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TO: Deborah K. Lear, Director, Office of Housing Assistance Contract Administration Oversight, HTC

FROM:  Kelly Anderson, Acting Regional Inspector General for Audit, 5AGA

SUBJECT: HUD's Oversight of Its Multifamily Housing Subsidy Payment Review Process Needs Improvement

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the U.S. Department of Housing and Urban Development's (HUD) multifamily housing subsidy payment review process based upon a HUD employee's complaint. The complaint alleged that HUD lacked controls over its multifamily housing subsidy payment review process and voucher specialists were understaffed and underpaid. Our audit objective was to determine whether HUD had adequate controls over its multifamily housing subsidy payment review process.

### **What We Found**

HUD's oversight of its multifamily housing subsidy payment review process needs improvement. Specifically, the review and processing of HUD's multifamily housing subsidy payments relating to the vouchers that exceeded the threshold amount, were submitted manually, or were submitted at least 1 year later than the voucher date were inadequate. The Financial Operations Division of HUD's Multifamily Office of Housing Assistance Contract Administration Oversight did not comply with its written voucher review procedures. Of the 85 vouchers reviewed, the required information was not present in the system to

support \$588,869 of the more than \$1.2 million in housing assistance payments for 30 vouchers. In addition, more than \$28.5 million was provided for 12 vouchers that were not in HUD's Tenant Rental Assistance Certification System (system), and lacked a valid waiver for not being in system, and a review of these vouchers was not conducted as required by HUD's regulations.

As of May 13, 2010, the Financial Operations Division had paid 106 vouchers for contracts administered by the traditional contract administrators that totaled more than \$2.5 million in housing assistance for the period October 1, 2008, through November 30, 2009, without conducting a review as required by its system. In addition, based on our review of four vouchers for contracts administered by the performance-based contract administrators, all four vouchers did not have the required information in the system to support more than \$131,000 in housing assistance payments.

The system generated an incorrect message requiring a review of the vouchers by the Financial Operations Division for contracts administered by the performance-based contract administrators. As of January 27, 2010, 1,472 vouchers for the period October 1, 2008, through November 30, 2009, had been identified by the system as requiring a review by the Financial Operations Division. Also, the system did not select nine vouchers for which the voucher amount exceeded the contract's threshold amount, contrary to the voucher selection process. Further, staff other than the voucher specialists released payments on 34 vouchers for contracts administered by traditional contract administrators without a review. As a result, HUD lacked assurance that housing assistance payments totaling more than \$77,600 were provided in accordance with its regulations.

### **What We Recommend**

We recommend that the Director of Office of Housing Assistance Contract Administration Oversight (1) require the property owners and/or contract administrators to correct deficiencies identified or offset subsidy payments totaling more than \$830,000 and (2) implement adequate procedures and controls to address the findings cited in this audit report to correct an error in voucher processing at the rate of 26.8 percent or 1,054 of 3,932 vouchers.

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 our review results, supporting schedules, and discussion draft audit report to the Director of the Office of Housing Assistance Contract Administration Oversight and HUD's staff during the audit. We held an exit conference with the Director on April 22, 2011.

We asked the Director of the Office of Housing Assistance Contract Administration Oversight to provide comments on our discussion draft audit report by May 5, 2011. The Director provided written comments, dated May 5, 2011. The Director disagreed with the findings and recommendations. The complete text of the written comments, along with our evaluation of those comments, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The U.S. Department of Housing and Urban Development (HUD) operates a variety of project-based rental assistance programs through which it pays subsidies, or housing assistance payments, to private owners of multifamily housing that help to make this housing affordable for lower-income households. HUD entered into long-term contracts, often 20 to 40 years, committing it and the property owners to providing long-term affordable housing. Under these contracts, tenants generally pay 30 percent of their adjusted income toward their rents, with the HUD subsidy equal to the difference between what the tenants pay and the contract rents that HUD and the owners negotiate in advance.

To receive their monthly housing assistance payments, owners must submit monthly vouchers to account for changes in occupancy and households' income that affect the actual amount of subsidy due. However, the manner in which the owners submit these vouchers and the process by which they get paid varies depending on the type of contract administrator handling their contract.

For HUD-administered contracts, the owner submits a monthly voucher to HUD for verification, and HUD in turn pays the owner based on the amount in the voucher. For contracts administered by performance-based and traditional contract administrators, the owner submits a monthly voucher to the contract administrators, which verify the voucher and forward it to HUD for payment. HUD then transfers the amount verified on the voucher to the contract administrators electronically, which in turn pays the owner. As of January 5, 2011, HUD administered an estimated 5,886 contracts, performance-based contract administrators administered an estimated 15,825 contracts, and traditional contract administrators administered an estimated 1,889 contracts.

The Financial Operations Division of HUD's Multifamily Office of Housing Assistance Contract Administration Oversight, formerly known as the Voucher Processing HUB, was established in fiscal year 1996 in Kansas City, MO. The voucher processing function transferred from HUD's Office of Public and Indian Housing to its Office of Housing in July 2007, following a memorandum of agreement executed in November 2006 between the two offices. As of December 2009, the Financial Operations Division included offices in Washington, DC, Chicago, IL, Kansas City, MO, Atlanta, GA, Hartford, CT, and Boston, MA. One of the responsibilities of the Financial Operations Division includes reviewing and processing the multifamily housing subsidy payments for the projects located throughout the United States and its territories, as selected by HUD's Tenant Rental Assistance Certification System (system) relating to the Financial Operations Division's responsibilities.

The system assigns discrepancy codes and selects vouchers to be reviewed by the Financial Operations Division in the following scenarios. For HUD-administered contracts, the voucher is assigned a discrepancy code of T31 if the amount requested on the voucher exceeds the threshold amount for the contract as calculated by the system based on the contract's previous 12 months' voucher payments multiplied by 180 percent. The voucher is assigned a discrepancy code of T52 if it is submitted for payment at least 1 year late. All vouchers submitted manually for

processing and payment are assigned a discrepancy code of T51. If the amount requested on the voucher for contracts administered either by the traditional or performance-based contract administrator exceeds the threshold amount for the contract, the voucher is assigned a discrepancy code of T91. Lastly, the voucher for contracts administered by the traditional or the performance-based contract administrator is assigned a discrepancy code of T92 when submitted for processing and payment at least one year late.

For the period October 1, 2008, through November 30, 2009, 337,414 vouchers totaling more than \$10 billion in housing assistance payments were processed through HUD's system. For the same period, only 4,077 (1.2 percent) vouchers totaling just under \$52 million (0.5 percent) were selected by the system to be reviewed by the Financial Operations Division.

Our audit objectives were to determine whether HUD (1) ensured that its system contained the required information to support voucher payments, (2) reviewed all multifamily housing subsidy payments for contracts it did not administer, and (3) monitored its system and staff's authority for making voucher payments. This is the first of two audit reports on HUD's process for making multifamily housing subsidy payments.

