Johnson County Audit Services Performance Audit

Section 8 Housing Choice Voucher Program

Date July 30, 2020

Report No. 2020-03
Introduction

In accordance with our approved audit plan, we audited the Johnson County Housing Authority’s (JCHA) Section 8 Housing Choice Voucher (HCV) program. We selected this program based on our risk assessment results and the size of the program—both in dollars and people. Also, we have never audited this program.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit objectives

The audit objectives attempt to answer the following questions: Does the County have reasonable assurance the HCV program:

- Is operating in compliance with federal requirements for:
  - Admission to tenant-based program,
  - Where family can live and move, and
  - Housing Quality Standards?

- Is utilizing federal funds according to grant requirements?
- Is assisting the vulnerable population it serves?

We developed these objectives based on the purposes and risks associated with the HCV program and the federal funds the County is entrusted with to carry out this program. This performance audit focused on the design of both program processes and management controls, and results in three areas:

- operational compliance with the Code of Federal Regulations governing the HCV program,
- the adequacy of financial controls designed to protect funds from being misused, and
- program results which demonstrate how participants were assisted by the HCV program.
Background

The County’s current reorganization resolution, Res. No 036-01, states the Human Services Department shall “administer the housing assistance program for the County, providing minor home repairs, weatherization, housing vouchers, and other assistance...”

The JCHA mission is to administer the Housing Choice Voucher Program in a manner that is consistent with the policies of the U. S. Department of Housing and Urban Development and the Johnson County Human Services Department. The JCHA will not, on account of race, color, religion, sex, handicap, familial status or national origin deny families or individuals the opportunity to lease dwelling units suitable for their need, if eligible. JCHA will promote safe, decent and affordable housing, economic opportunity and a suitable living environment free from discrimination.

The U. S. Department of Housing and Urban Development (HUD) provides federal grant funds annually to the JCHA to administer the Housing Choice Voucher program. Approximately 93% of the funds received in 2019 were used to provide rental assistance to help eligible extremely-low and very-low income families afford safe, decent and affordable housing. The remaining 7% of funds received are applied toward administrative and other program delivery expenses. In addition, the program receives some County tax supported funding to offset program administrative costs. The HCV program supports the Board of County Commissioner’s top priority #2 for 2019-2020... “to strengthen and finance the appropriate level of service to meet the needs of the County’s vulnerable populations, pursuing innovative strategies”.

Applicant families in the HCV program select and rent units that meet program housing quality standards. If the housing authority approves the family’s unit and their housing choice, they

1 Resolution Providing for the Organizational Structure of Johnson County Government, dated May 31, 2001, Article XII, Paragraph F, 3, d.
2 Johnson County Housing Authority website.
3 Vulnerable populations are defined as extremely low, very-low, or low-income families and may include persons who are elderly or disabled.
contract with the landlord to make rent subsidy payments on behalf of the family. This is referred to as a housing assistance payment (HAP). A housing authority may not approve the housing selected by the applicant unless the rent subsidy is reasonable. The subsidy in the program is based on a local payment standard that reflects the cost to lease a unit in the local rental market. Applicant families become HCV program participants when they have entered into a lease agreement with a landlord and the housing authority makes the first housing assistance payment to the landlord.

The JCHA jurisdiction includes the entire County except for the City of Olathe. HUD authorizes 1,447 housing assistance vouchers for the JCHA program to provide rental assistance to eligible families. The value of any one voucher is based on the amount of assistance the participant family needs to pay rent, relative to their unique circumstances. For example, the gender and ages of participant family members is considered when determining the number of bedrooms allowed. As more bedrooms are needed by a participant family, usually the rent increases.

<table>
<thead>
<tr>
<th>Family Size</th>
<th>Extremely Low Income - Upper Limit</th>
<th>Very Low Income - Upper Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$17,400</td>
<td>$28,950</td>
</tr>
<tr>
<td>2</td>
<td>$19,850</td>
<td>$33,100</td>
</tr>
<tr>
<td>3</td>
<td>$22,350</td>
<td>$37,250</td>
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<tr>
<td>7</td>
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</tr>
<tr>
<td>8</td>
<td>$32,750</td>
<td>$54,600</td>
</tr>
</tbody>
</table>

Source: Housing Services Citizen's Academy Presentation Oct 2019

HUD sets eligible income limits for the program. Current income limits are shown to the left. For example: a family size of four would be considered extremely low-income if their income range was below $24,800, and they would be considered very low-income if their income was between $24,800 and $41,350.
Audit Results

Compliance with Regulations

The County has reasonable assurance the JCHA Section 8 HCV program is operating in compliance with federal requirements.\(^4\)

The JCHA has quality control measures that are appropriately designed for the program’s application, eligibility determination, and activation processes. We also determined quality control processes are in place to conduct timely housing inspections.

