

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Section 8 Program
Audit Report # 20-006

Executive Summary

The Office of Internal Audit (OIA) reviewed TDHCA's Section 8 Program processes and controls that are currently in place. This included review of the application process, reporting requirements, and approval and disbursement of Housing Choice Vouchers to eligible individuals and households. Based on our reviews and testing, the Section 8 Program operates under its applicable standards and regulations. Various procedures and controls related to the processing and maintenance of documentation should be strengthened, as described in the detailed report.

Finding and Recommendation

- OIA recommends that the Section 8 program establish written SOPs, signed and dated by management, for consistency and efficiency of the operation.
- OIA recommends that the Program establish a process in which the access to the Section 8 electronic folders is monitored and revised regularly to only include authorized staff
- OIA recommends that the Program consider establishing a secure electronic files transfer procedure for the submission of application and supporting documents by the referring agencies and the Clients
- OIA recommends that the Program establish a supervisory review process for the processed files to ensure completion and accuracy of information.

Management Response

Management agreed with our recommendation; and detailed responses are included in the body of the audit report.

Objective, Scope and Methodology

Our audit scope included a review of the applicable portion of the Texas Administrative Code, HUD's standards and requirements, as well as the program's Standard Operating Procedures (SOPs). The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires auditing of a state agency's major programs and systems. Based upon our preliminary understanding of the Section 8 program we identified critical points and risk, to develop our audit objectives and an audit program including methodology.

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8/20/2020

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Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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August 20, 2020

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Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit of the Housing Choice Voucher Section 8 Program

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") review of the Section 8 Program at TDHCA. This audit was included in the Fiscal Year 2020 Annual Audit Plan and was conducted in accordance with applicable audit standards. The Section 8 Program rated high on the annual risk assessment due to its susceptibility to fraud and lack of recent audits. This program has a large number of transactions. Various programmatic reviews have been conducted by HUD; however no audits of the program have been conducted in recent years.

For this audit we reviewed applicable Texas Administrative Codes (TAC) and U.S Department of Housing and Urban Development (HUD) standards, rules and regulations. We also evaluated the Section 8 Program's internal policies and procedure related to handling and processing of applications that are received through referral agencies.

Background

The Housing Choice Voucher (HCV) Section 8 Housing Choice Voucher Program provides rental assistance payments on behalf of low income individuals and families, including the elderly and persons with disabilities. The program provides financial assistance for decent, safe and sanitary housing to eligible households whose annual gross income does not exceed 50% of HUD's Median income guidelines. HUD requires 75% of all new households admitted to the program be at or below 30% of the area median income. Eligibility and the amount of rent the tenant must pay is based on several factors, including the household's income, size and composition, legal residency status, assets, median income and childcare expenses. Qualified households may select the best available housing through direct negotiations with landlords to ensure accommodations that meet their needs. TDHCA pays approved rent amounts directly to property owners.

The Section 8 Housing Choice Voucher Program was created by the Housing and Community Development Act of 1974. Funds for the Section 8 program are provided by the U.S. Department of Housing and Urban Development (HUD). If a community is interested in utilizing Section 8 funds, the local unit of government must adopt a resolution agreeing to administer the program in accordance with all applicable rules and regulations.

The Department is one of hundreds of public housing authorities that run Housing Choice Voucher Section 8 programs across Texas. Currently TDHCA oversees and administers Housing Choice Voucher Section 8 programs for 34 counties and then administers a statewide program anywhere in the state for persons with disabilities in collaboration with referral agencies.

Scope and Methodology

The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires auditing of a state agency's major programs and systems. Our scope included a review of applicable portions of the Texas Administrative Code (TAC), HUD's standards and requirements, as well as the program's Standard Operating Procedures (SOPs). Based upon our preliminary understanding of the Section 8 program we identified critical points and risk, to develop our audit objectives and an audit program including methodology.

