



**U.S. Department of Housing and Urban  
Development, Washington, DC**

**Housing Choice Voucher Program**



Issue Date: July 18, 2013

Audit Report Number: 2013-NY-0002

TO: Milan Ozdinec,  
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Acting Deputy Assistant Secretary for Field Operations, PQ

FROM: *Edgar Moore*  
Edgar Moore  
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SUBJECT: HUD Can Improve Public Housing Agencies Use of Housing Choice Vouchers  
by Consistently Implementing All Utilization Protocols and Improving Controls

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's Housing Choice Voucher program and the implementation of its protocol for optimizing and stabilizing housing choice voucher utilization.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.



July 18, 2013

## HUD Can Improve Public Housing Agencies Use of Housing Choice Vouchers by Consistently Implementing All Utilization Protocols and Improving Controls

# Highlights

Audit Report 2013-NY-0002

### What We Audited and Why

We reviewed the U.S. Department of Housing and Urban Development's (HUD) Housing Choice Voucher program as part of an Office of Inspector General plan to improve the efficiency and effectiveness of HUD programs. The objective of the audit was to determine whether HUD's guidance for optimizing and stabilizing housing choice voucher utilization had been implemented effectively by the field offices and public housing agencies.

### What We Recommend

We recommend that HUD (1) implement procedures outlining the responsibilities and expectations of each person involved in the improvement of utilization performance; (2) develop procedures that would require providing concise information to public housing agencies regarding their utilization performance issues; (3) establish procedures requiring that information affecting utilization performance is accessible to the HUD field officials responsible for analyzing utilization performance; (4) establish procedures to address public housing agencies that fail to improve their utilization performance; and (5) ensure HUD officials receive and analyze utilization information in a timely manner.

### What We Found

HUD officials had generally implemented the guidance for optimizing and stabilizing housing choice voucher utilization through HUD's utilization protocol. However, some utilization protocol controls had not been implemented. In addition, opportunities exist to strengthen controls to ensure stable optimal utilization, such as (1) formalizing the processes to assist public housing agencies in achieving optimal utilization, (2) ensuring that public housing agencies understand its utilization situation, (3) centralizing all correspondence affecting utilization, (4) addressing tools available for consistently poor utilization performance, and (5) ensuring that information is analyzed in a timely manner. This condition can be attributed to inconsistent implementation of the utilization protocol within HUD offices.

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## BACKGROUND AND OBJECTIVE

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The Section 8 Housing Choice Voucher program is the Federal Government's major program for assisting very low-income families, the elderly, and the disabled in obtaining decent, safe, and sanitary housing in the private market. The Housing Choice Voucher program is the U.S. Department of Housing and Urban Development's (HUD) largest rental assistance program and provides more than two million families with rental assistance.

Housing choice vouchers are administered locally by public housing agencies. The public housing agencies receive federal funds from HUD to administer the voucher program. A family that is issued a housing voucher is responsible for finding a suitable housing unit of the family's choice where the owner agrees to rent under the program. Rental units must meet minimum standards of health and safety. A housing subsidy is paid to the landlord directly by the public housing agencies on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

In 2012, Congress appropriated more than \$18.9 billion to fund the Housing Choice Voucher program. The Housing Choice Voucher program is administered locally by more than 2,300 public housing agencies. HUD enters into annual contributions contracts with the public housing agencies, under which the public housing agencies are responsible for the administration of the Housing Choice Voucher program in accordance with Federal laws and program regulations.

Since January 2005, HUD has used a budget-based approach for program funding. This funding is a fixed amount based on the prior year's cost, and public housing agencies must maintain any budget authority that exceeds actual program expenses as net restricted assets. Effective January 2012, HUD implemented cash management procedures for the disbursement of housing assistance payment funds to public housing agencies under the Housing Choice Voucher program. The process of disbursing only the funds required for current housing assistance payment costs resulted in the reestablishment of HUD-held program reserves, whereby excess housing assistance payment funds remained obligated but undisbursed at the HUD level rather than held by the public housing agencies.

HUD officials set a goal in HUD's strategic plan to meet the need for quality affordable rental homes. The Office of Public and Indian Housing engaged both headquarters and field office staff to continue to implement comprehensive strategies and tools for increasing utilization at those public housing agencies where it can be done responsibly, considering the renewal base that can be supported by the individual public housing agency's available funding as well as incremental vouchers that become available and the speed at which those new vouchers are put under lease.

The utilization effort initiated by HUD constituted a major new business process conducted within limited existing resources and was a proactive attempt to work to improve and stabilize housing choice voucher leasing performance in an increasingly complex and challenging appropriations environment. It required extensive capacity building both within HUD and at public housing agencies. Also, the utilization effort was developed at a time when the dominant new workload was the implementation and monitoring of the Recovery Act. The tools

developed, training provided and engagement with public housing agencies has added value and contributed to HUD meeting strategic housing goals.

HUD has developed a 2-year forecasting spreadsheet tool for use by public housing agencies and HUD staff to assist in projecting Housing Choice Voucher leasing, spending and funding over a two year period. The purpose of the tool was to facilitate decision making by public housing agencies and to guide HUD oversight and technical assistance so that public housing agencies can achieve optimal use of the Housing Choice Voucher funds while stabilizing the program. The goal was to make full use of the program while avoiding the typical large cyclical swings of lease up followed by attrition, and to eliminate abrupt cutbacks that might adversely impact participants.

