



Issue Date September 30, 2010

Audit Report Number 2010-FW-0004

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

//signed//

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: HUD's Oversight of the Hurricane Ike Disaster Housing Assistance Program in Texas Needed Improvement

HIGHLIGHTS

What We Audited and Why

We audited the Disaster Housing Assistance Program (DHAP)-Ike as part of our ongoing commitment to the U. S. Department of Housing and Urban Development (HUD) to implement oversight of Disaster Recovery funds to prevent fraud, waste, and abuse. HUD used local public housing agencies (housing agencies) to administer DHAP-Ike rental assistance and provide case management services to families affected by Hurricanes Ike and Gustav.

Our audit objective was to determine whether HUD ensured that four housing agencies in Texas¹ correctly calculated and paid DHAP-Ike payments to eligible tenants and for eligible units in accordance with program requirements.

¹ The four Texas housing agencies that received the most referrals from the Federal Emergency Management Agency (FEMA) are Houston Housing Authority, Harris County Housing Authority, Port Arthur Housing Authority, and Galveston Housing Authority.

What We Found

HUD did not ensure that the four housing agencies in Texas that received the most assistance followed DHAP-Ike requirements for 51 (75 percent) of the 68 active files reviewed. Further, for 27 (40 percent) of the 68 files reviewed, the housing agencies' errors affected the payment or tenant/unit eligibility. These errors occurred because HUD relied on its contractors, did not provide standardized file guidance to the housing agencies, and only performed limited monitoring at the housing agencies. Projecting the results of the statistical sample showed that of the 9,817 families assisted by the four housing agencies, at least 6,374 (65 percent) of the families likely had an error in their file and at least 2,920 (30 percent) of the families' payments or eligibility was affected.

What We Recommend

We recommend HUD perform additional monitoring of its contractor, provide standardized guidance to the housing agencies, and perform onsite monitoring at the housing agencies. We also recommend that HUD require the four housing agencies to correct the file documentation errors in the 51 identified files and repay or support the 27 questioned payments totaling \$48,982.

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 our draft report on August 18, 2010 and held an exit conference with it to discuss the draft on August 31, 2010. We requested HUD's written comments by September 17, 2010 and HUD provided its response on September 20, 2010. HUD generally agreed with the audit report except for the total number of problem files and the ineligible and unsupported dollar amounts paid. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

We agree with HUD's planned actions for recommendations 1D, 1E, 1F, and 1I and will concur with them once HUD enters them into the Audit Resolution and Corrective Action Tracking System.

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BACKGROUND AND OBJECTIVE

In 2008, Hurricanes Ike and Gustav struck the Gulf Coast of the United States. On September 23, 2008, the U. S. Department of Housing and Urban Development (HUD) and the Federal Emergency Management Agency (FEMA) executed an Interagency Agreement under which HUD acted as the servicing agency of Disaster Housing Assistance Program (DHAP)-Ike. HUD's Office of Public and Indian Housing began administration of the program effective November 1, 2008. HUD used local public housing agencies (housing agencies) to administer tenant-based rental assistance and provide case management services to affected families.

Pursuant to FEMA's grant authority, HUD provided grants to housing agencies to administer DHAP-Ike. Housing agencies made rental assistance payments for eligible families to landlords for a period not to exceed 17 months, beginning November 2008 and ending no later than March 2010. The DHAP-Ike program has been extended twice to May 27, 2010, and to October 31, 2010.

HUD hired a contractor to monitor DHAP-Ike. The contractor's primary responsibilities included validating data entered by housing agencies into HUD's computer database, the Disaster Information System (DIS). The contractor also resolved DHAP-Ike complaints and answered inquiries for HUD. However, the contractor submitted to HUD inquiries that it could not answer. Further, the contractor collected issues and compiled reports, which it then submitted to HUD. The initial contractor's term expired in January 2010. HUD entered into another contract with a different contractor, which had staff in place in late April 2010.

To be eligible for assistance, a family had to have been displaced by Hurricanes Ike or Gustav and referred to HUD by FEMA. FEMA was solely responsible for determining whether a family was initially eligible to receive assistance. The housing agencies verified a family had been determined eligible by FEMA through DIS. They actively assisted the family in locating an eligible unit. Housing agencies also calculated the monthly rent subsidy, made monthly rent subsidy payments on behalf of the participating families, performed unit inspections to ensure the units met limited housing quality standards, and provided case management services. Further, the housing agencies were responsible for terminating a family's participation if it failed to comply with the program's family obligations or was no longer eligible for continued assistance, as well as resolving any appeals of that determination. Initially, there were no income eligibility requirements for DHAP-Ike. However, only families with housing costs that exceeded 30 percent of the family's monthly income were eligible for continued rental assistance and case management services. Beginning May 1, 2009, families were required to pay a portion of their rent, starting at \$50 per month and increasing by an additional \$50 each subsequent month, except for families that qualified for an exception on the basis of economic hardship as defined by HUD. This incremental rent transition increase was to prepare the family to assume full responsibility for its housing costs at the end of the program.

Our audit objective was to determine whether HUD ensured that four housing agencies in Texas correctly calculated and paid DHAP-Ike payments to eligible tenants and units in accordance with program requirements.

RESULTS OF AUDIT

Finding: HUD's Oversight of Texas Housing Agencies Administering DHAP-Ike Needed Improvement

HUD did not ensure that the four housing agencies in Texas that received the most assistance followed DHAP-Ike requirements for 51 (75 percent) of the 68 active files reviewed. Further, for 27 (40 percent) of the 68 files reviewed, the housing agencies' errors affected the payment or tenant/unit eligibility. These errors occurred because HUD relied on its contractors, did not provide standardized file guidance to the housing agencies, and only performed limited monitoring at the housing agencies. Projecting the results of the statistical sample showed that of the 9,817 families assisted by the four housing agencies, at least 6,374 (65 percent) of the families likely had an error in their file and at least 2,920 (30 percent) of the families' payments or eligibility was affected.