We examined a judgmental sample\(^5\) of 31 out of 1,447 voucher participant files and found 97% compliance for eligibility and admission testing attributes and 99% compliance for inspection testing attributes. In instances where documentation was not evident to support compliance, we determined the absence of such documentation was reasonable.

Independent external auditors found and reported in the County’s 2017 Single Audit that failed housing inspections within the HCV program, were not re-inspected within specified timeframes. We followed-up on this audit finding and determined corrective action was implemented to address this deficiency.

The JCHA has a process in-place to identify when income may be underreported by a participating family. A participant underreporting their income may result in their household receiving a higher amount of rental assistance than what should be authorized. When this occurs, the JCHA initiates recoupment from the family for the excess subsidy paid on their behalf.

The HCV program allows a participant family to move and live anywhere in the United States. When a participant from another housing authority moves to the JCHA’s area of jurisdiction, the participant’s voucher becomes “portable” and the participant’s move is referred to as “porting-in”. The JCHA has a procedure in place to bill and receive payments from other housing authorities\(^6\). Conversely, if the JCHA issues a voucher to a family and the participant family elects to move to another housing authority’s jurisdiction, the JCHA may be billed if the other housing authority does not absorb the family into their program. We examined the process designed for billing other housing authorities and found it to be reasonable.

\(^4\) Title 24: Housing and Urban Development; Part 982-Section 8 Tenant-Based Assistance: Housing Choice Voucher Program Code of Federal Regulations; parts: Admission to tenant-based program (Subpart E), Where family can live and move (Subpart H), and Housing Quality Standards (Subpart I).

\(^5\) Testing results cannot be projected across the entire program.

\(^6\) An exception to billing other PHAs for a participant “porting-in” would be the JCHA absorbing the “porting-in” participant into their program.
Utilizing Federal Funds

The County has reasonable assurance the JCHA is utilizing federal funds according to grant requirements.

The HCV Program received $10.1M in federal grant funds in 2018 from HUD. This grant represented 36% of all federal grant expenditures by the County for that year. The program also received an estimated $106,816 from the County’s General Fund during 2018.

We believe the processes used to receive and account for these grant funds are reasonably designed. At the beginning of each fiscal year, HUD notifies the program of its grant fund allocation for rental assistance and administrative expenses. The amount of allocation is based on the program’s prior years operational performance. The County’s Oracle system is used to record the program’s financial activity.

Each month, the program’s financial staff reviews housing assistance payments prior to setting up payment amounts to landlords. This process helps ensure participant families are assisted financially according to their current income eligibility levels. A change in family size, moving, and job changes are common examples of a need to modify the payment subsidy. Processes are then performed by the County’s Treasury and Financial Management department to make payments to landlords. We found separation of duties are sufficiently designed to reduce the risk of improper payments in the program.

Federal grant recipients with over $750,000 in expenditures are required to have an annual Single Audit. The HCV program was audited by the County’s external auditors in 2017 and the program is likely to continue to receive scrutiny by external auditors because of its large grant amount.

Assisting the Vulnerable Population

The County has reasonable assurance the JCHA is assisting the vulnerable population it serves.

In October 2019, the JCHA’s 1,447 vouchers provided housing assistance payments benefitting 2,856 people. Of those 1,447 households:

- 42% included an elderly or disabled person
- 41% included a child 17 or under
- $14,415 was the average annual household income

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7 HSD Citizen’s Academy presentation October 2019 provided data.
- 38% of households were on the program for >10 years, 22% at 5-10 years, 24% 2-5 years, and 16% <2 years.

