



Issue Date	April 19, 2007
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Audit Report Number	2007-FW-1008
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TO: Diana Armstrong
Director, Office of Public Housing, 6JPH

FROM: 
Frank E. Baca
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The San Antonio Housing Authority, San Antonio, Texas, Overhoused Tenants and Paid Excessive Housing Assistance Payments in its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

As part of the Office of Inspector General's (OIG's) annual audit plan, we audited the San Antonio Housing Authority's (Authority) Section 8 Housing Choice Voucher program to determine whether the Authority overhoused residents and whether it computed rent correctly for tenants identified as potentially overhoused.

What We Found

In most cases, the Authority applied the correct voucher size. However, our review of 213 (out of 428) files identified 32 tenants who lived in units larger than the Authority's policies allowed, causing the Authority to pay excessive housing assistance payments totaling \$46,304. This problem occurred because the Authority had inadequate internal controls. Further, it may have overhoused 215 other tenants whose files we did not review. Additionally, some of the overpayments caused HUD to overfund the Authority's 2005 and 2006 Section 8 budgets by a total of \$10,848, and may cause HUD to overfund the 2007 budget.

The Authority also applied the incorrect payment standard in 108 of the 213 cases reviewed because it misinterpreted HUD's requirements. As a result, the Authority and/or the tenants overpaid their share of the rent by \$29,019. Further, the Authority may have misapplied its payment standards throughout its Section 8 program.

What We Recommend

We recommend that you require the Authority to repay HUD and tenants for excessive or incorrect assistance payments and for the related budget overfunding. We further recommend that you require the Authority to implement policies and procedures that will ensure compliance with its subsidy standards and help prevent future overhousing, and recalculate assistance for the audit period on all annual recertifications performed over the next 12 months. Finally, we recommend you reduce the Authority's 2007 budget for overfunding, and impose sanctions against the Authority for its failure to comply with program requirements regarding payment standards.

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 the Authority a draft report on March 21, 2007, and held an exit conference on March 30, 2007. It agreed with us at the exit conference. On April 5, 2007, the Authority provided its written response. While it agreed that it overhoused the 32 tenants, it generally disagreed with the remainder of the report. The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The San Antonio Housing Authority (Authority) was established in 1937, and is located at 818 South Flores, San Antonio, Texas. It is committed to building and maintaining affordable housing for the citizens in its community. It seeks to create safe neighborhoods by partnering with individuals and organizations to provide housing, education, and employment opportunities to enable families of modest means to become self-sufficient and improve their quality of life. A seven-member board of commissioners (board) governs the Authority and is responsible for establishing policies under which it conducts business.

The Authority uses its Section 8 voucher funds to provide rental assistance to eligible families. The rules and regulations of the Housing Choice Voucher program are determined by the U.S. Department of Housing and Urban Development (HUD). HUD requires the Authority to establish and follow an Administrative Plan, which contains the policies and procedures for operating the program. In 2006, HUD authorized the Authority to administer 11,709 Section 8 vouchers. From 2003 through July 1, 2006, HUD authorized and disbursed \$277 million to the Authority in Section 8 program voucher funds.

Our objective was to determine whether the Authority overhoused residents and whether it computed rent correctly for tenants identified as potentially overhoused.

RESULTS OF AUDIT

Finding 1: The Authority Sometimes Paid for Larger Units than Its Policy Allowed

In most cases, the Authority applied the correct voucher size in accordance with its adopted subsidy standards. However, its inadequate quality controls allowed 32 tenants (of 213 reviewed) to live in units that were larger than the Authority's standards allowed. As a result, the Authority paid excessive housing assistance payments totaling \$46,304. In addition, HUD overfunded the Authority's 2005 and 2006 budget by \$10,848 due to the excessive payments, and it may overfund the Authority's 2007 budget if it does not take action.

The Authority Established Subsidy Standards

HUD requires the Authority to adopt a written administrative plan that establishes local policies for operation of the housing programs within the context of federal laws and regulations. It must also establish subsidy standards that determine the number of bedrooms needed for families of different sizes and compositions. The subsidy standards must provide for the smallest number of bedrooms needed to house a family without overcrowding. The Authority's subsidy standards in effect during the audit were as follows:

Subsidy Standards		
Voucher size	Minimum number of persons	Maximum number of persons
0	1	1
1	1	2
2	2	4
3	3	6
4	4	8
5	6	10
6	8	12

**The Authority Overpaid
\$46,304 in Housing Assistance
Payments for 32 Tenants**

The Authority did not follow its administrative plan and overhoused 32 tenants. Of 213 files reviewed, the Authority overhoused the 32 tenants for the following reasons:¹

Error Type	Total
The Authority did not downgrade the voucher size to reflect a change in family composition	20
The Authority did not follow its age and gender requirements	4
The Authority did not identify all household members	9
The Authority applied the improper subsidy standards	1

The overhousing resulted in HUD’s paying the Authority \$46,304 in excessive housing assistance payments.