Projections of leasing and spending require consideration of four key interacting variables (1) the success rate which is the percentage of voucher issuances that result in a lease, (2) the turnover rate which is the annual rate of participants leaving the program, (3) the time it takes to lease after the issuance of vouchers, and (4) the per unit cost.

HUD officials from the Office of Public Housing and Voucher Programs are responsible for a variety of Housing Choice Voucher program administrative duties. These duties include forecasting the budgetary needs of the program, developing and preparing budget requests based on those forecasts, calculating and allocating voucher renewal funding in accordance with the appropriations acts, and evaluating public housing agencies' applications for additional funding from the set-asides. HUD officials also are responsible for policy development and strategic planning for the Housing Choice Voucher program. The Office of Field Operations oversees the regional networks and field offices comprised of hubs and program centers. HUD field staff is responsible for monitoring and interaction with the public housing agencies regarding leasing and spending to ensure optimum use of the funds to house families.

The objective of the audit was to determine whether HUD's guidance for optimizing and stabilizing housing choice voucher utilization had been implemented effectively by the field offices and public housing agencies. Specifically, we wanted to determine whether HUD needs to strengthen its regulatory requirements, program guidance, or both to ensure that the Housing Choice Voucher program is administered in a manner that results in optimal utilization.

## RESULTS OF AUDIT

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### Finding: HUD Can Improve Public Housing Agencies Use of Housing Choice Vouchers by Consistently Implementing All Utilization Protocols and Improving Controls

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HUD officials had generally implemented the guidance for optimizing and stabilizing housing choice voucher utilization through HUD's utilization protocol. However, some utilization protocol controls had not been implemented. Specifically, HUD officials did not always ensure that oversight controls were applied and actions taken to address utilization performance were properly documented. In addition, opportunities exist to strengthen controls such as (1) formalizing the processes to assist public housing agencies in achieving optimal utilization, (2) ensuring that public housing agencies understand its utilization situation, (3) centralizing all correspondence affecting utilization, (4) addressing tools available for consistently poor utilization performance, and (5) ensuring that information is analyzed in a timely manner. This condition can be attributed to the inconsistent implementation of the utilization protocol within HUD offices. As a result, HUD could not ensure that public housing agencies were achieving optimal, stable use of the Housing Choice Voucher program.

#### **HUD Officials Had Generally Implemented the Utilization Protocol**

HUD officials had generally implemented the guidance for optimizing and stabilizing housing choice voucher utilization. Specifically, HUD had been successful with its shortfall prevention process and implementation of most of the controls in the utilization guidance. HUD had established a protocol for optimizing and stabilizing housing choice voucher utilization that was issued by memorandums on June 20, 2011, and revised on March 14, 2012. The shortfall prevention process within the utilization protocol was intended to ensure that there were no terminations of participants due to overspending by public housing agencies. HUD officials stated that the challenge going forward is to continue to improve management of this business process, ensure better execution of its utilization protocol across HUD's field offices, and to enhance the quality and ease of use of tools and information provided PHAs.

HUD officials stated that there had been no terminations of participants due to insufficient funding since the shortfall prevention team concept was implemented. In addition, the HUD field offices reviewed had implemented most of the controls established in the utilization protocol. For example, each field office reviewed was utilizing the 2-year forecasting spreadsheet in its analysis of public housing agencies. Also, each field office reviewed had its staff post conclusions and

analysis using the Housing Choice Voucher program checklist. Likewise, each office reviewed had created public housing agency folders, included them on its utilization SharePoint site, and populated them with the information requested by management in the utilization protocol.

### **HUD Did Not Always Ensure That Oversight Controls Were Applied**

Some HUD officials did not ensure that oversight controls were fully applied. Specifically, the regional network directors failed to develop and implement Housing Choice Voucher program procedures explaining how the Housing Choice Voucher program utilization function would be carried out in the regions, how management would assess utilization performance, and how well the process was implemented. The regional network procedures were to include a quality control process with at least a quarterly sample review of documentation to ensure completion, accuracy, and a review of the quality of the entries according to the utilization protocol.

We examined the Housing Choice Voucher program procedures for the four regional networks in our sample. There are 6 regional public housing directors overseeing 10 regions. One regional network did not have procedures, and a HUD official stated that the regional network followed the national protocol. The four field offices reviewed within the regional networks performed various levels of quality control. However, the field office officials had not documented those procedures. Also, the field office officials could not explain whether quality control procedures had been developed by the regional network directors.

HUD officials had been actively planning changes to the quality control process that was implemented after our audit testing period. They informed us that a centralized quality control process had been established and was implemented in February 2013. The central quality control testing would review an example of every analyst's work twice a year. The review would entail looking at the checklists submitted by the analysts and the 2-year tool they completed and posted. The changes were to be described in a revised utilization protocol, which was being drafted.

### **HUD Officials Did Not Fully Document Their Analyses of Utilization Performance**

HUD officials did not fully document the actions taken to address utilization performance. The utilization protocol provided that the comment fields in the checklist were for good narrative descriptions of performance and the nature of any performance problems. The comment fields should provide a description of



the challenge, problem, or what led to the need to comment. Also, the comment fields should contain a description of what is being done to improve the situation and when improvement can be expected.

