



U.S. Department of Housing and Urban Development
Office of Inspector General
Gulf Coast Region, Office of Audit
Hale Boggs Federal Building
500 Poydras Street, Room 1117
New Orleans, Louisiana 70130

Phone (504) 671- 3710 Fax (504) 589-7277
Internet <http://www.hud.gov/offices/oig/>

MEMORANDUM NO.
2008-AO-0801

March 28, 2008

MEMORANDUM FOR: David Vargas, Director, Housing Voucher Programs, PE

Rose Capalungan

FROM: Rose Capalungan, Regional Inspector General for Audit, GAH

SUBJECT: Review of Duplication of Participants Benefits under HUD's Katrina Disaster Housing Assistance Program and Disaster Voucher Program

INTRODUCTION

We audited the U.S. Department of Housing and Urban Development's (HUD) Katrina Disaster Housing Assistance Program (KDHAP) and Disaster Voucher Program (DVP) administered by various public housing agencies. We initiated the audit as part of our examination of relief efforts provided by the federal government in the aftermath of Hurricanes Katrina and Rita. Our audit objective was to determine whether HUD established controls to ensure that the Housing Authority of New Orleans (HANO) pre-Hurricane Katrina Housing Choice Voucher program participants did not receive duplicate assistance under KDHAP and/or DVP.

BACKGROUND

HUD and the Federal Emergency Management Agency (FEMA), through a \$79 million mission assignment beginning October 2005, developed KDHAP in response to Hurricane Katrina. KDHAP provided temporary monthly rent subsidies to assist families in obtaining decent, safe, and sanitary housing in the privately owned rental market. On December 30, 2005, Congress approved the Defense Appropriations Act (Act), 2006 (Public Law No. 109-148). The Act appropriated \$390 million to HUD for temporary rental voucher assistance for certain families displaced by Hurricanes Katrina and Rita, thereby creating DVP. The Act also provides that families receiving assistance under DVP shall be eligible to reoccupy their previous assisted housing if or when it becomes available. As a result of the Act, KDHAP ended January 31, 2006.¹

HUD's Office of Public and Indian Housing developed notices for each program containing operating requirements that set forth the policies and procedures for the programs. These

¹ Some KDHAP participants were initially ineligible for DVP; therefore, those participants continued to receive KDHAP assistance after January 31, 2006.

operating requirements explained the design features of KDHAP and/or DVP and stated, respectively, that

- (1) A family may not receive the benefit of a KDHAP rent subsidy while receiving the benefit of the forms of other housing subsidies for the same unit or for a different unit² and
- (2) A family receiving assistance under DVP must comply with the family obligations under the *Code of Federal Regulations*.³

During our audit review of KDHAP/DVP participant eligibility,⁴ we identified duplication of benefits issues through sample testing. To address the extent of the issues, we developed a separate audit assignment related to review of KDHAP/DVP duplication of benefits. Since the Housing Authority of New Orleans (HANO) was the top public housing agency with participants registered within the Disaster Information System (22.14 percent), our audit objective was to determine whether HUD established controls to ensure that HANO's pre-Hurricane Katrina Housing Choice Voucher program participants did not receive duplicate assistance under KDHAP and/or DVP.

SCOPE AND METHODOLOGY

We performed our audit work between May 2007 and January 2008, at HANO's office located at 2511 Lafitte Street, New Orleans, Louisiana, and the HUD Office of Inspector General's (OIG) office in New Orleans, Louisiana. We also contacted various receiving public housing agencies maintaining the KDHAP/DVP files of the HANO Housing Choice Voucher participants we reviewed. The review covered the period September 1, 2005, through December 31, 2007. We adjusted our scope as necessary.

To accomplish our objective, we performed the following:

- Reviewed and analyzed housing assistance payment register and bank statements data provided by the HANO for the review period;
- Reviewed and analyzed data within the Disaster Information System provided by HUD;
- Matched the Disaster Information System information to cashed checks within the HANO housing assistance payment register for the Housing Choice Voucher program and developed a listing of participants who received rental payments on their behalf under Housing Choice Voucher after a lease was executed under the KDHAP/DVP program;
- Selected a nonstatistical sample of 15 out of a universe of 431 landlords contained in the participant listing noted above, which accounted for 51 participants, and performed detailed testing of the 51 participants' pre- and post-Hurricane Katrina assistance;

² 24 CFR (*Code of Federal Regulations*) 982.352(c)

³ 24 CFR: "The family must use the assisted unit for residence by the family. The unit must be the family's only residence ... an assisted family, or members of the family, may not receive Section 8 tenant-based assistance while receiving another housing subsidy, for the same unit or for a different unit, under any duplicative federal, state, or local housing assistance program."

