



Issue Date September 27, 2010

Audit Report Number 2010-SE-1002

TO: Harlan Stewart, Director, Region X Office of Public Housing, OAPH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, Seattle,
Region X, OAGA

SUBJECT: Alaska Housing Finance Corporation, Anchorage, AK, Needs To Improve Its
Quality Control Plan

HIGHLIGHTS

What We Audited and Why

We audited the Housing Choice Voucher program of the Alaska Housing Finance Corporation (Corporation) because the Corporation administers all Alaska Section 8 funding. We wanted to determine whether the Corporation admitted and housed tenants properly, calculated tenant subsidies correctly, and maintained an effective quality control program. We also wanted to determine whether the Corporation properly administered its U.S. Department of Housing and Urban Development (HUD)-Veterans Affairs Supportive Housing (VASH) program.

What We Found

The Corporation generally admitted and housed tenants properly and calculated tenant subsidies correctly. However some Corporation offices had error rates exceeding 20 percent in calculating tenant income or housing assistance payments and the quality control program could be improved. In addition, the Corporation's VASH policies conflicted with program requirements. Its

admission policy could improperly deny housing assistance to an eligible veteran who owed it money.

What We Recommend

We recommend that the Corporation revise its quality control plan. We also recommend that it eliminate the repayment agreement requirement for its VASH program.

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 requested that the Corporation provide a response on September 24, 2010, and the Corporation provided its written comments on September 23, 2010. The Corporation generally agreed with the results.

The complete text of the auditee's response is in appendix A of this report.

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BACKGROUND AND OBJECTIVES

Alaska Housing Finance Corporation

The Alaska Housing Finance Corporation (Corporation), managed by a seven-member board of directors, was created in 1971 by the Alaska Legislature to provide affordable housing options for low- and moderate-income families. The Corporation operates 16 offices around the State, managing more than 1,300 public housing units and administering more than 4,300 housing choice vouchers. According to the U.S. Department of Housing and Urban Development's (HUD) Voucher Management System, the Corporation provided more than \$27 million in housing assistance payments for housing choice voucher holders in 2009.

Housing Choice Voucher Program

The Section 8 Housing Choice Voucher program is the Federal Government's major program for helping very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Participants may choose any housing meeting program requirements. HUD provides Federal funds to public housing agencies to make housing assistance payments to landlords on behalf of the families. The agencies calculate the amount of each family's subsidy, and the families pay the difference between the actual rent and the subsidized amount.

HUD – Veterans Affairs Supportive Housing Program

The 2008 Consolidated Appropriations Act (Appropriations Act) provided \$75 million for the HUD-Veterans Affairs Supportive Housing (VASH) program. The VASH program combines HUD rental assistance for homeless veterans with case management and clinical services provided by the U.S. Department of Veterans Affairs. Public housing agencies administer the program in accordance with Housing Choice Voucher program requirements; however, the Appropriations Act gives HUD the authority to waive or modify the requirements to effectively deliver and administer the assistance. The program requirements were published in the Federal Register on May 6, 2008.

Our objective was to determine whether the Corporation admitted and housed tenants properly, calculated tenant subsidies correctly, and maintained an effective quality control program. We also wanted to determine whether the Corporation properly administered its VASH program.

RESULTS OF AUDIT

Finding 1: The Corporation Did Not Always Determine Tenant Income and Subsidies Correctly

The Corporation did not always determine tenant income and subsidies correctly. The Corporation's quality control plan lacked an adequate file review process to detect errors. As a result, some tenants either paid excessive rent or received excessive assistance from the Corporation's limited Housing Choice Voucher program funds.

The Calculation Error Rate in Some Offices Exceeded 20 Percent

The Corporation did not always correctly determine tenant income and housing assistance payments. Some Corporation offices had error rates exceeding 20 percent for calculations that could affect the tenants' subsidies. We grouped the Corporation offices administering housing choice vouchers into three strata based on office size (see appendix B) and reviewed a random sample of Housing Choice Voucher program tenant files from each stratum as well as all of the available files administered in the Sitka and Wrangell offices.

The table below summarizes the errors (see appendices C and D for the complete listing of the errors).

	Errors	Files reviewed	Error percentage
Metro stratum	11	51	22%
Mini stratum	2	33	6%
Micro stratum	2	6	33%
Sitka	13	50	26%
Wrangell	9	36	25%

Common errors included

- Using incorrect amounts to calculate tenant incomes (23),
- Missing third-party income verifications (7),
- Using incorrect utility allowances (7), and
- Using incorrect payment standards (6).