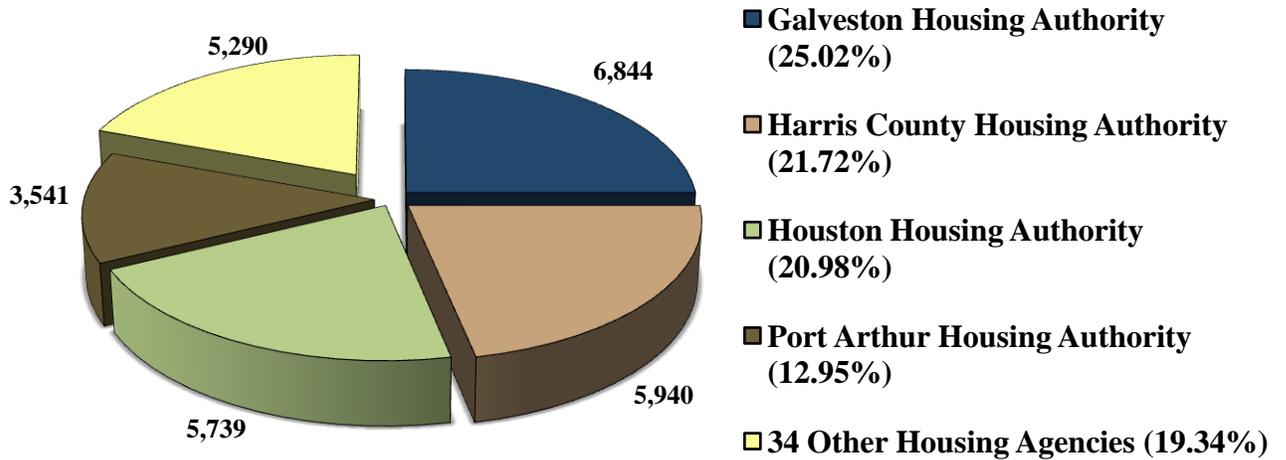
Four Texas Housing Agencies Assisted a Majority of the Families

As shown in the following graph, of the 27,354 families FEMA determined to be eligible and assigned to HUD in Texas, four Texas housing agencies were assigned a majority of the families seeking DHAP-Ike assistance. As of November 6, 2009, the 9,817 active² families assigned to these four housing agencies accounted for 80.7 percent of all active families assigned for DHAP-Ike housing assistance in Texas. A statistical sample of 68 files from the 9,817 families was selected and reviewed.³

² Although 27,354 families applied to FEMA for assistance, HUD only provided DHAP-Ike assistance to 9,817. Those families that received a HUD payment were considered to be "active" families.

³ For more information on the type and selection of the statistical sample, see the Scope and Methodology section.

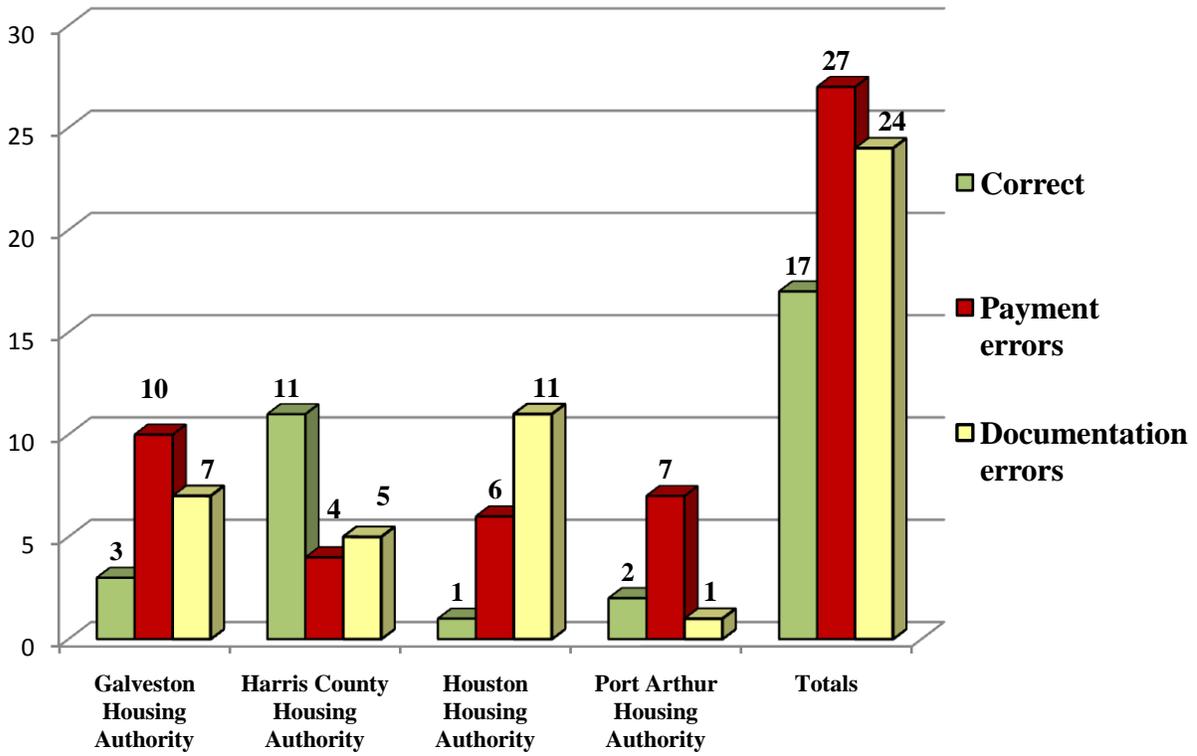
DHAP - Ike assigned families by Texas housing agency



Housing Agencies Made Errors in 51 of the 68 Files Reviewed

HUD did not ensure the four Texas housing agencies complied with DHAP-Ike requirements for 51 (75 percent) of the 68 files reviewed. Of the 51 files with errors, the housing agencies made errors in 27 (40 percent) files that affected the payment. For the remaining 24 (35 percent) files, the housing agencies' files had documentation errors including assistance contracts unsigned by the housing agency, inconsistent information between the housing agency's tenant file and the DIS database, or missing forms. The review results by housing agency are included in the following graph.