## RESULTS OF AUDIT

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### Finding 1: HUD's Oversight of Its Multifamily Housing Subsidy Review Process Needs Improvement

The review and processing of multifamily housing subsidy payments relating to the vouchers that exceeded the threshold amount, were submitted manually, or were submitted at least 1 year later than the voucher date, were inadequate. The Financial Operations Division of HUD's Multifamily Office of Housing Assistance Contract Administration Oversight lacked quality controls and supervision over the voucher processing function. As a result, HUD's Tenant Rental Assistance Certification System (system) lacked information to support more than \$588,000 in housing assistance for 30 vouchers that totaled \$1.2 million in housing assistance payments for the period October 1, 2008, through November 30, 2009.

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#### Vouchers Were Not Adequately Reviewed

We statistically selected 98 vouchers from a universe of 3,944 vouchers that exceeded the respective contract's threshold limit, were submitted manually, or were submitted at least 1 year late as of January 27, 2010, using data mining software. However, we reviewed 85 (98 minus 13) vouchers because not enough information was available to perform a review of the remaining 13 vouchers. The vouchers were reviewed to determine whether the Financial Operations Division accurately reviewed and processed the vouchers in accordance with its procedures for the period October 1, 2008, through November 30, 2009. Our review was limited to the reports received from the Financial Operations Division, information provided by project owners and/or agents, and information available in the system.

From a review of the 85 statistically selected vouchers, we noted that required information was not present in the system to support \$588,869 of the more than \$1.2 million in housing assistance for 30 vouchers. The Financial Operations Division failed to ensure that the system included the required information for the 30 vouchers as follows. The deficiencies noted are not independent of one another as one voucher may have contained more than one deficiency.

- 15 vouchers did not include certifications that were completed within the required timeframe for all households,
- 10 vouchers did not include matching subsidy amount for at least 90 percent of the households,
- 8 vouchers did not include adjustment errors that did not exceed 15 percent of regular assistance,

- 5 vouchers did not include all households meeting program eligibility,
- 4 vouchers did not include assistance payments based on appropriate contract rents and utility allowances for all households,
- 1 voucher did not include supporting certifications for the miscellaneous accounting requests claimed, and
- 1 voucher did not include subsidy amount agreeing with the electronic payment request.

In addition, the Financial Operations Division failed to provide 8 of the 98 selected vouchers. Nonetheless, we obtained copies of seven vouchers from the property owner and/or agent directly. One voucher was not available for our review due to changes in the property manager. The Financial Operations Division failed to provide a copy of one voucher totaling \$12,452 in housing assistance.

### **Manual Vouchers Were Not Reviewed**

The Financial Operations Division did not review 12 vouchers totaling more than \$28 million for a contract administered by the New York City Department of Housing Preservation and Development, a traditional contract administrator. These vouchers were submitted manually for review and payment and were required to be reviewed by the Financial Operations Division. Based on the field office's letter dated December 3, 2007, HUD's system could not accommodate the contract's submission of tenant data because the contract included varying income limits and had a concession program that preserved affordability for tenants. However, based on the field office's letter dated April 29, 2010, HUD's system could accommodate the contract's submission of tenant data as it could be set up to generate discrepancies as opposed to fatal errors for income limits and the concession program component should have been included in the tenant's income. According to the voucher specialist, the vouchers were released for payment without a review based upon a waiver granted by the multifamily field office in New York. However, the waiver expired on January 1, 2008, before the vouchers' release for payment between July 6 and October 28, 2009. The Chicago Division Director of the Financial Operations Division said that the New York field office may have conducted a review as it was mainly involved in resolving the project's issues relating to HUD's system. Further, the project manager at the field office said that the traditional contract administrator conducted the reviews, if any.

According to 42 U.S.C. (United States Code) 3535(q)(1), HUD requirements may be waived by the HUD Secretary or the Deputy Assistant Secretary or an individual of equivalent rank. Contrary to United States Code and HUD requirements, no such delegation was present to grant a waiver of HUD's regulations at 24 CFR (Code of Federal Regulations) 108(c)(2) that requires a



submission of household data in the system. As a result, HUD paid more than \$28.5 million in housing assistance without ensuring a valid waiver was maintained, requiring that the supporting information was transmitted electronically to HUD's system, or a review of the vouchers was completed by the Financial Operations Division.

### **The Voucher Processing Function Lacked Supervision and Quality Controls**

The voucher processing function of the Financial Operations Division lacked supervision and quality controls. The voucher processing function lacked segregation of duties. Before March 2010, the voucher specialists reviewed and approved the same vouchers for payment. As a result of our audit, the Financial Operations Division segregated the voucher processing function in March 2010. Nonetheless, the 30 vouchers incorrectly processed were reviewed by two voucher specialists and one financial analyst during the period September 29, 2008, to May 18, 2010.

In addition, the system used by the voucher specialists to track their workload was not accessible by management. As a result, management lacked assurance that all vouchers selected for review were reviewed and the reviews were conducted in a timely manner. Further, the Financial Operations Division failed to maintain a functional filing system. Although the Financial Operations Division reviewed the vouchers when requested, it obtained the vouchers directly from the project owner and/or manager. As mentioned previously, the Financial Operations Division failed to provide all of the vouchers requested.

Since the transfer of the voucher processing function from HUD's Office of Public and Indian Housing to the Office of Housing in 2007, a quality control review had not been conducted.

As of October 2010, the Financial Operations Division was implementing a new review process and tracking system for vouchers reviewed. Also, the Financial Operations Division was in the process of going paper-less to maintain the vouchers electronically.

### **Conclusion**

As a result of the Financial Operations Division's lack of quality controls and supervision over the voucher processing function, housing assistance totaling \$588,869 of the more than \$1.2 million was provided without the required supporting information for 30 vouchers cited in this finding.

Based on the review results, we are 95 percent confident that at least 26.8 percent or 1,054 of the 3,932 (3,944 vouchers in the universe minus 12 vouchers relating to the New York traditional contract administrator) vouchers in the audit universe had similar errors. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

According to HUD's regulations at 24 CFR 208.108(c), contract administrators must accept the electronic transmission of the HUD forms to include data from the form HUD-50059 or the family report from the projects they administer, and electronically transmit the data to HUD in a HUD specified format after appropriate review and correction of the data. Contrary to its procedure, the Financial Operations Division provided housing assistance totaling more than \$28.5 million for 12 vouchers for the period October 1, 2008, through September 30, 2009, for which the contract administrator did not transmit electronic data to HUD or maintained a valid waiver.

## Recommendation

We recommend that HUD's Director of the Office of Housing Assistance Contract Administration Oversight

- 1A. Require the property owners and/or contract administrators to correct deficiencies identified or offset subsidy payments totaling \$588,869 for the 30 vouchers cited in this finding.
- 1B. Obtain and maintain a valid waiver until such time as HUD's system can accept the electronic submission of the supporting information, and ensure that the vouchers are reviewed in accordance with HUD's requirements for the 12 vouchers cited in this finding.
- 1C. Require the property owner and/or agent to provide a copy of the voucher totaling \$12,452, conduct a review and provide owner and/or agent with deficiencies for correction and offset payments if not corrected within 30 days.
- 1D. Implement adequate procedures and controls to ensure that housing assistance is provided in accordance with its regulations.
- 1E. Implement an adequate tracking system to ensure that voucher reviews are tracked throughout the process.
- 1F. Implement a quality control plan to ensure that housing assistance is provided in accordance with its regulations.

