



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

**Housing Choice Voucher Program, Enhanced Voucher  
Assistance**



**To:** Unabyrd L. Wadhams, Deputy Assistant Secretary for Public and Indian Housing Field Operations, PQ

Milan M. Ozdinec, Deputy Assistant Secretary for Public Housing and Voucher Programs, PE  
*//signed//*

**From:** David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia Region, 3AGA

**Subject:** HUD Did Not Adequately Oversee Enhanced Vouchers Administered by New York Agencies

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 oversight of enhanced voucher assistance provided through its Housing Choice Voucher program.

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 8M, 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 215-430-6730.



**Audit Report Number: 2015-PH-0003**

**Date: July 29, 2015**

**HUD Did Not Adequately Oversee Enhanced Vouchers Administered by New York Agencies**

## Highlights

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### What We Audited and Why

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We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of enhanced vouchers provided under its Housing Choice Voucher program based on our annual audit plan. We focused on vouchers administered by three New York agencies because the related subsidies represented 59 percent of the total monthly housing subsidies associated with enhanced vouchers nationwide. Our objective was to determine whether HUD had adequate oversight related to enhanced vouchers administered by the New York agencies.

### What We Found

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HUD did not adequately oversee enhanced vouchers administered by three New York agencies that were responsible for administering most of the funds associated with the vouchers. The three New York agencies could not fully justify program subsidies they provided to voucher recipients. Of 28 cases reviewed across the agencies, HUD overpaid subsidies for 15 units (54 percent) that were larger than the family was allowed. Also, for another 264 families, HUD potentially overpaid subsidies for units that were larger than those families were allowed. In addition, one of the agencies did not perform rent reasonableness determinations as required for 544 units at 2 of its properties; therefore, the rent charged for the units may not have been reasonable. As a result, about \$1.1 million in program subsidies used for housing assistance payments was unsupported. In addition, HUD could save approximately \$1.2 million over a 1-year period by ensuring that agencies implement policies and procedures to prevent deficiencies.

### What We Recommend

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We recommend that the Deputy Assistant Secretary for Public and Indian Housing Field Operations (1) require the three agencies to justify approximately \$1.1 million in program subsidies spent on housing assistance payments and (2) require the agencies to implement policies and procedures to ensure that they make housing assistance payments related to enhanced vouchers in accordance with all applicable requirements and detect and prevent future deficiencies. We also recommend that the Deputy Assistant Secretary for Public Housing and Voucher Programs develop policies to implement periodic targeted monitoring and related followup procedures for agencies responsible for administering the most funds associated with enhanced vouchers to help prevent potential waste of program funds.

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# Background and Objective

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The Housing Choice Voucher program is the U.S. Department of Housing and Urban Development's (HUD) largest rental assistance program. Under the program, HUD provides assistance in the form of subsidies that allow very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Housing choice vouchers are generally administered locally by public housing agencies, which receive Federal funds from HUD to administer the program. A family that is issued a voucher is responsible for finding a suitable housing unit of the family's choice, which the owner agrees to rent under the program. A housing subsidy is paid directly to the owner on behalf of the participating family. The family then pays the difference between the rent charged by the owner and the amount subsidized by the program.

Participants in the voucher program are allowed to select any housing that meets program requirements. Public housing agencies establish a payment standard, which is the amount generally needed to rent a moderately priced housing unit in the local market. The payment standard is used to calculate the housing assistance paid to an owner on behalf of the family leasing the unit. Agencies have flexibility in establishing payment standards by bedroom size. The range of possible payment standard amounts is based on HUD's public fair market rent schedule for the area in which an agency has jurisdiction.

Through the Housing Choice Voucher program, HUD provides special vouchers known as enhanced vouchers to tenants of federally assisted, rent-regulated apartments, who would otherwise be adversely affected by the actions of the project owners. Examples of such actions include owners prepaying Federal loans to opt out of programs or opting not to renew contracts under Federal programs. In these instances, enhanced vouchers are issued to provide continued assistance for families. If the family remains in the same unit, a higher (enhanced) payment standard is used to determine the amount of the monthly subsidy in cases in which the gross rent of the unit exceeds the normally applicable payment standard. In such instances, the gross rent for the unit is used in the monthly subsidy calculation instead of the normally applicable payment standard.