Many errors did not affect the subsidy, and most subsidy errors were small; however, a few were significant. For example, in 2009, the Corporation oversubsidized an Anchorage family by almost \$2,400 and inappropriately paid

the family \$340 in utility allowances because employment income and child support were not included as income at a recertification.

Also, the Corporation inappropriately included a Ketchikan family's supplemental Medicare insurance premiums as income, thereby undersubsidizing the family by \$60 per month. When we notified the Corporation of this error, it determined that the case manager mistakenly believed the premiums to be income. This misconception existed from at least January 2009 through our review in May 2010 and according to a Corporation official, affected as many as 29 families.

The Quality Control Plan Needs Improvement

In general, the quality control reviews accurately evaluated the tenant files. However, the error rates in the Anchorage, Sitka, and Wrangell offices indicated that improvements were needed in the Corporation's quality control plan to correct inadequacies in its file review process.

The Corporation's quality control plan divided the universe of Housing Choice Voucher program tenant files into three categories for review purposes: tenants with annual recertifications, tenants with interim recertifications, and tenants that had moved in during the review period. Samples for review were randomly selected from each of these categories. The file reviews concentrated only on the one event corresponding to the category from which they were selected. Effectiveness in the detection of errors could be improved if all files sampled were reviewed for any recertifications that occurred during the year that the files were selected for review.

The quality control plan did not provide for an adequate separation of duties. In offices containing more than one person, the plan required that a supervisor or another qualified person, other than the person performing the work, conduct the file reviews. However, in a small office like Ketchikan, the only person qualified to do the reviews was the person that worked on the files.

For the small single-staffed offices, the plan required the person who performed work on the Housing Choice Voucher program tenant files to perform the quality control reviews of the files on which they worked. If the person responsible for both working on and reviewing the files had a misconception about what should be included in the calculation of the housing assistance payment, his or her reviews might not detect errors related to the misconception.

As a result, some tenants either paid excessive rents or received excessive assistance from the Corporation's limited Housing Choice Voucher program funds. When tenants are oversubsidized, funds are not available to assist other

low-income families. Undersubsidized families have less money for other expenses.

Recommendations

We recommend that the Director, Region X Office of Public Housing, require the Corporation to

1A. Evaluate and revise the quality control plan to improve the effectiveness of error detection.

1B. Revise the quality control plan to incorporate independent quality control file reviews.

Finding 2: The Corporation's VASH Policies Conflicted with Program Requirements

The Corporation's VASH policies conflicted with program requirements. This condition occurred because the Corporation did not understand that VASH applicant repayment agreements did not conform to these requirements. As a result, eligible veterans could be denied housing assistance.

The Corporation's VASH Policy Conflicted With Program Requirements

The Corporation's policies did not fully conform to VASH program requirements. Federal Register Notice, Docket No. FR-5213-N-01, dated May 6, 2008, states that a public housing agency may not deny a veteran a VASH program voucher because the applicant owes it money. Nonetheless, the Corporation's VASH policy required that applicants sign repayment agreements for any amounts owed before receiving VASH assistance.

When implementing the VASH program, the Corporation changed its policy of denying assistance to persons who owed it money. The Corporation's board passed Resolution 2008-26, allowing veterans who owed it money to receive a VASH voucher by signing a repayment agreement for any amounts owed. After the resolution passed, the Corporation entered into a memorandum of agreement (memorandum) between itself and the U.S. Department of Veterans Affairs Medical Center.

In the memorandum, the Corporation agreed to provide tenant-based voucher assistance under the VASH initiative. According to the memorandum, "Once the family has been referred to AHFC [the Corporation], AHFC will screen each adult family member for prior program participation. If the family member owes AHFC money, AHFC will immediately contact the VAMC [U.S. Department of Veterans Affairs Medical Center]. AHFC agrees to enter into a Repayment Agreement prior to the receipt of a voucher. The family must remain current on their Repayment Agreement to retain their housing assistance." Thus, the Corporation would deny the voucher assistance if amounts owed by a veteran or the veteran's family were not repaid.

The Corporation Did Not Fully Understand the VASH Requirements

The Corporation believed that its policy met VASH requirements; however, the repayment agreement requirement clearly violated these requirements. As a result, the Corporation's policy could deny housing assistance to eligible veterans.

As of March 2010, available tenant files showed that the Corporation had not denied a VASH voucher because the veteran owed it money. Further, the Corporation provided a VASH voucher to one veteran who owed it money without a repayment agreement. However, Corporation policy must be revised to ensure that all qualified veterans receive the assistance they have earned.

Recommendations

We recommend that the Director, Region X Office of Public Housing,

2A. Require the Corporation to remove the repayment agreement requirement from its HUD-VASH policy.