HUD monitors HCV Program performance through 14 different performance measures that are reported and certified by the JCHA. HUD assigns a point score for each indicator and an overall rating for the program. The JCHA is operating effectively according to these measures. For example, in 2017 and 2018, the JCHA scored 135 out of a possible 135 points and received HUD’s “HIGH” rating for both years.

The Center on Budget Planning and Priorities identifies two commonly used performance indicators and the JCHA performs well according to both. The first success measure is a housing authority’s Lease-Up Rate. This is the percent of authorized vouchers under lease to landlords. JCHA’s Lease-up Rates for years 2017 through 2019 were 99.3%, 99.7%, and 99.5% respectively.

We compared the JCHA’s Lease-Up Rate to other housing authorities in 2016 and 2017. The JCHA demonstrated consistently high results in comparison to all others, and, in comparison to the national lease-up rate (green line) as illustrated in the chart below.

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8 HUD will not score or rate PHA’s in 2019 due to the Covid-19 pandemic.

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The second success measure is a housing authority’s *Funds Expenditure Rate*. This is the percentage of federal funds received and spent to provide families with rental assistance. JCHA’s *Funds Expenditure Rate* for years 2017 through 2019 were 100.6%, 99.7%, and 100.4% respectively. This measure indicates the program had very little excess grant funds remaining at year-end.

Housing authorities who have been recognized as a best practice housing authority offered both initial and in-service training to ensure a knowledgeable workforce. The County’s HCV program has occupancy specialists with work experience ranging from 4 to 20 years. All specialists have been trained and certified by a HUD-recognized national leader in HCV program training.

We found the program took appropriate action to assist the needs of participant families during our compliance testing. For example, 7 of the 31 tenant files we examined had exercised the portability provision to either move into, or out of, JCHA’s jurisdiction and find suitable housing. In reviewing these files, we found appropriate action was provided to assist the participant to live and move where they chose to. We also reviewed participant files of families that had experienced differing personal circumstances impacting their housing needs; they too, received timely and unique assistance by program staff.
Recommendations

We did not make any recommendations for this audit.

Suggestions for Management Consideration

Although the HCV program is performing at a high level, we believe the JCHA can benefit if a balanced scorecard (BSC) is developed and implemented as a strategic planning and management tool for all housing programs. The BSC is a balanced view of performance that organizations use to communicate expectations and results; align day-to-day operations with strategy; prioritize projects and services; and, measure and monitor progress. Housing Authorities who have been recognized as a best practice housing authority use the BSC methodology as a tool to monitor and assure individual and organizational performance.

The program recently established a Housing Resource Recruiter position to enhance landlord outreach efforts, including landlord retention. We suggest the program develop performance metrics to gauge the success of their outreach efforts. For example, the program could track the length of time it takes for applicants to find safe, decent, and affordable housing over time. That result may illustrate the level of difficulty it takes a program applicant to find housing within our local jurisdiction/market.

Management Comments

Thank you for the opportunity to work with your Audit Team throughout this process. We appreciate the time, courtesy and respect demonstrated as well as the genuine desire of your team to truly understand the Section 8 Housing Choice Voucher Program (HCV) and its regulations. Your team likely learned that this complex program has many nuances and that there is no such thing as a “typical voucher holder,” which makes compliance to regulations particularly challenging! I am fortunate to have such a knowledgeable group of people working in the Housing Services program, and their consistent 100% Section Eight Management evaluations by HUD truly spotlight their passion for serving some of our community’s most vulnerable people.

We are very proud of the fact that Housing Services leverages the County’s contribution to this primarily Federally funded program by nearly 21 times and returns the bulk of the funds back to the private sector by way of private, for-profit landlords. This is a tremendous return on the County’s investment, in our opinion.

We have reviewed the Performance Audit of the Johnson County Housing Authority (JCHA) Section 8 Housing Choice Voucher Program draft report. We are humbled by the fact that there were no findings in the official report, and we appreciate your two Suggestions for Management
Consideration. Although we are consistently designated as a High Performing Housing Authority by HUD, we know there is always room for improvement!

Suggestion 1: We agree that Balanced Score Cards and performance metrics are effective tools for strategic planning and program management. We track outcomes in a variety of different ways, and we will also work toward implementing a comprehensive Balanced Score Card for all of our services.