HUD expects agencies to generally assign vouchers for units with the smallest number of bedrooms needed to house a family without overcrowding. For the purposes of this report, a family was considered overhoused if the voucher size exceeded the number of persons in the family and oversubsidized if the housing assistance paid for the family exceeded the authorized level of assistance, thereby resulting in a subsidy overpayment.

At the beginning of the audit, HUD had issued about 1.9 million vouchers under the Housing Choice Voucher program. Of this universe, approximately 29,500 were enhanced vouchers. The monthly total housing assistance payments for the enhanced vouchers was about \$38 million. The top five public housing agencies with enhanced vouchers are shown in the table below.

Rank	Agency	Number of enhanced vouchers	Monthly housing assistance payments (in millions)	Percentage of housing assistance payment universe
1	New York City Department of Housing Preservation and Development	7,101	\$13.0	34%
2	New York State Housing Trust Fund Corporation	4,217	6.5	17%
3	New York City Housing Authority	2,203	2.8	7%
4	Boston Housing Authority	804	1.4	4%
5	New Jersey Department of Community Affairs	358	0.7	2%
<b>Totals</b>		<b>14,683</b>	<b>\$24.4</b>	

The three New York agencies in the table above were responsible for vouchers with a cumulative monthly housing assistance payment value of \$22.3 million,<sup>1</sup> representing approximately 59 percent<sup>2</sup> of the total monthly housing assistance payments associated with enhanced vouchers nationwide. We focused on these three agencies during the audit.<sup>3</sup>

Our objective was to determine whether HUD had adequate oversight related to enhanced vouchers administered by the New York agencies.

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<sup>1</sup> \$13.0 million + \$6.5 million + \$2.8 million = \$22.3 million

<sup>2</sup> \$22.3 million / \$38 million = .5868 (or .59 rounded)

<sup>3</sup> As of May 2015, HUD had issued about 1.9 million vouchers under the Housing Choice Voucher program, of which 28,500 were enhanced vouchers with approximately \$25 million in associated monthly housing assistance payments. However, the three agencies on which we focused were still the top three, and their percentage of the universe of housing assistance payments for enhanced vouchers had increased to 63 percent.

# Results of Audit

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## **Finding: HUD Did Not Adequately Oversee Enhanced Vouchers Administered by New York Agencies**

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New York agencies responsible for administering most of the funds associated with enhanced vouchers could not fully justify subsidies they paid for voucher recipients. Of 28 cases reviewed for the agencies, 15 (54 percent) of the families were oversubsidized because of overhousing. Data reviews showed that another 264 families were potentially overhoused and oversubsidized. In addition, one of the agencies did not perform rent reasonableness determinations in accordance with requirements for 544 units at 2 of its properties; therefore, the rent charged for the units may not have been reasonable. These problems occurred because HUD lacked adequate controls to oversee enhanced vouchers. It did not focus on potential problems associated with enhanced vouchers, and its onsite monitoring risk assessments did not cover enhanced vouchers. As a result, about \$1.1 million in program subsidies was unsupported. Also, HUD could save approximately \$1.2 million over a 1-year period by ensuring that agencies implement policies and procedures to prevent deficiencies.

### **Agencies Could Not Justify Overhousing In 54 Percent of Cases Reviewed**

Agencies could not adequately justify overhousing for 15 of 28 cases reviewed, and overpaid an estimated \$814,382 in rental assistance subsidies for 12 of the overhoused families. According to HUD's Public and Indian Housing Notice 2008-12, for families that receive enhanced vouchers, a higher (enhanced) payment standard is used to determine the amount of the monthly subsidy in cases where the gross rent of the unit exceeds the normally applicable payment standard. The monthly subsidy is based on the gross rent rather than the normally applicable payment standard. If a family occupies a unit in which the number of bedrooms exceeds the number of bedrooms for which it qualifies under the agency's subsidy payment standards, the family is overhoused. To receive enhanced voucher assistance, an overhoused family must move to an appropriate-size unit in the property when one becomes available. If an overhoused family refuses to move to an available appropriate-size unit, the monthly subsidy for the oversized unit is based on the normally applicable payment standard and the family is responsible for any portion of the gross rent not covered by the monthly subsidy.

Our review of 28 cases from the New York agencies disclosed overhousing in 15 (54 percent) of the cases as shown below.

