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Office of Inspector General
Region 7 Office of Audit, 7AGA
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MEMORANDUM NO: 2004-KC-0801

December 22, 2003

MEMORANDUM FOR: Stillman D. Knight, Jr., Deputy Assistant Secretary for Multifamily Housing, HT

Roger E. Niesen

FROM: Roger E. Niesen, Regional Inspector General for Audit, 7AGA

SUBJECT: Corrective Action Verification
Housing Subsidy Payments
Office of Housing
Audit Report No. 00-KC-103-0002

INTRODUCTION

We have completed a Corrective Action Verification on Recommendations 1A and 2A in Audit Report number 00-KC-103-0002, Housing Subsidy Payments. Our objective was to determine whether the Department is making or has made adequate progress towards achieving the goals it identified in the Management Decisions and Corrective Action Plan from the Housing Subsidy Payments Audit. We found that, while the Department is making progress towards achieving its goals for Recommendation 1A, it needs to develop revised management decisions to accurately reflect its adjusted plans and realistic dates for completing those plans. Additionally, management erroneously reported as complete actions to close Recommendation 2A.

METHODOLOGY AND SCOPE

To accomplish our review, we interviewed Housing staff responsible for implementing the corrective actions and we reviewed guidance, policies, and procedures over the Section 8 special claims process and the Tenant Rental Assistance Certification System (TRACS) that evidenced progress towards or completion of the corrective actions. The Corrective Action Verification fieldwork was performed in Washington, DC and the review was conducted during the month of September 2003. We provided a draft memorandum to the Office of Housing on October 1,

2003. The Office of Housing provided us their written comments on November 13, 2003. The complete text of the comments is in Appendix A.

BACKGROUND

We reported two findings in our September 29, 2000 audit of Housing Subsidy Payments (Report No. 00-KC-103-0002). To correct the conditions leading to the findings, we made two recommendations. The Deputy Assistant Secretary for Multifamily Housing Programs sent a February 20, 2001 memorandum that outlined Housing's management decision and the corrective actions Housing planned on taking. The management decision included corrective actions to correct weaknesses found with the Section 8 special claims process and the Tenant Rental Assistance Certification System (TRACS). On March 1, 2002, the Acting Deputy Assistant Secretary for Multifamily Housing Programs sent a second memorandum that revised the management decision regarding TRACS data. Following are the Findings, Recommendations and planned corrective actions:

Finding 1

"HUD did not fully implement its Tenant Rental Assistance Certification System (TRACS) as planned. As a result, TRACS provides no assurances regarding controls over assistance payments or data accuracy."

OIG Recommendation – Finding 1

"We recommend the Office of Housing ensures its planned actions to upgrade TRACS are followed through to completion and that TRACS data is useful and cost efficient."

Management Decision (Revised) – Finding 1

"Improvements in TRACS will occur as part of a comprehensive strategy to effect overall improvements in the Housing subsidy payments process. The office of Housing is formulating a uniform policy for non-compliant owners to be implemented in a phased approach. The overall strategy seeks to identify and communicate with all non-compliant owners, to apply sanctions consistently, perform effectively targeted voucher reviews, and to eventually reengineer the entire subsidy payment procedure to eliminate the need for the type of voucher reviews that have been done in the past.

"The Section 8 Financial Management Center will begin a voucher review program this spring that is an important step within the Multifamily Housing initiative to fully address subsidy payments. The Financial Management Center function has been defined so that it will effectively dovetail with the upcoming TRACS application for management of payment suspensions on the entire project-based contract inventory. The procedures include contractor-supported communications with owners and contract administrators who have missing certifications in TRACS. By September 30, 2003, plans are for the automated procedure to reduce or suspend subsidy payments where the units on the voucher exceed current tenant certifications in the HUD database and to limit voucher payments to a dollar amount supported by current tenant certifications in the HUD system.

