



U.S. Department of Housing and Urban Development
Office of District Inspector General for Audit
Capital District
800 North Capitol Street, N. W.
Suite 500
Washington, DC 20002

Audit Memorandum
00-AO-185-0802

August 10, 2000

MEMORANDUM FOR: Lee A. Palman, Director, Office of Public Housing, 3GPH

FROM: Sandra G. Elion, District Inspector General for Audit, Capital District, 3GGA

SUBJECT: Citizen Complaint - Tenant-Based Section 8 Program
Horning Brothers

In response to a complaint from a former Horning Brothers employee, we completed a limited review of Horning Brothers' Section 8 transactions. The complainant alleged that Horning Brothers was improperly retaining Federal funds received under the Section 8 program. Specifically, the complainant stated that Horning Brothers had retained HUD overpayments of Section 8 certificates and vouchers and had failed to notify HUD to make the appropriate adjustments.

Based on our limited review, we concluded that Horning Brothers improperly retained \$72,162 of District of Columbia Housing Authority's funds (including accrued interest) and disbursed or transferred \$10,618 without any supporting documentation. Horning Brothers accomplished this by establishing a Tenant Assistance Payment (TAP) escrow account to temporarily retain funds that could not be identified to a specific tenant or property. Some deposits made as early as 1995 were still in the TAP escrow account when we completed our field work in April 2000.

Within 60 days, please give us a status report of corrective actions taken on each recommendation made in this audit memorandum. The status report should be prepared in accordance with Appendix 6 of HUD Handbook 2000.06 REV-3 and should include the corrective action taken, the proposed corrective action and the date to be completed, or why the action is considered unnecessary. Also, please give us copies of any correspondence or directives issued because of this review.

If you have any questions, please call me or Joan S. Hobbs, Assistant District Inspector General for Audit, on (202) 501-1330.

Appendices

A - TAP Escrow Account Entries

B - Distribution

SCOPE AND METHODOLOGY

In conducting our review, we:

- Limited our scope to the general ledger transactions involving Horning Brothers' TAP escrow account during the period September 1, 1995, through December 31, 1999;
- Analyzed Move-Out Reports, Tenant Delinquency Reports, and Prepaid Residency Reports;
- Reconciled District of Columbia Housing Authority's (DCHA) payment records with the check disbursements and deposits affecting the TAP escrow account; and
- Interviewed the complainant, DCHA Section 8 personnel and Director of Internal Audit, and Horning Brothers personnel.

BACKGROUND

Section 8 is a rental assistance program designed to help low income families obtain decent, safe, and sanitary housing. The program is administered by local Public Housing Authorities (PHA) that provide tenant-based Section 8 assistance in the form of a certificate or voucher. This certificate or voucher assists families in paying a portion of their rent for housing. The landlord of the dwelling must be willing to rent to a family with a certificate or voucher and must be willing to participate in the Section 8 program. After the family finds such a dwelling, the PHA inspects it to determine if it meets housing quality standards. If approved, a Housing Assistance Payment (HAP) contract is executed with the landlord, and the PHA agrees to make a monthly payment to the landlord to cover the difference between the market rent and the rental payment made by the family. When the owner enters into a HAP contract with the Authority, the owner agrees to comply with the provisions of the contract, which incorporates by reference, the regulations as published in 24 CFR 982. In accordance with 24 CFR 982.451, "The total of rent paid by the tenant plus the Housing Authority housing assistance payment to the owner may not be more than the rent to the owner. The owner must immediately return any excess payment to the Housing Authority."

Horning Brothers is the management agent for 26 rental properties located throughout the Washington, DC metropolitan area and nine of these properties receive Section 8 certificate or voucher payments from DCHA. Horning Brothers receives one monthly check from DCHA for all nine properties and is responsible for allocating the subsidy payments to the appropriate property accounts according to the tenant payee list accompanying DCHA's check.

TAP ESCROW ACCOUNT

Horning Brothers stated that DCHA periodically sent them monthly subsidy checks that were not accompanied by a tenant payee listing; DCHA sometimes mailed the tenant payee listings separately.

Some monthly subsidy checks included overpayments for tenants. DCHA corrected the overpayments by making offsets to subsequent months' subsidy payments. However, since DCHA was not always timely in providing tenant payee listings or making offsets for overpayments, Horning Brothers established the TAP escrow account as a holding account for these questionable checks and overpayments. Horning Brothers then transferred funds from the TAP escrow account to the appropriate property account when DCHA provided details on the tenant payees. However, since DCHA did not always catch their mistakes, the balance in the TAP escrow account continued to grow. Although Horning Brothers stated they were unsuccessful in getting DCHA to correct overpayments, they could not provide documentation to support their attempts to contact DCHA. As of December 31, 1998, the TAP escrow account general ledger had entries totaling \$72,162 in unidentified payments, overpayments, and interest income.