Agency	Overhoused cases
New York City Department of Housing Preservation and Development	8
New York City Housing Authority	5
New York State Housing Trust Fund Corporation	2
<b>Total</b>	<b>15</b>

In three cases, the families had been overhoused for about 7 to 14 months. In the remaining cases, the families had been overhoused anywhere from 3 to 8 years. Reasons that the agencies provided for the overhousing included family members refusing to move, family members being granted time to increase family size to comply with payment standards, case manager error at two properties, political pressure, and agencies generally failing to take a proactive approach to ensure resolution of overhousing situations. Details related to some of the reasons agencies provided follow.

- In one case under the New York State Housing Trust Fund Corporation, a family of two lived in a three-bedroom unit from August 2004 until December 2005 when the family size was reduced to one member. Other than some communication in 2008 with the property owner regarding the availability of one-bedroom units, the Corporation made no significant efforts to relocate the family member to an appropriate-size unit until almost 5 years later in July 2010. The Corporation finally relocated the family member to a one-bedroom unit in February 2013. It admitted that it failed to implement prompt communication with the family member and the property owner to ensure that the family member was relocated as quickly as possible. As a result of its failure to take prompt action, for several years, the Corporation did not know whether the property owner had one-bedroom units available.
- In one case under the New York City Department of Housing Preservation and Development, a tenant had been living in a four-bedroom unit since June 2005. The tenant refused to move, claiming that she could not move because of the stress associated with moving. In December 2008, the Department granted her a medical waiver so that she could remain in the unit. However, the waiver did not address the medical need for the additional three bedrooms.
- The senior manager for quality assurance at the New York City Housing Authority's Leased Housing Department stated that the Authority had suspended its policy on unit transfers because it's executive department started receiving calls from local politicians immediately upon implementation of the policy in late 2008; therefore, no action had been taken related to overhousing cases since then.

For the 12 cases in which the families had been overhoused for more than 3 years, we compared the gross rents for the units with the payment standards for the appropriate-size units and



calculated an estimated potential overpayment or oversubsidization amount of \$814,382 as shown below.

Agency	Overhoused cases	Total Overpayment
New York City Department of Housing Preservation and Development	6	\$609,052
New York State Housing Trust Fund Corporation	1	134,533
New York City Housing Authority	5	70,797
<b>Total</b>	<b>12</b>	<b>\$814,382</b>

### Agencies Paid Subsidies for 264 Potentially Overhoused Families

Based on the results of the sample case reviews, we also analyzed HUD’s Public and Indian Housing Information Center data for cases in which families were overhoused by at least two bedrooms. The review results are detailed in the table below.

Agency	Cases	Monthly excess subsidy	Annualized excess assistance
New York City Department of Housing Preservation and Development	171	\$ 86,294	\$1,035,528
New York City Housing Authority	46	17,438	209,256
New York State Housing Trust Fund Corporation	47	10,060	120,720
<b>Total</b>	<b>264</b>	<b>\$113,792</b>	<b>\$1,365,504</b>

The analysis showed that 264 families were potentially overhoused across the 3 agencies. We provided the results to the agencies. The agencies reviewed the cases identified and provided responses regarding the potentially overhoused families. The following paragraphs describe the agencies’ responses.

#### New York City Department of Housing Preservation and Development

The Department stated that as a result of the audit, it had made several policy changes to address overhousing. It stated that it had changed its subsidy standards and established waiting lists by unit size for each property in which it had identified overhoused families that were enhanced voucher recipients. The Department also stated that it had informed families that had been granted reasonable accommodations that they would need to resubmit requests for reasonable accommodations to continue to receive a voucher size exceeding the number of family members. In addition, it stated that it met with property owners to inform them of their obligation to report vacant units and offer those units to overhoused families first. It added that as a result of its

policy changes, more than a third of the overhoused families had been moved to appropriate-size units.

New York City Housing Authority

The Authority confirmed that 45 of the 46 cases identified were overhoused. It stated that some of the overhousing started in 2006 and project owners claimed that there were no available appropriate-size units for the overhoused families. However, because the Authority admittedly voluntarily suspended its policy of unit transfers in 2008, it could have missed opportunities to transfer overhoused families to appropriate-size units.