**The Authority’s Internal
Controls Were Not Adequate**

The Authority’s internal controls were inadequate and did not include appropriate steps to detect and/or prevent overhoused tenants. For example, the Authority did not have procedures to track tenants who appeared to be potentially overhoused, and none of the 32 tenants identified in our review had been selected for a quality control review. In addition, its Section 8 department did not have a written quality control plan that reflected current procedures. The written procedures on file represented the procedures followed before the department's reorganization.

Further, in a 2004 rental integrity monitoring review, HUD found that the Authority’s internal controls were insufficient. As part of the Authority’s corrective action plan, it proposed to review 20 percent of completed files. However, it was unable to provide evidence that it had taken appropriate action to correct the internal control deficiencies or perform all of the reviews.

¹ The column totals add to 34 because in two instances the same tenants were overhoused for different reasons (family composition and age/gender requirements) in two different years.

HUD Overfunded the Authority's 2005 and 2006 Section 8 Budgets Due to Overpayment Errors

HUD calculated the budget allocations for 2005 and 2006 using the actual housing assistance payments from the May-July 2004 reporting period. Since some of the excessive assistance costs occurred during this period, HUD overfunded the Authority's Section 8 budgets for 2005 and 2006. The 2005 budget was based on the average actual costs and number of units authorized during May, June, and July 2004, adjusted by an annual adjustment factor. We used HUD's formula and decreased the base amount by the amount of overpayments from the May-July 2004 reporting period and found that HUD overfunded the Authority's 2005 budget by \$5,384.

The HUD Appropriations Act for 2006 required HUD to use the calendar year 2005 Housing Choice Voucher program renewal amount as the baseline. HUD adjusted the baseline amount by an annual adjustment factor and then by a proration factor that represents the 2006 percentage of 2005 funding. We used HUD's formula and substituted our base amount calculated for the 2005 budget, and found that HUD overfunded the Authority's 2006 budget by \$5,464. Details of the calculations are shown in appendix C of this report.

HUD May Overfund the Authority's 2007 Section 8 Budget

An appropriations bill for 2007 had not been enacted as of March 31, 2007. However, Public Law 110-05 told the Department to rebenchmark the baseline based on the latest twelve months of validated data. The implementation notice also had not been issued as of March 31, 2007. Some of the excessive assistance costs identified occurred over the last twelve months, which may lead HUD to overfund the Authority's 2007 budget.

Recommendations

We recommend that HUD require the Authority to

- 1A. Repay HUD \$46,304 for excessive assistance payments made for the 32 tenants identified in our review.
- 1B. Repay HUD \$10,848 for the 2005 and 2006 overfunding.
- 1C. Review the remaining 215 tenants identified as potentially overhoused and correct the voucher of any tenant who is overhoused. Any overpayments of assistance need to be repaid to HUD.
- 1D. Implement internal controls including policies and procedures to ensure compliance with its subsidy standards and detect and prevent future overhousing.
- 1E. Update its quality control plan to reflect current practices and any additional practices implemented resulting from this audit.

We also recommend that HUD

- 1F. Reduce the Authority's 2007 program budget if there are any overpayments during the months in 2006 that HUD will use as the baseline to determine the budget.

Finding 2: The Authority Misapplied Its Payment Standards

The Authority did not consistently follow its policies and HUD requirements regarding payment standards throughout the audit period. It misinterpreted HUD requirements and used payment standards that were not in effect on the effective date of the housing assistance payments contract. This issue was identified during a 2004 HUD rental integrity monitoring review, and the Authority agreed to correct it but did not do so. As a result, it applied the wrong payment standards to 108 tenants (of 213 reviewed), and the Authority and/or the tenants overpaid their share of the rent by \$29,019. Further, the Authority may have misapplied its payment standards throughout its entire Section 8 program.

HUD Previously Noted Problems in Implementing Payment Standards

In a 2004 rental integrity monitoring review, HUD took issue with the Authority's short period between board approval of new payment standards and their effective dates. HUD stated:

“The short period causes a problem because by the date of approval, most annual reexaminations with an effective date on or shortly after the new payment standard effective date have already been completed and entered into the system using the old payment standards”.

To avoid the problem, HUD recommended that the board adopt new payment standards at least 90 days in advance of the effective date. The recommendation explained that the Authority should be using the standards that are in effect on the date that the housing assistance payments contract takes effect, rather than the date of the appointment. The Authority stated in its April 2004 response that it would implement new payment standards 90 days after their adoption date.

The Authority Continued to Incorrectly Implement Payment Standards

In July 2004,² three months after the Authority informed HUD that it would implement payment standards 90 days after adoption, it implemented them seven days after adoption. When the Authority changed the payment standards in 2005, it implemented them 57 days after adoption. Then the board adopted a new administrative plan on May 5, 2005, that stated the payment standards would be implemented 60 days after adoption, which was within the board's prerogative.

² The board did not approve these payment standards. Instead, the Authority held a public hearing.