## Finding 2: HUD Failed to Review All Multifamily Housing Subsidy Payments Selected by Its System for Contracts Not Administered by It

A review of all multifamily housing subsidy payments selected for review by HUD's system for contracts administered by traditional and performance-based contract administrators was not conducted by HUD. For the period October 1, 2008, through November 30, 2009, 106 vouchers for contracts administered by traditional contract administrators were paid without being reviewed in accordance with the system requirements. In addition, four vouchers reviewed by the performance-based contract administrators and one that was reviewed by a HUD contract administration oversight monitor contained errors. This condition occurred due to the lack of quality controls over the voucher processing function relating to contracts not administered by HUD. As a result, more than \$2.5 million in housing assistance was improperly provided for contracts administered by traditional contract administrators, and more than \$131,000 was improperly provided in housing assistance for contracts administered by performance-based contract administrators.

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### **Housing Subsidies Were Provided Without a Review for Contracts Administered by Traditional Contract Administrators**

We reviewed all 133 of the vouchers for the period October 1, 2008, through November 30, 2009, for contracts administered by the traditional contract administrators that had been flagged by the system to be reviewed by the Financial Operations Division as of January 27, 2010. The vouchers were reviewed to determine whether the Financial Operations Division complied with HUD's requirements in processing the vouchers. Our review was limited to the reports received from the Financial Operations Division, information available in the system, information provided by the contract administration oversight monitors, and contract administrators.

Although the payments were released by voucher specialists and other HUD staff for all 133 vouchers, only 27 vouchers were marked as reviewed before payment. According to the Office of Program Systems Management, following the system's selection for review, the vouchers for contracts administered by traditional contract administrators are not paid until the voucher specialist conducts a review. However, according to the voucher specialist, the 106 vouchers totaling more than \$2 million were released for payment without a review based on management's verbal instructions. Further, the voucher specialist stated that the vouchers for contracts administered by traditional contract administrators were not reviewed if the subsidy amount requested by the project did not match the amount approved by the traditional contract administrator. This was because the voucher specialists did not have support for why the traditional contract administrator recommended

a different amount. Conversely, the voucher specialist stated that a limited review of the voucher was conducted when the subsidy amount requested by the project matched the amount approved by the contract administrator.

Of the 133 vouchers, we noted the following to be true based on the information present in the system and reports provided by the Financial Operations Division.

- For 118 vouchers, the amount requested by the owner matched the amount approved by the contract administrator. However, 96 vouchers were not marked as reviewed.
- For 15 vouchers, the amount requested by the owner did not match the amount approved by the contract administrator. However, five vouchers were marked as reviewed.

According to the Chicago Division Director of the Financial Operations Division, while the voucher specialist's statement in regards to the limited review is accurate, there was no way to determine whether any of the 133 vouchers had been reviewed.

According to the HUD Occupancy Handbook for subsidized multifamily housing programs, to obtain assistance payments, the owner must submit a monthly subsidy billing to HUD or the property's contract administrator. Nonetheless, the Financial Operations Division did not review 7 of the 106 vouchers it received, based on the report provided by the voucher specialist on voucher reviews completed for the period October 1, 2008, through November 30, 2009. As mentioned earlier, the payments for the 106 vouchers were released by voucher specialists and other HUD staff. The Appendix C of this report includes a more detailed description of the appropriate requirements used for the findings.

We reviewed two randomly selected vouchers totaling \$204,373 that were for contracts administered by traditional contract administrators and noted that the vouchers should not have been paid based on the incomplete information present in the system. These two vouchers were not reviewed by the voucher specialist. We noted the following discrepancies in one or both of the vouchers:

- The amount of housing assistance requested by the owner did not match the electronic submission of the request,
- Confirming certifications were not present in the system for at least 90 percent of the households included on the voucher,
- The system did not include current certifications for all households included on the voucher, and
- Inappropriate rent amounts were used in determining the housing assistance amount.

Both of the vouchers were reviewed by the traditional contract administrators. Nonetheless, housing assistance totaling \$19,779 was provided without the required supporting information for the two vouchers.

### **The Vouchers for Contracts Administered by Performance-Based Contract Administrators Were Not Reviewed**

According to the draft guidebook for Section 8 Contract Administration Initiative, dated March 15, 2001, the contract administration oversight monitor (monitor) conducts a monthly random sample of voucher processing in the system to test how accurately the contract administrators have processed vouchers. We contacted the 24 monitors throughout the Nation and noted that only 75 of the 1,485 vouchers had been reviewed by the monitors. Further, one of the four monitors in Region V<sup>1</sup> stated that he did not conduct a monthly random sample of voucher processing because vouchers underwent many edits in the system.

We reviewed four randomly selected vouchers totaling \$863,424 in approved payment amounts that were for contracts administered by performance-based contract administrators and noted that the vouchers should not have been paid based upon the information available in the system. At least one of the following discrepancies was noted in all four vouchers reviewed:

- Confirming certifications were not present in the system for at least 90 percent of the households included on the voucher;
- The system did not include current certifications for all households included on the voucher and/or certifications were not completed within the required timeframe for all households included on the voucher: and
- Adjustment errors exceeded 15 percent of regular assistance.

All four of the vouchers were initially reviewed by the performance-based contract administrators. Further, one of the four vouchers was also reviewed by a monitor; however, no discrepancies were noted by the monitor.

### **HUD Lacked Controls Over Its Multifamily Section 8 Housing Voucher Processing**

Contrary to HUD's requirements, 106 (133 minus 27) vouchers totaling more than \$2.7 million were not reviewed due to the lack of quality controls. In addition, management provided instructions to the voucher specialists reviewing the

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<sup>1</sup> HUD Region V includes Indiana, Illinois, Michigan, Minnesota, Ohio, and Wisconsin.

vouchers for contracts administered by the traditional contract administrators that were contrary to HUD's requirements.

HUD did not have controls over the vouchers for contracts administered by the traditional contract administrators. According to the multifamily field offices in Chicago, IL, and Columbus, OH, very little monitoring was conducted of the traditional contract administrators in their jurisdiction. This lack of monitoring was because the contracts administered by the traditional contract administrators were expected to be transferred to the performance-based contract administrators. However, as of September 10, 2010, there were 1,900 active contracts administered by traditional contract administrators. Further, 988 of these contracts would not be eligible to be transferred to the performance-based contract administrators in the next 5 years based on the contract expiration date. Further, HUD had paid nearly \$16 million in administrative fees to 34 traditional contract administrators for the 988 contracts for the period October 1, 2008, through November 30, 2009, as of October 5, 2010.

While voucher processing is an outsourced function relating to the contracts administered by the performance-based contract administrators, the monitors reviewed these vouchers randomly on a monthly basis. Consequently, not all of the vouchers selected by the system would be reviewed by HUD. As mentioned previously, only 75 of the 1,485 vouchers for the period October 1, 2008, through November 30, 2009, were reviewed by the monitors.