‘A fully reengineered payment process as an e-government product will take at least two additional years. Upon full implementation, the payment of subsidies will be generated directly from electronically executed Housing Assistance Payments contracts and certified tenant information. Program integrity will be confirmed through monitoring of contract administrators, management and occupancy review of subsidized properties, and corroboration of tenant information through direct comparisons to income data from the Social Security Administration, state wage boards, Internal Revenue Service, etc. Estimated Completion Date September 30, 2005.’

Finding 2

“HUD needs to improve internal controls over Section 8 special claims payments to ensure that inappropriate payments are not made to project owner/agents. Section 8 special claims are not uniformly reviewed and approved by HUD field offices and there is no method to verify the amount of the claim before payment. Individual field offices use their own rules and procedures for processing Section 8 special claims because HUD lacks an overall special claims processing policy or regulation. As a result, HUD lacks assurance over the accuracy of claims, project owners/agents may not be equitably treated, and the potential exists for project owners/agents to submit and be paid for fraudulent claims, undocumented claims, ineligible claims, and duplicate claims.”

OIG Recommendation – Finding 2

“We recommend the Office of Housing revises the current special claims procedures so that they ensure payments are properly authorized and accurate. Additionally, for new contracts, consider alternatives that may be more efficient in lieu of the current special claims payment procedures; such as making a flat rate payment and eliminating the special claims provisions from the contract.”

Management Decision – Finding 2

“As stated in the response to the draft finding, in general, we agree with the first part of this recommendation. Having recognized the need for consistent and accurate processing of special claims, we have already engaged a contractor to assist in developing guidance to the field which standardizes the special claims process for HUD staff and contract administrators. In addition, we have begun the development of an inter/intranet tracking system for all special claims. This tracking system will be a part of the TRACS system. The current status of the two initiatives is as follows. The contractor has begun work on the national policy for processing special claims. The first submission from the contractor has been reviewed by field staff and headquarters staff has compiled comments to return to the contractor. The inter/intranet tracking system is on target and scheduled to be included in the next TRACS release.

‘In regard to the second part of the recommendation, we have provided the contractor with various alternatives for processing special claims. The contractor is exploring the alternatives and will present the most appropriate one. Target Dates - Issue Guidance to the Field: August 31, 2001. Review/Implement Contractor Recommended Alternative for processing Special Claims: September 30, 2001.’

RESULTS OF REVIEW

TRACS Data

According to the Acting Director of the Office of Housing Assistance and Contract Administration Oversight, plans are currently underway for implementation of a uniform policy that will suspend subsidy payments for non-compliant owners. The system will begin by sending an email message containing a monthly compliance percentage. This percentage is calculated by dividing the total number of current certifications in the HUD database by the total number of units requested on the voucher. The goal is to have 85 percent of re-certifications current by the end of fiscal year 2004. The Acting Director of the Office of Housing Assistance and Contract Administration Oversight believes that because owners submit their vouchers 30 days in advance, an 85 percent goal is reasonable. The 85 per cent compliance threshold allows for variances during the current month and gives owners time to adjust the next month's voucher for any discrepancies.

The Acting Director of the Office of Housing Assistance and Contract Administration Oversight advised us that the noncompliance system will be implemented in stages due to the anticipated large volume of calls for technical assistance. Beginning in October 2003, the owners will still be paid, and sent an email with their compliance percentage. By February 2004, automatic suspensions will start for owners that do not meet the 85 percent goal and the automatic suspension system will be fully implemented by the end of fiscal year 2004. HUD has planned this compliance system, but the policies and procedures for the system have not been documented.

The revised management decision dated March 1, 2002 lists the completion date for the automatic suspension of subsidy payments as September 30, 2003. However, this automated system will not be completely implemented by this date. Although Housing will not meet its planned date, it is not far behind and progress is being made toward its objectives.

