



Issue Date	September 26, 2011
Audit Report Number	2011-KC-0003

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

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: HUD Did Not Ensure That Housing Authorities Resolved Items on the Multiple Subsidy Report in a Reasonable Amount of Time

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of tenants who improperly received multiple housing subsidies in the Section 8 and public housing programs. We initiated this audit as part of our national annual audit plan.

The objective of our review was to determine whether HUD ensured that housing authorities resolved items listed on the Enterprise Income Verification (EIV) system's multiple subsidy report in a reasonable amount of time.

What We Found

HUD did not ensure that housing authorities followed up with an estimated 3,636 tenants listed on the EIV multiple subsidy report, and when applicable, took the appropriate corrective actions, in a reasonable amount of time, to eliminate the occurrence of an estimated \$340,679 in improper subsidy payments.

What We Recommend

We recommend that HUD notify housing authorities of the possible imposition of sanctions on those housing authorities that 1) fail to recover or attempt to recover improper subsidy payments; and/or 2) fail to use the EIV system in accordance with 24 CFR 5.233, and/or HUD administrative guidance. Additionally, we recommend that HUD modify the EIV multiple subsidy report to show the date that the tenant was flagged as potentially receiving multiple rental assistance and include an aging table to identify how long tenants have appeared on the report. Finally, we recommend that HUD implement a process to monitor and follow up with housing authorities on all tenants listed on the EIV multiple subsidy report that have been flagged for 6 months or more and ensure housing authorities implement appropriate corrective action(s) to eliminate the occurrence of improper subsidy payments, in a reasonable amount of time.

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 HUD with a copy of the draft report on August 18, 2011. We received the written response on September 22, 2011. HUD generally agreed 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.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding 1: HUD Did Not Ensure That Housing Authorities Resolved Items on the Multiple Subsidy Report in a Reasonable Amount of Time	5
Scope and Methodology	9
Internal Controls	11
Appendixes	
A. Schedule of Funds To Be Put to Better Use	12
B. Auditee Comments and OIG's Evaluation	13

BACKGROUND AND OBJECTIVES

The U.S. Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing (PIH) is responsible for ensuring the availability of safe, decent, and affordable housing for eligible program participants. This office is responsible for administering and managing the public housing and Housing Choice Voucher programs. Congress authorized more than \$18 billion and \$4.7 billion for tenant-based rental assistance and public housing subsidies, respectively, in fiscal year 2010.

The Improper Payments Information Act of 2002 required Federal agencies to assess every Federal program for improper payment risk, measure the accuracy of payments annually, and initiate program improvements to ensure that payment errors are reduced. This Act was subsequently amended by the Improper Payments Elimination and Recovery Act of 2010. In addition, Executive Order 13520 sought to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government, while continuing to ensure that the right people receive the right payment for the right reason at the right time.

HUD established the Rental Housing Integrity Improvement Project initiative to address the causes of errors and improper payments in HUD's assisted housing programs and to ensure that the right benefits go to the right persons. An improper payment is any payment that should not have been made or that was made in an incorrect amount under applicable requirements, including overpayments and underpayments. This also includes any payment that was made to an ineligible recipient and duplicate payments.

To assist in meeting the Rental Housing Integrity Improvement Project initiative goals, HUD developed and implemented the Enterprise Income Verification (EIV) system. The EIV system is a Web-based application, which provides housing authorities with income information for tenants of public housing and various Section 8 programs under the jurisdiction of PIH. The system also includes information on tenants participating in the Office of Multifamily Housing's rental assistance programs. This system is available to all housing authorities nationwide. HUD requires all housing authorities to review the EIV income report of each family during annual and interim reexaminations to reduce tenant underreporting of income and improper subsidy payments. If tenants appear in more than one HUD-subsidized household, their EIV income reports are flagged, indicating that they are possibly receiving multiple subsidies. They would also appear on the EIV system's multiple subsidy report, which identifies tenants who may be receiving duplicate rental assistance.

Our audit objective was to determine whether HUD ensured that housing authorities resolved items on the EIV multiple subsidy report in a reasonable amount of time.