HUD field office officials did not properly document performance for 16 of 25 public housing agency files reviewed. For example, a HUD official's comments for a public housing agency reiterated what was already known and speculated on what needed to be done. There was no evidence from the comments that the HUD official had discussed the situation with the public housing agency. The comments for the challenge or problem were that the public housing agency was underleased and not spending annual budget authority. The comment did not explain the reason why this condition occurred, nor did it address why housing assistance payment expenditures as a percentage of all funds available was less than 86 percent. The comments for what was being done to improve the situation and when improvement could be expected were that the number of unleased special purpose vouchers<sup>1</sup> may have contributed to the public housing agency's high leasing potential. The comments went on to state that the public housing agency had 110 special purpose vouchers with only 80 leased. There was nothing in the comments about what was being done and when improvement could be expected. As such, the checklists could be more helpful in achieving HUD's goals if they provided more meaningful responses.

## Opportunities Exist To Strengthen Controls

Protocol controls can be strengthened to assist in achieving a more optimal, stable use of the Housing Choice Voucher program. Additional controls should include (1) formalizing the processes to assist public housing agencies in achieving optimal utilization, (2) ensuring that public housing agencies understand its utilization situation, (3) centralizing all correspondence affecting utilization, (4) addressing enforcement tools available for poor utilization performance, and (5) ensuring that information is analyzed in a timely manner.

The additional utilization controls to strengthen protocols are discussed below.

### 1. Formalizing the Processes To Assist Public Housing Agencies in Achieving Optimal Utilization

The field offices visited did not formalize the process to assist public housing agencies in achieving optimal utilization. HUD officials had developed guidance to address public housing agencies with potential shortfalls that defined the roles

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<sup>1</sup> Special Purpose Vouchers are specifically provided for by Congress in line item appropriations which distinguish them from regular vouchers. Examples of Special Purpose Vouchers are (1) Veteran Affairs Supportive Housing (VASH), (2) Family Unification Program (FUP), (3) Non-Elderly Disabled (NED), (4) Enhanced Vouchers, and (5) Tenant Protection Vouchers (TPV).

and responsibilities of each participant involved in the process. The guidance provided a framework of how to conduct the analysis and achieve a solution. However, each field office visited had its own set of procedures for addressing the remaining types of public housing agency utilization performance issues. Moreover, most of the field offices procedures were not documented. The lack of structure resulted in individual HUD staff incorrectly interpreting what they needed to accomplish.

Some HUD officials were completing the required tasks but not assisting the public housing agency in resolving the utilization performance issue. There was no evidence of discussions with public housing agency officials or a set of actions that the parties had agreed upon to resolve the performance issue. Therefore, written procedures to address public housing agency utilization performance issues would provide the guidance to HUD officials for assisting public housing agencies in achieving optimal utilization and would allow for consistency among field offices.

## 2. Ensuring That Public Housing Agencies Understand Its Utilization Situation

The utilization protocol provided that the discussion of the leasing and spending data with the public housing agency ideally should result in a consensus on an issuance or attrition approach. Before any discussion, HUD officials should convey to the public housing agency in writing the information that HUD has used in developing its utilization analysis. This measure would allow the public housing agency to verify the information. Also, the information should be provided to the appropriate public housing officials; that is, those responsible for voucher issuance and attrition along with officials who have knowledge of the financial position of the public housing agency. The data would assist in developing a meaningful consensus approach to utilization.

HUD analysts should have provided more concise information to public housing agency officials making utilization decisions. For example, new cash management rules in 2012 resulted in the reestablishment of HUD-held program reserves, whereby excess housing assistance payment funds remained obligated but undisbursed at the HUD level rather than being held by the public housing agencies. There were four public housing agencies in our sample that made utilization decisions based on the disbursed amount and not the potential HUD-held reserve amount. HUD analysts should have provided the public housing agencies that were projected to have HUD-held program reserves the potential amount of those reserves based upon the undisbursed budget authority. The total amount of HUD-held program reserves for these four agencies at the end of 2012 totaled more than \$1.9 million.<sup>2</sup> If HUD officials had provided the public housing agencies with the information regarding the potential HUD-held reserves during

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<sup>2</sup> Four public housing agencies had a total of \$1,961,078 in HUD-held reserves for 2012. The agencies were Middletown Housing Authority, CT (\$1,442,207), Boulder County Housing Authority, CO (\$349,993), Wallingford Housing Authority, CT (\$158,210), and Uniontown Housing Authority, AL (\$10,668).

the year, the public housing agencies could have issued more vouchers, and housing assistance funds could have been put to better use, utilizing more vouchers.

### 3. Centralizing All Correspondence Affecting Utilization

The field office staff is responsible for analyzing the utilization performance of its public housing agencies and discussing with them solutions for utilization performance issues. However, there are administrative activities performed by HUD officials in the Office of Public Housing and Voucher Programs that could affect the field office analyses. For example, the public housing agency officials interviewed explained that they consulted their Financial Management Center analysts when they had questions regarding funding. The field office staff would like to be able to access the information the Financial Management Center provided to the public housing agency to ensure that there are no contradictions.