## Conclusion

Due to the lack of quality controls, HUD provided housing assistance totaling \$2,570,783 (\$2,775,156 relating to 106 vouchers minus \$204,373 relating to 2 vouchers) for 104 of the 106 vouchers without review. For 2 of the 106 vouchers, housing assistance totaling \$19,779 was provided without the required supporting information.

In addition, housing assistance totaling \$131,459 was provided without the required supporting information for four vouchers for contracts administered by performance-based contract administrators cited in this finding.

## Recommendation

We recommend that the Director of Office of Housing Assistance Contract Administration Oversight

- 2A. Conduct a review of the remaining 104 vouchers, provide owners and/or traditional contract administrators with deficiencies for correction, and offset payments if not corrected within 30 days.

- 2B. Implement adequate procedures and controls to ensure all vouchers for contracts administered by traditional contract administrators are reviewed as selected by the system. This should include developing a system of quality controls for management to verify that flagged vouchers are reviewed.
- 2C. Require the property owners and/or traditional contract administrator to correct deficiencies identified or offset subsidy payments totaling \$19,779 from non-Federal funds for the two vouchers cited in this finding.
- 2D. Require the property owners and/or performance-based contract administrators to correct deficiencies identified or offset subsidy payments totaling \$131,459 from non-Federal funds for the four vouchers cited in this finding.
- 2E. Implement adequate procedures and controls regarding its voucher processing to ensure that housing assistance is provided in accordance with HUD's regulations. This should include establishing written policies/procedures for its voucher specialists.

### Finding 3: HUD Did Not Monitor Its System and Staff's Authority for Making Voucher Payments

The system generated an incorrect message indicating that a review by the Financial Operations Division was needed for the 1,472 vouchers for contracts administered by performance-based contract administrators. Further, staff not responsible for approving multifamily housing subsidy vouchers had access to release vouchers for payment. This condition occurred because HUD failed to monitor its system and staff's authority for making voucher payments. As a result, the Financial Operations Division's workload was falsely inflated, and vouchers were paid without being reviewed.

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#### **HUD Did Not Monitor Its System and Staff's Access To Release Payments**

We reviewed 337,414 vouchers processed for payment regardless of being selected by the system to be reviewed by the Financial Operations Division for the period October 1, 2008, through November 30, 2009. The vouchers were reviewed to determine whether the system appropriately selected vouchers based on the contract's threshold amount. Also, the vouchers were reviewed to confirm that the system generated a message requiring a review by the Financial Operations Division for 1,472 vouchers. Our review was limited to the information available in the system and reports provided by the Financial Operations Division.

Voucher processing for contracts administered by the performance-based contract administrators is an outsourced function and the Financial Operations Division is not required to review the vouchers, according to the Office of Program Systems Management and the Multifamily Office of Housing Assistance Contract Administration Oversight. However, the system generated a message requiring a review by the Financial Operations Division for all of the 1,472 vouchers. According to the Office of Housing Assistance Contract Administration Oversight's Director, the system incorrectly generated the message, and it would be corrected once funding became available. Nonetheless, the system generated the incorrect messages thereby requiring a review of the vouchers at least since July 2007, according to the voucher specialist.

In addition, the system failed to select nine vouchers for which the voucher amount exceeded the contract's threshold amount, a condition that requires a voucher review. The threshold amount is determined automatically by the system based on the contract's average payments of the previous 12 vouchers multiplied by 180 percent according to the Office of Program Systems Management. In addition, the threshold amount can be set manually. Specifically, staff having



access to release vouchers for payment also had access to manually set the contract's threshold amount to any number. At the same time, the same staff had knowledge of the system-calculated threshold amount. If the contract's voucher amount was below the threshold amount, a payment was automatically processed.

Five of the nine vouchers totaling \$77,646 were automatically processed for payment. According to the Office of Program Systems Management the vouchers were not selected for review due to inconsistencies between the program type and contract number. Further, the Office of Program Systems Management stated that it was working with the multifamily housing policy to validate prepayment decisions for the rental assistance payment programs. Nonetheless, the Chicago Division Director of the Financial Operations Division said that the Financial Operations Division reviewed vouchers for the rental supplement and rental assistance payment programs as selected by the system for review.

Lastly, four non-Financial Operations Division staff released 34 vouchers totaling \$322,234 for the period October 1, 2008, through November 30, 2009. These payments were released between September 15, 2008, and November 2, 2009. The four staff members included an asset manager, funding analyst, financial analyst, and supervisor project manager. The four staff members stated that the reason for releasing voucher payments was that the two voucher specialists charged with the voucher review function at the time were overburdened and that the contracts involved unique situations. Further, on July 27, 2010, only one of the four staff members stated that she no longer had access to release voucher payments. Nonetheless, based on the responses received from the four individuals, it seems that two continued to have access to release payments.

All 34 vouchers were selected by the system to be reviewed by the Financial Operations Division. Also, the contracts relating to the 34 vouchers were administered by traditional contract administrators as of May 13, 2010.

According to the Chicago Division Director of the Financial Operation's Division, a review of the 34 vouchers was conducted only by the traditional contract administrators and not by HUD as required by the system. Further, these 34 vouchers were included in the 133 vouchers included in finding 2 of this report.

**HUD Lacked Adequate  
Controls Over the Voucher  
Selections and Payments**

The system incorrectly included vouchers in voucher specialists' workloads. Voucher specialists were only required to review vouchers for contracts administered by traditional contract administrators. However, there was no distinction in the system between the vouchers for contracts administered by

traditional and performance-based contract administrators when flagged for review. The vouchers for contracts administered by the performance-based contract administrators were included in the voucher specialists' workload but did not require a review. When these vouchers were released automatically by the system, the voucher specialists did not know why some of the vouchers from their workload were automatically released while others were not. The incorrect selection and subsequent release for payment of the vouchers administered by performance-based contractors falsely inflated the workload of the Financial Operations Division and did not allow voucher specialists to easily determine their workload at any given time or keep from reviewing vouchers not needing review.

## **Conclusion**

As a result of the Financial Operations Division's failure to maintain adequate controls, its workload was falsely inflated, and vouchers were paid by unauthorized employees. In addition, HUD lacked assurance that housing assistance payments totaling \$77,646 were provided in accordance with its regulations.

## **Recommendations**

We recommend that the Director of Office of Housing Assistance Contract Administration Oversight

- 3A. Conduct a review of the five vouchers totaling \$77,646, provide owners with deficiencies for correction, and offset payments if not corrected within 30 days.
- 3B. Implement adequate procedures and controls to prevent the Financial Operations Division's workload from being falsely inflated until such time as funds are available to correct the system.
- 3C. Implement adequate monitoring procedures and policies regarding the system's selection of vouchers for review to ensure consistency and relevancy.
- 3D. Implement adequate procedures and controls to prevent the approval of vouchers by unauthorized individuals.