New York State Housing Trust Fund Corporation

The Corporation analyzed the cases we identified and provided the following breakdown:

Response	Number of cases
Families on priority list	35
Families in correct-size unit	5
Families paying correct payment standard	3
Families with reasonable accommodation	1
Family size increased	1
Family member recently deceased	1
Immaterial oversubsidization amount <sup>4</sup>	1
<b>Total</b>	<b>47</b>

We verified that the information the Corporation provided was generally accurate. However, we also determined that the Corporation relied solely on property owners to provide information on available appropriate-size units for overhoused families. For example, in 2007, one property had nine overhoused families that needed one-bedroom units. However, the property rent rolls showed that the property owner leased 1-bedroom units to 59 families that did not have enhanced vouchers without considering the needs of the 9 overhoused families. Therefore, the Corporation made unnecessary housing payments to these nine families. In this case, HUD said that the Corporation could not be held responsible for the owner's failure to let it know when units became available. HUD said it was consulting its Office of General Counsel to determine what enforcement actions the Corporation could take against the owner in this matter. As a result of the audit, the Corporation improved its followup with property owners on available units by creating a priority list for each property and identifying needed unit sizes.

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<sup>4</sup> In this case, the monthly oversubsidization as a result of overhousing was about \$2.

HUD should ensure that the agencies implement adequate ongoing policies and procedures that require monitoring of overhoused cases and active followup with property owners on the availability of appropriate-size units. This will help to ensure that housing assistance payments are based on the appropriate subsidy and payment standards and detect and prevent overhousing.

### **One Agency Did Not Perform Rent Reasonableness Determinations According to HUD Requirements**

Based on our review of cases from the New York City Department of Housing Preservation and Development, we determined that the Department failed to document or show that it performed rent reasonableness determinations as required for units at two of its properties. HUD regulations at 24 CFR (Code of Federal Regulations) 982.4 define reasonable rent as rent to an owner that is not more than rent charged for comparable units in the private unassisted market and for comparable units in the premises. Regulations at 24 CFR 982.507(b) require agencies to determine whether rents charged by owners to program participants are reasonable. In conducting rent reasonableness, the agency must determine whether the rent charged is reasonable compared to rent for other comparable unassisted units. HUD requires that rent reasonableness be documented for each case based on an evaluation of several factors, including location, quality, size, unit type, age, amenities, and maintenance provided by the owner. Agencies must determine that initial rent is reasonable before lease approval and rent increases.

For two of its properties, the Department performed rent reasonableness determinations when program participants converted from receiving regular vouchers to enhanced vouchers. However, it failed to properly determine reasonableness for rent increases. The conversion happened for one property (Glen Gardens) in 2002 and for the other (Independence Plaza) in 2004. For rent increases before 2009, the Department determined rent reasonableness based only on 1- and 2-year allowable rent increase rates established by the New York City Rent Guidelines Board. It did not evaluate any of the required factors or determine whether rents were reasonable compared to rents for comparable unassisted units because it did not have policies or procedures to ensure that it performed rent reasonableness determinations as required.

Effective December 1, 2010, the Department established a policy to determine reasonable rent by using owners' rent roll data to identify and compare with comparable unassisted units for each unit type in the property. However, the Department stated that it did not perform reasonableness determinations in accordance with the new policy for the two properties because of pending litigation involving the property owners. It also stated that it did not take steps to resolve cases of overhousing at the properties. According to a HUD attorney, since 2006, HUD had sought a legal determination that the properties should have been subject to rent stabilization, as a result of receiving tax abatements, and attempted to recover overpayments in assistance because the buildings charged market rents. However, the attorney stated that the courts did not put a stay on rents during litigation and HUD did not advise the Department to suspend rent reasonableness determinations for the properties. Therefore, the Department should have performed rent reasonableness determinations for the properties in accordance with HUD requirements.

The Department processed rent increases every year at Glen Gardens and every 2 years at Independence Plaza. Based on the Board's rent guidelines, approved rent increases would total

about 19 and 13 percent, respectively, for Glen Gardens and Independence Plaza for the period of conversion through the audit period. The schedule below shows the total increase in monthly rents from the time of conversion to enhanced vouchers through the audit period for each of the two properties.

Property	Units	Total monthly rents as of April 2013	Approved total monthly rents at conversion	Total monthly rent increases	Percentage increase
Glen Gardens	106	\$ 336,485	\$ 282,680	\$ 53,805	19
Independence Plaza	438	1,345,258	1,194,470	150,788	13
Monthly		1,681,743	1,477,150	204,593	
Annualized		\$20,180,916	\$17,725,800	\$2,455,116	

The percentage increase in total monthly rent was within the Board’s guidelines for both properties. However, according to HUD, by using the Board’s guidelines, the Department likely artificially kept increases below market rate.

