



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

September 16, 2015

MEMORANDUM NO:
2015-BO-1801

Memorandum

TO: Marilyn O'Sullivan,
Field Office Director, Boston Field Office, 1APH

//SIGNED//

FROM: Edward Jeye
Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: The Cambridge Housing Authority Appropriately Handled Exception Payments

INTRODUCTION

We conducted a limited review of the Cambridge Housing Authority's Moving to Work Housing Choice Voucher Program's use of exception payment standards. This program allows public housing authorities to use exception payment standards to set rental payments in excess of the payment standard established for an authority's rents¹. The review was initiated as a result of a concern raised by a member of Congress about whether public housing authority officials properly implemented procedures to authorize exception vouchers. Our objective was to determine whether the Authority (1) complied with the U.S. Department of Housing and Urban Development's (HUD) requirements and its own policies regarding the use of the exception payment standards and (2) maintained support for its decisions regarding these payment standards; including household and landlord selection.

METHODOLOGY AND SCOPE

We conducted our audit between December 2014 and April 2015 at the Authority's office located at 362 Green Street, Cambridge, MA. Our audit covered the period July 2014 through February 2015 and was extended when necessary to meet our audit objective. To accomplish our audit objective, we

- Reviewed program requirements, including Federal laws, the Code of Federal Regulations, public housing handbooks, the Moving to Work agreements between

¹ Regulations at 24 CFR (Code of Federal Regulation) 982.503b allow public housing authorities to set a rent payment standard between 90 and 110 percent of the HUD established fair market rent. The HUD field office must approve exception payment standards between 110 and 120 percent of the fair market rent, and amounts exceeding 120 percent require approval of the HUD Assistant Secretary.

HUD and the Authority, and the Authority’s Moving to Work annual plans and annual reports.

- Interviewed key staff members at the Authority to understand the leasing, voucher payment, and exception payment processes.
- Analyzed five tenant files, representing 100 percent of the population of tenants whose rents exceeded 120 percent of the fair market rent to determine whether exception rents were authorized in accordance with regulations.
- Evaluated the management controls used by the Authority to address payment standards, landlord and household selection, and tenant eligibility.

We conducted the audit in accordance with generally accepted government auditing standards, except that we did not evaluate the Authority’s internal or information systems controls. 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(s). While given the opportunity, auditee officials declined to provide written comments, noting they agreed with the memorandum. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

BACKGROUND

The Authority is an independent entity created by the City of Cambridge, MA, in 1935 under State law. The Authority operates under a board of commissioner form of government to provide safe and decent housing for eligible low- and moderate-income families and elderly individuals. The board is comprised of five members who reside in Cambridge, MA. In fiscal years 2012, 2013, and 2014, HUD provided \$175 million in assistance to the Authority as follows:

Year ²	Competitive Capital Fund stimulus grant	Moving to Work program for Capital Fund	Moving to Work program for Housing Choice Vouchers	Moving to Work Program for low rent	Other ³	Total
2012	\$4.79	\$1.95	\$ 36.37	\$11.39	\$3.35	\$57.86
2013	\$1.71	\$2.76	\$ 37.73	\$10.29	\$3.84	\$56.32
2014	\$ -	\$5.73	\$ 38.38	\$10.92	\$5.92	\$60.94
Total	\$6.50	\$ 10.44	\$ 112.48	\$32.60	\$13.11	\$175.12

²The data (in millions) for 2012 and 2013 come from audited financial statements, while the data for 2014 (in millions) come from unaudited financial statements.

³Other programs are Supportive Housing for Persons with Disabilities, the Supportive Housing Program, Lower Income Rental Assistance Program, Section 8 Moderate Rehabilitation, Resident Opportunity and Self Sufficiency, and the Housing Choice Voucher program, as well as mainstream vouchers.

The Authority had a portfolio of 3,159 vouchers⁴ at November 1, 2013. Our work focused on the Moving to Work program for the Housing Choice Vouchers. Congress enacted the Moving to Work Demonstration program through Public Law 104-34. This law provided that an Authority must establish a reasonable rent policy, designed to encourage employment and self-sufficiency by participating families, consistent with the purpose of the Moving to Work Demonstration program, such as by excluding some or all of a family’s earned income in determining rent. HUD and the Authority signed an amended Moving to Work agreement on January 15, 2009, effective through the end of the Authority’s 2018 fiscal year, in which HUD authorized the Authority to set rent payment standards above 120 percent of the fair market rent without HUD approval. Accordingly, Authority officials adopted a payment standard of up to 125 percent of the associated fair market rent in 2008. Authority officials evaluated the payment standards each year and updated the standards in 2009, 2013 and 2014. Since Authority officials had adopted a payment standard of up to 125 percent of the fair market rent, exception rents would be rents above that amount.

The established payment standards and their relationship to the associated fair market rent are as follows:

Bedroom size	10/1/08	% FMR*	10/01/09	% FMR	09/01/13 ⁵	% FMR	11/01/14	% FMR
SRO**	\$765	94	\$810	95	\$810	104	\$810	101
0	\$1,194	111	\$1,220	112	\$1,242	115	\$1,339	125
1	\$1,337	117	\$1,362	118	\$1,387	119	\$1,495	125
2	\$1,610	120	\$1,685	124	\$1,733	119	\$1,867	125
3	\$1,925	120	\$2,000	123	\$2,158	119	\$2,326	125
4	\$2,116	120	\$2,191	123	\$2,346	119	\$2,529	125

* FMR = fair market rent

** SRO = single room occupancy

RESULTS OF REVIEW

While Authority officials rarely used exception payments, when they did, they complied with the requirements of the Moving to Work agreement approved by HUD and the Authority’s own policies regarding the use of the exception payment standards. Review of the five tenants with rents at or above 120 percent of fair market rents disclosed that four tenants’ rent was below the Authority’s allowed payment standard of 125 percent of the fair market rent and one tenant had an exception payment. The exception payment was documented, justified, and appropriate. As a result of this exception, the Authority spent an additional \$1,698 over its payment standards⁶ for the period May 2014 to February 2015.

⁴ The 3,159 vouchers consisted of 2,398 Moving to Work Vouchers and 761 vouchers that were not Moving to Work.

⁵ Between 2009 and 2013, the Authority did not increase its payment standards.

⁶ This rental payment exceeded the payment standard by \$213 for 6 months and \$105 for 4 months. The payment standard changed during the lease term.

Authority officials maintained support for their decisions regarding the payment standards set. To support the use of payment standards that were higher than fair market rents, Authority officials hired an independent third party to conduct a rental study of the Cambridge housing market. This study determined that the Cambridge market could support even higher rents. Factors contributing to the high rents were low turnover in apartments, low inventory of houses and condominiums for sale, easy access to public transportation, and a low unemployment rate. Local news stories also identified low turnover in apartments, the need to expand affordable housing in the area, and the popularity of the Cambridge housing market.

CONCLUSION

Authority officials made limited use of exception payments, but when they did, for the files tested, they complied with HUD's requirements and the Authority's own policies regarding the use of the exception payment standards and maintained appropriate support for their decisions regarding these payment standards.