

OFFICE OF AUDITS & ADVISORY SERVICES



HOUSING AND COMMUNITY DEVELOPMENT – SECTION 8 FRAUD INVESTIGATIONS AUDIT

FINAL REPORT

Chief of Audits: Juan R. Perez
Audit Manager: Laura R. Flores, CIA, CFE, CGAP
Auditor II: Christopher Efird, CPA
Auditor I: Erich Hannon

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County of San Diego

TRACY M. SANDOVAL
DEPUTY CHIEF ADMINISTRATIVE OFFICER/
AUDITOR AND CONTROLLER

AUDITOR AND CONTROLLER
OFFICE OF AUDITS & ADVISORY SERVICES
5530 OVERLAND AVENUE, SUITE 330, SAN DIEGO, CA 92123-1261
Phone: (858) 495-5991

JUAN R. PEREZ
CHIEF OF AUDITS

August 3, 2015

TO: Todd Henderson, Director
Department of Housing and Community Development

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: HOUSING AND COMMUNITY DEVELOPMENT – SECTION 8 FRAUD INVESTIGATIONS AUDIT

Enclosed is our report on the Housing and Community Development – Section 8 Fraud Investigations Audit. We have reviewed your response to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Chris Efirm at (858) 495-5576.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:CE:aps

Enclosure

c: David Estrella, Deputy Chief Administrative Officer, Community Services Group
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Brian Hagerty, Group Finance Director, Community Services Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) completed an audit of the Department of Housing and Community Development (HCD) – Section 8 Fraud Investigations. The objective of the audit was to evaluate the adequacy of procedures for the investigation of fraud, claims and complaints received.

Background

The Section 8 Rental Assistance Program (Section 8 Program) is a federally funded program that provides monthly rental assistance through the Housing Choice Voucher Program. It is locally administered by the Housing Authority of the County of San Diego (HACSD).

Eligibility for participation in the Section 8 Program is determined by specific criteria established by the Department of Housing and Urban Development (HUD), in addition to any other eligibility criteria established by the HACSD. In order to continue to receive rental assistance through the Section 8 Program, participants must follow the rules and regulations of the program. If the participant fails to comply with program requirements, participation in the program may be terminated and/or the participant may be required to repay assistance provided on behalf of the participant. The rules and regulations of the Section 8 Program are established and provided by HUD, as approved by the U.S. Congress, and by HACSD's policies and procedures.

The HACSD is responsible for ensuring that benefits are only provided to eligible individuals and encourages participating families and members of the public to report suspected abuse and fraud within the Section 8 Program. As such, the HACSD has designated two employees to comprise the Program Review and Integrity Unit to investigate allegations of program abuse and potential fraud. During the quarter of July 1, 2013 – September 30, 2013, the Program Review and Integrity Unit received 236 allegations of fraud and abuse. This equates to an average of 78 allegations per month or 936 allegations per year.

Audit Scope & Limitations

The scope of the audit included Fiscal Year 2012-13 to current. The audit evaluated whether the Program Review and Integrity Unit's procedures are adequate to allow for thorough investigations of fraud, claims and complaints received. While Section 8 Program rules and regulations established by HUD were considered during our work, the focus of this audit was not on determining compliance with HUD rules and regulations.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Interviewed key personnel on policies, processes, and requirements relevant to the areas being reviewed.
- Examined HUD rules and regulations and HACSD policies and procedures related to the areas being reviewed.
- Assessed existing procedures followed to investigate and document allegations of fraud or abuse.
- On a sample basis, determined whether complaints were timely and appropriately investigated and resolved.
- On a sample basis, verified that program participants removed from the program were not reinstated within 3 years.¹
- Identified and evaluated procedures followed for tracking cases involving fraud and overpayments.

AUDIT RESULTS**Summary**

Within the scope of the audit, OAAS determined that HACSD's existing procedures for the investigation of fraud, claims and complaints need improvement. The body of the report outlines findings and related recommendations to further strengthen current procedures and improve their effectiveness.

Finding I:**Procedures for the Investigation of Allegations of Fraud and Abuse Need Improvement**

A judgmental sample of 30 complaints of suspected program fraud and abuse was selected for detailed testing. OAAS identified exceptions on 12 of the complaints selected for review related to timeliness and adequacy of procedures followed.