However, the Authority failed to follow this new policy and instead, at the most recent change in payment standards, implemented the standards 90 days after adoption. The following table illustrates the inconsistencies:

Board adoption date	Effective dates	Number of days between adoption and effective date	Agrees with rental integrity monitoring review resolution	Agrees with administrative plan ³
Nov. 3, 2005	Feb. 1-June30, 2006	90	Yes	No, 60 day requirement
Feb. 3, 2005	Apr. 1, 2005-Jan. 31, 2006	57	No	Plan had no time requirement
July 8, 2004	July 15, 2004-Mar. 31, 2005	7	No	Plan had no time requirement

The Authority Misapplied Its Payment Standards

Contrary to HUD requirements,⁴ when the board changed the payment standards, the Authority's staff applied the payment standards in effect on the date of the reexamination appointment, rather than the standards in effect on the effective date of the housing assistance payments contract. The following table shows the payment standards that were in effect during our audit period:

Payment Standards						
Effective dates	Efficiency	1 bedroom	2 bedroom	3 bedroom	4 bedroom	5 bedroom
Feb. 1-June 30, 2006	\$481	\$531	\$659	\$878	\$1,056	\$1,214
Apr. 1, 2005-Jan. 31, 2006	\$467	\$517	\$644	\$861	\$1,025	\$1,179
July 15, 2004-Mar. 31, 2005	\$383	\$452	\$591	\$795	\$940	\$1,081
Jan. 1-July 14, 2004	\$468	\$540	\$699	\$971	\$1,148	\$1,321
Feb.1-Dec. 31, 2003	\$466	\$538	\$696	\$968	\$1,145	\$1,317

³ The 2004 administrative plan did not specify a time requirement between adoption and implementation.

⁴ 24 CFR [Code of Federal Regulations] 982.516 (d) (2).

This practice resulted in unequal treatment for some tenants with the same housing assistance payments contract effective date. The following table illustrates an example:

	Housing assistance payments contract date	Authority appointment date	Voucher size	Payment standard applied
Tenant 1	May 1, 2006	Feb. 21, 2006	1 bedroom	\$531
Tenant 2	May 1, 2006	Jan. 19, 2006	1 bedroom	\$517

In the above example, the payment standard in effect on May 1, 2006, for a one-bedroom voucher was \$531. Although both tenants had housing assistance payments contracts with the same effective date, since they had appointments in which their information was certified in different months, they received different payment standards.

In 108 of 213 files (51 percent) reviewed, the Authority used payment standards that were not in effect on the effective date of the housing assistance payments contract. Of the 108 files, the incorrect payment standards did not affect the rent calculation for 35 tenants because their gross rent was less than the payment standard applied. However, the Authority overpaid or caused tenants to overpay rent or utility payments for 73 of the 108 files. Monthly overpayments ranged from \$1 to \$176. The Authority overpaid housing assistance payments for 39 of the 73 tenants by a total of \$21,686, and the remaining 34 tenants overpaid their rent and/or utility payments by a total of \$7,333.

The Authority Disagreed

Authority staff disagreed with this finding. Staff stated that the local HUD office recommended in its review that payment standards be implemented 90 days after the board approval date, and they have been in compliance with this recommendation. They stated:

“For example, if the board approves revised payment standards in November, the Authority will implement them in February. Since clients are seen 90 - 120 days in advance of their recertification effective month, the revised payment standards adopted in November would apply to the June certifications if the Authority were certifying clients 120 days in advance.”

The Authority's Practices Are Inconsistent

After the 2004 rental integrity monitoring review, the Authority changed its payment standards three times. At each change, the period between board adoption and implementation was inconsistent with the Authority's policies and/or what the Authority had informed HUD it would do. Additionally, the Authority continued to apply payment standards based on the date of the tenant's appointment, rather than the date that the housing assistance payments contract took effect.

Recommendations

We recommend that HUD require the Authority to

- 2A. Repay HUD \$21,686 identified as overpayments in assistance resulting from the Authority's application of the wrong payment standard
- 2B. Repay applicable tenants \$7,333 in identified tenant overpayments resulting from application of the wrong payment standard.
- 2C. Recalculate assistance for the audit period on all annual recertifications performed over the next 12 months. Any overpayments of assistance will need to be returned to HUD and any underpayments of assistance will need to be refunded to the tenant.
- 2D. Implement internal controls including policies and procedures that comply with HUD's requirements for calculating rent when subsidy standards are reduced.

Further, we recommend that HUD

- 2E. Take administrative sanctions against the Authority for not correcting issues with its implementation of new payment standards, which were identified in the 2004 rental integrity monitoring review.

SCOPE AND METHODOLOGY

We conducted the audit between July 24, 2006, and January 11, 2007, at the Authority's office located at 818 South Flores in San Antonio, Texas, and at the HUD San Antonio office. Our audit covered the period from July 1, 2003, through June 30, 2006.

To accomplish our audit objective, we

- Interviewed HUD and Authority staff.
- Obtained an understanding of applicable internal controls.
- Used computer-assisted auditing techniques and compared the tenant data in the Public and Indian Housing Information Center database to the Authority's database for the period from July 1, 2003, through June 30, 2006, and determined that the computer-processed data are not reliable.
- Reviewed applicable regulations, handbooks, the annual contributions contract, Office of Public and Indian Housing notices, and the Authority's written policy and procedures.
- Reviewed data contained in the Public and Indian Housing Information Center system to obtain relevant Section 8 background information on the Authority. We used Microsoft Excel and extracted potentially overhoused records from both the Authority's database and the Public and Indian Housing Information Center database.
- Reviewed independent auditor's reports for years ending June 30, 2004, and 2005, to identify any adverse conditions related to Section 8 or any HUD program.
- Reviewed HUD monitoring reports to identify any conditions that may affect the Section 8 program.
- Reviewed 213 Authority tenant files to verify information in the Public and Indian Housing Information Center database with the Family Report (HUD 50058) and to calculate overpayments.