⁴ 2008-AO-0001 –HUD Had a Less Than 1 Percent Error Rate in Housing Ineligible Participants under KDHAP and DVP Disaster Housing Assistance, issued December 4, 2007.

- Compared KDHAP/DVP payments to HANO's Housing Choice Voucher payments to determine whether the checks were paid on behalf of the participant under both programs in the same month, which would result in a duplicate assistance payment; and
- Interviewed HUD officials from the Office Public and Indian Housing's Housing Choice Voucher program, HANO staff, and officials and various staff at public housing agencies.

We determined that the computer data in the Disaster Information System related to determining KDHAP/DVP participant information were generally reliable. However, we determined that the computer data related to the HANO's housing assistance payment register were generally unreliable. Specifically, of the 51 participants reviewed, we identified eight discrepancies (15.68 percent) between the HANO housing assistance payment register and the Disaster Information System in which the systems showed different names and tenant information associated with the same Social Security number. We did not consider the eight instances as duplicate payments, even though the Social Security number matched, as the remaining participant information did not match. Additional testing showed that for all eight, the Social Security number matched the name in the Disaster Information System and not the name in HANO's housing assistance payment register. Thus, there is a risk that additional duplicate participants exist that were not detected by our testing methodology, as Social Security number information in HANO's register was not always reliable.

RESULTS OF REVIEW

In most of the cases reviewed, HUD ensured that KDHAP/DVP participants receiving assistance were not also receiving assistance under HANO's Housing Choice Voucher program. However, in a few instances (4 of 51), the participants received duplicate assistance. In all four cases, this occurred because HUD allowed Housing Choice Voucher Homeownership program (Homeownership program) participants to execute and receive KDHAP/DVP payments on their behalf while continuing to receive mortgage payments under the Homeownership program.

The Homeownership program is an option that allows a first-time homeowner to use his/her Housing Choice Voucher program subsidy to meet monthly homeownership expenses. Under the Homeownership program, a participant is responsible for finding an eligible unit to purchase instead of rent. Further, the public housing agency makes monthly homeownership assistance payments on behalf of the new homeowner and may make payments to the lender or directly to the participant.

HANO has continued to pay participants Homeownership program assistance payments after Hurricane Katrina to avoid placing the participants into foreclosure. Testing found that four participants executed KDHAP/DVP leases and received assistance while still receiving Homeownership program assistance payments on their behalf. Since the Housing Choice Voucher and KDHAP/DVP program regulations prohibit families from receiving assistance while receiving another housing subsidy or receiving assistance for more than one unit or a unit in which they do not reside, \$13,147 in Homeownership program funds was misspent. Further,

HANO had a total of 36 other participants in the Homeownership program, and they may also have received duplicate assistance.

Public housing agencies and HUD were aware that participants received assistance under both the Homeownership program and KDHAP/DVP. Further, HUD encouraged agencies to provide both forms of assistance. However, HUD did not provide written guidance stating that such payments were acceptable, nor did it waive the duplicate assistance provisions of the regulations. HUD's actions to prevent these families from losing their Housing Choice Voucher program-assisted homes after the disaster are commendable. HUD needs to prevent duplicate payments by working with the lenders to rework the mortgages and suspending payment, or HUD should seek a waiver for the duplicate payment prohibition for Homeownership program participants.

Testing also showed that two of the four participants also received Community Development Block Grant (CDBG) funding totaling \$161,090 to rebuild their property, and the other two applied for assistance but had not received it as of October 2007. Further, all four participants had also received rental assistance funding from FEMA totaling \$14,655 as of September 2006. HUD will need to ensure that the CDBG funding is not used to house the family while repairs are being made and work with FEMA to recover the rental assistance as it duplicated HUD's housing assistance.

Although our testing disclosed that only a few instances of Homeownership program duplication of benefits occurred, additional duplication of benefits could have occurred and not been detected by our testing as HANO's data were generally unreliable.