Also, the Quality Assurance Division within the Office of Public Housing and Voucher Programs performs various reviews of the public housing agencies. Again, those reviews and their outcomes should be easily accessible to the HUD field office staff responsible for public housing agency analyses. HUD officials developed a utilization SharePoint site where the field office staff's analyses can be posted. HUD should consider posting additional information affecting utilization to this site.

### 4. Addressing Tools Available for Consistently Poor Utilization Performance

The utilization protocol did not provide guidance as to the measures available to HUD for public housing agencies that were unwilling to improve their utilization. Large reserve balances hinder HUD's goal to assist the maximum number of families. The regulations that HUD has in place for utilization do not address public housing agencies that do not spend reserve balances. For example, the Section Eight Management Assessment Program indicator 13, entitled "Lease-Up," measures a public housing agency's utilization of housing assistance payments for the year in which it was awarded. However, the indicator does not consider public housing agencies reserve balances when determining voucher utilization.

Field office officials explained that it would be useful if there were tools available to them to entice nonresponsive public housing agencies to improve their utilization. HUD officials explained that there are provisions within the annual contributions contract that could be enforced for serious utilization performance issues. Therefore, HUD officials should document the measures they will take to address poor utilization performance.

Offsets are one mechanism in place to encourage public housing agencies to utilize their funding. HUD has requested from Congress the ability to offset

reserves in an effort to increase the number of families it supports and encourage public housing agencies to fully utilize its funds. In the latest congressional justification, HUD requested authority to allow HUD to offset public housing agency contract renewal allocations by the excess amount of agencies' reserves as established by HUD. This authority would ensure that public housing agencies' programs have reasonable reserves to address unanticipated costs or spikes in rents during the calendar year and would discourage the buildup of excessive reserves.

Congress has included offsets of \$750 million and \$650 million in the 2009 and 2012 appropriations, respectively. However, the congressional offsets have not been used to assist additional families but, rather, to reduce the amount of appropriations available. A HUD-authorized offset would require that HUD first use the funds from the offset to avoid or reduce any downward proration in renewal funding. If there was no downward proration of contract renewal funding or if offset funding remained after any downward proration was eliminated, HUD would have the authority to reallocate these renewal funds to other public housing agencies based on need and performance. However, HUD has not received this authority in any of the appropriations.

#### 5. Ensuring That Information Is Analyzed in a Timely Manner

HUD needs to ensure that information is analyzed in a timely manner. Most of the field offices reviewed relied on the monthly utilization report to complete the 2-year forecasting spreadsheet or identify which public housing agencies had utilization performance issues. The utilization protocol indicated that a public housing agency had until the 22<sup>nd</sup> of the following month to enter data into the Voucher Management System. Then, the information would be vetted and packaged in the monthly utilization report by the 19<sup>th</sup> of the following month. However, the monthly utilization report was not completed until a month later. For example, the information for October 2012 needed to be submitted by the public housing agencies by November 22<sup>nd</sup>, but the monthly utilization report was not available until January 2013.

The utilization protocol provided that the monthly utilization report did not have to be issued before monthly analysis was conducted. However, the monthly utilization report is popular because it autopopulates information for entry into the 2-year forecasting spreadsheet. The delay of the monthly utilization report had caused confusion at public housing agencies. Public housing agencies were getting letters and questions about their utilization performance from 3 or more months earlier. Therefore, HUD officials need to analyze this data regarding the public housing agencies' utilization in a timely manner because of the time it takes to make the changes necessary to affect utilization performance and so that utilization performance data can be effectively used by public housing agencies.

## Conclusion

HUD officials had generally implemented the guidance for optimizing and stabilizing housing choice voucher utilization. However, some utilization protocol controls had not been implemented as designed and other controls could be strengthened to ensure optimal utilization. Specifically, HUD officials did not ensure that oversight controls were applied and actions taken to address utilization performance were properly documented. This condition can be attributed to the inconsistent implementation of the utilization protocol within HUD offices.

## Recommendations

We recommend that the Deputy Assistant Secretary for Field Operations

- 1A. Document and implement the new quality control process in the utilization protocol.
- 1B. Ensure that each regional network implements the utilization protocol requirements explaining how the Housing Choice Voucher program utilization function will be carried out in the regions, how management will assess utilization performance, and how well the process was implemented.
- 1C. Ensure that the comment fields in the checklist tool include the description and nature of the performance problem, what is being done to improve the situation by the public housing agency, and when improvement can be expected.
- 1D. Develop controls that will ensure that existing procedures are implemented at all field offices so that all utilization performance issues will consistently outline the responsibilities and expectations of each person involved in the improvement of utilization performance at public housing agencies.

We recommend that the Deputy Assistant Secretary for Public Housing and Voucher Programs

- 1E. Develop procedures that would require providing concise documentation to the applicable public housing agency officials regarding their utilization performance. The documentation should include the current reserve balances and all pertinent details affecting utilization necessary for meaningful discussion and for the agency to make informed decisions. Such corrective action could ensure that \$1,961,078 in program reserve

funds could be used to maximize the number of housing choice voucher leased units.

- 1F. Ensure that HUD officials receive and analyze utilization information in a timely manner regarding public housing agencies' utilization performance so that they can effectively work with the agencies on an issuance or attrition approach.
- 1G. Establish procedures requiring that HUD officials who provide public housing agency information affecting utilization performance, such as the Financial Management Center and Quality Assurance Division, document their results and ensure that they are accessible to the HUD field officials responsible for analyzing utilization performance.
- 1H. Establish procedures that would address public housing agencies that consistently fail to improve their utilization performance. The procedures should provide guidance to field office officials for the actions that can be taken based upon the level of poor performance.