## SCOPE AND METHODOLOGY

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To accomplish our objectives, we reviewed

- Applicable laws; regulations; HUD's program requirements at 24 CFR Parts 5 and 208; VoucherCity guidebook; Tenant Rental Assistance Certification System Internet User Guide and Monthly Activity Transmission User Guide; Draft Guidebook for Section 8 Contract Administration Initiative, dated March 15, 2001; HUD's voucher review procedures, dated April 20, 2009; the annual contributions contract; HUD's Housing Guidebook 4350.3; and 42 U.S.C. 3535(q).
- HUD's organizational chart and program vouchers.

We also interviewed the complainant and HUD's staff.

In addition, we relied in part on data maintained by HUD in its Tenant Rental Assistance Certification System (system). 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 adequately reliable for our purposes.

### **Finding 1**

Using data mining software, we statistically selected 98 of the vouchers from the 3,944 vouchers exceeding the contract's threshold amount, submitted at least a year later than the voucher date, or submitted manually as of January 27, 2010. The 98 vouchers were reviewed to determine whether they were accurately processed and paid. Our sampling criteria used a 90 percent confidence level with a 20 percent estimated error rate.

Unless the Financial Operations Division improves its procedures and controls regarding the voucher processing function, we estimate that 26.8 percent, or 1,054, of the 3,932 (3,944 less 12 vouchers relating to the New York traditional contract administrator) vouchers would be processed inaccurately. During the execution of the audit, a randomly selected, stratified sample of vouchers showed an error rate of 13 of 43 for vouchers totaling \$4,000 or less in size and an error rate of 17 of 42 in vouchers ranging from \$4,001 to \$1 million. Using variance-based modeling of proportions and a one-sided 95 percent confidence interval level, we are 95 percent confident that at least 26.8 percent or 1,054 of the 3,932 vouchers in the audit universe had similar errors, and the actual number could be more.

The projection of how many of the 3,932 vouchers are likely to have miscalculation errors was made by dividing the vouchers, based on size, into two different strata, and taking a random sample from each. The total number of voucher errors within the universe of 3,932 was estimated using a stratified attribute projection by means of a statistical computer program written in SAS®. We deducted the t-score of 1.663 corresponding to a one-sided 95 percent confidence interval at 83 degrees of freedom from the mean rate of error based on the stratified

sample of 1,388. We then multiplied this result by the standard error of 200.8 to account for statistical variance ( $1,388 - 1.663 \times 200.8 = 1,054$ ).

We performed our on-site audit work between December 2009 and March 2010 at HUD's Kansas City office located at 2345 Grand Boulevard, Room 1150, Kansas City, MO and the Chicago Financial Operations Division office located at 77 West Jackson Boulevard, 25<sup>th</sup> Floor, Chicago, IL. The audit covered the period October 1, 2008, through November 30, 2009, but was expanded when necessary to include other periods.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# 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 objectives:

- Effectiveness and efficiency of operations – Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost-effectiveness and efficiency.
- Reliability of financial reporting – Policies and procedures that management has implemented to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.
- Compliance with 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 lacked adequate procedures and controls to ensure that multifamily housing subsidy payments were accurately processed, payments were made only after a review, and authority to release payments was limited to the individuals charged with the voucher approval function (see findings 1, 2, and 3).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF UNSUPPORTED COSTS

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Recommendation number	Unsupported 1/
1A	\$588,869
1C	12,452
2C	19,779
2D	131,459
3A	<u>77,646</u>
Totals	<u>\$830,205</u>

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 audit work. 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.

# Appendix B

## AUDITEE COMMENTS AND OIG's EVALUATION

### Ref to OIG Evaluation


### Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

May 5, 2011

MEMORANDUM FOR: Kelly Anderson, Acting Regional Inspector General for Audit, 5AGA  
FROM:  Deborah K. Lear, Director, Office of Housing Assistance Contract Administration Oversight, HTC  
SUBJECT: Draft Audit Report - HUD's Multifamily Housing Subsidy Payments Review Process

This response is in follow up to the subject draft audit report received April 6, 2011. We are providing formal written comments to the draft report for your consideration as discussed at the exit conference call held on April 22, 2011.

### Comment 1

#### Recommendations 1D, 1E, 1F, 2B, 2E, 3B and 3C

Actions addressing these recommendations; procedures, policies and controls have been in place since 2009. During the audit period, information was provided regarding the implementation of these program enhancements. We are requesting these recommendations be deleted as a result of these actions and supporting information provided below.

#### HISTORICAL BACKGROUND

The Financial Operations Division (FOD), Office of Housing Assistance and Contract Administration Oversight (HACAO), Multifamily Housing, is responsible for the review and approval of Multifamily Housing subsidy payments as selected by HUD's Tenant Rental Assistance Certification System (TRACS). Historically, this responsibility rested with Multifamily Housing program offices in the field. As part of HUD's 2020 Management Reform Plan, the workload was centralized and placed under the Financial Management Center (FMC) in Kansas City, Missouri, in 1997. The FMC, a division of the Office of Public Housing, performed voucher reviews responsibilities for both the Office of Public Housing and the Office of Multifamily Housing.

In 2007, a reorganization was approved which reassigned the FMC staff from Public Housing to Multifamily Housing. FOD. Due to attrition, the entire voucher review function was being performed by two individuals. The lack of staff and program resources resulted in a backlog of vouchers to be reviewed and a flawed tracking mechanism to monitor the status of incoming vouchers.

HACAO management assessed the workload and resource needs and created a corrective plan of action during FY 2009 to address known program deficiencies as follows:

1 | Page



1. PIH ACCESS data base program called “Voucher City” used to track vouchers. This system was not a Department supported program and only accessible to Kansas City staff. This system was replaced with an excel-based tracking system developed by FOD management to monitor the receipt, assignment, review and payment of vouchers submitted for processing.
2. Kansas City staff had been both reviewing and approving vouchers for payment, a separation of duties control issue. Approval authority was transferred to the Chicago Division Director of FOD.
3. The voucher review workload was reallocated to all FOD staff to address the backlog and sustain current reviews. All vouchers submitted by owners and agents previously faxed to Kansas City, were faxed to the Chicago Office for assignment.

TRAINING

All voucher reviews had been conducted by the Voucher Specialists in Kansas City. Remaining staff had some experience in reviewing subsidy vouchers but limited and dated. FOD management developed a training plan to provide updated step-by-step guidance and conducted training for the additional staff.

DATA BASE MANAGEMENT VOUCHER CONTROL SYSTEM

Effective November, 2010, the excel based tracking system was retired and replaced with a new tracking and management tool in Sharepoint. Vouchers that are flagged in TRACS for manual review can either be emailed to a specific HUD mailbox, [voucherprocessing@hud.gov](mailto:voucherprocessing@hud.gov) or faxed. Faxes received are scanned and converted to Adobe PDF files and then emailed to the mailbox. Paper vouchers have been removed from the work flow; all files are electronic and obtainable at any time. Management control and staff accountability have also been built into the SharePoint tracking system.