HUD’s Housing Choice Voucher Program Guidebook 7420.10G, chapter 9.1, states that ensuring rent reasonableness is important for effective program operations. If approved rents are too high, government funds are wasted; therefore, limited housing subsidies are squandered. If approved rents are lower than comparable units in the private market, some owners opt to not participate in the program, or they participate only with their lowest cost and lowest quality units.

The Department failed to ensure that rents paid for assisted units were reasonable in relation to rents charged for comparable unassisted units. Therefore, it may have subsidized units at rents that were higher or lower than rents considered reasonable. As a result, at least \$204,593 in rent increases was unsupported.

### **HUD Lacked Adequate Controls To Oversee Enhanced Vouchers**

Enhanced vouchers represented less than 2 percent of vouchers under the Housing Choice Voucher program; therefore, HUD’s risk assessments for the program did not specifically address them. HUD’s New York City Office of Public and Indian Housing was responsible for monitoring the three agencies reviewed. However, it had performed no recent onsite monitoring of the agencies. It had not performed onsite monitoring of the Corporation and the Authority since 2006 and the Department since 2009. In its last monitoring report on the Department, HUD noted that 66 families receiving enhanced vouchers were potentially overhoused and oversubsidized. However, HUD did not follow up on the cases. HUD stated that it lacked the resources to monitor enhanced vouchers compared to other priorities such as funding housing agencies.

Although enhanced vouchers represented less than 2 percent of vouchers under the program, HUD needs to periodically include specific coverage of the vouchers in its monitoring

procedures to prevent or lessen the problems identified. Since enhanced vouchers were concentrated in New York City, HUD could periodically assess the risk associated with enhanced vouchers administered by New York agencies and implement some targeted monitoring procedures related to those vouchers. Also, HUD should ensure that the agencies implement ongoing policies and procedures to ensure that they make housing assistance payments related to enhanced vouchers based on the appropriate subsidy and payment standards and that the Department implements policies to ensure that it performs rent reasonableness determinations as required. HUD should also implement policies to ensure that it monitors and resolves potential cases of overhousing as quickly as possible.

### **Conclusion**

HUD lacked adequate controls to oversee New York agencies responsible for administering most of the funds associated with its enhanced vouchers. Three New York agencies reviewed could not fully justify program subsidies they paid for voucher recipients. All three agencies paid program subsidies that exceeded authorized levels because of overhousing. One of the agencies did not perform rent reasonableness determinations in accordance with HUD requirements; therefore, the rent charged for the units may not have been reasonable. As a result, about \$1.1 million in program subsidies used for housing assistance payments was unsupported. In addition, HUD could save approximately \$1.2 million over a 1-year period by implementing internal management controls related to enhanced vouchers and ensuring that agencies implement policies and procedures to prevent deficiencies.

### **Recommendations**

We recommend that the Deputy Assistant Secretary for Public and Indian Housing Field Operations

- 1A. Require the three agencies to justify \$814,382 in unnecessary assistance payments made for the overhoused cases or either reduce future HUD funding or reduce the contract or budget authority for any funding increment by the applicable amounts that the agencies could not justify.
- 1B. Require the agencies to review the cases identified as potentially overhoused and justify at least \$103,732 in related unnecessary housing assistance payments made or correct vouchers as appropriate.<sup>5</sup> Any overpayments of assistance should be repaid to HUD from non-Federal funds.
- 1C. Require the three agencies to implement ongoing policies and procedures that require monitoring of overhoused cases and active followup with property owners on the availability of appropriate-size units, thereby ensuring that approximately

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<sup>5</sup> This recommendation includes only costs associated with the New York City Department of Housing Preservation and Development and New York City Housing Authority because the New York State Housing Trust Fund Corporation provided justifications for its potentially overhoused families.

\$1,244,784<sup>6</sup> in program funds is spent on appropriate-size units over a 1-year period.

- 1D. Require the New York City Department of Housing Preservation and Development to support rent reasonableness for Glen Gardens and Independence Plaza or either reduce its future HUD funding or reduce its contract or budget authority for any funding increment by \$204,593.
- 1E. Require the New York City Department of Housing Preservation and Development to implement policies to ensure that it follows program requirements related to performing rent reasonableness determinations.