RESULTS OF AUDIT

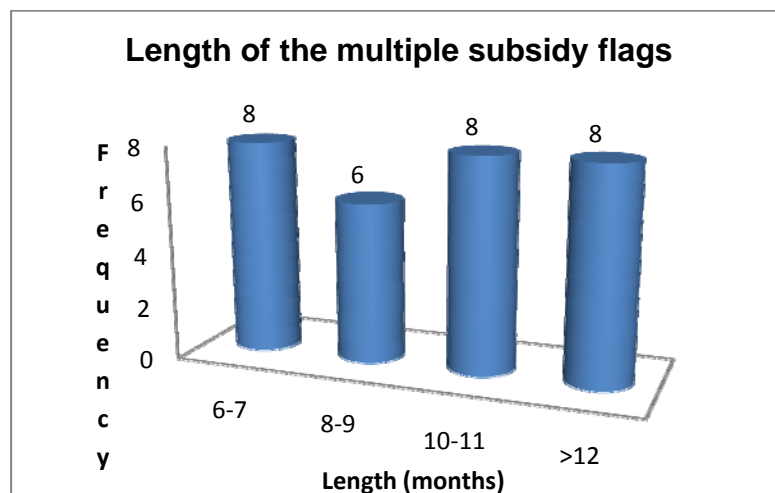
Finding 1: HUD Did Not Ensure That Housing Authorities Resolved Items on the Multiple Subsidy Report in a Reasonable Amount of Time

HUD did not ensure that housing authorities resolved an estimated 3,636 alerts on the multiple subsidy report in a reasonable amount of time. This deficiency occurred because HUD did not have adequate controls in place to highlight recurring items on the report. As a result, housing authorities did not properly identify and eliminate an estimated \$340,679 in improper subsidy payments on behalf of the identified tenants.

Unresolved Multiple Subsidy Items

HUD did not ensure that housing authorities followed up with an estimated 3,636 tenants listed on the EIV multiple subsidy report, and when applicable, took the appropriate corrective actions(s) within 6 months. The multiple subsidy report identifies all tenants who are listed in two or more HUD-subsidized households. This report is located within the EIV system, and HUD required all housing authorities to use this system, effective January 31, 2010. Regulations at 24 CFR (Code of Federal Regulations) 5.233 require the use of the EIV system to reduce administrative and subsidy payment errors and also establish penalties for noncompliance. In addition, PIH notice 2010-19 requires housing authorities to monitor this report quarterly as well as during annual and interim recertification actions for their tenants.

Of 68 items statistically selected from the 10,693 alerts on the multiple subsidy report, 30 remained on the report for between 6 and 48 months.



By projecting these unresolved cases to the universe of 10,693, we estimated that 3,636 cases were not resolved within 6 months. Based on HUD's requirements for EIV use, we considered 6 months to be a reasonable timeframe for HUD to ensure that housing authorities resolved these items.

Inadequate Controls

HUD did not have adequate controls to highlight recurring items on the multiple subsidy report.

EIV Report Weakness

The EIV system did not indicate how long a tenant had appeared on the multiple subsidy report and, therefore, did not identify those that were listed for many months. HUD and housing authorities could not determine when a tenant first appeared on the multiple subsidy report or how long the tenant had been there. HUD did not keep historical multiple subsidy records and, therefore, could not generate the report for a specific date in the past.

Lack of Aging Report

The EIV system did not have an aging report to identify tenants who had remained on the report for many months. HUD, as well as the housing authorities, would be able to identify multiple subsidy alerts that had been outstanding for a long time if HUD had an aging report.

Improper Payments

Housing authorities did not always properly identify and eliminate an estimated \$340,679 in improper subsidy payments.

Housing authorities did not always identify all multiple subsidy tenants. They did not always use the proper report selection criteria when generating the multiple subsidy report and, therefore, did not identify all potential multiple subsidy tenants. In some cases, housing authorities did not screen prospective tenants through the EIV system and, therefore, did not know that they were already receiving housing subsidies.

