

OFFICE OF AUDITS & ADVISORY SERVICES



HOUSING AND COMMUNITY DEVELOPMENT SERVICES – SECTION 8 FOLLOW-UP AUDIT

FINAL REPORT

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

5/3/2017

TO: Todd Henderson, Director
Housing and Community Development Services

FROM: Juan R. Perez
Chief of Audits

**FINAL REPORT: HOUSING AND COMMUNITY DEVELOPMENT SERVICES – SECTION 8
FOLLOW-UP AUDIT**

Enclosed is our report on the Housing and Community Development Services – Section 8 Follow-up 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 Erich Hannon at (858) 495-5651.

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

JUAN R. PEREZ
Chief of Audits

AUD:EH:dsp

Enclosure

c: Nick Macchione, Director, Health and Human Services Agency
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Dean Arabatzis, Chief Operations Officer, Health and Human Services Agency
Andrew Pease, Executive Finance Director, Health and Human Services Agency
James Lardy, Revenue & Budget Manager, Health and Human Services Agency

INTRODUCTION

Audit Objective	The Office of Audits & Advisory Services (OAAS) completed a follow-up audit of the Housing and Community Development Services (HCDS) – Section 8 Fraud Investigations audit issued in August 2015. The objective of the audit was to verify whether prior recommendations have been implemented and actions taken have effectively addressed prior findings.
Background	<p>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.</p> <p>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.</p> <p>OAAS conducted an audit of the HACSD Section 8 Fraud Investigations and issued the Audit Report A14-026 in August 2015. The objective of the audit was to evaluate the adequacy of procedures for the investigation of fraud, claims and complaints received.</p>
Audit Scope & Limitations	<p>The scope of the follow-up audit included a review and verification of the implementation of the five recommendations identified in Audit Report A14-026. OAAS evaluated data from 9/8/2015 to 9/2/2016.</p> <p>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.</p>
Methodology	<p>OAAS performed the follow-up audit using the following methods:</p> <ul style="list-style-type: none">• Reviewed all findings and recommendations included in the August 2015 audit report.• Interviewed HACSD Rental Assistance Chief and key personnel responsible for the implementation of audit recommendations.• Reviewed policies and procedures followed to investigate and document allegations of fraud or program abuse.

- Examined HUD rules and regulations and HACSD policies and procedures related to the areas being reviewed.
- On a sample basis, determined whether complaints were timely and appropriately investigated and resolved.
- 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 has implemented all five recommendations and the actions taken generally addressed the prior findings, as shown in Table 1.

Table 1. Implementation Status of A14-026 Audit Recommendations

Finding	Recommendation	Status
I. Procedures for the Investigation of Allegations of Fraud and Abuse Need Improvement	1. Revise current procedures to clearly document performance goals for the timeframe in which claims should be investigated and resolved;	Implemented
	2. Increase supervisory oversight of investigations conducted to ensure that they are conducted with due diligence, properly documented, and resolved in a timely manner;	Implemented
	3. Evaluate workload assigned to the Program Review and Integrity staff to ensure that all complaints are timely and thoroughly investigated; and	Implemented
	4. Ensure that law enforcement referrals and other claims that involve criminal activities are thoroughly investigated, followed up, and resolved.	Implemented
II. Insufficient Criteria for Fraud Cases Referred for Prosecution	5. 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.	Implemented

OAAS identified opportunities to further strengthen controls over the investigation of allegations of fraud or program abuse, as illustrated in the finding noted below.

Finding I:

Fraud Referrals Investigation and Resolution Process

In response to Audit Recommendation no. 1, HACSD revised procedures related to the investigation of fraud and program abuse referrals. The procedures require that referrals assigned to staff should be worked and ready for recommendation for resolution within 60 days.

HACSD designates a level of importance to all incoming fraud referrals based on the following:

- Level 1: Referrals received from HUD, HUD Office on Inspector General, County of San Diego Board of Supervisors, Congressional offices, multiple subsidy report, reports of sex offenders in the subsidized unit, families porting out, reports of fraud in any HACSD owned housing and by families participating in the Family Self-Sufficiency Program.
- Level 2: Zero tolerance complaints (violence or drugs related criminal activity).
- Level 3: Non-zero tolerance complaints (such as unauthorized person, unreported income, and side payments to property owner.)

According to HACSD procedures, fraud referrals are assigned a review timeline based upon an established process of prioritization:

Table 2. Review Timeline

Level of Importance	Priority
Level 1	Priority 1
Level 2	Priority 2
Level 3	Priority 3

Priority 1 referrals are highest priority and are assigned to staff for investigation within 48 hours. However, the procedures do not specify a timeframe in which referrals with a Priority 2 and 3 should be assigned for investigation. Instead, they are assigned based on the date they were received and staff availability.