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

- 1F. Strengthen its program controls by developing policies to implement periodic targeted monitoring and related followup procedures for agencies responsible for administering the most funds associated with enhanced vouchers to help prevent potential waste of program funds.

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<sup>6</sup> See footnote 5.

# Scope and Methodology

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We conducted the audit from August 2012 through February 2015, at the offices of the New York City Department of Housing Preservation and Development, the New York State Housing Trust Fund Corporation, and at our offices located in New York, NY and Richmond, VA. The audit covered the period August 2010 through April 2013.

To accomplish our objective, we reviewed

- Applicable HUD rules, notices, and guidance;
- HUD monitoring reports for the agencies reviewed;
- Tenant files maintained by the New York City Department of Housing Preservation and Development and the New York State Housing Trust Fund Corporation;
- Rent rolls for enhanced voucher properties administered by the New York City Department of Housing Preservation and Development and the New York State Housing Trust Fund Corporation;
- Appraisals for rents at two properties (Glen Gardens and Independence Plaza) under the New York City Department of Housing Preservation and Development; and
- Voucher data in HUD's Public and Indian Housing Information Center database as of August 2012 and April 2013.

We communicated with HUD program officials and staff located in headquarters and field offices in New York, NY, Washington, DC, Baltimore, MD, and Richmond, VA. We also communicated with officials of the three agencies reviewed.

At the beginning of the audit, the universe of enhanced vouchers totaled 29,538. The monthly total housing assistance payments associated with the enhanced vouchers was about \$38 million. The three New York agencies were responsible for 13,521 of the enhanced vouchers with a cumulative monthly housing assistance payment value of about \$22 million, representing approximately 59 percent of the total monthly housing assistance payments associated with enhanced vouchers nationwide. We nonstatistically selected for review 28 cases from the 3 agencies based on potential overhousing and high rents. We analyzed voucher data to identify properties with gross rents of \$3,000 or more per month. We identified 11 properties for the New York City Department of Housing Preservation and Development and 2 for the New York State Housing Trust Fund Corporation. We then analyzed data related to the 13 properties to identify potential cases for review. We found that one of the New York City Department of Housing Preservation and Development properties had only four vouchers so we substituted another property based on analysis indicating potential overhousing issues.

For the 13 properties, we identified 33 cases for the New York City Department of Housing Preservation and Development and 5 cases for the New York State Housing Trust Fund Corporation based on potential overhousing and high rents (rent exceeding the payment standard

for the applicable bedroom size). We selected the most apparently questionable 10 of the 33 cases for the New York City Department of Housing Preservation and Development and the 5 cases for the New York State Housing Trust Fund Corporation. For the New York City Housing Authority, we made selections for review based on potential overhousing and high rents. We selected 13 cases from 6 of the top 10 properties based on the total monthly subsidies paid (exceeding \$3,000) and from 2 properties with indications of potential overhousing.

In addition, for the three agencies, we analyzed HUD's Public and Indian Housing Information Center database as of April 2013 to identify cases in which families were overhoused by at least two bedrooms. We identified 171 cases for the New York City Department of Housing Preservation and Development, 47 for the New York State Housing and Trust Fund Corporation, and 46 for the New York City Housing Authority. We then determined the monthly total excess subsidies paid for each agency by calculating and totaling the differences between the gross rent and the payment standard for the applicable-size unit. We also estimated the annual excess subsidies paid by multiplying the total monthly excess subsidies for each agency by 12. The total monthly excess subsidies paid for the three agencies was \$113,792, and the annualized total was more than \$1.3 million.

We relied in part on computer-processed data in HUD's Public and Indian Housing Information Center database. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The testing entailed matching information obtained from HUD's system to hardcopy documents provided by the agencies reviewed.

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.

## **Relevant Internal Controls**

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

- Effectiveness and efficiency of program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program participants comply with program 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 lacked adequate controls to oversee enhanced vouchers. It lacked controls to ensure that (1) agencies responsible for administering most of the funds associated with enhanced vouchers implemented policies to ensure that related assistance payments were made based

on the appropriate subsidy and payment standards and consistently performed rent reasonableness determinations in accordance with program requirements and (2) potential cases of overhousing were monitored and resolved as quickly as possible.