Additionally, the revised management decision contains a plan for a fully re-engineered payment process as an e-government product to be implemented by September 30, 2005. The Acting Director of the Office of Housing Assistance and Contract Administration Oversight intends to develop an Internet application where project owners log in to an on-line application to request a contract renewal and subsidy payments. There will be new edit checks in TRACS where an error will not be identified by a code, but will be an actual text message. This new process will list all of the tenants in a specific project and the owner simply selects the tenants he is requesting payment for. This will allow, for the first time ever, the money to be traced back to the social security number, unit, head-of-household, and month. Currently, the owner is required to keep support for the voucher and HUD does not have specific knowledge of which tenants it is paying for. This new process will also allow the owners to make adjustments in a later month that will trace back to the social security number, unit, etc.

The revised management decision also contains a plan for income matching in the new e-government payment process. According to the Acting Director of the Office of Housing Assistance and Contract Administration Oversight, income matching has been an on-going

problem due to privacy issues. State agencies keep income information current to within 6 months and are an accurate source for information. However, state agencies do not want to share information with private, for-profit, project owners. Meetings have been set up with people from the Washington, DC food stamp program to determine how they verify income. The Department is looking for an income matching system that works and is looking for government examples, as well as models built by private firms.

The revised management decision lists a completion date for the e-government payment process of September 30, 2005. The re-engineered payment process as an e-government product is in the pre-planning stages and the Acting Director of the Office of Housing Assistance and Contract Administration Oversight anticipates that implementation of the entire process will take four to five more years.

Since Housing's efforts regarding the e-government payment process are much more extensive than originally planned in the revised management decision, it needs to develop another revised management decision that will clearly state the current actions being taken/planned and provide a realistic target date.

Section 8 Special Claims

Recommendation 2A was closed on April 2, 2002 by the former Audit Liaison Officer. The supporting documentation used for the final action was a draft Special Claims Processing Guide that the management decision indicated was being developed. The Final Action Certification used to close the recommendation states that the procedures "will be submitted to the field after training..."

The management decision submitted on February 20, 2001, said that standardized guidance would be provided to the field staff by August 31, 2001. The Region 7 Inspector General for Audit sent a February 21, 2001 memorandum to the Deputy Assistant Secretary for Multifamily Housing regarding Housing's planned management actions and target dates for corrective actions. The memorandum said, "Before the planned actions can be final closed, your staff needs to evaluate the planned actions to ensure they have been fully implemented and are effective."

However, at the time the recommendation was closed, the Special Claims Processing Guide had not been submitted to the field and no tests were accomplished to ensure it was implemented and effective. We will reopen Recommendation 2A because it was closed prematurely.

In accordance with HUD Handbook 2000.06 Rev-3, within 30 calendar days after a recommendation is reopened, management will prepare an action plan with target dates for completion of the required action. The Action Officer will provide the audit report issuer a status report every 60 calendar days until the recommendation is closed.

AUDITEE COMMENTS

The following are excerpts from Multifamily Housing's comments on our draft report. The complete text of the comments is included in Appendix A.

“The Office of Housing will complete a conversion of the traditional Contract Administrators’ Section 8 contracts back into the Housing accounting system to ensure consistent administration and monitoring of the entire Project-Based Section 8 portfolio.”

“Beginning November 2003 TRACS will forward an e-mail message notifying owners, Contract Administrators, and property management agents when they are NON-COMPLIANT with respect to Tenant Certification Reporting to TRACS.” Beginning in March 2004, TRACS will “Suspend any electronic subsidy payment request to TRACS that lacks proper supporting tenant and contract data to validate the subsidy payment.”

“The TRACS Business Process Reengineering (BPR) and eGov initiative will simplify the entire business, increase access to critical information, and eliminate redundant paper processing; this will drastically improve both accountability and service delivery to all MFH HUD business partners, while meeting compliance provisions of NIST, Section 508 of the Rehabilitation Act, and ISO 9000. Additionally, the new BPR initiative will ensure TRACS meets initiatives and expected results of the President’s Management Agenda:

1. Improve HUD’s management and internal controls, including FHA’s financial management, and resolve audit issues because the TRACS replacement system will be integrated into FHA’s new Financial System.
2. Expand capability for identifying over budget obligations and funds recapture satisfies three recent audit findings because the TRACS replacement system will implement an “Optimum Compliance” initiative subsidy payment requests will be based upon the tenant certifications 50059 for each rental assistance contract.”