Housing agency file review results



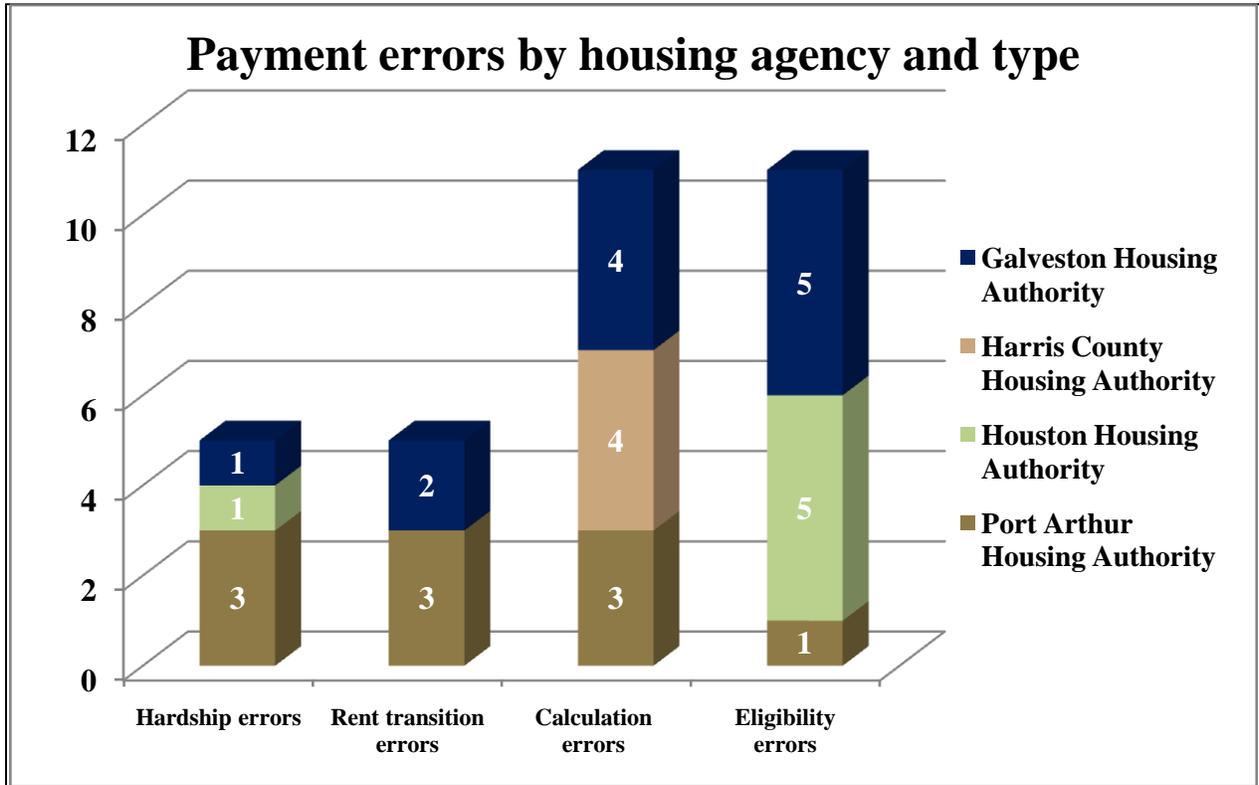
Four General Types of Payment or Eligibility Errors Existed

The housing agencies made errors which affected the payment or tenant/unit eligibility in 27 (40 percent) of the 68 files. The payment errors consisted of four broad categories:

- Hardship errors – A hardship error included the housing agency’s making some type of error that affected the hardship calculation such as a hardship form not approved, a hardship applied to the wrong month, or an incorrectly calculated hardship.
- Rent transition errors – Rent transition errors included the housing agency’s not properly following rent transition requirements or making a mathematical error in calculating the statutory decrease in monthly rental payments.
- Calculation/payments errors – Calculation/payment errors included the housing agency’s overpaying rent due to duplicate payments, making payments before the date of lease, paying the payment standard instead of the lease rent, paying rent in excess of the approved rent reasonableness amount, and/or making calculation errors.

- Tenant/unit eligibility errors– Tenant/unit eligibility errors included the housing agency’s lacking a lease agreement or not properly determining the unit was eligible for assistance.

For these 27 files, the housing agencies’ payment errors resulted in overpayments and underpayments totaling \$48,982.⁴ The following graph shows the breakdown of the payment errors into the four categories by housing agency.⁵



Projecting the Sample Results Indicated Significant Housing Agency Error Rates

The housing agencies made some type of error in 51 of the 68 sample files. Further, their errors affected the payment amount in 27 of these files. Projecting the results of the statistical sample showed that of the 9,817 active DHAP-Ike-assisted families, the housing agencies made errors in their files for at least 6,374 (65 percent) of the families. Further, at least 2,920 (30 percent) of the families’

⁴ Ineligible overpayments totaled \$16,266; unsupported payments totaled \$33,516; and amounts underpaid, which are funds to be put to better use, totaled \$800 (16,266 + 33,516 – 800=48,982). For complete results, see the table in appendix C.

⁵ Housing agencies in some instances made more than one type of payment error for a family; therefore, the errors will not total to 27.

payments or eligibility were affected.⁶ A HUD Office of Public and Indian Housing representative stated this was an unacceptable error rate that HUD must correct and that HUD would work with the Office of Inspector General (OIG) to resolve the finding.

HUD's Oversight Needed Improvement

HUD's oversight of its housing agencies and its contractors needed improvement. The housing agencies had significant error rates because HUD relied on its contractors for oversight of the housing agencies and it only performed limited monitoring at the housing agencies. Additionally, HUD's contractors acted as the onsite liaison and provided guidance to housing agencies. However, from January through April 2010, HUD had no contractor in place when one contract ended and before a new one began. HUD also monitored issues by reviewing frequently asked questions and e-mails from housing agencies. Yet, HUD staff members said they were not aware that the housing agencies needed additional assistance. Further, HUD stated that housing agencies lacked standardization for their files, as each housing agency had a different system for processing and maintaining the files, and they resisted standardization.

HUD Had Taken Corrective Action

During the audit, HUD allowed the previous contract to expire and replaced the contractor to improve results because it was not completely satisfied with the contractor's performance. Once HUD was informed of our preliminary results, it took immediate action by providing DHAP-Ike training to its staff, increasing monitoring and site visits at housing agencies, conducting regular group conference calls with all active housing agencies, and implementing a standardized file format for housing agencies.

Housing Agencies Made a Few Additional Improper Payments

In addition to reviewing tenant files, testing was performed that compared the DHAP-Ike database information to Social Security number information. Testing results revealed 70 instances (less than 1 percent) where the four housing agencies made payments to a deceased family member or to a family member whose Social Security number was invalid.⁷ Additional testing performed on all 70 families

⁶ See the Scope and Methodology section for detailed information.

⁷ The 70 families consisted of 15 families with invalid Social Security numbers and 55 families with Social Security numbers associated with a deceased individual.

disclosed that housing agencies only made improper payments in 15 instances (approximately .1 percent). In 12 instances, the housing agencies made ineligible payments totaling \$15,327 for deceased family members, and in 3 instances, they made unsupported payments totaling \$19,994 for possibly invalid Social Security numbers.

For deceased family members, the housing agencies made these improper payments because the landlords and/or families did not notify them of the deceased family member and the housing agencies did not have access to an Enterprise Income Verification (EIV) system report that identified deceased tenants. In addition, the housing agencies made most of the ineligible payments for only a month or two. For the invalid Social Security numbers, a majority of the errors were due to FEMA's entering the tenant's date of birth into the system incorrectly. For those few cases with invalid numbers, the housing agencies had to rely on the family to accurately report its information and lacked access to EIV to confirm the reported Social Security numbers. HUD agreed housing agencies need EIV access, but as of July 13, 2010, housing agencies did not have access.

Conclusion

HUD did not ensure that four Texas housing agencies followed DHAP-Ike requirements for 51 (75 percent) of the 68 active files reviewed. Further, for 27 (40 percent) of the 68 files reviewed, the housing agencies had errors that affected the payment or tenant/unit eligibility. The housing agencies made these errors because HUD relied on its contractors, did not provide standardized file guidance to the housing agencies, and only performed limited monitoring at the housing agencies. Projecting the results of the statistical sample showed that of the 9,817 DHAP-Ike-assisted families, the four housing agencies made material errors for at least 6,374 (65 percent) of the families. Further, at least 2,920 (30 percent) of the families' payments or eligibility were affected. The housing agencies also made improper payments for a few deceased family members and family members with invalid Social Security numbers because the housing agencies lacked access to EIV, which would identify deceased tenants and confirm reported Social Security numbers. HUD had taken some actions to resolve the finding.