Complaints Received are not Investigated and Resolved Timely –

Audit testing found that the investigation of four complaints received in 2013 has not been completed, as shown in Table 1:

Table 1. Complaints Received in 2013 That Remain Open

Date Received	Received From	Allegation	Date Investigation Started	Investigation Status
7/11/13	Housing Specialist	People/Income/ Drugs	7/19/13	Open
7/03/13	PA Fraud Investigator	People	7/8/13	Open
9/30/13	General Public Tips	Income	11/20/13	Open
9/27/13	Police Department	People/Violence/ Criminal Activity	9/27/13	Open

¹ HUD requires that a person evicted from public housing or any Section 8 Program for drug-related criminal activity is ineligible for assistance for at least three years from the date of the eviction.

While HACSD staff initiated the investigation soon after the complaints were received, there was no evidence of closure and resolution documented within the case files.

The Administrative Plan for the Section 8 Program outlines specific program review and integrity procedures. These procedures however, do not specify a timeframe in which allegations of fraud and abuse need to be investigated and resolved.

Per HACSD management, they have limited resources assigned to the unit which prevents them from addressing complaints received in a timely manner.

Fraud and abuse complaints that are not investigated and resolved timely could increase the risk that ineligible participants remain in the program. Also, it limits the HACSD's ability to assure that public funds are paid on behalf of qualified and eligible participants.

According to the Housing Choice Voucher Program Guidebook, Chapter 22.4, when a Public Housing Authority (PHA) has a reason to suspect program abuse, immediate action is required to gather more information regarding the validity of the concern or claim and, if valid, the nature and the extent of the abuse.

Further, HACSD's Program Administrative Plan, Chapter 12, Criteria for Investigation of Suspected Program Abuse and Fraud, specifies that the HACSD has a responsibility to HUD, to the community, to the taxpayer, and to eligible families in need of housing assistance to monitor participants and owners for compliance and, when indicators of possible abuse come to the HACSD's attention, to vigorously investigate such claims.

Complaints Received Were Not Investigated Thoroughly – OAAS found that investigation activities conducted for two complaints received in 2013 with allegations of criminal activity and drugs were not sufficient. Further, HACSD has no formal procedures in place to prioritize and conduct follow-up of complaints when insufficient evidence exists at the time the investigation is initiated but that merit additional consideration given the nature of the allegations. Specifically:

- On August 8, 2013 a complaint was referred by the Sheriff's Department documenting that the people living in the unit had engaged in criminal activity (burglary). HACSD did not perform a formal investigation. In addition, there was no indication documented within the case file that a follow-up was to be conducted.

HACSD staff stated that burglary is not an actionable offense per HUD regulations, as it does not affect the housing unit or individuals living in the unit. Therefore, further examination of the complaint was not deemed necessary.

The participant was eventually removed from the Section 8 Program in December 2014 as a result of an arrest due to the possession of illegal drugs in the unit.

- On September 13, 2013, a complaint was referred by a Housing Specialist alleging violations to the program including the use of drugs. In addition, there were several complaints from the property management claiming the tenant was in violation of the terms of the lease by engaging in the use of drugs and disruptive behavior. HACSD staff held a conference with the participant and based solely on that conference cleared them of the allegations. There was no evidence within the case file that a follow up was scheduled.

Even after the participant eventually moved out of the unit when receiving a 60-Day Notice of Termination from the property manager, no action was taken by HACSD. According to HACSD staff, the participant did not move out due to a court ordered eviction; therefore, the participant was not required to be terminated from the program and continues to receive benefits.

Federal Regulation 982.552 requires a PHA to terminate program assistance for a family evicted from housing assisted under the program for serious violation of the lease.

Fraud, abuse, and program violation complaints that are not investigated thoroughly and adequately increase the risk of allowing participants that engage in improper activities to remain in the program in violation of HUD rules and regulations.

Per the Housing Choice Voucher Program Guidebook, Chapter 22.4, a PHA should establish a process whereby accusations, claims, and concerns about potential abuse are documented and responded to as efficiently as possible by qualified staff.

Missing Files for Complaints Received – HACSD did not have investigation files for six of the complaints selected for audit testing, as shown on Table 2.

Table 2. Missing Case Files

Referral Date	Referred By	Allegation
8/27/13	Police Department	People/Violence/Criminal Activity/Drugs
8/8/13	Voter Registration	People
7/22/13	Sheriff's Dept.	People/Violence/Criminal Activity
8/12/13	Sheriff's Dept.	People/Criminal Activity
7/10/13	Police Department	People/Criminal Activity/Violence
9/24/13	Sheriff's Dept.	People/Criminal Activity

As such, OAAS was unable to confirm if an investigation into the complaint was conducted.