Housing authorities made \$32,278 in improper subsidy payments for the sampled tenants. Using statistical procedures that projected the improper payment errors to the entire universe of 10,693 alerts, we estimated that unresolved alerts resulted in at least \$340,679 in improper subsidy payments. These funds could have been used to assist others needing subsidized housing.

Conclusion

Housing authorities did not properly identify and eliminate improper payments made on behalf of tenants occupying 2 or more HUD-assisted units. HUD has reduced the risk of the occurrence of tenants erroneously receiving multiple subsidies for many months by requiring housing authorities to review the multiple subsidy report on a quarterly basis as well as with every required reexamination of family income and composition. When used properly, HUD's EIV system, including the multiple subsidy report, is an effective tool in preventing fraud and abuse within HUD's rental assistance programs. However, HUD did not ensure that housing authorities resolved alerts on this report in a reasonable amount of time.

In May 2011, HUD increased the likelihood that housing authorities would identify all tenants potentially receiving multiple subsidies by consolidating the search criteria options of the multiple subsidy report. Initially, housing authorities had to generate the report twice to find potential multiple subsidies across both public housing and multifamily housing programs. Now this search can be accomplished in one step, rather than two. HUD can further improve the effectiveness of the EIV system by listing the date in which the tenant was flagged as potentially receiving multiple rental assistance and include an aging table to identify how long tenants have appeared on the report. By improving its controls, we estimate that HUD could detect and prevent \$340,679 in improper payments for tenants that are already receiving housing subsidies.

Recommendations

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

- 1A. Notify housing authorities of possible imposition of sanctions on housing authorities that 1) fail to recover or attempt to recover improper subsidy payments; and/or 2) fail to use the EIV system in accordance with 24 CFR 5.233, and/or HUD administrative guidance, which results in the occurrence of improper payments.
- 1B. Modify the EIV multiple subsidy report to show the date that the tenant was flagged as potentially receiving multiple rental assistance and include an aging table to identify how long tenants have appeared on the report.

- 1C. Implement a process to monitor and follow up with housing authorities on all tenants listed on the EIV multiple subsidy report that have been flagged for 6 months or more and ensure housing authorities implement appropriate corrective action(s) to eliminate the occurrence of improper subsidy payments in a reasonable amount of time, to put \$340,679 to better use.

SCOPE AND METHODOLOGY

To accomplish our objective, we

- Reviewed applicable laws and regulations and
- Interviewed key HUD staff to gain an understanding of relevant controls.

In addition, we relied in part on data maintained by HUD in its EIV system. Specifically we relied on the multiple subsidy report generated within the EIV system as of February 5, 2011, and provided by HUD. Although we did not perform a detailed assessment of the reliability of the data, we determined that the computer-processed data were sufficiently reliable for our purposes because the data in the sampled items were corroborated by documentary evidence supplied by the sampled housing authorities.

Our sampling universe consisted of 10,693 unique Social Security number alerts of multiple subsidies. Our universe excluded 5,681 Social Security number alerts resulting from tenants receiving Section 236 subsidies in multifamily properties and holding Section 8 vouchers, as this is a permitted practice. We used a stratified attribute sample, and our sample unit was the Social Security numbers reported to a housing authority regarding tenants who appeared to receive multiple subsidies.

We developed an attribute sampling plan using a 90 percent confidence level with 10 percent desired precision and 50 percent estimated error rate. We then used SAS® software to select our sample. The sampling plan resulted in a sample size of 68 Social Security number alerts.

For each of the 68 tenants sampled, we contacted the sampled housing authority to obtain all relevant documentation for the tenant. This documentation included the date of admission, initial application, identifications obtained, initial and current form HUD-50058 certification forms used to record actions such as tenant move-ins, move-outs, and unit composition changes, multiple subsidy reports from the EIV system obtained as part of the housing authority's quarterly monitoring, and documentation supporting any contacts made or information obtained to determine whether a tenant was receiving housing subsidies in more than one location as well as actions taken. This documentation also included records of payments made on behalf of the tenants and any correspondence received from HUD related to the multiple subsidy report.