Recommendations

We recommend that the Deputy Assistant Secretary, Office of Public Housing and Voucher Programs,

- 1A. Require the housing agencies to repay their DHAP-Ike accounts from non-Federal funds \$16,266 in ineligible overpayments.

- 1B. Require the housing agencies to support the unsupported payments or repay their DHAP-Ike accounts from non-Federal funds \$33,516 in unsupported costs.
- 1C. Require the housing agencies to reimburse families for underpaid assistance of \$800.
- 1D. Require the housing agencies to correct the file documentation errors in the 24 identified files.
- 1E. Provide standardized guidance to the housing agencies and perform onsite monitoring at random housing agencies to ensure compliance with the program's requirements.
- 1F. Provide increased oversight to ensure the contractor follows the contract requirements. Oversight should include ensuring that the contractor provides training, monitors housing agencies, and performs onsite monitoring reviews that include file reviews.
- 1G. Require the housing agencies to repay their DHAP-Ike accounts from non-Federal funds \$15,327 in ineligible costs for improper payments made to deceased family members.
- 1H. Require the housing agencies to support or repay their DHAP-Ike accounts from non-Federal funds \$19,994 in unsupported costs for improper payments made to a family member with an invalid Social Security number.
- 1I. Provide the housing agencies with EIV access to allow them to identify deceased tenants and confirm reported Social Security numbers.

SCOPE AND METHODOLOGY

To accomplish our audit objectives, we

- Reviewed the Interagency Agreement between FEMA and HUD and the DHAP-Ike grant agreement between HUD and various housing agencies;
- Reviewed applicable HUD regulations including Office of Public and Indian Housing (PIH) Notice 2008-38, Disaster Housing Assistance Program - Ike (DHAP-Ike) Operating Requirements; PIH Notice 2008-45, Disaster Housing Assistance Program - Ike (DHAP-Ike) Case Management Guidelines; and PIH Notice 2010-22, Consolidated Guidance on Disaster Housing Assistance Program - Ike (DHAP-Ike) and Extension Operating Requirements;
- Reviewed DHAP-Ike policies, procedures, and prior DHAP audit reports;
- Reviewed HUD monitoring reports and related correspondence between HUD and housing agencies; and
- Conducted interviews with HUD, various housing agencies, and contractor staff.

We obtained a download of FEMA client assignments to Texas housing agencies from HUD's DIS database. We assessed the reliability of the DIS database downloads provided by HUD and determined that the computer-processed data in our sample database were generally reliable for the purpose of this audit. Of the 27,354 families FEMA determined to be eligible and assigned to HUD in Texas, four Texas housing agencies (Harris County, Houston, Galveston, and Port Arthur) were assigned a majority of the families seeking DHAP-Ike assistance. As of November 6, 2009, families assigned to these four housing agencies accounted for 80.7 percent of all families that were assigned to Texas housing agencies for possible DHAP-Ike housing assistance. For these four housing agencies, the original database consisted of 20,651 families from the four Texas housing agencies with the largest number of family assignments between November 1, 2008, and December 17, 2009. A statistical selection was made to reach conclusions about the entire population assigned to the four housing agencies based on projections from the sample. Using this method, we selected a statistical random attribute sample of 68 tenant files for review. We selected our sample using a 90 percent confidence level and a 10 percent precision rate. However, the initial sample selection from this database included all families assisted by FEMA, but some had never received DHAP-Ike assistance from HUD. We referred to these as "inactive families." After reducing the database to exclude inactive families, our universe consisted of 9,817 DHAP-Ike beneficiaries. We replaced inactive families with additional randomly selected active families.

We performed detailed testing on the 68 files. We reviewed the client files and assistance payment histories maintained by each of the four housing agencies. Our testing and review included

- Ensuring the housing agency properly verified the eligibility of program participants in HUD's DIS system.

- Ensuring the sample file contained documentation showing that the housing agency provided required elements of the DHAP-Ike program (e.g., an executed case management services agreement and a disaster rent subsidy contract).
- Determining whether the housing agency ensured the unit met the program’s housing quality standards before being occupied.
- Verifying the accuracy of rental assistance payments made by the housing agency.

We projected the results of the number of errors and payment errors found. We did not project monetary results. The following table contains the projection of our testing, which showed that we are 90 percent confident that

Files will have an error	
Lower limit	Upper limit
6,374	8,185

Files will have a payment error	
Lower limit	Upper limit
2,920	4,944

During the database validation, we performed 100 percent testing of the families’ Social Security numbers. Of the of the 9,817 DHAP-Ike assisted families, we identified 70 (less than 1 percent) instances of questionable Social Security numbers, including active beneficiaries whose numbers indicated they were deceased or whose numbers were issued prior to their date of birth. We performed testing on all 70 instances and obtained supporting documentation from the four housing agencies, such as identification and payment records. Based on our testing, we determined the housing agencies improperly paid assistance to only 15 of the 9,817 DHAP-Ike beneficiaries (approximately .1 percent).

We performed our fieldwork with HUD between January and July 2010 at our offices in Houston and Fort Worth, TX. We conducted our site work at the Houston Housing Authority, Houston, TX; Harris County Housing Authority, Houston, TX; Galveston Housing Authority, Galveston, TX; and Port Arthur Housing Authority, Port Arthur, TX, between February and June 2010. We expanded our scope as necessary to accomplish the objective.

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 control was relevant to our audit objective:

- Policies and procedures established by HUD to ensure that Texas public housing agencies correctly calculated and paid rental assistance in accordance with DHAP-Ike requirements.

We assessed the relevant control 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 Deficiencies

Based on our review, we believe that the following item is a significant deficiency:

- HUD did not have adequate policies, procedures, and controls in place to effectively monitor the housing agencies administering the program (finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1A	\$16,266		
1B		\$33,516	
1C			<u>\$800</u>
1G	<u>15,327</u>		
1H		<u>19,994</u>	
Totals	<u>\$31,593</u>	<u>\$53,510</u>	<u>\$800</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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, it represents the amount of underpayments that should be made to eligible DHAP-Ike families.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
451 7th St. SW, Washington, D.C. 20410

OFFICE OF PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

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

SUBJECT: Office of the Inspector General (OIG) Audit Report No. 2010-FW-000X – HUD's Oversight of the Hurricane Ike Disaster Housing Assistance Program in Texas Needed Improvement

This memorandum is in response to Office of Inspector General (OIG) Audit Report 2010-FW-000X. OIG audited the Department of Housing and Urban Development's (HUD) Disaster Housing Assistance Program – Ike (DHAP-Ike) administered by various public housing agencies (PHAs). HUD and the Federal Emergency Management Agency (FEMA) initiated DHAP-Ike under an Inter-agency Agreement (IAA) on September 23, 2008 in response to Hurricanes Ike and Gustav. DHAP-Ike provides rental assistance and case management services to families impacted by the hurricanes. DHAP-Ike was scheduled to terminate on March 31, 2010; however, the program was initially extended to May 27, 2010 and later extended a second time to October 31, 2010 in order to assist families with continued need.