Processes and Procedures

Project Access and *Veterans Assisted Supportive Housing (VASH)* are the only two housing assistance voucher programs that are currently open via waiting list through TDHCA's Section 8 Program. Applicants can apply and be placed on the waiting list until a housing voucher is available and can be awarded by the Department. The application process starts by the applicant submitting an application through their appropriate Referring Agency. A list of the current agencies providing referrals is provided in the next section of this report.

- *Project Access*; the program provides rental assistance for qualifying persons with disabilities transitioning from institutions into the community.
- *Veterans Assisted Supportive Housing (VASH)*; HUD provides rental assistance vouchers for privately owned housing to Veterans who are eligible for VA health care services and are experiencing homelessness.

The applications are submitted to TDHCA's Section 8 program through mail or by fax. Currently the Department does not have the capability of receiving any applications for Housing Choice Voucher programs electronically or online, which can create the possibility of human error due to the manual process. The first step after receiving the application by the program staff is to perform a criminal background check through DPS (Department of Public Safety), on all the individuals in the household over the age of 18. The consent for the criminal background check is required to be signed and submitted to the program along with the application. Once the background check is completed the applicant will be placed on the appropriate waiting list based on their individual eligibility. The wait time for a voucher to become available can vary greatly depending on availability of funds.

Once a voucher becomes available, the applicant is notified and the eligibility verification begins. The staff uses guidelines and references provided by HUD to determine the applicant's eligibility level. Two of the guidelines the Department is required to establish by HUD to be used in the calculation process of the household's eligibility include the Utility Assistance Allowance and Payment Standard amounts. OIA reviewed a sample of files to determine their accuracy of calculations and use of the above guidelines. The results of our reviews are in the Testing section of this report.

If a household is determined to be eligible, a determination letter is mailed to them with detailed information regarding their eligibility level and the amount of approved voucher. The next steps depend on the type of the voucher they've been approved for, and whether the applicant is approved for Tenant-based or Project-based voucher. The main difference between the two is that under the Tenant-based Housing Choice Voucher program, the Department issues an eligible family a voucher and the family selects a unit of its choice. If the family moves out of the unit, the contract with the owner ends and the family can move with continued assistance to another unit. All of the Department's vouchers are tenant-based except for the VASH vouchers available at Freedom's Path in Kerrville which are Project-based. The Department has entered into an assistance contract with the property owner for specified units and for a specified term. The Program refers families from its waiting list to the property / project owner to fill vacancies. Because the assistance is tied to the unit, a family who decides to move out of a Project-based unit does not have any right to continued housing assistance. However, they may be eligible for a tenant based voucher when one becomes available if they meet the specific criteria for that voucher type.

In either cases, HUD requires that all units occupied by families receiving HCV assistance pass HUD's Housing Quality Standards (HQS) prior to occupancy. Only units that pass a physical inspection based on HQS are eligible to receive assistance. The Department follows the inspection checklist that is provided by HUD to inspect any available units. In the past, the program relied on the Property Inspections section

of the Compliance Monitoring division of TDHCA to perform these inspections. This responsibility was then moved over to the Section 8 Program staff. Currently, the Program is seeking to outsource this task to an outside company. However, due to the COVID 19 pandemic this process has been placed on hold for the time being. HUD has also issued a physical inspection waiver to all Housing Authorities for the time being. As a temporary mitigating measure, HUD has implemented a Self-certification process. The property owners and the potential tenants are required to complete and sign the self-certification form attesting to the condition of the property prior to moving in. The completed self-certification has to be submitted to the program staff before the file is considered complete and the voucher can be issued. OIA reviewed a sample of files for verification of physical inspection and self-certification records. The results are provided in the testing section of this report.

Referral agencies

Referral agencies are specific to the Project Access Program only and are generally nonprofit organizations that operate locally to assist persons with disabilities with the application process and obtaining services. The list below is those organizations currently providing such referrals, however they are not the only organizations from which referrals can be made. A brief description of each referring agency and their mission is provided below.

