



Issue Date August 9, 2010
Audit Report Number 2010-BO-0003

TO: Milan Ozdinec, Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, PE

FROM: 
John A. Dvorak, Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: Public Housing Authorities Generally Paid Voucher Subsidy Payments to Subsidized Multifamily Properties Correctly

HIGHLIGHTS

What We Audited and Why

We conducted a national audit of whether public housing authorities overpaid voucher subsidies to multifamily property owners in specific types of subsidized properties.¹ If a public housing authority pays a property owner a subsidized rent at one of these types of properties, the voucher rent should be set at the level of the rent payments to the subsidized multifamily properties, which generally is lower than the public housing authorities' payment standard for vouchers. This national audit follows our audit of a subsidized multifamily property in Maine, in which we found that housing authorities caused the overpayments by inappropriately using the fair market rents instead of the lower rents subsidized under Section 236 of the Housing Act of 1959.

¹ Specifically, we audited subsidized properties with Section 202, 221(d)(3), 236, and 515 loans.

What We Found

Public housing authorities generally did not overpay subsidies to subsidized multifamily properties. We compared addresses of 1.93 million housing choice vouchers with addresses of 17,684 multifamily properties with Federal loans. We identified 193 addresses for which a voucher payment was made to the owner of a subsidized multifamily property. We also found that 148 of these vouchers were reported correctly. The remaining 45 vouchers were incorrectly reported, and these errors will be addressed in separate memorandums to U.S. Department of Housing and Urban Development (HUD) field offices. For these 45 vouchers, we did not find that the vouchers had common property owners, common public housing authorities, or common management agents.

What We Recommend

We recommend that HUD update the Housing Choice Voucher Guidebook 7420.10G to include a section on the relationship between properties with Federal loans and the public housing authorities' rental payments to those properties' owners.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Office of Public Housing and Voucher Programs a draft report on July 8, 2010, and held an exit conference with officials on July 21, 2010. The Office of Public Housing and Voucher Programs provided written comments on July 30, 2010. It generally agreed/disagreed with our finding. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

Under the Housing Choice Voucher Program, Congress empowered the Secretary of the U.S. Department of Housing and Urban Development (HUD) to provide assistance to public housing agencies for tenant-based housing assistance using a payment standard established by the public housing authority in accordance with the local market conditions and applicable regulations. The public housing authorities use this payment standard to determine the monthly assistance that may be paid for an eligible family. Unless HUD approves a different standard, the payment standard for each size of dwelling unit in a market area shall not exceed 110 percent of the fair market rent for the same size of dwelling unit in the same market area and shall be not less than 90 percent of that fair market rent.

Under several separate acts, Congress empowered HUD and the U.S. Department of Agriculture to insure loans to private owners to construct and/or renovate multifamily properties. Some of these insured loans include provisions to ensure that the rentals at these properties are subsidized. Under the Housing Act of 1959 (Housing Act), Congress also empowered HUD to directly loan and/or provide capital advances to finance rental or cooperative housing facilities for occupancy by elderly or handicapped persons. These loans include provisions to ensure that the rentals at these properties are subsidized. The affected loans are in the Section 202, 221(d)(3), 236, and 515 programs. HUD and other Federal agencies have other types of loans, but these other loans do not include this type of rental subsidy. For the affected loans, HUD established a regulation at 24 CFR (Code of Federal Regulations) 982.521. The provisions of this regulation are only activated when there is simultaneously a Federal mortgage of the specific types listed above and a payment under the Housing Choice Voucher program. This regulation requires public housing authorities to use the subsidized rent from the Federal loan program instead of the payment standard under the Housing Choice Voucher program.

During our audit of a HUD-insured property in Maine² insured under Section 236, we found that two local public housing authorities had overpaid Housing Choice Voucher program subsidies to the property owner. The public housing authorities caused the overpayments by inappropriately using the fair market rents instead of the lower rents subsidized under Section 236 of the Housing Act. While the multifamily owners received the windfall benefit of the increased rents, the design of the program places the responsibility for ensuring the correct payment amount on the public housing authorities.