Comment 1

HUD's Office of Public Housing and Voucher Programs (OPHVP) worked closely with OIG on this audit and welcomes recommendations that could lead to improved program management and oversight. This audit coincided with OPHVP's own effort to review files and financial records across the largest DHAP-Ike grantees. OIG's on-site presence between February and June 2010 assisted OPHVP in its ongoing effort to bring grantees into compliance and sent a strong message to grantees that all program files must be complete and payments fully reconciled with the DHAP-Ike system of record, the Disaster Information System (DIS).

FEMA referred over 51,000 families for DHAP-Ike assistance, but only 17,000 of these families agreed to participate and received housing assistance under the program. On referral from FEMA, HUD performs an initial duplicate assistance and Social Security Number (SSN) match against other HUD and federal databases to ensure that no family is receiving HUD assistance or that no head of household is deceased prior to loading the family into DIS for assignment to a PHA. Those receiving HUD assistance or found to be deceased are marked in DIS as ineligible and do not receive DHAP-Ike assistance. These families are referred back to FEMA. After these processes are completed HUD contractors typically perform quality assurance checks on system data (primarily checking payment calculations and inconsistencies that suggest policy violations) and periodically match participating families against HUD and other federal databases to identify emergent duplicate assistance issues or deceased heads of household post FEMA referral.

In terms of program guidelines, each PHA operates their program under a Grant Agreement with FEMA that requires them to adhere to all HUD-issued program guidelines, the

IAA with FEMA, and DIS reporting requirements. HUD provides uniform program guidelines by issuing Federal Register Notices, distributing follow-up FAQs (including instructions for determining hardship exceptions and continued eligibility assessments), and publishing all documents on the HUD web page. As OIG notes, these materials do not include requirements or recommendations for the composition and contents of PHA source document files. OPHVP further convenes monthly satellite broadcasts that focus on important DHAP-Ike policy, reporting, financial, and system issues, and fields questions from PHAs during these broadcasts. At the front end of DHAP-Ike, OPHVP also conducted field trainings for PHAs on DHAP-Ike policies and systems.

DHAP is not a permanent HUD program and is temporarily established for each engagement under an IAA between HUD and FEMA. To date, HUD has implemented two DHAP programs, DHAP-Katrina and DHAP-Ike. Because the program is temporary, OPHVP is unable to staff a permanent office or team to manage the program. Instead, OPHVP assigns existing staff primarily from the Housing Choice Voucher (HCV) program to implement DHAP, but is limited in the number that can be dedicated for these purposes without also undermining staffing for HUD's core programs.

OPHVP allocates a percentage of these staff members' time to DHAP-Ike, which is funded by FEMA under the IAA. DHAP-Ike currently has four full-time equivalent employees across 10 HUD employees working on the program. HUD must carefully track time allocation across DHAP implementations to ensure proper cost allocation by funding stream as directed by both HUD and FEMA Offices of General Counsel. The small number of staff dedicated to this program limits the number and frequency of on-site reviews that can be conducted by OPHVP. Contractors provide the majority of staff and resources to implement and monitor the program, including field staff. Therefore, the primary role of OPHVP staff is to lead DHAP-Ike implementation from HUD Headquarters and serve as government technical monitors to DHAP-Ike contracts. This staffing model requires effective and reliable contractors to ensure grantee compliance with program requirements.

Under DHAP-Ike, HUD used four separate contract vehicles to implement and monitor the program:

- Project management contract (overall project and system monitoring, field staff)¹
- Referral call-center contract (toll free DHAP-Ike call center)
- Case management contract (case management software and technical assistance)
- Media contract (media buys and outreach)

The project management contract is central to OPHVP's implementation and monitoring of DHAP-Ike and is the contract OIG addresses in its report. Due to limitations in contract vehicles and performance related issues, OPHVP was forced to use multiple contractors for the

¹ The objectives of the project management contract are to ensure: seamless implementation and day-to-day management and administration of the DHAP program; HUD meets the reporting requirements as set forth in the IAA; management of the project plan; providing complete, accurate and timely data management and analysis services; sufficient resources are available for the implementation of DHAP; on-site and remote assistance to DHAP grantees; reports and data are delivered; implementation of the DHAP is properly documented; and HUD meets the deadlines as set forth in the IAA.

Ref to OIG Evaluation

Auditee Comments

project management contract, which resulted in breaks in service between each contractor. Some performance issues, such as failure to provide proper technical assistance to PHAs, maintain quality control of financial data in DIS, and provide effective oversight of PHA operations in the field, were considered serious enough to outweigh the harms of a break in service. OPHVP had to adjust its operations to maintain DHAP functionality during the periods between contractors and as new contractors were ramping up.

Drawing on findings from the recently completed DHAP-Katrina file review and funding reconciliation process, OPHVP has begun implementing an aggressive on-site file review process that includes financial reconciliations to address issues similar to those cited in the OIG report. As part of these efforts, OPHVP developed a file review checklist that checks files for evidence that essential program requirements have been met. PHAs receive a summary of the checklist findings at the end of each site visit. Technical assistance activities are an essential component of most site visits and are always tailored to the particular needs of the PHA. Topics include, among other things, DIS issues, file format, income and subsidy calculations, and eligibility determinations. In addition to file review sessions, OPHVP works remotely with PHAs to resolve family questions or complaints, respond to policy questions sent to the DHAP-Ike email box, and address funding and data entry issues.

Going forward OPHVP will closely monitor its contractor to ensure effective monitoring of payment calculations and financial reconciliation, as it did for DHAP-Katrina. Under DHAP-Katrina, OPHVP successfully reconciled program accounts and recouped over \$40 million in FEMA funding from PHAs that was unearned or unsupported. These funds were de-obligated and returned to FEMA, in the same manner that DHAP-Ike funds will be reconciled. The DHAP-Ike IAA allows HUD 12 months from the end of the program to complete this reconciliation process.

While OIG has recommended that OPHVP conduct additional monitoring activities, OPHVP emphasizes that the majority of PHAs have responsible processes in place for discovering and rectifying documentation and calculation errors. PHAs regularly review their files and generally have a quality control process in place. OPHVP considers PHAs' regular review, documentation of errors, rectification of PHA-caused errors, and recoupment of ineligible overpayments to be a responsible process for ensuring that program requirements have been met. For two of the files in which OIG found overpayments, OIG also recognized that the two PHAs in question had discovered and addressed the errors before the audit. OPHVP considers these actions to be a fulfillment of the PHAs' duties, as errors were properly identified and rectified using the PHAs' own quality control process. OPHVP will continue to emphasize and require fulfillment of these responsibilities by DHAP-Ike grantees.

