Street, Baltimore, Maryland.

We conducted the survey using transactions representative of operations from June 1, 2005, through June 30, 2007.

We interviewed the Authority's employees, HUD staff, and program households.

During the audit, we assessed the reliability of computer-processed data relevant to our audit by comparing the data to hard-copy information. We found the computer-processed data to be sufficiently reliable to meet our audit objectives.

Using the U.S. Army Audit Agency's statistical software, we statistically selected a discovery sample of 22 tenant files from a universe of 9,244 tenants receiving housing assistance payments during our survey period.

Although the survey did not include a specific objective related to the internal control process, we included tests of internal controls that we considered necessary.



# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our objective:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal 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**

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

- The Authority had not yet fully implemented planned procedures and controls to ensure compliance with HUD regulations regarding determining appropriate housing assistance payments.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$3,193	
1B		\$2,596

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, the Authority will put funds to better use by reimbursing the appropriate tenants \$2,596 for the underpayment of housing assistance. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

# Appendix B

## AUDITEE COMMENTS

### Auditee Comments



**BALTIMORE  
HOUSING**

SHEILA DIXON  
Mayor

PAUL T. GRAZIANO  
Executive Director, HABC  
Commissioner, HCD

December 12, 2007

John Buck, Regional Inspector General  
U. S. Department of Housing and Urban Development  
Office of Inspector General  
Wannamaker Building, Room 1005  
100 Penn Square  
Philadelphia, PA 19107-3380

Re: Comments on HUD OIG Draft Review: -  
*“The Housing Authority of Baltimore City,  
Baltimore, Maryland, Generally Had Adequate  
Controls Over Its Tenant Files”*

Dear Mr. Buck:

This letter is in response to the HUD Office of Inspector General's (OIG) draft report on the Housing Authority of Baltimore City's (HABC) leased housing program, presented to my office as part of the exit conference held on Thursday, December 6, 2007.

We are gratified that, as the name of this draft report and excerpts from the report indicate, the OIG recognized the following positive findings:

- HABC has adequate controls over its tenant files;
- the Authority's controls were generally sufficient to ensure that tenant files contained the required documentation according to HUD requirements; and
- the Authority's tenant files were orderly and contained certification and recertification documents in accordance with HUD requirements.

Furthermore, the positive comments made by both the Regional Inspector General and the Director of the Office of Public Housing, Baltimore HUB were gratefully received as an acknowledgement of the great strides HABC has made and continues to make in improving its leased housing program. Following the perfect SEMAP score received by HABC for FY2005, this report is further affirmation of the dramatic turnaround from a program at risk of HUD takeover in 2001 to one of the top performing programs in the nation.

The OIG did identify errors in 7 files. Of the numerous variables and calculations in tenant folders, the sole area of deficiency identified by the OIG related to utility allowance calculations. Identified overpayments of \$3,193.00 are being reimbursed to HABC's Housing Choice Voucher Program today from non-federal sources and increased subsidies in the amount of \$2, 596.00 have been paid to the affected HCVF participants.

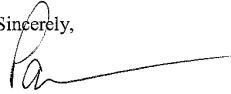
We are pleased to see that the OIG recognizes that HABC was and is implementing controls that “would eliminate or significantly reduce errors in calculating allowances for housing assistance payments,” including the following:

- creation of an independent quality control unit;
- mandatory training of staff;
- procedures requiring all completed recertification files to be independently rechecked for accuracy and completeness;
- greater oversight of the performance of newer staff members; and
- development of and request for automated system changes to decrease the possibility of human error.

HABC will continue to develop new approaches to make the recertification process operate even more effectively.

In general, HABC finds the OIG’s recommendations acceptable and has either already implemented them or is in the process of implementation. We would also like to take this opportunity to thank the OIG for the professionalism of the audit team assigned and for the positive statements made by the OIG and the Director of the Office of Public Housing, Baltimore HUB, concerning the performance of HABC’s Housing Choice Voucher Program.

Sincerely,



Paul T. Graziano  
Executive Director

cc: William D. Tamburrino  
James Olson  
John Kelleher  
Jemine Bryon