SCOPE AND METHODOLOGY

We performed our fieldwork from March through June 2010 at Corporation offices in Anchorage, Fairbanks, Homer, Juneau, Sitka, Soldotna, Wasilla, and Wrangell and reviewed files from those offices and Ketchikan, Kodiak, Petersburg, and Valdez. Our audit period was January 2009 through February 2010 and covered the Corporation's housing choice voucher payments made in 2009.

To accomplish our objectives, we reviewed program criteria, interviewed Corporation staff, reviewed the Corporation's voucher quality control program, reviewed Housing Choice Voucher program tenant files, and reviewed Corporation computer records of tenant and financial information. We compared the documentation in the tenant files to HUD's program criteria and the Corporation's administrative plan.

Stratified Sample

We selected and reviewed a stratified random sample of 90 tenant files from a universe of 5,102 tenants whose housing choice vouchers were administered by the Corporation and for whom the Corporation made at least 1 housing assistance payment in 2009. We used a 90 percent confidence level with a precision of plus or minus 10 percent. The Corporation provided the universe in an electronic text file. We stratified the universe into three office sizes that were the sampling frames for each stratum (see appendix B). We calculated the number of files for each stratum in proportion to the level of representation within the universe. Case files were identified within each stratum by generating a series of random numbers and assigning them to case files for each stratum, including spares.

In the metro stratum, we incorrectly linked the random numbers with the files. As a result, the randomizing agent for the metro stratum was the Corporation's assignment of tenant identification numbers instead of the generated random numbers. Although we deemed this error to have no material impact, we did not project sample results to the universe.

100 Percent Sample

We also performed a 100 percent review of the tenant files administered by the Sitka and Wrangell offices. We selected these single-staff offices based on the number of files to be reviewed at each office and on travel considerations. To obtain these universes, we used the list of tenants by month provided by the Corporation, yielding 53 files in Sitka and 37 in Wrangell.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Compliance with applicable laws and regulations - Policies and procedures implemented to reasonably ensure that resources are used consistent with laws and regulations.
- Safeguarding assets and resources - Policies and procedures implemented to reasonably ensure that assets and resources are safeguarded against fraud, waste, and abuse.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:


- The Corporation's quality control program did not provide for independent review of tenant files (finding 1).
- The Corporation's VASH policy did not comply with program requirements (finding 2).

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG EVALUATION

Auditee Comments



**Alaska
Housing**
FINANCE CORPORATION

Headquarters
4300 Boniface Parkway
Anchorage, Alaska
907-338-6100

Mailing Address
PO Box 101020
Anchorage, AK 99510-1020

Internet Web Site
<http://www.ahfc.state.ak.us>

September 23, 2010

Mr. Ronald Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Region X
909 First Avenue, Suite 126
Seattle, Washington 98104-1000

Dear Mr. Hosking:

Please find below Alaska Housing Finance Corporation's formal written comments to the draft OIG report on its Housing Choice Voucher program. Per your request, these are being submitted in both hard and Word electronic copy.


Finding 1 The Corporation did not always determine Tenant Income and Subsidies correctly.

AHFC's quality control universe meets the SEMAP requirements outlined in 24 CFR 985.2. Management agrees that it is difficult for those offices identified in Appendix C as Mini and Micro to evaluate their own work and identify errors they have committed, and that those offices will certainly benefit by an overall Quality Control (QC) analysis.


Within the next six months, AHFC will analyze its current QC plan. The primary goal will be to improve the effectiveness of error detection and to incorporate independent QC reviews as part of its overall process. This review and revision of the QC plan will be done as part of AHFC PHD's continuing process of improving its business processes, as well as to address the OIG findings and recommendations.

Finding 2: The Corporation's VASH policies conflicted with Program Requirements.

AHFC has requested HUD approval to waive the screening requirement in the VASH program for participants who come into the program owing AHFC money. On August 11, 2010 AHFC sent to Deborah Hernandez, General Deputy Assistance Secretary of Public and Indian Housing with HUD, a VASH Requirement Waiver request. (See attached) This request would allow AHFC to continue to offer a repayment agreement if there is a prior unpaid debt to the corporation. At this time,



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no VASH voucher recipients have been denied admission to the program due to a debt, and AHFC will continue to work closely with its VA liaisons to ensure that no eligible VASH families are denied issuance of a VASH voucher due to prior program participation debt.

If you have any questions, please contact Kevin Tune at (907) 330-8410 or me at (907) 330-8416.