The Authority uses Emphasis Elite software for all HUD-based systems. It uploads information from the Section 8 component in Emphasis Elite into HUD's Public and Indian Housing Information Center system. The Public and Indian Housing Information Center database contained 15,397 vouchers, and the Emphasis Elite database contained 13,359 vouchers for the audit period. After we merged the data, the new database contained 16,078 vouchers. Since the number of vouchers between the two databases differed significantly, we determined that the computer-processed data in both databases are not sufficiently reliable to determine the actual number of vouchers awarded during the audit period. Therefore, we combined the databases and selected tenants that appeared overhoused in either database. The lack of reliable data did not affect our audit findings because we did not project our results, and we used actual information found in the tenant files for the errors reported.

We used Microsoft Excel to identify 430 potentially overhoused vouchers from the 16,078 vouchers used during our audit period. We defined an overhoused tenant as any tenant whose voucher did not have the minimum number of household members required by the Authority's subsidy standards for voucher size. If a tenant appeared overhoused in the Authority's database but not in the Public and Indian Housing Information Center database (or vice versa), we flagged

the voucher. During our survey, we found two vouchers in our sample of 60 that were out of our scope. We removed the two vouchers from our sample and universe. This reduced our universe to 428 vouchers. We did not find any additional vouchers during the audit that were out of our scope. We used nonstatistical representative sampling methods to review 213 of the 428 vouchers. The 213 reviewed included 60 that were randomly selected during our survey period using ACL statistical software and a 95 percent confidence level with a plus or minus 5 percent precision and an expected error rate of 5 percent. The remaining 153 files were the first 153 that the Authority provided at the beginning of the audit.

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

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 Controls

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

- Policies, procedures, and controls meant to reasonably ensure that the Section 8 Housing Choice Voucher program meets its objective of providing rental assistance to eligible families.

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

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

- The Authority does not have a written quality control plan that reflects current procedures. (See Finding 1.)
- The Authority's quality control procedures do not include adequate steps to detect and/or prevent overhoused tenants. (See Finding 1.)
- The Authority did not have adequate controls to ensure Section 8 payment standards were properly applied (See Finding 2.)

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS BE PUT TO BETTER USE

Recommendation number	Ineligible <u>1/</u>	Funds be put to better use <u>2/</u>
1A	\$46,304	
1B	10,848	
2A	21,686	
2B		\$7,333
Totals	\$78,838	\$7,333

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. The funds be put to better use in this report represent amounts due HUD for projected overfunding of the Authority's budget and amounts due tenants for use of the wrong payment standard.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1
Comment 2


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Assisted Housing Programs

April 5, 2007

Frank E. Baca, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Region VI
819 Taylor Street, Room 13A09
Forth Worth, Texas 76102

Dear Mr. Baca:

Thank you for this opportunity to address the items raised through the OIG Overhoused Audit for the period of July 1, 2003 – June 30, 2006.

This letter serves as the San Antonio Housing Authority's response to the two findings and recommendations.

Finding 1: The Authority Sometimes Paid for Larger Units than Its Policy Allowed
"In most cases, the Authority applied the correct voucher size in accordance with its adopted subsidy standards. However, its inadequate quality controls allowed 32 tenants (of 213 reviewed) to live in units that were larger than the Authority's standards allowed. As a result, the Authority paid excessive housing assistance payments totaling \$46,304. In addition, HUD overfunded the Authority's 2006 budget by \$5,494 due to the excessive payments, and it will overfund the Authority's 2007 budget by \$5,193 if it does not take action."

We do agree that SAHA overhoused the 32 clients identified; however, we respectfully disagree that the agency's internal audit controls are inadequate.

In response to a 2004 Rental Integrity Monitoring (RIM) Review, SAHA implemented an internal Quality Control (QC) Team that would review up to 20%. Please reference the attached document, RIM Re-Review Report. Please note that part of the QC Team's review is to identify if a client is overhoused.

SAHA will implement a monthly review that will strictly focus on potentially overhoused clients. Staff will work with the technology department to create this report, as staff has been unable to retrieve the report from the Public and Indian Housing Information Center (PIC) and the current computer system does not offer this as a report.

SAHA has also updated its file review procedures; please reference the enclosed document, Internal File Review Procedures. Further, SAHA is able to provide evidence that the required number of QC reviews was completed in compliance with the RIM Review. Please reference the attached document, Quality Control Reviews (if supporting detail is needed, please advise).

Recommendations

1A. *"Repay HUD \$46,304 for excessive assistance payments made for the 32 tenants identified in our review."*

SAHA agrees with the finding and we respectfully request that we place this dollar amount back into the Section 8 Housing Choice Voucher Program with non-federal funds.