MANAGEMENT OVERSIGHT

Vouchers received for review are all now maintained in electronic format on the Voucher Review Work Flow SharePoint site, specifically the Voucher Review – TRACS Processing Control Log. Within one day, vouchers are entered on the log. Data entered includes the contract number, the voucher month and year, the voucher amount, the Owner/Agent Email address and/or FAX number, the date the voucher was received, the voucher ID assigned by TRACS and the voucher status code as assigned by TRACS. Included in this process are vouchers we receive from Owners/Agents that are not subject to review. Many are vouchers with status P00 (already paid) or P10 (already approved by TRACS and set up to pay in LOCCS at the first of the following month). These are assigned to reviewers who prepare a “Review Not Required Notice” which is sent to the Owner/Agent Email address or FAX number. The Notice advises the recipient to check the TRACS status code in TRACS prior to submitting a voucher for review, thus eliminating unnecessary work by both the Owner/Agent and FOD staff.

## Ref to OIG Evaluation

## Auditee Comments

Other vouchers submitted that have a non-payment status code that is outside the scope of the FOD review authority are issued an "Ineligible Voucher Notice." This Notice advises the recipient to check the voucher's status code in TRACS and based upon that code, to either contact the TRACS Help Desk or their local HUD office. Examples of the latter are R22 (Project contract number not in LOCCS), R35 (voucher payment was rejected by Treasury), R41 (Expired contract in LOCCS), T41 (Contract expired in TRACS), T53 (Voucher failed TRACS compliance percentage standard), and T93 (Traditional Contract Administrator expired ACC).

Vouchers are then assigned for review in accordance with a specific assignment protocol and reviewers have 18 days in which to complete their review. Upon completion, the Reviewer completes a "Record of Manual Review TRACS Suspended Voucher" notice (hereafter "Record") which indicates if the voucher is accepted or rejected, and contains a listing of the seven review criteria a voucher must pass to be acceptable for payment. If marked "Reject," the reviewer checks the appropriate criteria that the voucher failed. Once "Record" is completed by the Reviewer, the Reviewer attaches the electronic document to the voucher record on the log in SharePoint and enters the date they completed the review.

Completed reviews are then automatically assigned to an Approver. The Approver reviews the "Record" and based upon the voucher having been marked "Accept" or "Reject," goes to the "Prepayment Decisions" screen in TRACS and either "Accepts" or "Rejects" the voucher. Where the voucher is rejected, the Approver then emails the Owner/Agent a copy of the "Record" which notifies them that the voucher was rejected and identifies the issue that resulted in the rejection. Depending upon if the voucher was accepted or rejected for payment, the Approver then enters into the voucher log either the Date Approved in TRACS or the Date Rejected in TRACS. This moves the voucher status in the log to "Completed."

The final step that must be completed is that the Approver must check the TRACS Voucher Query screen to determine if the voucher was in fact paid. If so, the Approver enters the Date Voucher Paid in TRACS on the voucher log and only then does the voucher's status move to "Closed."

### Measurable Accomplishments

Since the implementation of the Voucher Review – TRACS Processing Control Log, 2,395 vouchers have been reviewed and closed (as of 05/03/2011). There is no existing backlog of vouchers to be reviewed and vouchers are being reviewed in a timely manner. Customer service has improved drastically and the number of calls from our internal and external clients has declined to very few per month.

## **Comment 2**

**Recommendation 1A.** We reviewed the thirty vouchers cited in this finding and agree with nine of the vouchers, totaling \$567,404 out of the \$588,869 identified as having questionable costs. We either disagree with or are unable to confirm the remainder of the identified questioned costs because the data is no longer available in TRACS. The spreadsheet with the detailed findings of our review of the 30 vouchers is attached for review and consideration.

**Recommendation 1B.** The Office of Program Systems Management for Multifamily Housing has

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 3**

a corrective action plan developed to address this outstanding issue.

**Recommendation 1 C.** The Auditors, the Program Manager for Multifamily Housing in Ft. Worth, Texas and the owner/agent were unable to obtain the voucher requested. It is unlikely that this document will be located.

**Comment 4  
Comment 5**

**Recommendation 2A.** Additional information is needed to respond

1. e-mail PDF copies of the 104 vouchers cited in this recommendation.
2. e-mail the electronic Excel Spreadsheet that is editable (not protected) in order to organize and prepare the management decision. The spreadsheet should contain all of the vouchers that were reviewed by your Office and contained in the Draft Audit Report. Please include the following columns (fields) of information for each voucher reviewed:

- A. Recommendation Number Related to HAP Contract Number
- B. HAP Contract Number
- C. Date Voucher was for, e.g. month and year
- D. Voucher ID Number
- E. Dollar Amount of Voucher
- F. Deficiencies Noted on Each Voucher (The IG can list on the bottom of the spreadsheet the deficiency noted and assign that deficiency a number. The number could be placed in the Deficiency Column)
- G. Type of IG Review Conducted for Each Voucher (The IG can list on the bottom of the spreadsheet the Type of IG Review and assign that Review Type a number. The number could be placed in the Review Type Column). For example, the Review Type could be "1" if the Review Cover Sheet was missing, "2" If IG Performed a Complete Review of the Voucher, etc.
- H. Dollar Amount Assigned by the IG in the "Schedule of Unsupported Costs"

**Recommendation 2C.** Additional information is needed to respond, see requested information in Recommendation 2A.

**Recommendation 2 D.** Additional information is needed to respond, see requested information in Recommendation 2A.

**Comment 6**

**Recommendation 3A.** The system was showing a project number that should have failed the threshold edit but was automatically submitted for payment. The Office of Program Systems Management for Multifamily Housing confirmed that the data in the system was incorrect, caused by a system deficiency in TRACS/iCon, regarding project type. Corrective actions have been taken and this issue has been resolved. This system problem provided the Auditors with incorrect information. All of the vouchers were within the true threshold and eligible for payment without review. The finding is inaccurate and should be deleted.

**Comment 7**

**Recommendation 3D.** Access to TRACS and its components is the responsibility of TRACS Security, not FOD, which only controls access of its own staff.

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 8**

Draft Audit Clarifications:

**Finding Number Two:** The Finding Title and narrative do not provide enough detail for us to understand and should be revised and the IG should identify the issues. An entire portion is devoted to Performance Based Contract Administrator (PBCA) work, which FOD is not responsible for reviewing. All comments related to PBCA performance is outside the scope of this audit and should be deleted from the IG Audit Draft Report.

**Comment 9**

**Finding Number Three:** The Finding Title and narrative is not accurate. Since the implementation of the Voucher Review – TRACS Processing Control Log, 2,395 vouchers have been reviewed (as of 5/03/2011) by FOD. Vouchers administered by PBCAs are not submitted to FOD for manual review. The narrative as written in the IG Draft Audit Report suggests that out of 337,414 vouchers reviewed by the auditors, 1,472 (0.44 percent) were in this category.

**Comment 10**

Findings or Recommendations That Require Additional Information or Clarity

1. Provide a copy of the written and formally issued Voucher Review Procedures referred to on page one.

**Comment 11**

2. Provide a copy of the April 29, 2010 letter related to HUD Systems ability to provide tenant data and related to the Fatal Errors referenced on page 8, second paragraph for Manhattan Plaza.

**Comment 12**

3. The last sentence on page 5, fourth paragraph is not correct. FOD only reviews manual payments as selected by TRACS where the subsidy contract had error codes specific to FOD responsibilities. As written, it suggests the selection is from the total universe of contracts. This statement should be corrected.