We then evaluated each sample item to determine the length of time the tenant had appeared on the multiple subsidy report by performing a comprehensive review of relevant HUD data as well as housing authority documentation. We determined that 30 items remained on the report for more than 6 months. Of these, 15 involved tenants that received housing assistance for more than one housing unit. The other 15 items involved multiple subsidy situations without a financial impact as well as false positives. We considered all 30 to be errors because they were not resolved by the respective housing authorities in a timely manner.

We used the number of multiple subsidy alerts in the audit sample that remained unresolved after 6 months to project the percentage and number of reports within our universe of 10,693. Each

observation was weighted to account for the size of the strata it was pulled from and its representation within the population. We used a SAS® program to apply the sampling weights and estimate the mean percentage with errors and the standard error. Through this procedure, we estimated that 3,636 alerts were not responded to within 6 months.

After evaluating all of the sample items, we calculated the improper payment amount for the 15 multiple subsidy items. To determine the improper payment amount for Section 8 tenants, we calculated the subsidy payment amount for the households, excluding the multiple subsidy tenants during the period when they were listed in multiple households. In the case of multiple subsidy tenants living in public housing units, we used an estimated average per unit subsidy amount based on 2010 public housing operating subsidy figures and the number of public housing units under management according to HUD's Web site to calculate the improper subsidy amount. The improper payments totaled \$32,278.

We then used additional analytical procedures to estimate the dollar impact of the unresolved alerts. Using the \$32,278 in improper payments identified, we adjusted the impact of some sampling units to account for a higher probability of discovering the associated dollars. Additional minor adjustments were made to the sampling weights to account for slightly different probabilities of selection within each stratum. The weighted samples were evaluated using the SAS® survey means procedure to estimate the mean and standard error in accordance with the audit findings and the sampling weights. These numbers were then applied to the population of 10,693 multiple subsidy alerts to estimate the mean dollars per alert and the minimum amount we could attribute to the total dollar impact. Through this procedure, we are 95 percent confident that the projected amount of improper subsidy payments is at least \$340,679. This figure is based on the lower confidence interval, so it could be substantially more.

Our audit period generally covered January 2010 through June 2011. We conducted the audit fieldwork in HUD's office in Washington, DC, between January and July 2011.

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 a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Policies and procedures to identify and prevent tenants from receiving multiple housing subsidies for an extended period.

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 did not have adequate controls to highlight tenants who had received multiple housing subsidies for an extended period.

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1C	\$340,679

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.


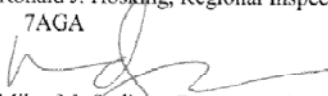

In this instance, if HUD implements the relevant controls, we estimate that it could detect and prevent more than \$340,679 in housing assistance and subsidies from being spent on tenants who are already receiving housing subsidies. Housing authorities will instead spend those funds to house other residents who are not currently receiving housing subsidies. These amounts do not include potential offsetting costs incurred by HUD to implement our recommendations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

	
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-5000	
OFFICE OF PUBLIC AND INDIAN HOUSING	
September 21, 2011	
MEMORANDUM FOR:	Ronald J. Hosking, Regional Inspector General for Audit, 7AGA
FROM:	 Milan M. Ozdinec, Deputy Assistant Secretary for Office of Public Housing and Voucher Programs, PE
THROUGH:	 David A. Vargas, Deputy Assistant Secretary for Real Estate Assessment Center, PX
SUBJECT:	Program Office Comments on the Draft OIG Audit Report Regarding HUD Did Not Ensure That Housing Authorities Resolved Items on the Multiple Subsidy Report in a Reasonable Amount of Time
<p>This office has received and reviewed the Office of Inspector General's (OIG) draft audit report referenced above and issued on August 18, 2011. The OIG audit report indicates that HUD did not ensure that housing authorities resolved 3,636 items on the multiple subsidy report in a reasonable time. As a result, housing authorities did not properly identify and resolve an estimated \$340,679 in improper subsidy payments. Below are my written comments to this draft audit report. I respectfully request OIG incorporate these comments into the final audit report.</p>	
<u>Page 2 – What We Recommend</u>	
PIH Comments:	
<ol style="list-style-type: none">1. Rather than sanctioning housing authorities that did not take the appropriate corrective action to eliminate the occurrence of improper subsidy payments on behalf of tenants receiving multiple rental housing assistance, PIH remains committed to providing housing authorities with training and technical assistance with effective use of the EIV Multiple Subsidy Report and require housing authorities to recover improper subsidy payments made on behalf of the affected tenants. PIH agrees to notify housing authorities of possible imposition of sanctions on housing authorities that demonstrate continued non-compliance with mandated EIV system use in accordance with 24 CFR 5.233.	
www.hud.gov espanol.hud.gov	