1B. *"Repay HUD \$5,494 for the 2006 overfunding."*

OIG notified SAHA on April 3, 2007 that the dollar amount on this recommendation will change to \$10,848 (2005 overfunding of \$5,384 and 2006 overfunding of \$5,494). The agency respects the OIG's position but respectfully

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Comment 3

disagrees. For an agency of our magnitude, it is highly unlikely that our staff will operate at 100% accuracy.

1C. *"Review the remaining 215 tenants identified as potentially overhoused and correct the voucher of any tenant who is overhoused. Any overpayments of assistance need to be repaid to HUD."*

SAHA respects OIG's position; however, we respectfully disagree with this recommendation.

1D. *"Implement internal controls including policies and procedures to ensure compliance with its subsidy standards and detect and prevent future overhousing."*

As indicated in the response to Finding 1, a monthly review of potentially overhoused participants will be implemented.

Comment 1

1E. *"Update its quality control plan to reflect current practices and any additional practices implemented resulting from this audit."*

The Internal File Review Procedure has been updated and is attached.

Comment 4

1F. *"Reduce the Authority's 2007 program budget by \$5,193 due to prior overfunding."*

SAHA respectfully disagrees with the recommendation that the Authority's 2007 program budget be reduced.

Comment 5

Finding 2: The Authority Misapplied Its Payment Standards

"The Authority did not consistently follow its policies and HUD requirements regarding payment standards throughout the audit period. It misinterpreted HUD requirements and used payment standards that were not in effect on the effective date of the housing assistance payments contract. This issue was identified during a 2004 HUD rental integrity monitoring review, and the Authority agreed to correct it but did not do so. As a result, it applied the wrong payment standards to 108 tenants (of 213 reviewed), and the Authority and/or the tenants overpaid their share of the rent by \$29,019. Further, the Authority may have misapplied its payment standards throughout its entire Section 8 program."

SAHA respectfully disagrees with this finding. The agency has the utmost respect for the staff at the local HUD office and would not deliberately disregard their recommendation. This finding is a matter of interpretation; the payment standards implemented in 2005/2006 were implemented with housing assistance payment contract effective dates.

The recommended 90-day payment standard implementation would not apply to the standards implemented in July 2004 as the standards decreased; therefore, the only clients affected were those executing a new contract on or after the July 15th effective date. Clients remaining in the same unit (without a new contract) would still receive the previous payment standard as decreases cannot take effect until their second reexamination after the decrease in standards is effective.

We further respectfully disagree with the payment standard chart on page 10 of the draft report. It states that SAHA did not comply with the Administrative Plan for the standards adopted in November 2005. The board approved the standards on November 3, 2005 and the standards were effective February 1, 2006. The plan at the time stated, "Generally, new payment standards will be implemented 60 days from the date of the board resolution to modify the payment standards"; this does not restrict the agency to exactly 60 days. The current plan the board approved in September 2006 states "new payment standards will take effect no earlier than 60

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days from board approval." Please reference the attached documents, Applying Payment Standards and Updating Payment Standards.

SAHA is currently requesting to increase the payment standards, which will be presented to the board on April 5th. If the standards are approved, the standards will be effective for all contracts effective July 1, 2007 and later.

Recommendations

2A. "Repay HUD \$21,686 identified as overpayments in assistance resulting from the Authority's application of wrong payment standard."

SAHA respectfully disagrees with this recommendation. As indicated in our response to Finding 2, this finding is a matter of interpretation.

2B. "Repay applicable tenants \$7,333 in identified tenant overpayments resulting from application of the wrong payment standard."

The agency respectfully disagrees with this recommendation. As indicated in our response to Finding 2, this finding is a matter of interpretation.

2C. "Recalculate assistance for the audit period on all annual recertifications performed over the next 12 months. Any overpayments of assistance will need to be returned to HUD and any underpayments of assistance will need to be refunded to the tenant."

SAHA respects OIG's position on Finding 2, but respectfully disagrees with their conclusion and recommendation.

2D. "Implement internal controls including policies and procedures that comply with HUD's requirements for calculating rent when subsidy standards are reduced."

Work aids will continue to be used and staff will implement reduced payment standards in accordance with 24 CFR 982.605 b(3) and will use the client's recertification appointment to notify them of the decrease.

2E. "Take administrative sanctions against the Authority for not correcting issues with its implementation of new payment standards, which were identified in the 2004 rental integrity monitoring review."

SAHA respectfully disagrees with this recommendation. This finding is a matter of interpretation as indicated in our response to Finding 2.

Once again, thank you for the opportunity to respond to the findings and recommendations. If you have any questions, please contact Deborah Flach, Vice President of Assisted Housing Programs at 210.477-6210 or by email at Deborah_Flach@saha.org. You may also contact Corina Wilson, Acting Assistant Director of Assisted Housing Programs at 210.477.6214 or by email at Corina_Wilson@saha.org.

Sincerely,

Henry A. Alvarez, III
President and CEO

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Comment 5

Comment 6

Comment 5

RIM Re-Review Report

The new quality assurance process was designed to reconcile the disconnect between the staff and supervisory reviews, be more comprehensive and in-depth, and allow for greater accountability. A formal internal audit team comprised of four quality control specialists will be in place, instead of the informal teams at each stage in the certification. A quality control checklist will be completed for each file, with a potential of one to four reviews, broken down as follows.