## SCOPE AND METHODOLOGY

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We performed the audit fieldwork from August 2012 through March 2013 at the HUD Office of Inspector General (OIG) Office of Audit in Buffalo, NY, and HUD field offices including Hartford, CT, Birmingham, AL, New Orleans, LA, and Denver, CO. The audit scope generally covered the period between January 2010 and December 2012.

To accomplish our objectives, we

- Reviewed applicable laws, regulations, and other HUD requirements.
- Interviewed HUD officials to identify and obtain an understanding of the controls over the Housing Choice Voucher program and in particular, the controls regarding the utilization protocol.
- Selected a sample of 25 public housing agencies that were identified by HUD as not optimally utilizing program funds. Specifically, the majority of these agencies were identified as underutilizing their funding. The purpose of the public housing agency selection was to determine how HUD officials implemented the utilization protocol.
- Interviewed public housing agency officials at 8 of the 25 agencies in our sample to determine their understanding of the utilization protocol and interaction with the field office.
- Relied on electronic data from HUD's Voucher Management System and HUD Central Accounting and Program System as maintained by HUD's Office of Public Housing and Voucher Programs, Program Support Division, in its monthly utilization report. We primarily used the data as background information that did not affect the results of our objectives; thus, we did not assess the reliability of the electronic data.

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 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.

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## Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

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 Deficiency

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

- HUD officials did not ensure that oversight controls were consistently applied and actions taken to address poor utilization performance were always properly documented (see finding).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Funds to be put to better use 1/
1E	\$1,961,078

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, implementation of our recommendation to notify public housing agencies of the HUD-held reserves that are available could result in more than \$1.9 million in available program funds being used to maximize the number of housing choice voucher leased units.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: Edgar Moore, Regional Inspector General for Audit,  
New York-New Jersey Region, 2AGA

FROM: *Michael S. Dennis for*  
Milan M. Ozdinec, Deputy Assistant Secretary for Public and Indian  
Housing, P

*Lindsey S. Reames for*  
Lindsey S. Reames, Acting Deputy Assistant Secretary for Field  
Operations, PQ

SUBJECT: Management Comments on Draft report of Audit: HCV Utilization

Thank you for the opportunity to comment on the draft report. We appreciate the insights and recommendations offered in the report, and generally agree that management can take actions to further improve the Office of Public and Indian Housing's initiative to optimize and stabilize the utilization of Housing Choice Voucher (HCV) program.

We agree with the report's conclusion that HUD Field Offices had generally implemented the utilization protocol, including most of the controls outlined in it, and that the shortfall prevention process had been successful in preventing terminations of HCV participants. We view these as important accomplishments in light of the scale of the effort undertaken to implement this new business process, particularly in the context of its development within existing limited resources alongside several other major new PIH initiatives, the most dominant of which at the time was administration and oversight of the Recovery Act.

The HCV Utilization effort, as noted in the report, involved development of new tools for use by HUD staff and PHAs, as well as the development of a new monthly database integrating critical information from multiple HUD systems into a platform for overseeing utilization. It involved extensive capacity building including thousands of hours of training internally for HUD staff, as well as for PHAs. The effort has required continual adaptation to a changing appropriations environment, funding rules and the timing of funding, as well as attempting to make continuing improvements to the process. We therefore view this report as part of an ongoing continuum of process improvement, and again we appreciate this report's valuable additional input into that effort.

**Comment 1**

That said, we do take issue with some of what is presented, and ask that you take the following into account as you finalize the report:

1. **“HUD Did Not Ensure That Oversight Controls Were Applied”** - The report states on page 6 that none of the 4 regional networks sampled had procedures that included any quality control measures – as is required in the national protocol. Under separate cover we have transmitted copies of the protocols for three of the four networks showing that quality controls efforts were addressed. Excerpts from those documents are offered below.

The audit report also notes on page 6 that, “HUD officials changed the quality control process after our audit testing period”. Actually, planning and preparation of the new national QC process was undertaken well in advance of the audit, however the completion of the first round of the national QC sampling was completed, as noted in the report, in February 2013.

QC related excerpts from Network protocols:

**The Northeast Network** - Regions 1, 2 and 3 has the following provision excerpted from page 6:

*“Recommended QA/QC Office Approach*

*a. Review Sample*

*Monthly, management randomly selects a minimum of 5% of their total PHAs, reviews files in SharePoint to confirm completeness, accuracy, review of quality, and timeliness; it is recommended to review additional reports from the HCV InfoPath Tool, to ensure that all issues, including SPV and PHAs outside the optimal zone, are included.*

*5. Recommended QA/QC Approach for Network Support Staff:*

*a. Review Sample*

*Quarterly sampling of PHA SharePoint folders for completion, accuracy, review of quality and timeliness.*

*b. Share Feedback*

*HCV Program Operations Division provides additional QA/QC and provides OFO with feedback; the Network believes that all Field Offices would benefit from learning from feedback.*

**c. Review Trending**

*Monthly Utilization Spreadsheet tab HPPG can be used to see trending across Field Offices and the Network, which is a great tool in QA/QC.”*