The BPR and eGov initiative will be fully implemented by December 2006.

OIG EVALUATION OF AUDITEE COMMENTS

We asked the Acting Director of the Office of Housing Assistance and Contract Administration Oversight to clarify the following statement in his comments because it could be misconstrued: “Improve HUD’s management and internal controls, including Federal Housing Administration’s financial management, and resolve audit issues because the TRACS replacement system will be integrated into Federal Housing Administration’s new Financial System.” The Acting Director clarified the statement by saying that the TRACS replacement system will be integrated into Federal Housing Administration’s financial system in an interface perspective only. The financial system will reserve funds, obligate funds, and flag funds for recapture. The Federal Housing Administration has a funds control component that will be useful for TRACS. It is not the integration of data, but an integration of functions.

The Office of Multifamily Housing has already taken strides to correct the deficiencies in the TRACS data system. If the planned actions described by the Office of Multifamily Housing are fully implemented, they should ensure that TRACS provides assurances regarding controls over assistance payments and data accuracy.

The Office of Multifamily Housing provided their planned actions and dates for corrective action with their comments. Therefore, we have input December 31, 2006 as the planned completion date for Recommendation 1A from Audit Report No. 00-KC-103-0002.

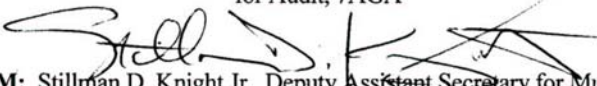
RECOMMENDATIONS

No recommend is necessary since management provided their planned actions and dates (revised management decision) with their comments.

Auditee CommentsASSISTANT SECRETARY FOR HOUSING-
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NOV 13 2003

MEMORANDUM FOR: Roger E. Niesen, Regional Inspector General
for Audit, 7AGA
FROM: Stillman D. Knight Jr., Deputy Assistant Secretary for Multifamily
Housing Programs, HT**SUBJECT:** Housing Subsidy Payments – Audit Report 00-KC-103-0002

Outlined below is Multifamily Housing's response for implementing management decisions regarding the above audit findings for Housing Subsidy Payments.

RECOMMENDATION: develop a revised management decision for [the Tenant Rental Assistance Certification System] TRACS improvements that clearly states the current actions being taken/planned and the realistic target dates for completion.

Currently, TRACS provides input to payment processing for appropriately 250,000 Section 8 Rent Supplement, Rental Assistance Payments, and Section 202 Elderly and Disabled subsidy payments annually, totaling roughly \$7 billion dollars. It also provides support for program area input to obligations of appropriations for Multifamily Housing's portion of the Housing Certificate Fund, currently approximately \$4.5 billion annually. TRACS interacts functionally each day with HUD financial systems, external state and federal agency databases and various Multifamily Housing information systems. TRACS serves as the sole repository of tenant certifications and contract data for the Office of Housing's rental assistance programs (i.e., Rent Supplement, Rental Assistance Program (RAP), Project-Based Section 8, Project Rental Assistance Contracts (PRAC) and Project Assistance Contract (PAC)). TRACS also is the official custodian of crucial contract data that it feeds to other HUD systems, including PAS/LOCCS, HUDCAPS, REMS, Budget Outlay Support System (BOSS), and the REAC subsystems.