- Specialist* Each program staff member (e.g. eligibility, processing) will complete the checklist for the portion of each file for which they are responsible.
- Internal audit team* The internal audit team will review a sample (up to 20%) from the pool of completed files (if there are excessive errors in a file completed by a specialist, additional files completed by that specialist may be pulled for review.)
- Supervisor* Supervisors will review a sample from the pool of files reviewed by the internal audit team.
- Vice President* The vice president will review a sample from the pool of files reviewed by the supervisors.

This staged review process will allow us to gather metrics, identify and correct problem areas, and apportion responsibility.

Low Rent Finding #1 – Systemic Component and Administrative Errors

The majority of the errors found during the RIM Review involved insufficient documentation of third-party income verification documentation, and inadequate citizenship and flat rent documentation.

Low Rent Action Required

All of the discrepancies in the tenant files have been addressed, as outlined in Attachment 3 - Public Housing RIM Review Summary and Action Taken Chart and detailed in the Tenant File Review Checklist and corrections (Attachment 6.)

The root causes of the errors are the need for a more comprehensive quality assurance process, the need for a more comprehensive training program for staff, and a significantly high ratio of files per caseworker.

We are confident that future errors will be reduced through the implementation of planned initiatives that relate to the development of a Policy and Compliance department within the Public Housing division. This new department, when it becomes fully operational beginning in July of 2004, will be responsible for five (5) major functions:

Policy Development/Revision

All policies, forms, and materials relating to our current Admissions and Continued Occupancy Policy (ACOP) manual will be updated based on guidance from the HUD Verification Guide Book, released March 2004. Revisions to the Rent Calculation Form (see Attachment 4) and Quality Assurance Checklist have been drafted, with expected implementation by July 2004.

Regarding Low Rent Recommendation #1, "Declaration of Citizenship" and "Rent Choice" have been added to the checklist.



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Assisted Housing Programs

**San Antonio Housing Authority
Assisted Housing Programs
Internal File Review Procedures**

Introduction

The Assisted Housing Programs Department auditing staff shall provide an independent and objective evaluation of effectiveness, efficiency and an overview of the Section 8 Housing Choice Voucher (HCV) Program, and other internal controls necessary to accomplish the department goals and objectives in compliance with HUD, departmental policies, and procedures, local, state, and federal laws.

Objective

To determine whether staff calculated rental assistance payments properly; verified information on participants' applicants' applications; and admission to HCV and Special Programs are consistent with HUD and SAHA policies and procedures.

To achieve the objectives the Audit Manager, Housing Assistance Supervisors, and Senior Housing Assistance Specialists shall conduct a review of clients' files. When reviewing each client's file it must be determined whether the rental assistance paid is based on contract rent, payment standard, and reasonable rent; contract rents are adjusted properly; utility allowances are calculated correctly; vouchers issued correctly; assure HQS inspections are performed.

To determine whether HUD, and departmental policies and procedures are adhered to, the criteria list below will be used but not limited to:

- Proper selection of applicants from waiting list
- Determination and documentation of reasonable rent
- Proper voucher issuance (Date and/or size)
- Accurate verification of family income
- Timely annual reexaminations
- Correct calculation of the client share of the rent and the housing assistance payment
- Annual Housing Quality Standards (HQS) Inspections
- HQS enforcement
- Required documents/verification forms in file
- Correct calculation of UA
- Accurate determination of bedroom size

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Selection of Files

Supervisors will review at least five files for each new specialist per month for at least the first three months. Senior Housing Specialists will review at least five client files per specialist per month. Files will be selected randomly from each housing assistance specialist's (HAS) Work-In-Progress (WIP) log or other available resource.

Audit Manager shall conduct quarterly SEMAP review; monthly review of SEMAP Indicators 1, 3, and 6; monthly review of potentially overhoused participants.

Findings

Evaluate the severity of each finding, and base each finding on HUD and departmental policies and procedures. Cite policy and/or procedure, keep, and document all findings in each HAS review log. Supervisors will maintain a separate log. Each finding shall be identified as critical or non-critical.

Monitoring Audit Findings

Findings not requiring additional documentation (LH-30/3rd party verification) must be corrected within three business days of notification. Findings requiring additional documentation must be resolved within ten business days. Request for an extension will be reviewed on a case-by-case basis.

Reporting of Audit Findings

Monthly reports will be distributed to the Section 8 Management Team. They are to meet with their staff on an individual basis to review the audit findings and create an action plan for improvement (if needed).



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Assisted Housing Programs

Quality Control Reviews

SAHA services approximately 12,000 families annually to include the Section 8 and Special Programs. Below is the number of reviews that the QC Team has completed.

2004 – An excel spreadsheet was initially used to track the reviews when QC was implemented; later that year an Access database was created to track the reviews. Staff is currently unavailable to access either file but will work with the technology department in an attempt to restore the files.