**Comment 13**

4. Page 6, first paragraph, first whole sentence: Should say, "All vouchers submitted and entered into TRACS manually...." These are vouchers where the owner/agent was unable for some reason to submit the voucher to TRACS themselves and, instead, the voucher was entered into TRACS manually by HUD staff.

**Comment 14**

5. Provide the identification of the 96 vouchers not marked as reviewed referred to on page 13, second paragraph, first bullet.

**Comment 15**

6. Provide the identification of the 7 vouchers not reviewed referred to on page 13, fourth paragraph.

If you have any questions, please contact Deborah Lear, Director, Office of Housing Assistance Contract Administration Oversight at (202) 402-2768.

**Ref to OIG Evaluation**

**Auditee Comments**

Internal HUD Distribution:						
Identification Lines:						
Correspondence Code	Originator	Concurrence	Concurrence	Concurrence	Concurrence	Concurrence
Name						
Date						

Official Record Copy

U.S. Department of Housing and Urban Development  
Previous edition is obsolete.

form HUD-713.1 (02/03)

**Ref to OIG Evaluation**

**Auditee Comments**

Multifamily Office of Housing Assistance Contract Administration Oversight/Financial Operations Division/NON T91/92 Voucher Processing Review Analysis

X = Auditor Identified

A=FOD Agreement w Auditor U=FOD Unable to Verify

D=FOD Disagreement w Auditor

No.	Contract Number	Voucher Date	Expired Certs	Cert Comp Rate	Adjustments	Eligibility	Rents	Misc. Acct. Req.	Voucher Amt	Voucher Amount Paid	Date Voucher Reviewed by HUD	Reviewer Name	Unsupported Payment	FOD Re-reviewed By	Re-reviewed Unsupported Payment
1	CA16L000031	May-09	XD		XA					\$663,490	06/02/09		\$565,138		\$565,138
2	NC19Q951001	Apr-09			XA					11,877	04/15/09		6,098		6,098
3	FL290053094	Jan-09			XU					77,611	02/06/09		3,500		0
4	IL06S001005	Feb-09	XD							70,858	03/10/09		3,299		0
5	OH12Q51009	Feb-09		XD						2,896	07/06/09		2,896		0
6	AK06Q971002	Feb-09	XU	XD	XA	XA				1,939	02/02/09		1,939		0
7	IL06S031009	Oct-08	XU			XU				26,831	10/29/08		1,684		0
8	OH16Q921001	Jun-09		XA	XD					9,063	06/04/09		1,539		0
9	LA48L000003	Apr-09	XA							191,754	03/25/09		1,254		1,254
10	CA26Q021002	Dec-08	XU							12,304	12/19/08		936		0
11	IL06S021002	Jun-09	XU							22,437	06/01/09		755		0
12	OH160014005	Dec-08	XU							15,628	None	None	748		0
13	CO99Q961002	Nov-08	XU	XU						2,644	05/18/10		739		0
14	MN46Q041004	Oct-08	XU	XU		XU				2,342	09/29/08		734		0
15	MD39Q061002	Apr-09				XD				642	08/20/09	None	642		0
16	TX24Q031002	Sep-09				XD				2,293	09/10/09		638		0
17	NY06Q961010	Sep-09			XA					2,278	12/22/09		529		529
18	PA28S051002	Mar-09				XD				1,678	06/25/09		369		0
19	PA26S851005	Sep-09				XD				23,958	09/03/09		355		0
20	SD99S001001	Dec-08						XD		1,307	12/29/08		296		0
21	MI28S041004	Nov-08	XD							6,286	05/06/09		273		0
22	NY36S031001	Aug-09	XU							26,654	01/11/10		204		0
23	OH12S991008	Apr-09	XA							6,208	07/06/09		192		192
24	MO36S002001	Sep-09	XA							6,251	08/13/09		159		159
25	TN43Q931002	Feb-09	XA	XA						125	02/04/09		125		125
26	NC19D891017	May-09		XD						3,784	05/06/09		78		0
27	IN36A981002	Feb-09		XA						9,579	01/22/09		69		69
28	OH12S041021	Dec-08		XA	XA	XA				4,319	07/01/09		(6,160)		(6160)
29	CA39Q981002	Feb-09			XD					1,588	01/22/09		(120)		0
30	NC19Q941002	Apr-09		XD				XU		797	03/16/09		(39)		0
	TOTALS									\$1,209,421	N/A	N/A	\$588,869		\$567,404
	TX16S991004	May-09	Voucher Missing		XU					12,452	None	None	12,452		0

## OIG Evaluation of Auditee Comments

- Comment 1** The findings relate to the implementation of adequate procedures and controls. While we noticed significant changes implemented in the voucher review process to include segregation of duties in reviewing and approving the vouchers, and implementation of a new tracking and filing system, our findings relate to the adequate procedures and controls over the voucher review process. Specifically, a quality control plan was not implemented.
- Comment 2** According to the Office of Program Systems Management, the tenant and voucher data in HUD's Tenant Rental Assistance Certification System (system) is archived and accessible. Our review of the spreadsheet mentioned in the Office of Housing Assistance Contract Administration Oversight's comments did not provide any information that warranted any change in the housing assistance payments questioned in recommendation 1A.
- Comment 3** According to HUD's housing guidebook 4350.3, owners must keep a signed paper copy of the subsidy vouchers for at least five years after HUD or the Contract Administrator action. If the document cannot be located, the owner should recreate the voucher and repay what he cannot recreate/support or the full amount of the voucher should be returned.
- Comment 4** A listing of the 104 vouchers was provided to the Financial Operations Division on November 29, 2010, via email. During our review, we obtained 2 of the 106 vouchers from a traditional contract administrator and due to the time needed to obtain them we did not attempt to obtain the remaining 104 vouchers from the respective traditional contract administrators that maintained them. We noted the Financial Operations Division received at least 7 of the 104 vouchers, based on the reports provided by the Financial Operations Division. To implement the recommendation, the Financial Operations Division should obtain the appropriate vouchers and complete a review.
- Comment 5** A detailed schedule of all vouchers reviewed by us was provided to the Financial Operations Division on November 29, 2010, via email, although not in Excel, which included all of the fields requested by the Office of Housing Assistance Contract Administration Oversight's comments. We provided the information in Excel format via email on May 18, 2011.
- Comment 6** Documentation was not provided to show that there was a system error and that corrective actions were taken.
- Comment 7** Because the voucher review is the responsibility of the Financial Operations Division, it needs to ensure all vouchers flagged for review are paid only after being reviewed by its staff.