TRACS has several planned development initiatives for FY 2004. Many of the TRACS development initiatives are being undertaken because they satisfy and meet many OMB requirements as well as audit findings and recommendations. Specifically, TRACS proposed TRACS capital investments plan would satisfy OMB and Departmental requirements:

MASS Conversion of Traditional Contract Administrators

Multifamily Housing's subsidies are paid under two payment methods supported by two different HUD disbursement systems; consequently, Multifamily Housing believes completion of Mass Conversion of the Section 8 Contracts from HUDCAPS to PAS/LOCCS will address/resolve this finding for the contracts administered by the Financial Management Center (FMC). Multifamily Housing and the FMC are proposing a change in the payment method for non-performance-based ACCs to a process similar to that of the Performance-based ACCs and HUD-Administered contracts. This change will streamline and consolidate procedures for the budgeting, funding, payments, and overall management for Housing's entire Section 8 portfolio.

The Office of Housing will complete a conversion of the traditional Contract Administrators' Section 8 contracts back into the Housing accounting system to ensure consistent administration and monitoring of the entire Project-Based Section 8 portfolio.

Multifamily Housing has developed a Memorandum of Understanding ("MOU") to transfer these existing Section 8 contracts back to Housing with the agreement of the FHA Commissioner, Assistant Secretary for PIH, and the Chief Financial Officer. Outlined below are the milestone dates for accomplishing this initiative:

Phase I - Demo Conversion Process (August 2003)

Multifamily Housing completed a demo conversion of Project-Based Section 8 contracts with the Maryland PBCA and Virginia Housing Development Agency (i.e., a traditional Contract Administrator).

Phase II - MASS Conversion of the Remaining Portfolio (September 2004)

The Office of Housing will complete a conversion of the traditional Contract Administrators' Section 8 contracts back into the Housing by September 2004.

Tenant Optimum Compliance

Implementation of the Optimum Compliance initiative for the enforcement of tenant reporting to the Tenant Rental Assistance Certification System (TRACS) will directly address unsubstantiated payments component of HUD's Management and Performance initiative for reducing overpaid rent subsidies, as contained in the President's Management Agenda.

This initiative will implement strategies to enhance its usefulness through integration of financial and performance information. In an effort to reduce subsidy overpayments for the Multifamily Housing rental assistance program, the Optimum Compliance initiative was initiated to suspend any subsidy payment request that lacks

proper supporting tenant and contract data. This Optimum Compliance when added to the controls put in place with the Performance-Based Contract Administrators will improve management and monitoring controls. Outlined below are the milestone dates for accomplishing this initiative:

Phase I – Mass Mailing (November 2003)

Beginning November 2003 TRACS will forward an e-mail message notifying owners, Contract Administrators, and property management agents when they are NON-COMPLIANT with respect to Tenant Certification Reporting to TRACS.

Phase II – Data Quality and Performance Monitoring (December 2003 thru March 2004)

Before invoking voucher suspension measure, data quality and performance monitoring initiatives must be implemented. To do otherwise would cause undo harm to the Business Partners within the Section 8 portfolio; consequently, the Office of Multifamily Housing will work with Business Partners to improve tenant certification reporting to TRACS during the period.

Phase III - Voucher Suspension (March 2004)

Suspend any electronic subsidy payment request to TRACS that lacks proper supporting tenant and contract data to validate the subsidy payment.

Implement System Enhancements to Ensure Data Used in Reviewing Unliquidated Balances are Complete, Current, and Accurate.

Phase I – Revise/Update Methodology for Unliquidated Balances (June 2003)

Revised methodology was developed and approved by Housing Budget and the OIG in June 2003 for reviewing data on unliquidated balances for Section 8 project-based programs. The revised method eliminates problems with discrepancies between Housing and CFO systems and ensures that all contracts receiving payments are reviewed for excess balances.

Phase II – Implement Revised/Updated Methodology (September 2003)

The revised methodology was implemented for recaptures processed in September 2003 and the program office review suggests that substantial improvement in recapture results were achieved. OIG is currently reviewing Housing's 2003 recaptures to confirm that the results are complete, current, and accurate.