**The Southwest Network** - Region 6 also has QC measures listed on page 6 of their protocol:

*“Region VI Subject Matter Expert (SME)*

*“The SME at the regional level serves as HCV lead for the region and support for SMEs at the field office level. The regional SME is responsible for the following:*

*Communicate new developments or issues related to HCV to the field office SMEs.*

*Facilitate training on HCV updates as needed to ensure that all field office SMEs are adequately trained to provide technical assistance to each field office staff.*

*Conduct a 10% review of each field office’s utilization analyses per quarter, including the 2-Year Forecasting Tool and issues log entries.”*

**The Southeast Network** – Region 4: Had issued an addendum to their existing protocol that may have obscured the QC provisions in the main document, which states:

***“Quality Control and Reporting***

*Each Field Office has a Subject Matter Expert (SME) for HCV utilization. Monthly the SME will review the updated two-year tool in conjunction with the national tool for the Top 200 and each of the shortfall agencies, ensuring that the information in HUDCAPS and VMS has been correctly managed in the two-year tool and that the projections appear to be correct. This should be completed within 10 working days of the receipt of the national tool. Additional tools may be selected for quality control review.”*

**Comment 2**

- 2. “HUD Officials Did Not Properly Document Their Analyses of Utilization Performance”** -The report states on page 7 that 16 of 25 electronic files reviewed were not adequately documented, and describes one PHA as an illustrative example. We reviewed the 16 files in question and do not agree that all 16 were not properly documented. In 10 of the 16 cases there is evidence in the written record to support that staff was familiar with performance issue and engaged with the PHA. This is either stated explicitly or is evident in

## Ref to OIG Evaluation

## Auditee Comments

the context of the system notes of the analyst. (One example shown below.) And in one additional case the PHA's voucher program was in the midst of being transferred to another PHA. So we would argue that 5 of 25 files reviewed indicated that the record was not adequately documented – not 16. This level of needed improvement, 5 out of 25 files, is also consistent with the results of a nationwide QC review completed in February that indicated approximately 80% of the 300 reviewed were adequately documented. Under separate cover we have supplied your office with information supporting our conclusion about the 11 PHAs.

*Example of Analyst's checklist notes that were among the 16 found in the report to not meet requirements that we argue should not be considered "inappropriate".*

**1/7/13 - PHA remains in O Zone. VMS reporting is inaccurate. Sent e-mail to PHA 12/17/12 about delinquent financial submissions to REAC and discussed reporting with PHA on 12/20/12.**

11/7/12 - PHA is in the O Zone.

9/5/12 - PHA is in the O Zone and its cumulative leasing is at 101.2% thru July. PHA must decrease leasing the rest of the year using its annual attrition rate of 19%. Cash /Investments still being reported in VMS is significantly LESS than the total NRA and UNA.

**1/7/13 - Provided PHA with fee accountant/auditor POCs. PHA indicated its in-house audit staff was not trained. Proposed on-site visit to provide TA & requested travel funds. Asked QASS to look at audit compliance issues.**

11/7/12 - Provided 2-year tool to PHA with emphasis on trying all the variables to ensure continued success in providing assistance to HCV program participants.

9/5/12 - Provided 2-year projection tool to the PHA. A large variance in cash versus NRA + UNA reported in VMS still exists so the PHA has asked its auditor to try to figure it out. Requested update from PHA on auditor progress.

We would also note for the record that the example used as the illustration is not, in our view a fair characterization of the level of effort made by the Field Office. The report states that the problem was not diagnosed but was the subject of speculation, as evidenced in the analyst's the statement that low utilization "*may* be a result of underleasing Special Purpose vouchers". The report does not note that the Field Office staff go on to provide evidence of work with the PHA on the Special Purpose Voucher Program – VASH. The VASH section of the electronic checklist, excerpted below (PHA names removed), went on to provide extensive insights into what was going on with that Special Purpose Voucher program. It is also worth noting that this is a good example of the tremendous effort made by PIH to engage with the Veteran's Administration and local partners to troubleshoot VASH performance. We are particularly proud of the results of this effort, which includes exceeding VASH leasing targets, and lowering Veteran's homelessness significantly.

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**Comment 3**

**Excerpt from Analyst’s system notes:**

*“January 2013 - The VA and XXHA continue to have weekly meetings and the program is going very well. According to the VA, XXXXX County continues to have more demand for vouchers. The VA has confirmed they will provide the final 8 referrals in January. The PHA is very interested in obtaining additional VASH vouchers.*

*October 2012 - Great progress this month. VA has 10 additional veterans in the process of qualifying.*

*8/1/12 - 1 leased, 3 searching, 3 scheduled for briefings.*

*The VA and XXHA have been communicating consistently via conference call (every 2 weeks minimum, and as needed) to discuss program development and logistics. The relationship between XXHA and the VA is working smoothly and effectively. The VA case manager recently notified XXHA that she is in the process of qualifying another 18 for VASH. xxHA continues to coordinate briefings with the VA, and is prepared to schedule briefings for Veterans qualified for VASH. BCHA has coordinated and completed a training with the VA case manager to access deposit assistance for 25 vouchers through XXXXS’ Housing Stabilization Program.”*