Comment 2

With reference to several of the issues OIG found to be tenant/unit eligibility errors, OPHVP must clarify the DHAP-Ike policy with regard to inspections. OIG found that payments made toward one unit were unsupported because the unit passed inspection despite a malfunctioning air conditioning unit. Because DHAP-Ike only requires a limited inspection for a unit to be deemed eligible, these were not unsupported payments. DHAP-Ike policy is that at the minimum initial inspections must ensure the unit's current condition does not contain any life-threatening deficiencies (as determined by the PHA) (PIH Notice 2008-38, p. 24). In this case, the unit did pass the limited inspection the PHA conducted; therefore, this was an eligible unit

Comment 3

Ref to OIG Evaluation

Auditee Comments

Comment 4

for which payments were supported. In another file, OIG noted that the unit passed an initial inspection, but failed a subsequent inspection. Under DHAP-Ike policy, the unit need only pass one initial inspection to be eligible for DHAP-Ike payments. Subsequent failed inspections do not result in a unit becoming ineligible, but rather the owner is required to address the defect within the period specified by the PHA (see PIH Notice 2008-38, p. 25). The PHA was correctly following DHAP-Ike policy at least up to the time the defects were found at the second inspection. At most, the PHA must repay the payments made after the owner failed to correct the defect within the period specified by the PHA, rather than for the entire period the family lived in the unit.

Another policy with regard to tenant/unit eligibility that OPHVP must clarify is the policy on renting a room within a unit. The policy with regard to renting a room in a unit is written in DHAP-Ike FAQ #78, which states:

78. As long as the unit is not a public housing or other assisted unit, can a family be assisted under DHAP for rental of a room in that unit (and not the entire unit)?

Yes, if the room is rented under a legal lease and otherwise meets all other DHAP-Ike requirements for a rental unit.

While DHAP-Ike policy generally states that a unit occupied by its owner or by a person with interest in the unit may not be leased under DHAP-Ike (PIH Notice 2008-38, p. 20-21), leasing a room in an owner-occupied unit is an exception to that rule. One of the units OIG identified as an ineligible unit was judged as such because the unit was owned and occupied by the landlord. However, the family was renting a room in an owner-occupied household, which is in compliance with DHAP-Ike policy.

Comment 5

OIG also identified PHA payments made on behalf of deceased family members. While this is serious issue, OPHVP recommends that payments made on behalf of a deceased family member in this report be considered unsupported, rather than ineligible. In some of the cases OIG identified, the PHA stopped payments on the units of deceased family members within days of their deaths; however, the deaths occurred so close to the next expected housing assistance payment (HAP) that the PHA was unable to stop that payment. OPHVP allows PHAs a reasonable period of time in which to learn of a program participant's death, and PHAs are not expected to stop HAPs if they learn about the death as payments are being processed for the next month. OPHVP would expect the PHA to recoup HAPs paid after the date of death only if the PHA did not learn of the death within a reasonable time. Additionally, OPHVP would consider a payment made on behalf of a deceased family member to be a supported payment if the PHA can show that the remaining family members were eligible at the time to receive the assistance that would have been paid on behalf of the deceased family member. Giving PHAs the opportunity to support the payments made in these cases for either of the reasons specified above would be an appropriate response to these issues.

The remainder of this memo will address each of the recommendations raised by OIG in the report. OPHVP conducted a separate review of each file in this audit and found evidence to refute and support elements of each recommendation.

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Auditee Comments

Comment 6

Recommendation 1A: Require the housing agencies to repay their DHAP-Ike accounts from non-Federal funds \$16,266 in ineligible overpayments.

Of the \$16,266 recommended, OPHVP concurs that PHAs should be required to repay their DHAP-Ike accounts in the amount of \$5,102 from non-Federal funds. While OPHVP concurs with the finding regarding a \$50 ineligible overpayment in one of the Port Arthur samples listed in Appendix C, it should be noted that the \$50 HAP overpayment for this sample was reimbursed to the PHA in question using a \$50 HAP underpayment the following month. Therefore, the PHA remedied the two incorrect payments in question before the OIG audit. OPHVP has begun the process of recouping the remainder of the funds with which our office concurs. OPHVP disagrees with the remaining \$9,164 based on the following samples from Appendix C:

Harris County ineligible overpayment of \$2,318: OPHVP review determined that the PHA did overpay, but reviewers could only verify an overpayment of \$1,888. (\$430)

Port Arthur ineligible overpayment of \$269: OIG determined this amount to be ineligible because the PHA made payment on the unit before the lease date. OPHVP did not agree with this determination. In this sample, the lease effective date was March 30, 2009, but the lease also specified that the tenant would occupy the unit and pay prorated rent beginning March 17, 2009. The Disaster Rent Subsidy Contract (DRSC) effective date was March 16, 2009. Program office review of the HAP register (which is the official record of all payments made for a family) determined that the amount the PHA paid in rent for days before March 30, 2009 was \$223, not the \$269 OIG found. In addition, DHAP policy allows PHAs to make rent payments retroactively up to a maximum of 30 days to cover the period of time commencing with the effective date of the DRSC (DHAP-Ike FAQ #78). For these reasons, OPHVP determined that payments made for days before March 30, 2009 were proper and OPHVP would not require the PHA to repay these funds. (\$269)

Galveston ineligible overpayment of \$690: OIG found a calculation error resulting in an overpayment of \$690. OPHVP could not find any calculation errors affecting the subsidy in this file. OPHVP found that the HAP register showed payments totaling \$460 made after the PHA determined the family was no longer eligible for continued assistance. However, DIS reflects the correct termination date; therefore, payments after that date were paid by the PHA's own funds. DHAP policy does not prevent PHAs from providing non-DHAP assistance to families whose participation in DHAP has ended. As the PHA did not receive reimbursement from DHAP for the \$460 paid after the family's DHAP participation ended, the PHA cannot be required to repay that amount. (\$690)

Galveston ineligible overpayment of \$6,909: OIG determined that payments of \$6,909 were ineligible because the tenant resided in a unit owned and occupied by the landlord. This was the single largest financial finding in the report. However,

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Comment 6

these payments were in accordance with DHAP-Ike policy regarding inspections and rental of a room within a unit (DHAP-Ike FAQ #78; PIH Notice 2008-38, p. 20-21). Please see discussion of this policy above. (\$6,909)

Harris County ineligible overpayment of \$866: OIG found payments of \$866 ineligible because the landlord was not notified of the family's End of Participation. This family's participation in DHAP has not ended and the payments on behalf of the family are allowed. (\$866)

Recommendation 1B: Require the housing agencies to support the unsupported payments or repay their DHAP-Ike accounts from non-Federal funds \$33,516 in unsupported costs.