Implement System Enhancements to Ensure Contract Amounts Determined to Have Excess Budget Authority are Deobligated and Recaptured

Phase I – Methodology for Managing Recaptures (June 2003)

A module in the Automated Renewal and Amendments Management System (ARAMS) for managing identification of recaptures according to the revised methodology discussed in 10.d. was partially implemented in June 2003.

Phase II – Implementation of Enhanced ARAMS Functions (January 2004)

IT funding for additional enhancements needed to make the module fully operational were delayed until late in the fiscal year, such that the enhanced capabilities will be implemented in January 2004. The augmented ARAMS module includes an interface with the Program Accounting System (PAS) to ensure completed processing of data on deobligations. A procedure for confirming actual recaptures will be implemented simultaneously with release of the November ARAMS enhancements to ensure that recaptures are accomplished in CFO accounting systems.

TRACS Business Process Re-engineering (BPR)

Multifamily Housing's FY 2004 Capital Plan for TRACS envisions an IT investment to complete Business Process Reengineering (BPR) of the MFH Rental Assistance Business and development of a TRACS based eGov solution consistent with the President's Management Agenda and HUD IT management objectives. Three major components of the Rental Assistance Business are the contracting process, tenant certification process, and the subsidy payment process. Though MFH has long envisioned the seamless integration of these processes, they remain somewhat disjointed in terms of TRACS transaction processing and information access. Public demand for Government accountability and information access, coupled with the current state of technology, now makes integration of these related business activities mandatory.

The proposed BPR IT investment of \$1.45 million for FY 2004 would:

- Initially, provide for complete redefinition of the Rental Assistance Business from a HUD policy and procedure standpoint.
- Fund a complete BPR and diagnostic for the Business
- Allow MFH to develop functional requirements during 2003, based on the results of the BPR.
- Build the first phase of a TRACS eGovernment solution covering HUD's Rental Assistance Business.

Benefits of TRACS BPR Initiative

The TRACS BPR and eGov initiative will simplify the entire business, increase access to critical information, and eliminate redundant paper processing; this will drastically improve both accountability and service delivery to all MFH HUD business partners, while meeting compliance provisions of NIST, Section 508 of the Rehabilitation Act, and ISO 9000. Additionally, the new BPR initiative will ensure TRACS meets initiatives and expected results of the President's Management Agenda:

1. Improve HUD's management and internal controls, including FHA's financial management, and resolve audit issues because the TRACS replacement system will be integrated into FHA's new Financial System.

2. Expanded capability for identifying over budget obligations and funds recapture satisfies three recent audit findings because the TRACS replacement system will implement an "Optimum Compliance" initiative subsidy payment requests will be based upon the tenant certifications 50059 for each rental assistance contract.
3. Improve accountability, service delivery and customer service of HUD and our partners because the TRACS replacement system will provide the following electronic benefits:
 - ✓ A2A (Administration to Administration): Different administrations that exchange information in a standard format.
 - ✓ B2G (Business to Government): Business between companies and government.
 - ✓ M2M (Machine to Machine): Machines delivering information directly into the enterprise computer systems.

BPR IMPLEMENTATION SCHEDULE

Outlined below is the proposed implementation schedule for the TRACS BPR:

Task	Implementation Schedule
Procurement/Acquisition Process - Draft SOW (November 2003) - Final SOW (December 2003) - Issue SOW to Invited IT Firms (January 2004) - Select IT Contractor (April 2004)	April 2004
BPR Phases Analysis and Planning - Business Objectives (Capture Business Logic) - Model of Current Environment and Business Flows Model of Desired Environment and Business Flows	May 2004 – September 2004
Provide GAP Analysis	October 2004 – February 2005
Identify Data in Requirements for Enterprise Vision	March 2004
Define Application Network & Data Architecture	March 2004 – May 2004
QA and Configuration Management Plans	March 2004 – May 2004
Prepare Formal Requirements Documents (including Development Cost and Schedule)	June 2004 – August 2004
Acquire/Modify/Develop System Solutions to Support Housing Subsidy Programs	September 2004 – December 2006