3. **“Opportunities Exist To Strengthen Controls 1. Formalizing the Processes To Assist Public Housing Agencies in Achieving Optimal Utilization”** - This section of the report called for the development of further procedures, stating on page 8,

*“There was no evidence of discussions with public housing agency officials or a set of actions that the parties had agreed upon to resolve the performance issue. Therefore, written procedures to address public housing agency utilization performance issues would provide the guidance to HUD officials for assisting public housing agencies in achieving optimal utilization and would allow for consistency among field offices.”*

We disagree that there is a lack of guidance on these matters. The “Step by Step Guide” issued to Field Offices on 3/27/12 (and provided to your office) is a very specific directive on what is to be done in detail, both in use of the forecasting tool, the InfoPath Checklist, and more importantly in engaging with PHAs. There is also a HUD YouTube video on the process that has been viewed over 300 times. We are unsure what additional guidance is called for in the report.

**Comment 4**

4. **Recommendation 1C – “Ensure that the comment fields in the checklist tool include the description and nature of the performance problem, what is being done to improve the situation by the public housing agency, and when improvement can be expected.”**  
This recommendation is unnecessary/redundant since its underlying objective is also addressed by the quality control recommendation. The direction and guidance to the Field Offices is clear on the expectation that these checklist areas are populated as described in the

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**Comment 5**

recommendation, and the QC tool being used ( sent to your office under separate cover) specifically addresses whether these specific requirements are met in the tested files.

5. **“Before any discussion, HUD officials should convey to the public housing agency in writing the information that HUD has used in developing its utilization analysis.”** On page 8, the report states that prior to the discussion with the PHA, HUD officials should convey in writing the information that HUD has used in developing its utilization analysis. If the report is referring to sharing HUD’s version of the forecasting tool filled out for the PHA – which includes the key financial and programmatic assumptions, this is addressed on page 8 of the Step by Step guide and in the process overview on page 3 of the same document, where sharing the forecast tool with the PHA is covered.

**Comment 6**

6. **“HUD should have provided the amount of projected HUD-held funds to public housing agency officials making utilization decisions.”** On page 8 the report states that four agencies were not given information about the HUD-held Reserves. While we agree with the broader notion of making this information more easily accessible – as is our plan - the statement itself is not accurate. All PHAs, including these four, were given the amount of the HUD held reserves in each quarterly cash management reconciliation sent to them by the Financial Management Center.

And PHAs who are given the FO’s version of the forecasting tool (also covered in the in the Step by Step guide), see HUD held reserves at the beginning of the year and total HAP reserves projected at the end of the year *including* HUD held reserves, although it does not break out NRA from HUD held in the year-end projection. In other words, the forecasting tool shows how much money is available to spend in projected HAP reserves.

To be specific on the FMC reconciliation documentation provided to the PHAs, provided below in this example is the line description for the reconciliation form line containing this information and here is the text from the cover letter explaining that this information is being provided (from the 3<sup>rd</sup> Quarter reconciliation).

**Excerpt from Reconciliation Letter**

3. The reconciliation reports the CY 2012 BA, obligations and disbursements both before and after the reconciliation, to enable you to review the level of funds still available for the CY.

**Excerpt from enclosure explaining information in Line 43of the table dealing HUD Held Reserves**



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Line 43	That portion of the CY 2012 BA that has NOT been disbursed or scheduled to be disbursed in CY 2012, through November 15, and is not being disbursed to cover this cash reconciliation. This is the total BA minus the amount disbursed. Note that any BA that is being collected on Line 37 is still included as disbursed on this Line because the offset has not yet occurred.
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**Comment 7**

7. **“Ensuring That Information Is Analyzed in a Timely Manner”** - On page 10, the report references the delayed issuance of the October report which normally would have been issued in late December, but was issued in January. The October report did not represent a typical month. Apart from the holidays being a factor, this was also the point at which we changed over from CY 2012 to CY 2013 in the forecasting tool as is described in the emails at the time that were provided to your office under separate cover. We therefore do not believe a separate recommendation is needed, or that there is a means to regularly and materially reduce the time from PHA submission of VMS data to the issuance of the monthly utilization report that is built into this process.

**Comment 8**

8. **“Establish procedures requiring that HUD officials who provide public housing agency information affecting utilization performance, such as the Financial Management Center and Quality Assurance Division, document their results and ensure that they are accessible to the HUD field officials responsible for analyzing utilization performance.”**

We agree that it would be beneficial to ensure that information that may affect utilization performance (such as a QAD VMS reviews) is easily accessed by all HUD staff that are working on monitoring and analyzing utilization performance of a particular PHA. HUD will post (or will provide links to this information) on the Utilization SharePoint site so that additional information that is relevant both to the PHA’s current utilization performance and potential future performance is easily accessible by HUD staff from a central “one-stop-shopping” source.