OAAS determined that, once the referrals have been assigned, investigation and resolution of fraud allegations is completed within the 60 day requirement. Nonetheless, OAAS found that referrals with a Priority 2 and 3 are not assigned timely to staff which creates a significant delay in the investigation and resolution of the allegation from the time it is received.

Specifically, OAAS tested a judgmental sample of 10 referrals and found that 7 of these referrals were assigned for investigation from 176 days to 636 days after they were received resulting in significant resolution delays. This information is shown in Table 3.

Table 3. Status of Fraud Referrals as of 9/7/16

Referral Date	Allegation Priority Level	Assignment Date	Days From Referral To Assignment Date	Resolution Awaiting Period	Status
3/18/16	Priority 3	Not Assigned	Not Assigned	173 days	Open
2/29/16	Priority 2	8/23/16	176 days	191 days	Open
12/12/15	Priority 2	Not Assigned	Not Assigned	270 days	Open
9/25/15	Priority 2	8/4/16	314 days	348 days	Open
9/4/15	Priority 2	7/28/16	328 days	369 days	Open
4/10/15	Priority 2	Not Assigned	Not Assigned	516 days	Open
7/18/14	Priority 3	4/14/16	636 days	692 days	Closed

According to HACSD management, the limited program administration resources available from HUD support all aspects of program administration, such as determining initial eligibility for applicants, performing annual recertification for current participants, processing assistance payments to landlords, ensuring housing quality standards are met, and investigating of reports of fraud. Limited resources assigned to the Program Review unit prevent them from investigating and resolving lower priority fraud referrals in a timely manner. In July 2016, the Department of Housing and Community Development and HACSD were integrated with the Health and Human Services Agency and in October 2016, HACSD began exploring opportunities to leverage other fraud referral and investigation services within the Health and Human Services Agency (HHS).

Fraud and abuse referrals that are not resolved timely could increase the risk that ineligible participants remain in the program resulting in improper use of federal funding.

According to HUD Housing Choice Voucher Program Guidebook, Chapter 22.4, when a Public Housing Agency 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 Section 8 Housing Choice Voucher Program Administrative Plan, Chapter 12 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 investigate such claims.

Recommendation: To ensure that Section 8 fraud referrals are assigned for investigation and resolved timely, HACSD should:

1. Develop and document ways to leverage HHS resources to provide additional assistance to HACSD's investigation unit.
2. If utilizing HHS resources is not feasible, HACSD should identify and document an alternative approach to ensure that fraud referrals are investigated and resolved timely.

Office of Audits & Advisory Services

Compliance

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DEPARTMENT RESPONSE

MAY 01 2017

OFFICE OF AUDITS &
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NICK MACCHIONE, FACHE
AGENCY DIRECTOR

TODD HENDERSON
DIRECTOR, HOUSING AND COMMUNITY
DEVELOPMENT SERVICES

DATE: April 28, 2017

TO: Juan R. Perez
Chief of Audits

FROM: Todd Henderson
Director of Housing and Community Development Services

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: HOUSING AND COMMUNITY DEVELOPMENT SERVICES – SECTION 8 FOLLOW-UP AUDIT

Finding 1: Fraud Referrals Investigation and Resolution Process

Office of Audit and Advisory Services (OAAS) Recommendation: To ensure that Section 8 fraud referrals are assigned for investigation and resolved timely, Housing Authority for the County of San Diego (HACDS) should:

1. Develop and document ways to leverage HHSA resources to provide additional assistance to HACSD's investigation unit.
2. If utilizing HHSA resources is not feasible, HACSD should identify and document an alternative approach to ensure that fraud referrals are investigated and resolved timely.

Action Plan: Regarding OAAS Recommendation 1, as noted in the OAAS report, HACSD has been meeting with other departments within HHSA (Office of Business Intelligence and Eligibility Operations) as well as with the Department of Child Support Services' Bureau of Public Assistance Investigations since October 2016, to strategically align with HHSA resources and processes. HACSD has identified several areas for potential collaboration related to receiving, tracking, and investigating allegations and will continue to move towards leveraging the resources of the broader Agency.

Regarding OAAS Recommendation 2, in addition to the process improvements implemented by HACSD (as noted in OAAS follow-up report), HACSD has allocated additional resources to resolve a number of older Priority 2 and 3 allegations. If utilizing HHSA resources is not feasible, it is anticipated that the process improvements and the reduction in the number of older allegations will allow the HACSD to reduce the timeframe between receipt of allegation and assignment for investigation, and ultimately resolve cases in less time.

Planned Completion Date: It is anticipated that alignment with HHSA resources and processes will be complete by July 2018.

Contact Information for Implementation: Nicholas Martinez, Chief of Rental Assistance, Nicholas.Martinez@sdcountry.ca.gov or (858) 694-4802.

If you have any questions, please contact me at (858) 694-8750.

Sincerely,



FOR TODD HENDERSON, DIRECTOR
Housing and Community Development Services

TH/NM/DD