- *A Resource Center for Independent Living (ARCIL)*; A Resource Center for Independent Living- ARCIL is a private non-profit corporation dedicated to the advancement and full participation of persons with disabilities in all aspects of life.
- *Center on Independent Living (COIL)*; Center on Independent Living- COIL helps Medicaid recipients that are in nursing facilities move to an independent living environment; COIL is contracted by Health and Human Services Commission (HHSC) through Department of Aging and Disability Services (DADS) to provide relocation services. COIL provides services and support systems needed to promote community integration/inclusion and self-sufficiency for individuals with significant physical disabilities.
- *North Central Texas Council of Governments (NCTCOG)*; North Central Texas Council of Governments- is a voluntary association of, by and for local governments, and was established to assist local governments in planning for common needs, cooperating for mutual benefit, and coordinating for sound regional development. NCTCOG's purpose is to strengthen both the individual and collective power of local governments and to help them recognize regional opportunities, eliminate unnecessary duplication, and make joint decisions.
- *Coastal Bend Center for Independent Living (CBCIL)*; Coastal Bend Center for Independent Living is a consumer-controlled, non-residential, non-profit and cross-disability oriented organization that provides core services of information and referral, advocacy, peer counseling, and independent living skills training.
- *East Texas Center for Independent Living (ETCIL)*; East Texas Center for Independent Living is a private, community-based, non-residential, consumer-driven, non-profit corporation whose services are developed, directed, and delivered primarily by persons who have disabilities. ETCIL

assists persons with various disabilities toward increasing personal self-determination, minimizing dependence upon others and engaging in community

- Austin State Hospital Texas Health and Human Services (ASH); Austin State Hospital Texas Health and Human Services contracts with 37 local mental health authorities and two local behavioral health authorities to deliver mental health services in communities across Texas.

Standard Operating Procedures (SOP)

An SOP is a procedure specific to the operation of a division that describes the activities necessary to complete tasks in accordance with applicable rules and regulations. It defines expected practices in a process where quality standards exist. SOPs play an important role in any organization and division. They are policies, procedures and standards needed to operate in a successful way. They can create efficiencies, consistency and reliability, fewer errors, and add value to the Division.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-006.01	OIA recommends that Section 8 program establish written SOPs, signed and dated by management, for consistency and efficiency of the operation.	11/30/2020	Section 8 Manager

Management response

The Department agrees that SOPs are important in the organization and division. The Department’s PHA Administrative Plan effectively serves as a manual of standard procedures. That Plan is in the process of being updated. Additionally, the Section 8 Program is committed to reviewing and updating all existing SOP’s. Currently, the program has 19 SOPs that will be reviewed and formalized. Management will review, update, and route for signature all SOPs by the target date of November 30, 2020.

Testing

The program receives “Applicant / Client” applications and supporting documentation that includes personal and confidential information. These documents include proof of income, bank records, and personal identification information. As noted earlier in the report, the Department does not have the capability of receiving these documents electronically, and therefore a hard copy is submitted to the Program either through mail or fax. The assigned staff will scan the documents to the Program’s shared drive and enter the information into other applicable systems such as HousingPro. The hard copies are then destroyed through the Department’s secured shred services.

Our understanding is that the fax machine is located in the Section 8 cubicle area. However, the access to the fax machine is not secured by a lock or other security measures during absence of the program

staff from their desks. Depending on the time the incoming fax is transmitted, and the possibility of staff not being present at their desk at that time, the potential risk of unauthorized access to the clients' confidential information is probable.

OIA reviewed the list of individuals with access to the Section 8 electronic folders that contain Clients' information. We found that in addition to the authorized list of staff that was provided by the management, several other staff, including a few staff from another division, had "Modify" access level to the Program folders.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-006.2a	OIA recommends that the Program establish a process in which the access to the Section 8 electronic folders are monitored and revised regularly to only include authorized staff	9/15/2020	Section 8 Management ; Information Systems
20-006.2b	OIA recommends that the Program consider establishing secure electronic file transfer procedures for the submission of application and supporting documents by the referring agencies and the Clients	12/31/2020	Section 8 Management

Management response

Staff concurs. Management has already begun working with the Department's Information System team to update staff access to the Section 8 folder. The target date to complete this recommendation is 9/15/2020.