2005 – A web application that uses Sequel for storage was created and implemented in late February. From late February through the remainder of the year, 1,154 reviews were completed.

2006 – The same web application was used to track reviews and 1,275 reviews were completed.

2007 – To date, 618 reviews have been completed.

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SAHA SECTION 8

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6-III.C. APPLYING PAYMENT STANDARDS [24 CFR 982.505]

Overview

The PHA's schedule of payment standards is used to calculate housing assistance payments for HCV families. This section covers the application of the PHA's payment standards. The establishment and revision of the PHA's payment standard schedule are covered in Chapter 16.

Payment standard is defined as "the maximum monthly assistance payment for a family assisted in the voucher program (before deducting the total tenant payment by the family)" [24 CFR 982.4(b)].

The payment standard for a family is the lower of (1) the payment standard for the family unit size, which is defined as the appropriate number of bedrooms for the family under the PHA's subsidy standards [24 CFR 982.4(b)], or (2) the payment standard for the size of the dwelling unit rented by the family.

If the PHA has established an exception payment standard for a designated part of an FMR area and a family's unit is located in the exception area, the PHA must use the appropriate payment standard for the exception area.

The PHA is required to pay a monthly housing assistance payment (HAP) for a family that is the lower of (1) the payment standard for the family minus the family's TTP or (2) the gross rent for the family's unit minus the TTP.

If during the term of the HAP contract for a family's unit, the owner lowers the rent, the PHA will recalculate the HAP using the lower of the initial payment standard or the gross rent for the unit [HCV GB, p. 7-8].

Changes in Payment Standards

Generally, new payment standards will be implemented 60 days from the date of the board resolution to modify the payment standards. When the PHA revises its payment standards during the term of the HAP contract for a family's unit, it will apply the new payment standards in accordance with HUD regulations.

Decreases

If the amount on the payment standard schedule is decreased during the term of the HAP contract, the lower payment standard generally will be used beginning at the effective date of the family's second regular reexamination following the effective date of the decrease in the payment standard. The PHA will determine the payment standard for the family as follows:

Step 1: At the first regular reexamination following the decrease in the payment standard, the PHA will determine the payment standard for the family using the lower of the payment standard for the family unit size or the size of the dwelling unit rented by the family.

Step 2: The PHA will compare the payment standard from step 1 to the payment standard last used to calculate the monthly housing assistance payment for the family. The payment standard used by the PHA at the first regular reexamination following the decrease in the payment standard will be the higher of these two payment standards. The PHA will advise the family that the application of the lower payment standard will be deferred until the second regular reexamination following the effective date of the decrease in the payment standard.

Step 3: At the second regular reexamination following the decrease in the payment standard, the lower payment standard will be used to calculate the monthly housing assistance payment for the family unless the PHA has subsequently increased the payment standard, in which case the payment standard will be determined in accordance with procedures for increases in payment standards described below.

Increases

If the payment standard is increased during the term of the HAP contract, the increased payment standard will be used to calculate the monthly housing assistance payment for the family beginning on the effective date of the family's first regular reexamination on or after the effective date of the increase in the payment standard.

Families requiring or requesting interim reexaminations will not have their HAP payments calculated using the higher payment standard until their next annual reexamination [HCV GB, p. 7-8].

Changes in Family Unit Size

Irrespective of any increase or decrease in the payment standard, if the family unit size increases or decreases during the HAP contract term, the new family unit size must be used to determine the payment standard for the family beginning at the family's first regular reexamination following the change in family unit size.

Reasonable Accommodation

If a family requires a higher payment standard as a reasonable accommodation for a family member who is a person with disabilities, the PHA is allowed to establish a higher payment standard for the family within the basic range.

Updating Payment Standards

When HUD updates its FMR's, the PHA must update its payment standards if the standards are no longer within the basic range [24 CFR 982.503(b)]. HUD may require the PHA to make further adjustments if it determines that rent burdens for assisted families in the PHA's jurisdiction are unacceptably high 24 CFR 982.503(g)].

PHA Policy

The PHA will review the appropriateness of the payment standards on an annual basis when the new FMR is published. *New payments standards will take effect no earlier than 60 days from board approval.* In addition to ensuring the payment standards are within the "basic range" the PHA will consider the following factors when determining whether an adjustment should be made to the payment standard schedule:

Funding Availability: The PHA will review the budget to determine the impact projected subsidy adjustments will have on funding available for the program and the number of families served. The PHA will compare the number of families who could be served under revised payment standard amounts with the number assisted under current payment standard amounts.

Rent Burden of Participating Families: Rent burden will be determined by identifying the percentage of families, for each unit size, that are paying more than 30 percent of their monthly adjusted income as the family share. When 40 percent or more of families, for any given unit size, are paying more than 30 percent of adjusted monthly income as the family share, the PHA will consider increasing the payment standard. In evaluating rent burdens, the PHA will not include families renting a larger unit than their family unit size.

Quality of Units Selected: The PHA will review the quality of units selected by participant families when making the determination of the percent of income families are paying for housing, to ensure that payment standard increases are only made when needed to reach the mid-range of the market.

Changes in Rent to Owner: The PHA may review a sample of the units to determine how often owners are increasing or decreasing rents and the average percent of increases/decreases by bedroom size.