Our audit objective was to determine whether public housing authorities correctly identified rent limits at HUD-subsidized properties.³

² This report, "Housing Authorities at Bath and Brunswick, Maine, Overpaid Basic Rent and Housing Assistance Payments for Section 8 Tenants in a Subsidized Multifamily Project (Orchard Court)," is available from the Office of Inspector General (OIG) Web site at <http://csfintraweb.hudoig.gov/Audit/Audit%20Reports/ME/ig0911801.pdf>.

³ Specifically, we audited subsidized properties with Section 202, 221(d)(3), 236, and 515 loans.

RESULTS OF AUDIT

Public Housing Authorities Generally Paid Voucher Subsidy Payments to Subsidized Multifamily Properties Correctly

We compared addresses for 1.93 million housing choice vouchers with addresses of 17,684 multifamily properties with specific types of Federal loans. We found 193 addresses for which a voucher payment was made to a subsidized property owner with a specific type of Federal loan. We also found that 148 of these vouchers were reported correctly. The remaining 45 vouchers were not reported correctly; we will address these items in separate memorandums.

We Identified 193 Addresses in Both the PIC and IREMS Systems

HUD requires public housing authorities to electronically submit data on voucher holders to its Office of Public and Indian Housing Information Center (PIC) system. HUD developed this system to improve the submission of information and facilitate more timely and accurate exchanges of data between public housing authorities and HUD offices. Data in PIC are managed by the Office of Public Housing and organized by head of household.

HUD electronically maintains data on multifamily properties with Federal loans in its Integrated Real Estate Management System (IREMS). HUD developed this system to provide automated support to collect and maintain accurate data, and the system enables HUD staff and contract administrators to perform servicing functions and implement enforcement actions as needed. IREMS data are managed by the Office of Housing and organized by a property identification number that is unique to each multifamily property.

We compared addresses for 1.93 million housing choice vouchers with addresses for 17,684 multifamily properties with specific types of Federal loans. We found 193 addresses for which a voucher payment was made to a property owner with a specific type of Federal loan. When a voucher holder rents at a property with certain specific types of Federal loans, the public housing authority should use the subsidized rent as determined under the applicable Federal loan program instead of the payment standard established under the Housing Choice Voucher program.⁴ The specific loans are authorized under the Section 202, 221(d)(3), 236, or 515 Federal loan program.

⁴ This requirement is in 24 CFR 982.521, "Rent to subsidized owner."

The Correct Payment Standard Was Often Used

We found that the public housing authorities administering 148 of these vouchers used the correct rental limit. For the remaining 45 vouchers, the public housing authorities entered an incorrect rental limit into the PIC system. For three vouchers, the public housing authority recorded a rental amount that matched its payment standard. The payment standard for these three vouchers exceeded the rental limit allowed by the associated Federal loans at the properties. For three vouchers, the public housing authority recorded a rental amount that exceeded its payment standard and the rental limit allowed by the associated Federal loans at the properties. For the other 39 vouchers, the public housing authority recorded a rental amount that was less than its payment standard but more than the rental limit allowed by the associated Federal loans at the properties.

Using PIC and IREMS, we examined whether the 45 vouchers had common property owners, common public housing authorities, or common management agents. We did not find repeating patterns in the ownership, the administering public housing authorities, or the management agents for these vouchers.

For the 45 vouchers, the rental amount charged by the owner in PIC did not match the rental amount charged by the owner in IREMS. The differences between the monthly vouchered rents and the payment standards for these properties totaled \$9,240. Over a typical 1-year lease, this amount would translate to an estimated loss to HUD and the public housing authorities of \$110,880. We will separately address these vouchers in management memorandums to the affected HUD field offices.