Staff also concurs with the importance of having a secure electronic transfer procedure for files. Management is working on a secure email system that allows clients, referral agencies, and the public to send/receive emails that may contain protected information. This new secure email service protects the body of an email as well as attachments which may contain protected information.

With recent additional funding from HUD, staff has procured an upgrade of our existing software that will now include a secure portal to allow clients to electronically transmit documents to the staff for processing, and also includes an electronic eFax system. Due to the large volume of clients the program assists, this task will be completed by December 31, 2020.

Program staff are responsible for receiving, reviewing, and determining applicant's eligibility for HCV benefits. They follow guidelines and standards established and provided by HUD. The review and evaluations performed by the program staff includes, criminal background check, calculation of eligibility based on the household size, composition, income, review of unit inspection reports, and verification of

income. The staff is also tasked with notifying the clients and the property owners in advance of their renewal date and annual verification.

OIA reviewed a sample 20 files for completion and accuracy of information, and found discrepancies in several of the files. The discrepancies included missing current year file, missing background check, and background checks were not signed by the program staff to indicate its completion. We also found that some files did not contain a copy of the Unit inspection report / self-certification form, and missing annual review notification.

After discussion with the Program staff we found that the staff primarily use and rely on hard copies of documents and physical folders, and that the electronic files are not always updated on regular and timely bases. Due to the current circumstances of COVID19, OIA was not able to review and test the physical folders of the Section 8 Program recipients.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-006.3	OIA recommends that the Program establish a supervisory review process for the processed files to ensure completion and accuracy of electronic files and information.	10/31/2020	Section 8 Manager

Management response

Management concurs that steps can be taken to improve the accuracy of electronic files. Currently, the program manually reviews files for accuracy of the client family composition, income, unit details, supporting documentation, and rent determination. This process involves several inter-connected and detailed determinations and actions. After the Department finalizes its upgrade to the program’s housing software (mentioned above), the file review process will be electronic. The target date to complete this recommendation is October 31, 2020.

Other audits and periodic reports

Although no Internal Audit of the Section 8 Program has been conducted in recent years, the Program undergoes several periodic and routine reviews by different entities to ensure its compliance with application rules.

- Section Eight Management Assessment Program (SEMAP); it is a performance measurement tool used by HUD for the Housing Choice Voucher Program. TDHCA, and other Public Housing Authorities (PHA), self-certify to HUD 60 days after the end of the fiscal year. The Field Officer assigned to each housing authority issues a score within 120 days after the end of the fiscal year. Scores above 90 are considered high scores, and below 60 are low performers. There are 14

SEMAP performance indicators set as standard for key areas of Housing Choice Voucher Program management. PHAs are assessed based on these standards to show their effectiveness of the administration of the program.

The Department's Section 8 Program scored 74 on its 2018 SEMAP report. The Department provided HUD with a plan for taking action on deficiencies that were identified in the report.

- Voucher Management System (VMS); The Financial Administration division at TDHCA submits a monthly report of the expenditure and revenues for the Section 8 Program to HUD. The data is collected from PeopleSoft software which is reconciled with USAS; the system that's used by Texas Comptroller for all revenue and expenditures. The report is prepared by the Sr. Grant Accountant, and is reviewed and approved by the team lead before being submitted to HUD through Real Estate Assessment Center (REAC). The data included in the report is then reviewed and approved by a HUD representative in REAC. HUD uses this report to determine future awards of Section 8 Program for the Department.
- *Department of Public Safety (DPS)*; The Texas Department of Public Safety and Federal Bureau of Investigations (FBI) have established audit programs for the purpose of evaluating a criminal and non-criminal justice agency's compliance with state and federal statues, regulations, policies, and procedures for the access and use of criminal history records. The Section 8 Program at TDHCA was last audited by DPS in 2015, and the audit report issued on March 24, 2016 indicated no areas of non-compliance.

OIA extends our appreciation to management and staff of the Section 8 Program for their time and cooperation during the course of this audit.

Sincerely,

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Internal Audit Director

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