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs and Funds To Be Put to Better Use**

<b>Recommendation number</b>	<b>Unsupported 1/</b>	<b>Funds to be put to better use 2/</b>
1A	\$ 814,382	
1B	103,732	
1C		\$1,244,784
1D	204,593	
<b>Totals</b>	<b>\$1,122,707</b>	<b>\$1,244,784</b>


- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 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. 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, HUD could save approximately \$1.2 million over a 1-year period by ensuring that agencies implement policies to ensure that housing assistance payments are based on the appropriate subsidy and payment standards and made in accordance with other applicable program requirements and detect and prevent overhousing.

# Appendix B

## Auditee Comments and OIG's Evaluation

Ref to OIG  
Evaluation

### Auditee Comments

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

JUL 09 2015

MEMORANDUM FOR: David E. Kasperowicz, Regional Inspector General for Audit,  
Philadelphia Region, 3AGA

FROM: Anthony L. Williams, Deputy Assistant Secretary for Public and  
Indian Housing Field Operations, PQ

THROUGH: Milan M. Ozdincec, Deputy Assistant Secretary for Public Housing  
and Voucher Programs, PE

SUBJECT: HUD Response to the Office of Inspector General Draft Audit  
Report "HUD Did Not Adequately Oversee Enhanced Vouchers  
Administered by New York Agencies"

Thank you for the opportunity to comment on the draft findings and recommendations contained in the above-referenced audit report of the Office of the Inspector General (OIG), which you provided on June 17, 2015. The U.S. Department of Housing and Urban Development (the Department) is committed to ensuring full and effective compliance with all statutory requirements, and the Department welcomes and appreciates the partnership with OIG to ensure compliance with the requirements for Enhanced Vouchers. The draft report was reviewed by the Office for Field Operations and the Office of Public Housing and Voucher Programs, both under the Office of Public and Indian Housing.

In general, the Department concurs with all of the recommendations outlined in this draft report, and looks forward to developing appropriate management decisions, in partnership with OIG and commensurate with available resources, to ensure satisfactory implementation. However, we believe additional context is important and helpful in assessing the overall impact of the findings at the three New York housing agencies.

As noted in the OIG audit report, enhanced vouchers represent less than 2% of vouchers under the HCV program nationwide and 8% of the HCV program vouchers within the three agencies reviewed during this audit. The Department has limited monitoring resources available and appropriates those resources based on the size and scale of the program and risk to ensure that these agencies are complying with federal regulations.

The Department is also concerned about the OIG's extrapolation of potentially unsupported or unnecessary housing assistance payments in Recommendation 1C. The OIG audit report states that these three New York agencies administered 13,521 of the nation's 29,538 enhanced vouchers. However, the audit examined only 28 enhanced vouchers administered by

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Comment 1

Comment 2

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

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these three agencies (0.2% of the three agencies total enhanced vouchers, and less than 0.01% of the nation's total stock of enhanced vouchers), which is a relatively small number of cases. The OIG audit report found that agencies could not adequately justify overhousing in 15 of the 28 cases reviewed. Given the large size of the voucher programs at these agencies and the small sample size used, the extrapolation of potentially unsupported or unnecessary housing assistance payments seems unwarranted.

## OIG Evaluation of Auditee Comments

- Comment 1 HUD stated that the report noted that enhanced vouchers represented less than 2 percent of housing choice vouchers nationwide, and that it appropriates its limited monitoring resources based on the size and scale of program risk. We understand the concept of risk-based monitoring. However, with the overhousing issue for example, the audit disclosed that the three New York agencies had not implemented any policies or procedures to address or resolve problems before the audit. Therefore, as stated in the report, HUD should periodically include specific coverage of enhanced vouchers in its monitoring procedures to prevent or lessen the problems identified.
- Comment 2 HUD stated that it was concerned about the extrapolation of unsupported or unnecessary payments in recommendation 1C because the audit only examined 28 cases and determined that agencies could not justify overhousing in 15 of the cases. The projected savings were based on the 217 potentially overhoused families under New York City Department of Housing Preservation and Development and New York City Housing Authority. As explained in the report, we analyzed data from HUD's Public and Indian Housing Information Center for cases in which families were overhoused by at least two bedrooms. By doing so, we potentially identified the worst cases of overhousing, and thus determined a relatively conservative estimate of potential savings. Also, the agencies had not implemented any procedures to address or resolve overhousing related to enhanced vouchers before the audit. Therefore, the projected amount simply represents an estimate of how much HUD could save annually if it ensures that the agencies implement policies and procedures to prevent future deficiencies.