Suggestion 2: The Housing Resource Recruiter position was created during the last half of 2019. The JCHA position is considered to have primarily a sales focus, charged with both attracting and retaining landlords in our HCV Program. This position’s primary goal is to increase unit quantity and choice while decreasing average per-unit cost, consistent with supply and demand economics. Since the focus of this position is on the front end of the process of landlord recruitment and not the HCV client end, we will work toward development of metrics that show increased numbers of landlords, landlord retention, and landlord satisfaction, as examples of appropriate metrics for the position.

Thank you again for providing us with such a positive audit experience. We hope that we were helpful during the process.

Lynn Smith, CIA, CRMA and Harry Heflin, CPA conducted this audit. Please contact Ken Kleffner, County Auditor, at 913-715-1833 if you have any questions about this audit report.
How Audit Results Were Determined (Methodology)

The scope period for the audit of the JCHA’s Section 8 Housing Choice Voucher (HCV) program covered years 2017-2019 with the following exception, CBPP data from 2016 & 2017.

We assessed program compliance based on:

- The Code of Federal Regulations (24 CFR, Part 982) and a review of chapters from the JCHAs Administrative Plan and that were relevant to our audit objectives.
- Interviews with JCHA managers, supervisor, and occupancy specialists to understand how the administrative plan was utilized in daily operations.
- Reviews of HUD SEMAP processes and SEMAP Reports/Results applicable to the 2017-2019 scope period.
- A selected judgmental sample of 31 HCV program participant files, based on an equal numbers of participant files from among the HCV program occupancy specialists. Attributes evidenced:
  - client admission to the program and continued eligibility through review of income verification documentation,
  - housing inspection documentation for timeliness of annual inspections and failed annual inspections requiring corrective action, and
  - compliance with required actions when a client ports-in or ports-out of the JCHA jurisdiction.
- A review of recoupment records including client files and financial records to determine if management action was timely and appropriate for management-identified instances of participant fraud.
- A review of billing and receipt records for participants porting-in to the JCHA jurisdiction from another PHA.

We assessed the reasonableness of controls designed to utilize federal funds in processing housing assistance payments according to grants requirements based on:

- The County Grants Procedure 180.110.
- Oracle financial records and the JCHA HCV program budgets were reviewed to identify 2017-2019 federally allocated funds and additional County subsidy for the PHA.
- Interviews with the JCHA financial manager to determine if financial processes resulted in appropriately designed internal controls consistent with grant requirements.
- Reviews of a HUD disbursement schedule, a monthly HAP reconciliation process and supporting documentation, and Oracle payment registers to determine if evidence supported an appropriately designed system.

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10 The JCHA Section 8 HCV program was cited in the 2017 Single Audit for untimely housing re-inspections.
We assessed the appropriateness of program management to assist the vulnerable population it serves based on:

- A review of JCHA program performance metrics.
- A review of HUD’s SEMAP performance metrics individually, and in comparison, to other comparable housing authorities as reported from the Center on Budget and Policy Priorities (CBPP).
- We matched the indicators from the CBPP to the numbers that JCHA reported to HUD and compared the JCHA to other housing authorities based upon:
  - same metro area location, or
  - identified as a comparable county per budget book, or
  - outside metro area but within same state, AND
  - similar number of authorized vouchers (+/- 20% of JCHAs 1,447)
- A review of confidential participant file documentation and, subsequent validation that portable participant families maintained their HCV participant status but were able to move to the housing authority jurisdiction they chose.
- We contacted HUD to determine if the JCHA had been the recipient of any complaints or program violations allegations during the scope period and the response was no.

Our audit suggestions were based on research of industry literature, such as:

- HUD’s *Evidence Matters* (Winter 2019):
  - Landlords: Critical Participants in the Housing Choice Voucher Program.
  - HUD-Sponsored Research Sheds New Light on HCV Landlords.
  - PHAs Encourage Landlord Participation with Incentives.

- Consultant Studies:
  - Study on Section 8 Voucher Success Rates (November 2001)
  - Housing Choice Voucher Program Best Practices Study (December 2006)
  - Enhancements and Best Practices Designed to Expand Resident Choice and Mobility in Minneapolis (February 2017).

- HUD Guidance:

- The Balanced Scorecard Institute.