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TO: Frances M. Cleary, Deputy Director, Office of Public Housing, 7APH

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FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Kansas City, Kansas Housing Authority Did Not Violate HUD's Waiting List Rules When It Issued Section 8 Vouchers to Delaware Highlands Assisted Living Tenants

## **HIGHLIGHTS**

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

We reviewed the Kansas City, Kansas Housing Authority (Authority) to determine whether the Authority violated the U.S. Department of Housing and Urban Development's (HUD) waiting list rules when it offered Section 8 vouchers to applicants for Delaware Highlands Assisted Living. We conducted the audit because of concerns raised during a previous audit of the Authority, in which we saw indications that the Authority may have inappropriately directed housing vouchers to the assisted living facility.

### **What We Found**

The Authority did not violate HUD's waiting list rules when it issued Section 8 housing vouchers to Delaware Highlands Assisted Living tenants. The Authority appropriately determined the eligibility of the tenants when they applied for vouchers. It also correctly placed the applicants on the Authority's voucher waiting list and selected the applicants from the list.

### **What We Recommend**

This report contains no formal recommendations, and no further action is necessary.

### **Auditee's Response**

The Authority chose not to have an exit conference or to provide formal written comments in response to this report.

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## **BACKGROUND AND OBJECTIVE**

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The Kansas City, Kansas Housing Authority (Authority) was chartered by the State of Kansas in 1957. The Authority's mission, in part, is to help families and individuals with low and moderate incomes by providing safe, affordable, quality housing. The Authority is governed by a 12-member board of commissioners that provides oversight to the agency and its staff.

The Authority administers a Section 8 Housing Choice Voucher program funded by the U.S. Department of Housing and Urban Development (HUD) that enables nearly 1,300 low-income families to rent from private landlords. The voucher program is the Federal Government's major program for assisting low-income families, the elderly, and the disabled in obtaining decent, safe, and sanitary housing in the private market. The Authority received \$8.4 million in HUD assistance for its Section 8 program in 2008 and \$9.2 million for fiscal year 2007.

Individuals and families interested in the Section 8 voucher program apply to be admitted to the Authority's waiting list. The application includes local preference qualifications. If the applicant qualifies for a local preference based on the Authority's policies, the preference is scored, and the higher the total score, the higher the applicant is placed on the Authority's waiting list. As the Authority has funding available for vouchers, it selects applicants from the top of its waiting list and provides the individual or family with a list of housing options and a voucher.

In 2001, the Authority set up a nonprofit affiliate to develop properties to create housing opportunities for low-income families. The nonprofit affiliate developed Delaware Highlands Assisted Living, a 121-unit property that opened in September 2006. As of September 2009, the Authority administered 108 tenant-based Section 8 vouchers for low-income, elderly families at the facility. Delaware Highlands Assisted Living received nearly \$650,000 in Section 8 assistance in 2008 and nearly \$560,000 in 2007.

Our audit objective was to determine whether the Authority violated HUD's waiting list rules when it offered Section 8 vouchers to applicants for Delaware Highlands Assisted Living.

## RESULTS OF AUDIT

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### The Authority Did Not Violate HUD's Waiting List Rules When It Issued Section 8 Vouchers to Delaware Highlands Assisted Living Tenants

The Authority did not violate HUD's waiting list rules when it issued Section 8 housing vouchers to Delaware Highlands Assisted Living tenants. It appropriately determined the eligibility of the tenants when they applied for vouchers. It also correctly placed the applicants on its voucher waiting list and selected the applicants from the list.

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#### **Authority Did Not Violate HUD's Waiting List Rules**

The Authority did not violate HUD's waiting list rules when it issued Section 8 housing vouchers to frail and elderly persons who became tenants of Delaware Highlands Assisted Living. HUD requires housing authorities to maintain waiting lists for eligible persons seeking vouchers. It also allows housing authorities to create local preferences that give persons meeting the preference criteria a higher position on the waiting list.