The Guidebook Does Not Address Vouchers at Subsidized Properties

Housing Choice Voucher Guidebook 7420.10 advises public housing authorities and other organizations about the administration of the tenant-based subsidy programs. This guidebook provides that a single unit cannot receive both project-based and tenant-based subsidies at the same time. HUD has provided subsidies to multifamily properties in which the number of assisted units is less than the total number of physical units at the property. Housing choice voucher holders are allowed to rent units that do not already receive project-based subsidies. While this guidance prohibits duplicating subsidies for a single unit, it does not address how to properly identify and administer a housing choice voucher at a

subsidized multifamily property. The guidance also does not address the need to amend the rental payments to the owner to account for the subsidies.

Conclusion

OIG compared data in HUD's PIC and IREMS systems and identified 193 addresses with associated subsidy payments in both systems. When a voucher holder rents at a property with a Federal loan authorized by the Section 202, 221(d)(3), 236, or 515 loan program, the public housing authority should use the rental amount established under the Federal loan program instead of the payment standard established under the Housing Choice Voucher program. We found that, for 148 of these vouchers, the public housing authorities used the correct rental amount. We are submitting the data on the remaining 45 vouchers in separate memorandums to the affected HUD field offices. HUD needs to update its guidance to address the proper identification and administration of housing choice vouchers at subsidized multifamily properties.

Recommendations

We recommend that HUD

- 1A. Issue a Public and Indian Housing Notice on the relationship between properties with Federal loans and the public housing authorities' rental payments to those properties' owners.
- 1B. In the subsequent comprehensive revision to the Housing Update Housing Choice Voucher Guidebook 7420.10G, also update the Guidebook to include a section on the relationship between properties with Federal loans and the public housing authorities' rental payments to those properties' owners.

SCOPE AND METHODOLOGY

We performed an audit of whether public housing authorities correctly identified rent limits at HUD-subsidized properties. Our fieldwork was completed at the Boston, MA, HUD office using data from the Housing Choice Voucher program entered into PIC as of March 2010 and multifamily insured property data entered into IREMS as of March 2010. We conducted our fieldwork between March and May 2010. To accomplish our objective, we

- Used PIC to create a database to identify the addresses of all Section 8 voucher holders.
- Used IREMS to create a database to identify all projects in the following categories:
 - An insured or noninsured Section 236 project,
 - A Section 202 project,
 - A Section 221(d)(3) below-market-interest-rate project, or
 - A Section 515 project.
- Compared the PIC database to the IREMS database to identify instances in which public housing authorities paid multifamily owners with specific types of Federal loans in the categories listed above.
- Analyzed these instances to determine whether the Federal loan met our criteria. During this analysis, we found 13 Section 202 loans that predated the Section 8 program. IREMS identified these loans as Section 202 direct loans pre-1974. The Section 8 program was created in 1974 including the regulations at 24 CFR 982.521. HUD cannot retroactively add requirements to a loan unless there is additional compensation. These 13 loans did not have additional compensation, and the regulations at 24 CFR 982.521 do not apply.
- To examine the reliability of the PIC data, we tested whether there were duplicate head of household Social Security numbers in the database. The PIC database is organized by head of household Social Security number. Duplicate head of household Social Security numbers would indicate that public housing authorities reported two housing choice vouchers for one tenant family. We found no duplicate head of household Social Security numbers. The Housing Choice Voucher program relies on third-party public housing authorities to make payments to landlords on HUD's behalf after authenticating the tenant's eligibility, tenant's portion of the rent, and program unit eligibility. HUD relies on the housing authorities to enter the data on the payments, tenants, and units into PIC. This reliance is an inherent risk of the program.