- Comment 8** The title to Finding 2 states HUD did not review vouchers for contracts not administered by it. These contracts include contracts administered by the performance-based contract administrators as well as the traditional contract administrators. As such, the finding includes discrepancies noted relating to both contract administrators. In addition, the audit scope related to all vouchers marked by HUD's system to be reviewed by the Financial Operations Division as of January 27, 2010, which included vouchers administered by performance-based contract administrators as well. Therefore, no changes are warranted to the discussion of the finding.
- Comment 9** The narrative was revised to reflect that the system generated an incorrect message indicating that a review was needed, not required, for the vouchers for contracts administered by performance-based contract administrators. However, no documentation was provided to verify that corrective actions were taken to ensure that vouchers for contracts administered by performance-based contract administrators were not marked by the system indicating that a review by the Financial Operations Division was needed.
- Comment 10** The voucher review procedures refer to the Financial Operations Division's voucher review procedures dated April 20, 2009, partially included in Appendix C of this report. This document was provided to us by the Financial Operations Division. We provided a copy of the written voucher review procedures to the director of Multifamily Housing Office of Contract Administration Oversight.
- Comment 11** We provided a copy of the letter dated April 29, 2010, issued by Multifamily Housing Office of Contract Administration Oversight's multifamily field office in New York.
- Comment 12** We revised the background section of the report.
- Comment 13** Because the vouchers were submitted manually for HUD's staff to input, we feel revision to the section is not warranted.
- Comment 14** We identified the 96 vouchers marked as not reviewed by conducting a basic analysis of the report provided by the Financial Operations Division. A listing was provided as requested.
- Comment 15** We identified the seven vouchers that were marked as received but not reviewed by the Financial Operations Division by conducting a basic analysis of the report provided by the Financial Operations Division. A listing was provided as requested.



## Appendix C

### FEDERAL REQUIREMENTS

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#### Finding 1

HUD's regulations at 24 CFR 208.101 state owners of subsidized multifamily projects are required to electronically submit certain data to HUD. This electronic submission of data is required by the following HUD forms: Owner's Certification of Compliance with Tenant's Eligibility and Rent Procedure, Worksheets to Compute Tenant Payment/Rent (forms HUD-50059 and 50059 worksheets), and the Monthly Subsidy Billing Forms, Housing Owner's Certification and Application for Housing Assistance Payments (form HUD-52670), Schedule of Tenant Assistance Payments Due (form HUD-52670A, part 1), Schedule of Section 8 Special Claims (form HUD-52670A, part 2), and Special Claims Worksheets (form HUD-52671 A through D), as applicable.

HUD's regulations at 24 CFR 208.108(a) state projects that currently use an automated software package to process certifications and recertifications and to provide subsidy billing to HUD must update their software packages and begin electronic transmission of that data in a HUD specified format by March 21, 1994. Part 208.108(b)(3) states projects that are nonautomated must begin electronic transmission by May 20, 1994.

HUD's regulations at 24 CFR 108(c)(2) require State housing finance and development agencies and public housing agencies that serve as the subsidy contract administrator to accept the electronic submission of the HUD forms (forms HUD-50059, 50059 worksheets, 52670 and 52670A, parts 1 and 2 and 52671 A through D) from the projects they administer, and electronically transmit that data to HUD in a HUD specified format after appropriate review and correction of the data.

42 U.S.C. 3535(q) states all waivers of HUD regulations: (1) must be in writing and indicate the grounds for granting the waiver; (2) may be delegated by the HUD Secretary only to an individual of Assistant Secretary or equivalent rank, who is authorized to issue the regulation be waived; and (3) must provide notification to the public through a notice published at least quarterly in the Federal Register.

The Tenant Rental Assistance Certification System's Monthly Activity Transmission User Guide, appendix G, part 2, provides a description of system codes and recommended action. For code VST31, the description states the voucher requires review by HUD/voucher processing division. The recommended action is to email a signed copy of the voucher to the voucher processing division. For code VST52, the description states the voucher is over a year old and it requires a review by HUD/voucher processing division. The recommended action is to e-mail a signed copy of the voucher to the voucher processing division.

The Housing Guidebook 4350.3, chapter 7, section 6 states it is the owner's responsibility to process all recertifications in a timely manner. HUD headquarters will terminate assistance payments if a new recertification is not submitted within 15 months of the previous year's recertification anniversary date. HUD has instructed contract administrators to terminate assistance payments to an owner if a new annual recertification has not been completed and submitted through the system within 14 months after the previous year's anniversary date. Owners must repay, by making an adjustment to the voucher, the assistance collected for the 3-month period from the date the annual recertification became effective through the end of the 15<sup>th</sup> month when assistance was terminated.

Record of Voucher Review – System Processing – Revision 4-20-09 includes procedures for reviewing vouchers. The voucher review procedure includes answering the following seven questions. (1) Does total subsidy agree with the electronic payment request? (2) Do total units not exceed total contract units in the system? (3) For project rental assistance contracts, are households age/income eligible at the time of move-in? (4) Do at least 90 percent of households have conforming certifications in the system? (5) Are expired recertifications within three months of current voucher date? (6) Do adjustment errors not exceed 15 percent of regular assistance? (7) Are assistance payments based on approved contract rents and utility allowances? If the answer to all questions is "yes", the voucher is to be recommended for payment. The voucher is to be put on hold if deficiencies are noted and corrections are to be made by the owner/agent. The voucher is to be rejected if the owner/agent reports transmission errors or fails to correct deficiencies within 30 days of the initial review.

Housing Guidebook 4350.3, Chapter 9, Section 7-E(2) states Owners must keep a signed paper copy of the subsidy vouchers for at least five years after HUD or the Contract Administrator action.

## **Finding 2**

The Tenant Rental Assistance Certification System's Monthly Activity Transmission User Guide, Appendix G, Part 2 provides a description of the system codes and recommended action. For code VST91, the description states the voucher failed system threshold edit and requires review by HUD/voucher processing division. The recommended action is to email a signed copy of the voucher to voucher processing division. For code VST92, the description states the voucher is a year old, but payment is approved by the traditional or performance-based contract administrator. However, the traditional contract administrator vouchers will be suspended for review. For these vouchers, the recommended action is to fax the signed voucher to the voucher processing division.

Housing Guidebook 4350.3, Chapter 7, Section 7-18B states owners must implement approved rent changes on the effective date approved by HUD or the contract administrator. In some cases, this date may reflect a retroactive approval, and the owner must change the tenant certification and adjust the monthly subsidy voucher. Revised data must be transmitted to the contract administrator or to the system to reflect the retroactive changes. Chapter 9, Section 9-

12B(1) of the Guidebook states that to obtain assistance payments, the owner must submit a monthly subsidy billing to HUD or the property's Contract Administrator. Draft Guidebook for Section 8 Contract Administration Initiative, dated March 15, 2001, requires the contract administration oversight monitor to conduct a monthly random sample of voucher processing in the system to test how accurately the contract administrators have processed vouchers.

### **Finding 3**

The Record of Voucher Review – Systems Processing – Revision 4-20-09 states a voucher requires a review under code VST31 because the voucher equals or exceeds the dollar threshold.

The memorandum from the Assistant Secretary for Housing to the Deputy Assistant Secretary for Human Resource Management, dated, February 1, 2007, states the transfer of Financial Management Center staff from the Office of Public and Indian Housing to the Office of Housing will improve the efficiency and effectiveness of operations and streamline the payment process for Housing's entire rental housing assistance portfolio. In addition, the Financial Operations Division is responsible for administration of funding, obligations, and payments for all multifamily housing rental assistance programs.