Of the \$33,516 recommended, OPHVP concurs that the PHAs should be required to support the unsupported payments or repay their DHAP-Ike accounts from non-Federal funds in the amount of \$23,676 in unsupported costs. OPHVP has begun the process of requiring PHAs to support or repay these costs. OPHVP expects that PHAs will be able to support payments on units for which the file did not contain a copy of the lease signed by the tenant or a copy of a unit inspection. PHAs are likely to be able to request a copy of the original signed lease from the owner or family. Additionally, some PHAs keep a log of inspections in the file and store the inspections separately, therefore it is expected that these PHAs will be able to produce a passed inspection report. OPHVP would consider these payments to be supported if these documents were produced.

OPHVP neither concurs nor disagrees with the Houston sample with a \$5,100 unsupported payment listed in Appendix C, until such time as HUD receives the results of a pending fraud investigation. OPHVP disagrees with the remaining \$4,740 based on the following samples from Appendix C:

Galveston unsupported overpayment of \$1,800: OIG determined that this file contained no approved hardship, resulting in an overpayment of \$1,800. OPHVP review determined the file did contain adequate documentation of an approved hardship. (\$1,800)

Houston unsupported overpayment of \$2,940: OIG determined that this file contained an overpayment of \$2,940 due to an improper inspection. OPHVP review determined that the file contained documentation that the PHA performed the minimum initial inspections and ensured the unit's condition did not contain any life-threatening deficiencies (as determined by the PHA) (PIH Notice 2008-38, p. 24). A full Housing Quality Standards inspection is not required under DHAP-Ike. Please see discussion of this policy above. (\$2,940)

Recommendation 1C: Require the housing agencies to reimburse families for underpaid assistance of \$800.

Comment 6

OPHVP concurs with Recommendation 1C. While OPHVP concurs with the finding regarding a \$50 underpayment in one of the Port Arthur samples listed in Appendix C, it should be noted that the \$50 HAP underpayment was used to reimburse the PHA in question for a \$50 HAP overpayment the previous month. Therefore, the PHA remedied the two incorrect

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Comment 7

payments in question before the OIG audit. OPHVP has begun the process of requiring the PHAs to reimburse families the remainder of the underpaid funds.

Recommendation 1D: Require the housing agencies to correct the file documentation errors in the 24 identified files.

OPHVP concurs with Recommendation 1D, to the extent that documentation errors can be corrected without improperly backdating documents. OPHVP will work closely with PHAs to ensure that they correct these files.

Comment 7

Recommendation 1E: Provide file and source documentation guidance to the housing agencies and perform onsite monitoring at random housing agencies to ensure compliance with the program's requirements.

OPHVP concurs with Recommendation 1E. Program staff regularly performs onsite monitoring, and has increased onsite monitoring activities in response to this draft audit. OPHVP is implementing an aggressive monitoring schedule that involves returning to PHAs with review findings until a clean random sample is achieved. By December 31, 2010, OPHVP staff and contractors will have conducted on-site reviews of most DHAP-Ike grantees, including multiple reviews across the largest sites.

Additionally, program staff regularly conducts broadcasts and distributes FAQs to participating PHAs in order to maintain standardized responses to policy issues as they arise. Program staff created standardized guidance regarding file format and quality control. These documents include improved instructions for income and subsidy calculations. This guidance will be distributed shortly, in accordance with OIG's recommendation.

Comment 7

Recommendation 1F: Provide increased oversight of contractors to ensure the contractor follows the contract requirements. Oversight should include ensuring that the contractor provides training, monitors housing agencies, and performs onsite monitoring reviews that include file reviews.

OPHVP concurs with Recommendation 1F. Sound oversight of contractors is critical to DHAP management and monitoring given the staffing model used for DHAP by OPHVP (a model that relies heavily on contractors). It should be noted that OPHVP has closely monitored all DHAP contractors over the course of DHAP-Katrina and DHAP-Ike. During this period, only one contractor was a low performer that required corrective actions and this contract was not renewed after the initial base period. OPHVP will continue to work with HUD contracting officials to select effective and capable contractors, and when these processes fail, quickly move to replace ineffective vendors.

HUD is working to develop a multi-year contract for project management under DHAP. This contract may be in place by the 2011 hurricane season. The contract will allow for multiple engagements over a multi-year period and will be a competitive procurement; as opposed to the sole source procurement model used under emergency circumstances for many previous DHAP contracts. This should both eliminate breaks in services and ensure a high quality, competitive contractor. Future DHAP contracts will more clearly stipulate the monitoring and on-site review

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Comment 5

processes, and link these tasks to financial disincentives for a non-compliant contractor, if possible under the contract vehicle.

Recommendation 1G: Require the housing agencies to repay their DHAP-Ike accounts from non-Federal funds \$15,327 in ineligible costs for improper payments made to deceased family members.

OPHVP disagrees with Recommendation 1G. OPHVP considers payments made on behalf of a deceased family member to be unsupported, rather than ineligible. PHAs should have the opportunity to support the payments made in these cases by showing either that: 1) the PHA learned of and acted on a program participant's death within a reasonable period of time; or 2) the remaining family members were eligible at the time to receive the assistance that would have been paid on behalf of the deceased family member. OPHVP would consider PHA documentation of either of the reasons specified above to satisfy DHAP-Ike program requirements.

Recommendation 1H: Require the housing agencies to support or repay their DHAP-Ike accounts from non-Federal funds \$19,994 in unsupported costs for improper payments made to a family member with an invalid Social Security Number (SSN).

Comment 8

OPHVP does not concur with Recommendation 1H. All heads of household and related family members referred by FEMA are eligible for DHAP-Ike assistance regardless of whether the SSN in the system is incorrect. The FEMA referral (which is also accompanied by a unique FEMA ID) is the operative eligibility trigger for each family. Because HUD is a FEMA servicer, under the IAA responsibility for verifying the accuracy of names and SSNs rests with FEMA. While OPHVP expects that the incorrect SSNs are likely an input error, OPHVP cannot speak to the process FEMA uses for verifying SSNs. OPHVP would consider payments made on behalf of a family with an invalid SSN to be supported in the following circumstances:

- 1) The family was referred by FEMA for assistance under DHAP-Ike; and
- 2a) The invalid SSN is a typo or other human error and the family was otherwise eligible. DHAP policy would not prevent payments to family members whose SSNs are incorrect in DIS because of human error; or
- 2b) The family member's SSN is not in fact invalid. DHAP-Ike policy would not prevent payments to a family if the family's file and DIS contain the correct SSN, and the invalid SSN is in the local PHA database or database that OIG referenced.

Comment 1

Recommendation 1I: Provide the housing agencies with Enterprise Income Verification (EIV) access to allow them to identify deceased tenants and confirm reported Social Security Numbers.