- To examine the reliability of the IREMS data, we examined
 - Whether the assisted unit count or the property unit count was negative. A negative unit count indicates a problem with the number of units entered into IREMS.
 - Whether the number of units assisted in IREMS at the property exceeded the number of physical units listed in IREMS. If the number of units assisted exceeds the number of physical units, HUD may be paying for units that do not exist. In our testing of the 193 instances in which the voucher addresses matched the multifamily property addresses, we found no cases in which the number of units assisted in IREMS at the property exceeded the number of physical units listed in IREMS.
 - Whether the loans were active. Within the 193 instances in which the voucher addresses matched the multifamily property addresses, we found 33 loans for which the owners started the loan process with HUD but did not complete the loan process. We also found 17 Federal loans that were repaid by the owners according to the loan schedule, terminated by HUD for enforcement reasons, or prepaid ahead of schedule by the owner. These loans are also no longer active. Therefore, a property may be active in IREMS without having an active Federal loan. A problem exists when a vouchered rent is paid to a multifamily owner with an active Federal loan. If the loan is not active or is no longer active, the regulation at 24 CFR 982.521 does not apply. Our results do not include vouchers at properties without an active loan.

- Analyzed these instances to determine whether the vouchered rent used the correct rental amount. A problem exists when the vouchered rent exceeds the rental limit under the specific Federal loan program. For those projects for which the vouchered rents exceeded the rental limit, we also
 - Examined patterns of ownership.
 - Examined patterns of management agents.
 - Examine patterns of public housing authorities.

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

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

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- The prevention of duplicate entries
- The public housing authorities' use of the correct rental limit

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we found no significant weaknesses.


Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

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

OFFICE OF PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: John A. Dvorak, Regional Inspector General for Audit, IAGA

FROM: Donald J. Lavoy, Acting Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, PE

SUBJECT: Comments on OIG Audit Draft Report: Public Housing Authorities Generally Paid Voucher Subsidy Payments to Subsidized Multifamily Properties Correctly

Thank you for the opportunity to review the Office of the Inspector General's draft audit report of Public Housing Authorities calculations of payments to subsidized multifamily properties. The Office of Public Housing and Voucher Programs' (OPHVP) comments are provided below.

General Comments:

Although the Audit report is addressed to D.J. Lavoy, Acting Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, the recommendation to update the Housing Choice Voucher Guidebook is an activity that would be performed by the program office within OPHVP. As such, the Audit report should be addressed to Milan Ozdincec, Deputy Assistant Secretary, Office of Public Housing and Voucher Programs.

Specific Comments:

Recommendation 1A
Update Housing Choice Voucher Guidebook 7420.10G to include a section on the relationship between properties with Federal loans and the public housing authorities' rental payments to these properties owners.

PIH Response
PIH agrees with the recommendation to provide additional guidance to PHAs on the regulatory requirements that apply when vouchers are used at subsidized multifamily properties. However the Housing Choice Voucher Guidebook 7420.10G will undergo a comprehensive revision that goes well beyond this particular topic. In order to make this information available to PHAs in a more timely fashion, PIH will issue a notice on this subject.

www.hud.gov espanol.hud.gov

Comment 1

Comment 2

OIG Evaluation of Auditee Comments

- Comment 1** The OIG changed the addressee to Milan Ozdinec, Deputy Assistant Secretary, Office of Public Housing and Voucher Programs from Donald J. Lavoy, Acting Deputy Assistant Secretary, Office of Public Housing and Voucher Programs in the final report.
- Comment 2** The OIG agrees with PIH's plan to issue a Public and Indian Housing notice to provide immediate additional guidance to public housing authorities on the regulatory requirements that apply when vouchers are used at subsidized multifamily properties. However, since the Housing Update Housing Choice Voucher Guidebook 7420.10G will be undergoing a comprehensive revision at a later unknown future date, we have divided the recommendation into 1A to recognize PIH's plan to provide immediate guidance through a PIH Notice, and then into recommendation 1B to ensure that the guidebook will also be updated to include this guidance on the regulatory requirements in the forthcoming comprehensive revision to the Guidebook.