The Housing Choice Voucher Program Guidebook, Chapter 22.4, Establishing a Process for Handling Claims of Potential Abuse, states that the PHA should summarize the actions taken and the findings and recommendations of its assessment in writing.

HACSD's Administrative Program, Chapter 12, Allegations of Program Abuse and Fraud, states that all referrals, including referrals from community members and other agencies, will be thoroughly investigated, documented, and placed in the participant's file.

Recommendation: To enhance the integrity of the Section 8 Program and further assure the eligibility of program participants, HACSD should:

1. Revise current procedures to clearly document performance goals for the timeframe in which claims should be investigated and resolved.
2. Increase supervisory oversight of investigations conducted to ensure that they are conducted with due diligence, properly documented, and resolved in a timely manner.
3. Evaluate workload assigned to the Program Review and Integrity Unit staff to ensure that all complaints are timely and thoroughly investigated.

Further, in support of the County's strategic initiative to build better and safer communities, the HACSD should:

4. Ensure that law enforcement referrals and other claims that involve criminal activities are thoroughly investigated, followed-up, and resolved.

Finding II: **Insufficient Criteria for Fraud Cases Referred for Prosecution**

Although the HACSD will first attempt to resolve participant abuses administratively, there are many cases where the participant's actions merit prosecution for fraud. However, OAAS found that the HACSD has not established specific criteria that outlines how and which program fraud cases should be referred for prosecution.

Specifically, during the audit OAAS identified over \$3M of outstanding receivables that resulted from fraudulent overpayments. OAAS noted that only one case with a fraudulent overpayment of \$25,120 was referred to the District Attorney (DA) for prosecution since July 2012 to date.

According to HACSD staff, cases are referred to the DA at the discretion of the HCD director. HACSD indicated that several factors such as criminal intent and dollar amount are considered when determining whether or not a case will be referred.

Insufficient guidelines and thresholds indicating when a case should be submitted for prosecution could lead to the potential loss of HUD funds

as a thorough attempt to recoup fraudulent overpayments is not being performed.

The Housing Choice Voucher Program Guidebook, Chapter 22.6, Referral for Prosecution of Purposeful Misreporting, states that if the PHA has reason to believe (preponderance of evidence) that the participant's abuse of the program was willful or intentional; the PHA may refer the cases to the appropriate HUD Special Agent In Charge for investigation and possible criminal prosecution.

Recommendation: The HACSD should establish specific procedures and defined criteria to identify fraud cases that merit referral for prosecution. At a minimum, these procedures should include the dollar loss threshold amounts and the forms to be completed before submission to the DA or referral to HUD.

Office of Audits & Advisory Services



VALUE

DEPARTMENT'S RESPONSE



County of San Diego

TODD HENDERSON
DIRECTOR

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
3989 RUFFIN ROAD, SAN DIEGO, CALIFORNIA 92123-1815
Phone: 858-694-4801; Fax: 858-694-4871; TDD: 866-945-2207
Toll Free: 1-877-478-5478; Web Address: sdhcd.org

KELLY DUFFEK
ASSISTANT DIRECTOR

July 28, 2015

RECEIVED

TO: Juan R. Perez
Chief of Audits

JUL 31 2015

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: Todd Henderson
Director of the Department of Housing and Community Development

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS—HOUSING AND COMMUNITY DEVELOPMENT SECTION 8 FRAUD INVESTIGATIONS AUDIT

Finding I: Procedures for the Investigation of Allegations of Fraud and Abuse Need Improvement

OAAS Recommendation 1: Revise current procedures to clearly document performance goals for the timeframe in which claims should be investigated and resolved.

Action Plan: We concur with this recommendation. However, it is important to note that investigations can take anywhere from a few hours to several months or longer to conclude, depending on the complexity of the allegation and information provided. The current desk manual has procedures for logging and investigating reports of fraud and is undergoing an update that will include a revision of allegation priorities and performance goals and timeframes for investigations.

Planned Completion Date: August 31, 2015

Contact Information for Implementation: Luisa Tumini, Chief

OAAS Recommendation 2: Increase supervisory oversight of investigations conducted to ensure that they are conducted with due diligence, properly documented, and resolved in a timely manner.