The Authority correctly determined Section 8 eligibility of applicants who obtained vouchers ultimately used to live in the Delaware Highlands Assisted Living facility. We tested the eligibility of 27 tenants (25 percent) of Delaware Highlands Assisted Living. The Authority requires each applicant to submit a form, signed by a doctor, stating that the applicant requires assisted living. The Authority also requires other documents that verify the applicant's age, identity, and low-income status. We reviewed the 27 tenant files to determine whether the Authority had acquired the doctor's certification, verified age and identity, and verified that the tenant met the Authority's income guidelines. Tenant files demonstrated that the 27 tenants were eligible for the Section 8 program and had a verified need for assisted living.

HUD rules allow a local preference program as long as it is in the Authority's administrative plan. The Authority had a frail and elderly preference in its plan, based on an identified need for assisted living housing for such persons in the local area. Frail and elderly applicants were defined as persons requiring assistance with daily living activities but not to the extent of requiring a nursing facility.

The Authority's waiting list placement procedures included a local preference point system. The Authority established point values for each preference, and the

total points awarded to an applicant determined where the Authority placed the applicant on the waiting list, with the highest point value at the top of the list. The Authority designed its local preference point system to move frail and elderly applicants to the top of the Section 8 waiting list. For example, if an applicant was frail and elderly, that applicant received 1,800 preference points, while an applicant that was a victim of domestic violence was given 400 points. This point preference system essentially guaranteed that applicants qualifying as frail and elderly moved to the top of the waiting list. Therefore, when the Authority selected applicants from the waiting list and issued housing vouchers, the Delaware Highlands Assisted Living applicants were at the top of the list.

Further, there were only two assisted living facilities in the geographic area that the Authority served but only Delaware Highlands Assisted Living accepted Section 8 vouchers. Consequently, the local preference and facility circumstances resulted in the Authority's quickly filling Delaware Highlands Assisted Living with Section 8 vouchers without violating HUD's waiting list rules.

### **Recommendation**

There is no formal recommendation, and no further action is necessary.

## SCOPE AND METHODOLOGY

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Our review generally covered the period June 2006 through September 2009. We performed on-site work from September through October 2009 at the Authority's office located at 1124 North 9th Street, Kansas City, KS.

To achieve our audit objective, we conducted interviews with the Authority's staff and HUD staff at the Kansas City, KS, Office of Public Housing. We reviewed the Authority's audited financial statements and its Section 8 voucher program policies and procedures, waiting lists, tenant selection logs, and tenant files. We also reviewed Delaware Highlands Assisted Living's rent rolls and audited financial statements. In addition, we reviewed Federal regulations and HUD requirements.

We relied on computer-processed data contained in the Authority's waiting list and Section 8 voucher systems. We assessed the reliability of the data, including evaluating relevant controls over the data and conducting sufficient tests of the data. Based on these tests and assessments, we concluded that the data were sufficiently reliable to be used in meeting our audit objective.

We tested the waiting list to determine whether all tenants holding Section 8 vouchers at Delaware Highlands Assisted Living as of September 2009 were admitted from the Authority's waiting list and whether the Authority placed each eligible tenant in the appropriate position on the waiting list. Our test included tenants who moved into the facility when it opened in September 2006 and tenants who moved into the facility throughout the period September 2006 through September 2009. Of the 121 units at Delaware Highlands Assisted Living, 108 tenants had Section 8 vouchers as of September 29, 2009.

We selected a nonstatistical, random sample of 27 Section 8 tenant files to review for program and local preference eligibility, which represented 25 percent of the 108 Delaware Highlands Assisted Living Section 8 tenants. The Authority requires each applicant to submit a form, signed by a doctor, stating that the applicant requires assisted living. It requires other documents to verify the applicant's age, identity, and low-income status. We reviewed the tenant files for the required medical form, documents to verify age and identity, and proof of income eligibility.

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

# INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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.

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## Relevant Internal Controls

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

- Controls to ensure that the Authority appropriately determines local preference and other eligibility requirements for applicants to its Section 8 program and properly places preference-eligible persons on its waiting list.
- Controls to ensure that the Authority appropriately selects applicants from its Section 8 waiting list to receive a housing choice voucher.

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

We did not identify any significant weaknesses.