Sincerely,



Catherine M. Stone
Director, Housing Operations

Enclosure

cc: Dan Fauske, Alaska Housing Finance Corporation, Executive Director
Harlan Stewart, Director, Seattle Office of Public Housing
Colleen Bickford, Director, Anchorage Field Office

OIG Evaluation of Auditee Comments

The Corporation's written response indicates agreement with the recommendations.

Appendix B

STRATIFIED SAMPLE SELECTION

Stratum ⁽¹⁾	Office	Universe	Files in random sample
Metro	Anchorage	2,903	51 ⁽²⁾
Subtotal		2,903	51
Mini	Fairbanks	408	6
Mini	Juneau	398	7
Mini	Ketchikan	107	2
Mini	Kodiak	129	5 ⁽³⁾
Mini	Soldotna	375	3
Mini	Wasilla	460	10 ⁽³⁾
Subtotal		1,877	33
Micro	Homer	130	2
Micro	North Slope Borough	10	0
Micro	Petersburg	50	1
Micro	Sitka	51	1
Micro	Valdez	49	1
Micro	Wrangell	32	1
Subtotal		322	6
Total		5,102	90

(1) The metro stratum consists of the main office in Anchorage, the micro stratum consists of the outlying offices with one staff member who administers AHFC's housing programs, and the mini stratum consists of the remaining outlying offices that administer housing choice vouchers.

(2) One Anchorage selection was unavailable. We used the first spare in the metro stratum.

(3) One Kodiak selection was unavailable. The first spare in the mini stratum was a Wasilla file.

Appendix C

STRATIFIED SAMPLE ERRORS

Tenant ID	Stratum/office	Error
013598	Metro/Anchorage	Used tenant statement of employment income instead of the income shown in the file
013841	Metro/Anchorage	Used incorrect permanent fund dividend amount; no third-party verification of pension
015020	Metro/Anchorage	Used incorrect amount of Social Security income
015095	Metro/Anchorage	Used only base pay instead of all employment income
117626	Metro/Anchorage	No third-party verification of Social Security income
118093	Metro/Anchorage	Used incorrect amount of Social Security income
118150	Metro/Anchorage	Did not update payment standard at an annual recertification
118460	Metro/Anchorage	Used incorrect utility allowance
118464	Metro/Anchorage	Did not include tenant wages and inappropriately updated the payment standard
118830	Metro/Anchorage	Used pay stub year-to-date amounts instead of monthly amounts to calculate average monthly income
119181	Metro/Anchorage	Used tenant statement of assistance income instead of income shown in the file
329706	Mini/Ketchikan	Inappropriately included supplemental Medicare insurance premium as tenant income
349477	Mini/Kodiak	No third-party verification of Supplemental Security Income
300759	Micro/Valdez	Changed the payment standard at an interim recertification; no third-party verification of Social Security income
345123	Micro/Homer	Miscopied Indian trust income amount

Appendix D

100 PERCENT SELECTION SAMPLE ERRORS

Tenant ID	Office	Error
323537	Sitka	Miscopied Indian trust income amount
324040	Sitka	Did not use updated asset interest amount for a recertification
335335	Sitka	No third-party verification of asset income
339624	Sitka	Used incorrect wage rate and did not include childcare expenses; no third-party verification for employment income; evidence of employment income that was not included
345453	Sitka	Lacked third-party verification of the current asset income
346140	Sitka	Did not update assistance and asset income from previous event for the annual recertification
346865	Sitka	Entered Indian trust income incorrectly
354069	Sitka	Used incorrect Social Security amount
355135	Sitka	Entered Social Security income incorrectly
360205	Sitka	Entered child support incorrectly
361943	Sitka	Entered income on minimum income worksheet incorrectly
363008	Sitka	Tenant file showed an increase in tenant income, but the housing assistance payment did not change.
364652	Sitka	Assigned higher payment standard than required by the administrative plan
305729	Wrangell	Used incorrect utility allowance schedule
339857	Wrangell	Used tenant-reported Supplemental Security Income instead of the third-party verified income in the file; updated utility allowance at an interim recertification.
350824	Wrangell	Updated payment standard and utility allowance at an interim recertification; used incorrect permanent fund dividend; no third-party verification of Supplemental Security Income
353519	Wrangell	Used incorrect utility allowance schedule
357988	Wrangell	Used incorrect permanent fund dividend amount
357989	Wrangell	Inappropriately increased the payment standard at a recertification
358449	Wrangell	Used net amount of Social Security income instead of gross amount; entered utility allowance and medical insurance premium incorrectly
358875	Wrangell	Updated utility allowance at an interim recertification
359467	Wrangell	Used incorrect utility allowance schedule