Action Plan: We concur with this recommendation and had implemented changes to this effect prior to receipt of this final draft report. In November 2014, direct oversight of Program Review was integrated into the Rental Assistance Division. Program Review staff now benefit from additional levels of oversight and access to additional resources. Program Review staff report to a Housing Program Analyst IV, with oversight by the Rental Assistance Chief. With these changes came revisions to the process of tracking allegations, enhancements in procedures, and a review of the desk manual. A process for Quality Control (QC) review of the allegation log, files created, and files selected for investigation was implemented, effective July 1, 2015. The QC process looks at a random sampling of allegations received and investigations started in the prior month and

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Juan R. Perez, Chief of Audits
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will be reviewed to see if allegations are logged and prioritized correctly; case files are created and documented properly; allegations selected for investigation were selected according to the priorities documented in the desk manual and the case files are adequately documented.

Planned Completion Date: Increased supervisory oversight is in place. Desk manual revisions are scheduled to be completed August 31, 2015.

Contact Information for Implementation: Luisa Tumini, Chief

OAAS Recommendation 3: Evaluate workload assigned to the Program Review and Integrity Unit staff to ensure that all complaints are timely and thoroughly investigated.

Action Plan: We concur with this recommendation. Through the use of monthly reports on the number of allegations received and the status of investigations, we will continually monitor and evaluate the workload assigned to Program Review. All allegations will continue to be reviewed and prioritized as they are received. Depending on the nature of the allegation, the amount of information readily available pertaining to the allegation, the resources, and the current business need priorities of the Department, allegations will be addressed according to the priorities established in the desk manual and appropriate action for resolution will be taken. The current desk manual is undergoing an update, which is expected to be completed by August 31, 2015, and will include additional documentation on priorities, procedures, performance goals, and timeframes. Additionally, we will explore options within the Department and possible partnerships with the District Attorney's office, other Housing Authorities and HUD's Office of Inspector General to maximize results with limited staff and the available budget.

Planned Completion Date: December 31, 2015

Contact Information for Implementation: Luisa Tumini, Chief

OAAS Recommendation 4: Ensure that law enforcement referrals and other claims that involve criminal activities are thoroughly investigated, followed up, and resolved.

Action Plan: We concur with this recommendation to the extent that referrals can be resolved. HACSD prioritizes and pursues all referrals that appear to have potential program violations (such as violence, drugs, and sex offenders in the unit) that are received from law enforcement sources. It is important to note that not all criminal activity is against program rules. Some referrals may be complex in nature or may not provide sufficient information and are not able to be resolved immediately. In those situations, cases may remain unresolved and held open until additional information is received. Effective immediately, case notes will be documented to reflect the status of the investigation. In addition, the current desk manual is undergoing an update that includes a review and update of the priority scale for investigations and procedures for handling cases that are not able to be immediately cleared or terminated.

Planned Completion Date: August 31, 2015

Juan R. Perez, Chief of Audits
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Contact Information for Implementation: Luisa Tumini, Rental Assistance Chief

Finding II: Insufficient Criteria for Fraud Cases Referred for Prosecution

OAAS Recommendation: The HACSD should establish specific procedures and defined criteria to identify fraud cases that merit referral for prosecution. At a minimum, these procedures should include the dollar-loss threshold amounts and the forms to be completed before submission to the DA or referral to HUD.

Action Plan: We concur with this recommendation. While the HACSD does have an existing procedure and dollar-loss threshold for identifying cases to be referred to the District Attorney (DA), the procedure will be revised to include DA contact information, forms, and timeframes. It is important to note that the HACSD has no discretion over which cases are accepted for prosecution by the District Attorney. The process for engaging the U.S. Department of Housing and Urban Development's Office of Inspector General will be similarly documented and included in the desk manual.

Planned Completion Date: September 30, 2015

Contact Information for Implementation: Luisa Tumini, Chief

We appreciate the opportunity to reply to these recommendations and your office's guidance in addressing these concerns. If you have any questions, please contact me at (858) 694-8750.

Sincerely,



TODD HENDERSON, DIRECTOR
Department of Housing and Community Development

TH/LT/MM

cc: David Estrella, Deputy Chief Administration Officer, Community Services Group
Tracy M. Sandoval, Deputy Chief Administrative Officer, Auditor and Controller
Brian Hagerty, Group Finance Director, Community Services Group