HUD generally agreed with the results, but disagreed with one of the three recommendations. HUD will not recover the ineligible payments to families who were homeownership voucher holders. Instead, HUD provided an alternative recommendation to publish a future notice, which would clarify this duplication of benefits issue and its circumstances. Once that notice is published, we will classify these currently ineligible payments as eligible. Further, HUD plans to address any duplication of benefits instances by coordinating with the OIG Office of Investigations. The complete text of HUD's response can be found in Appendix A. We accept HUD's decision and acknowledge HUD for taking a proactive approach to the subject matter.

RECOMMENDATIONS

We recommend that the HUD's Director of Housing Choice Voucher Programs

- 1A. Take appropriate actions to recover the ineligible funding totaling \$13,147 for four duplicate participants.
- 1B. Prevent duplicate payments by working with the lenders to rework the mortgages and suspending payment or seek a waiver for the duplicate payment prohibition for Homeownership program participants.

1C. Work with FEMA and HUD's Office of Community Planning and Development to ensure that their assistance did not duplicate HUD's rental assistance and recover any ineligible duplicate assistance payments, which currently total \$14,655.

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 COMMENTS



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

OFFICE OF PUBLIC AND INDIAN HOUSING

MAR 25 2008

FOR: Rose Capatungan, Regional Inspector General for Audit, GAH

THROUGH: Milan M. Ozdinec, Deputy Assistant Secretary,
Office of Public Housing and Voucher Programs, PE

FROM: David A. Vargas, Director, Housing Voucher Programs, PEV

SUBJECT: Review of Duplication of Participants Benefits under HUD's Katrina Disaster
Housing Assistance Program and Disaster Voucher Program

This memorandum is in response to Office of Inspector General (OIG) Memorandum No. 2008-AQ-0801 which describes HUD established controls to ensure that the Housing Authority of New Orleans (HANO) pre-Hurricane Housing Choice Voucher Homeownership Program participants did not receive duplicate assistance under the Katrina Disaster Housing Assistance Program (KDHAP) and the Disaster Voucher Program (DVP).

HUD's Office of Public and Indian Housing (PIH) developed notices for each program containing operating requirements that set forth the policies and procedures for the KDHAP and DVP programs that stipulate a family may not receive the benefit of a KDHAP or DVP rent subsidy while receiving the benefit of the forms of other housing subsidies for the same unit or for a different unit. PIH Policy staff has also determined that this may be permissible under 982.352(c)(12) which allows any other duplicative federal, State or local housing subsidy, as determined by HUD.

All Housing Choice Voucher Homeownership Program (HCVHP) properties affected by Hurricane Katrina were originally assessed by Neighbor Works America under a HUD cooperative agreement which expired in 2007.

The four (4) families you described in your memorandum are HANO families that moved into the HCVHP prior to Hurricane Katrina. Those single-family properties were subsequently destroyed or severely damaged by the Hurricane and are no longer habitable. Since these units were destroyed or severely damaged, HANO families opted to move into a private market rental unit under the guidelines of the HANO KDHAP/DVP programs. The HAP subsidy for those families continues to be paid by HANO to avoid instilling foreclosure proceedings on those individuals or families. Moving forward, PIH commends OIG for its due diligence in its scope and methodology to inform PIH of its misstep in not publishing 982.352(c) (12) as part of a PIH public notice. In response to your OIG recommendations, PIH issues the following comments:

Recommendation 1A: Take appropriate actions to recover the ineligible funding totaling \$13,147 for four duplicate participants.

Comments: Under 982.352(c)(12), PIH will not recover the \$13,147 for the four affected families. Instead, PIH will publish a future notice clarifying that these are not duplicate

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participant payments and the circumstances behind those payments.

Recommendation 1B: Prevent duplicate payments by working with the lenders to rework the mortgages and suspending payment or seek waiver for the duplicate payment prohibition for homeownership program participants.

Comments: PIH will prevent duplicate payments by working with appropriate lenders to rework the mortgages and provide individual or family case management through a second cooperative agreement between HUD and Neighbor Works America in calendar year 2008.

Recommendation 1C: Work with FEMA and HUD's Office of Community Planning and Development (CPD) to ensure that their assistance did not duplicate HUD's rental assistance and recover any ineligible duplicate assistance payments, which currently total \$14,655.

PIH will refer the families identified as potential duplication cases to the OIG for investigation.