Comment 1

Ref to OIG Evaluation

Auditee Comments

Comment 2

2. PIH agrees with the OIG recommendation to modify the EIV Multiple Subsidy Report to include the date in which the tenant is flagged as potentially receiving multiple rental assistance. On August 25, 2011, PIH revised its Business Requirement Document to include modification of the EIV system to include the date in which a tenant is flagged as potentially receiving multiple rental assistance and include an aging table to identify how long a tenant has appeared on the report. This system enhancement will enable effective monitoring of a housing authority's progress in addressing and when applicable, preventing improper subsidy payments. The proposed system enhancement is scheduled for implementation in the spring of 2012 EIV system release, tentatively scheduled for April 13, 2012.

Comment 3

3. PIH agrees with the OIG recommendation to implement a process by which it may follow up with housing authorities regarding tenants listed on the EIV Multiple Subsidy Report for a period of 6 months or longer; and ensure that housing authorities promptly implement corrective action to eliminate the occurrence of improper subsidy payments.

Page 6 – Improper Payments

PIH Comments:

Comment 4

1. Effective May 2, 2011, PIH modified the search criteria for the EIV Multiple Subsidy Report so that the system will automatically search both PIH and Multifamily Housing (MFH) databases to identify tenants that may be receiving duplicate rental assistance. Thus, EIV will automatically identify all potential tenants receiving duplicate rental assistance across and within PIH and MFH program. PIH is appreciative of OIG's recognition of this achievement in its conclusion.
2. In the context of the Public Housing program, housing authorities are still eligible to receive operating subsidy for the unit which was occupied by a tenant who was receiving rental assistance within another PIH or MFH program. Thus, the estimated \$340,679 improper payments may be overstated depending on the impact of these types of cases on the housing authority's public housing formula income (tenant rent contributions). Elimination of duplicate assistance on behalf of the identified tenants (on the Multiple Subsidy Report) would result in a decrease in formula income which could ultimately result in the housing authority being eligible for additional operating subsidy.

Comment 5

3. The estimated \$340,679 in improper subsidy payments could be used to assist others in need of only **Section 8** subsidized housing, to the extent that a housing authority has vouchers available and within the limitation of the housing authority's annual contributions contract and appropriated budget authority; as the aforementioned dollar amount would not be adequate to construct new public housing units for occupancy by eligible families.

Thank you for the opportunity to comment on the draft report.

Ref to OIG Evaluation

Auditee Comments

Page 3

If you have any questions, please feel free to contact me on (202) 708-1380, or Nicole Faison, Program Advisor for the Office of Public and Indian Housing: Real Estate Assessment Center on (202) 475-7963.

OIG Evaluation of Auditee Comments

- Comment 1** We agreed with HUD's comment and we revised our recommendation accordingly.
- Comment 2** HUD started the process of implementing our recommendation during the audit. The implementation of the EIV system upgrade in April 2012 will adequately address our recommendation.
- Comment 3** Once HUD implements this process, it will address our recommendation.
- Comment 4** We agree that in the context of public housing programs, quantifying the amount of the improper payment for a particular tenant is difficult. Our result is the best estimate of the situation. Our estimate is the lower limit of our statistical projection, which is simply an estimate meant to quantify this problem and encourage HUD to make the recommended changes to reduce this amount.
- Comment 5** See comment 4. Additionally, we never advocated the construction of new public housing units.