Assisted Families' Rent Burdens

The PHA will review its payment standard on an annual basis and will be set within the basic range of 90% to 110%.

Exception Payment Standards [982.503(e)]

The PHA must request HUD approval to establish payment standards that are higher than the basic range. At HUD's sole discretion, HUD may approve a payment standard amount that is higher than the basic range for a designated part of the FMR area. HUD may approve an exception payment standard amount (in accordance with program requirements) for all units, or for all units of a given size, leased by program families in the exception area. Any PHA with jurisdiction in the exception area may use the HUD-approved exception payment standard

OIG Evaluation of Auditee Comments

Comment 1 The Authority agreed it overhoused 32 tenants and stated it has updated its file review procedures in March 2007. However, HUD staff still needs to determine if the updated procedures are sufficient and reflect current practices.

Comment 2 The Authority stated its internal audit controls were adequate and that its quality control team was in compliance with the 2004 rental integrity monitoring review. We disagree. The fact that the Authority updated its procedures and did not detect the overhousing indicates they were not adequate. Further, the Authority provided only summary information for the reviews it performed in its response and was unable to provide detailed information during the audit.

Comment 3 The Authority disagrees with our recommendation to review the remaining 215 potentially overhoused tenants identified and take corrective action. We disagree. HUD regulations require the Authority to provide housing assistance to families in appropriately sized units.

Comment 4 The Authority disagrees with our recommendation to reduce the 2007 program budget. We revised this recommendation because HUD announced in February 2007⁵ that it will rebenchmark the baseline used for calculating funding based on the latest twelve months of validated data. We notified the Authority of this change at the exit conference. We maintain that when the implementation notice is published, HUD will need to determine the amount of overpayments that occurred during the baseline period, and reduce the 2007 budget appropriately.

Comment 5 The Authority stated that the finding is a matter of interpretation and payment standards in 2005 and 2006 were implemented with housing assistance payment contract dates. We disagree. Interviews with staff and documents reviewed revealed that the payment standards were implemented based on appointment date. Further, the Authority did not make any efforts to reexamine tenants whose appointments occurred before the payment standard implementation date.⁶

The Authority stated that the 90-day standard implementation did not apply to the standards implemented in July 2004 because the payment standards decreased. Therefore, the only clients affected were those executing a new contract on or after the July 15 effective date. We disagree with the Authority's interpretation. Although the decreased payment standards in July 2004 should have affected only those tenants executing a new contract on or after the July 15 effective date monetarily, all other tenants whose contract renewal was on or after July 15 should have been notified that the payment standards had decreased, and their rent would be affected the following year.

⁵ Public Law 110-05.

⁶ See the table on Pg. 11.

Comment 6 The Authority disagrees that it should recalculate assistance for the audit period on all annual recertifications performed over the next 12 months. We disagree. Our review was limited to potentially overhoused tenants, but over 50 percent of those reviewed had errors. The risk that the Authority followed its practice of misapplying payment standards throughout the entire Section 8 program is high and the Authority should correct the identified problem.

Appendix C

CALCULATION OF 2005 AND 2006 OVERFUNDING

Excessive Assistance paid during 2004 used to recalculate the 2005 and 2006 budgets:

May 2004	\$ 355
June 2004	355
July 2004	<u>701</u>
Total overpayments	\$1,411

Renewal funding for calendar year 2005:

	HUD	OIG
Voucher HAP Expenses		
Total HAP Expenses	\$18,071,975	\$18,071,975
Less overpayments		<u>(\$1,411)</u>
Total HAP Expenses Less Overpayments	\$18,071,975	<u>\$18,070,564</u>
All other voucher unit months leased (UML)	\$35,922	35,922
Unit months available (UMA)	\$34,263	34,263
HAP per unit cost (HAP PUC)	\$503.09	\$503.05
Lesser of UML or UMA	<u>34,263</u>	<u>34,263</u>
Total Quarterly HAP	<u>\$17,237,373</u>	<u>\$17,236,004</u>
Annual HAP	\$68,949,492	\$68,944,016
Annual Adjustment Factor	<u>1.025</u>	<u>1.025</u>
Inflated Annual HAP Funding	\$70,673,229	\$70,667,616
Less pro rata factor (4.083%)	<u>(\$2,885,588)</u>	<u>(\$2,885,359)</u>
Total CY 2005 Annual HAP Renewal Funding	\$67,787,641	\$67,782,257
CY 2005 Overfunded Amount		<u>\$5,384</u>

Renewal funding for calendar year 2006:

	HUD	OIG	Overbudget
Final Renewal Funding for Calendar Year 2006			
CY 2005 Funding Eligibility, Prior to Proration	\$70,673,229	\$70,667,616	\$5,613
Annual Adjustment Factor (AAF)	1.029	1.029	1.029
Adjusted Total CY 2006 Eligibility	\$72,722,753	\$72,716,977	\$5,776
Pro-ration Factor for CY 2006 (Percentage)	94.599%	94.599%	94.599%
CY 2006 Final Funding Amount	\$68,794,831	\$68,789,367	<u>\$5,464</u>