**Comment 9**

9. **“Establish procedures that would address public housing agencies that fail to improve their utilization performance. The procedures should include any available sanctions and enforcement of contract provisions for poor performance.”**

It is important to emphasize that the financial management of the PHA’s program is ultimately the PHA’s responsibility, and a key component of that responsibility is to ensure that they operate their programs within their budgetary constraints. Especially in uncertain

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budgetary times, making decisions about the appropriate level of leasing activity can be very difficult. For example, PHAs are making leasing decisions in 2013 that will have ramifications for their programs in 2014, and these decisions are particularly challenging in that renewal funding amounts for 2014 are unknown and currently difficult to estimate. A PHA that aggressively leases to improve its utilization today may be putting their agency at risk of being in a shortfall position next calendar year if the appropriated renewal funding results in a significant downward proration when compared to renewal eligibility. So a PHA's "failure" to improve leasing and utilization, given the uncertainty and threat of significant reductions in funding, may not reflect poor performance but rather a reflection of a PHA simply exercising its judgment in what it believes to be in the best interest of its programs and its current participants. In terms of enforcement actions, HUD needs to be cautious that it can make a clear and compelling case that the PHA action or inaction regarding utilization performance is egregious and not simply a difference of opinion on what the proper course of action should be due to different assumptions or projections of a variety of variables that do into the utilization tool, including future funding levels. Establishing uniform procedures on addressing "poor performance" would be complicated in that such a determination is by nature that of a case-by-case variety.

We do believe existing regulatory and ACC authority exists to support targeted enforcement in particularly egregious cases (e.g., a PHA purposefully and willfully not leasing because it believes it has too many vouchers for the size of its community) when needed, and will explore with our Office of General Counsel what guidance would be appropriate to issue as internal guidance to Field Office staff to ensure they are fully aware of actions that may be taken in these limited circumstances.

Again, thank you and your audit team for the opportunity to comment and for your assistance in helping to improve the utilization of the Housing Choice Voucher program. We in PIH are committed to building on our efforts thus far to make the best use of HCV dollars to deliver critically needed housing assistance.

## OIG Evaluation of Auditee Comments

- Comment 1** Public Housing officials provided documentary evidence that regional network protocols included quality control measures. As such, the statement in the report that regional network directors did not include a quality control process in any of the procedures was removed. In addition, we took into consideration HUD's comments regarding changes made to the quality control process and have revised the paragraph (on page 6) to reflect that HUD had been actively planning changes to quality control procedures and they were implemented after our audit testing period.
- Comment 2** Public Housing officials concur that HUD officials did not fully document the actions taken to address utilization performance. However, they questioned the number of those instances identified in the audit. We reviewed the additional documentation provided and still found that the narratives for 16 of the 25 public housing agencies reviewed either did not provide a good narrative description of performance and the nature of any performance problems or contain a description of what is being done to improve the situation and when improvement can be expected. The examples that HUD provided in their comments identified problems but did not provide a time frame for correcting them. Therefore, we did not change the report.
- Comment 3** Public Housing officials disagree that there is a lack of guidance as it relates to formalizing the process to assist public housing agencies in achieving optimal utilization; as they refer to a step by step guide provided to the field in March 2012. However, audit work has found that the existing procedures identified by HUD have not been implemented by all field offices. Nevertheless, we have taken HUD's comments on the draft report and revised the language to clarify recommendation 1D to instruct HUD officials to develop controls that will ensure that existing procedures are implemented at all field offices so that all utilization performance issues will consistently outline the responsibilities and expectations of each person involved in the improvement of utilization performance at public housing.
- Comment 4** Public Housing officials believe that recommendation 1C is unnecessary since its underlying objective is also addressed by the quality control recommendation. We believe the recommendations address two different conditions. First, recommendation 1A addresses the need to document and implement the new quality control process in the utilization protocol. Second, recommendation 1C requires HUD to ensure that the comment fields in the checklist tool include the description and nature of the performance problem, what is being done to improve the situation by the public housing agency, and when improvement can be expected. Therefore, this recommendation will remain in the report.

- Comment 5** Public Housing officials questioned whether providing HUD’s version of the forecasting tool would suffice in conveying to the public housing agency in writing the information that HUD has used in developing its utilization analysis. It is our recommendation to provide more concise documentation to the applicable public housing agency officials regarding their utilization performance. The documentation should include the current reserve balances and all pertinent details affecting utilization necessary for meaningful discussion and for the agency to make informed decisions.
- Comment 6** Public Housing officials concurred with the broader notion of making the amount of projected HUD-held funds available to public housing agency officials making utilization decisions. However, they felt that the statements made in the draft report were not accurate because all public housing agencies were given the amount of HUD held reserves in each quarterly cash management reconciliation sent to them by the financial management center. Nevertheless, since we cannot be assured that the information was provided to the public housing agency personnel involved with making the utilization decisions and it did not specifically identify the reserve balance available; we have taken HUD’s comments on the draft report and revised the language in the report (page 8) to read that HUD analysts should have provided more concise information to public housing agency officials making utilization decisions.
- Comment 7** Public Housing officials did not believe that the October report represented a typical month when ensuring that information was analyzed in a timely manner. The audit work found that the October report was typical of the other monthly reports in regards to timeliness. Therefore, HUD officials need to analyze data regarding the public housing agencies’ utilization in a timely manner because of the time it takes to make the changes necessary to affect utilization performance and so that utilization performance data can be effectively used by public housing agencies.
- Comment 8** The auditees’ comments are responsive to the finding in that it would be beneficial to ensure that information that may affect utilization performance is easily accessible by all HUD staff working on utilization performance.
- Comment 9** The auditees’ comments are responsive to the finding in that they will explore with the Office of General Counsel what guidance would be appropriate to issue as internal guidance to field office staff to ensure that they are fully aware of actions that may be taken.