OPHVP concurs with Recommendation 1I. OPHVP has been working with partner federal agencies to finalize Computer Matching Agreements (CMA) to authorize data matching between DHAP databases and EIV. This is the final stage in the process as Congress has authorized DHAP as an eligible EIV program. The final CMA with the Department of Health and Human Services allowing matches from DHAP databases to EIV is in concurrence.

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Comment 6

OPHVP concurred with OIG that PHAs made errors that affected the payment or tenant/unit eligibility in 19 of the 68 files reviewed (28 percent).² Of these 19 errors, OPHVP found 5 errors which OPHVP expects the PHAs will be able to support with additional documentation. Therefore, OPHVP expects that after collecting additional documentation, only 14 of the 68 files reviewed (21 percent) will be determined to have had errors that affected the payment or tenant/unit eligibility.

OPHVP has taken several actions to implement the OIG recommendations since receiving the draft report. PHAs will be required to reimburse DHAP-Ike for the ineligible payments that OPHVP concurred with above. Further, PHAs will be required to support or reimburse DHAP-Ike for the unsupported payments that OPHVP concurred with above. OPHVP also conducted follow-up reviews with the PHAs and provided technical assistance to address several of the PHA issues regarding supporting documentation, payment calculations, file maintenance and other activities. Additional training and file reviews have been scheduled and will continue until file reviews yield clean, error free samples across the largest DHAP-Ike grantees.

We look forward to working with HUD OIG as these recommendations are implemented. Please contact me if you have questions or require additional documentation.

² For one of the 68 files, OPHVP neither concurs nor disagrees until such time as HUD receives the results of a pending fraud investigation.

OIG Evaluation of Auditee Comments

- Comment 1** HUD generally agreed with the audit and welcomed recommendations that improve program management and oversight. We acknowledge HUD's comments and we appreciate its cooperation throughout the audit and its willingness to implement corrective actions.
- Comment 2** HUD said that two housing agencies had already found the overpayments and addressed them prior to the audit. As HUD did not provide which two cases it was referring to, we are unable to agree. However, one Galveston Housing Authority file had errors including not performing an inspection and paying the lease amount, which was more than the rental standard. Neither error had been detected by the housing agency, but no amounts were reported as ineligible, due to it recovering all assistance amounts as the individual never occupied the unit.
- Comment 3** HUD also disagreed with OIG questioning payments on two units that did not meet housing quality standards. HUD asserted that one unit with a malfunctioning air conditioner met limited housing quality standards. We disagree. This housing agency stated it performed full housing quality standard inspections, which is allowed per PIH Notice 2008-38; a "PHA may choose to apply additional criteria to this inspection, including the application of the Housing Quality Standards (HQS)." The housing agency performed an inspection at the tenant's request and found the air conditioning was not working. Thus, the housing agency should have failed the unit and should not have paid assistance from the time that it noted the fail item until the deficiency was corrected. For another unit, HUD said that the housing agency was only required to repay assistance after the unit failed the second inspection. OIG only questioned amounts paid after the unit failed three inspections and the amount paid for one month's duplicative rent; the housing agency paid assistance twice in February 2009, which was before the unit failed the inspections.
- Comment 4** HUD stated that one unit identified as ineligible due to the owner leasing a bedroom in her home was eligible. HUD said it had issued a Frequently Answered Question (FAQ #78) that allowed a room, rather than a unit, to be leased, if "the room is rented under a legal lease and otherwise meets all other DHAP-Ike requirements for a rental unit." We disagree that the FAQ can overrule the DHAP-Ike requirements in HUD PIH Notice 2008-38, which states; "Ineligible Units and Prohibition Against Other Subsidy The following types of housing may not be leased under DHAP-Ike: ... • A unit occupied by its owner or by a person with interest in the unit ..."
- Comment 5** HUD stated that housing agencies stopped payments for deceased family members within days of their deaths, but in some cases were unable to stop payments. Further, HUD said that subsequent payments after the family members' deaths were unsupported rather than ineligible. We disagree. For the 12 deceased individuals whose payments we questioned, the housing agencies

were only aware that two individuals were deceased when we contacted them. Thus, we question HUD's assertion that payments were stopped within days of their death. Further, our testing did not question payments until the end of the month following the person's death; thus, we allowed a minimum of 30 days prior to determining that a payment was ineligible.

- Comment 6** HUD said that it reviewed the files and reached different conclusions regarding amounts listed as ineligible and unsupported. We do not agree with HUD's revised amounts. We met with each housing agency and reviewed the files with them, including ineligible and unsupported amounts. The housing agencies agreed with our conclusions and amounts. However, we are willing to review each individual case with HUD as part of the audit resolution process.
- Comment 7** We agree with HUD's planned actions and will concur with the management decision once HUD enters it into the Audit Resolution and Corrective Action Tracking System.
- Comment 8** HUD stated that it did not consider payments for an invalid Social Security number to be unsupported. HUD listed circumstances in which it would consider payments to be supported per DHAP-Ike rules. However, the instances found in two of our file reviews were not one of the circumstances cited by HUD. In these cases, the Social Security number was valid. However, the birth date information provided by the individual did not match the Social Security Administration's data, which indicates potentially improper payments were made. The third case may be a data entry error, but additional work will need to be performed to ensure the housing agency made supported payments. We will work further with HUD during the management decision process to address these cases.

Appendix C

FILE ERRORS BY HOUSING AGENCY, TYPE, AND AMOUNT

Housing agency	Payment error	Ineligible amount	Unsupported amount	Funds put to better use amount	Documentation error
Galveston	X		\$1,800		
Galveston	X	\$690			
Galveston					X
Galveston	X		3,978		
Galveston					X
Galveston	X	1,250			
Galveston	X	6,909			
Galveston	X	1,260			
Galveston					X
Galveston					X
Galveston					X
Galveston	X	1,065			
Galveston	X	150			
Galveston					X
Galveston	X	0			
Galveston					X
Galveston	X		4,650		
Harris					X
Harris	X	2,318			
Harris	X			\$150	
Harris	X	77			
Harris					X
Harris					X
Harris	X	866			
Harris					X
Harris					X
Houston					X
Houston					X
Houston					X
Houston					X
Houston	X		5,100		
Houston					X

Housing agency	Payment error	Ineligible amount	Unsupported amount	Funds put to better use amount	Documentation error
Houston	X			250	
Houston	X		449		
Houston					X
Houston	X		6,454		
Houston					X
Houston	X		4,140		
Houston					X
Houston					X
Houston	X		2,940		
Houston					X
Houston					X
Port Arthur	X	269			
Port Arthur	X	750			
Port Arthur	X		4,005		
Port Arthur					X
Port Arthur	X			200	
Port Arthur	X	50		50	
Port Arthur	X	312			
Port Arthur	X	300		150	
Totals	27	\$16,266	\$33,516	\$800	24