1995 to 1996

The general ledger balance shows that Horning Brothers opened a separate bank account for the TAP escrow account on August 30, 1995. From September 1, 1995, to December 31, 1996, funds in the TAP escrow account accrued to \$78,754. Horning Brothers was unable to provide supporting documentation for this period, but we followed most of the entries made to the general ledger. Specifically, the general ledger shows dates and amounts of deposits made into the escrow account with descriptive entries such as "Int Inc" for monthly interest income earned, "Coleman" for a specific tenant, or simply "Tap Escrow Deposit." Horning Brothers explained three different scenarios for why a specific tenant appears on the ledger: 1) DCHA made an overpayment on a tenant subsidy; 2) the tenant moved out and failed to notify the respective agency, and DCHA continued to make payments to Horning Brothers; or 3) a tenant paid Horning Brothers for their portion of the rent that may have been past due. The "Tap Escrow Deposit" entries show additions to the account, but do not indicate the origin of the deposits or the designees of the deposits.

During this period, several unsupported disbursements and transfers totaling \$10,618, were made from the TAP escrow account. Horning Brothers could not provide copies of the checks or adequately explain these transactions.

1997 to 1998

Horning Brothers properly supported most of the entries occurring between January 1, 1997, and December 31, 1998. Entries for this period consisted mostly of interest income earned on the account and deposits or disbursements regarding tenant subsidies.

On April 19, 2000, Horning Brothers agreed to transfer funds from the TAP escrow account to the following properties: \$2,095 to Stoneridge, \$1,788 to Heights, and \$233 to the Cloisters. These funds represented subsidies for five tenants that had been incorrectly deposited into the TAP escrow account. We did not include these amounts in Appendix A.

1999

No entries were made to the TAP Escrow Account during 1999. However, Horning Brothers deposited overpayments for May through December 1999 to the Arbor Apartments account for a tenant that had moved out in April 1999. (According to Horning Brothers, overpayments usually deposited in the Escrow Account are now being deposited to the property accounts.)

As a result of these overpayments, Horning Brothers returned \$5,296 to DCHA. The DCHA Finance and Accounting Division cashed the check while the Section 8 personnel offset the \$5,296 against Horning Brothers' next subsidy payment. As a result, Horning Brothers was charged for the overpayment they had already returned. Even though DCHA eventually reimbursed Horning Brothers, the procedures DCHA used to correct overpayments need to be improved.

SUMMARY OF REIMBURSEMENTS

Based on our limited review, we found that Horning Brothers retained \$72,162 of DCHA funds (including accrued interest) and disbursed or transferred \$10,618 without supporting documentation. These funds should be promptly reimbursed to DCHA. Details of the TAP escrow account balances beginning August 1995 and ending December 31, 1998, are shown in Appendix A.

DC FIELD OFFICE COMMENTS

The Director of the Office of Public Housing, DC Field Office, agreed with the findings and recommendations.

RECOMMENDATIONS

We recommend that you:

- 1A. Direct DCHA to obtain reimbursement from Horning Brothers for the \$82,780 in Section 8 overpayments, unidentified subsidy checks, accrued interest, and unsupported disbursements and transfers.
- 1B. Monitor Horning Brothers' reimbursements to DCHA of \$72,162 for overpayments, unidentifiable tenant subsidy checks, and accrued interest; and \$10,618 for unsupported disbursements.
- 1C. Request DCHA to evaluate the feasibility of including tenant payee listings with all Section 8 checks.
- 1D. Direct DCHA to provide Section 8 landlords with procedures for returning overpayments and payments that cannot be identified with a specific tenant.

Appendix A

**HORNING BROTHERS
TAP ESCROW ACCOUNT ENTRIES
FUNDS OWED TO DCHA**

1995

<u>Ledger Entry Date</u>	<u>Transactions</u>	<u>Amount</u>	<u>Unsupported Disbursements</u>	<u>Balance Owed</u>
08/31/95				\$ 0.00
09/30/95	Deposits	\$16,316.77		16,316.77
10/01/95	Deposit	831.66		17,148.43
10/01/95	Disbursement		\$ 832.00	17,980.43
11/30/95	Check Printing	22.70*		18,003.13
12/31/95	Interest income - 4-months	150.78		18,153.91
	Total	<u>\$17,321.91</u>	<u>\$ 832.00</u>	<u>\$18,153.91</u>

1996

<u>Ledger Entry Date</u>	<u>Transactions</u>	<u>Amount</u>	<u>Unsupported Disbursements</u>	<u>Balance Owed</u>
12/31/95	Carry-over	\$17,321.91	\$ 832.00	\$18,153.91
03/31/96	Service charge	24.20		18,178.11
04/01/96	Deposits	922.00		19,100.11
05/29/96	Transfer		3,227.00	22,327.11
06/01/96	Deposit	5,457.83		27,784.94
06/26/96	Deposits	1,144.00		28,928.94
08/01/96	Transfer		2,036.00	30,964.94
08/01/96	Deposits	4,942.00		35,906.94
09/01/96	Deposits	2,155.00		38,061.94
09/01/96	Transfer	(1,200.00)		36,861.94
09/09/96	Deposit	99.00		36,960.94
10/01/96	Deposits	3,963.00		40,923.94
11/01/96	Deposits	3,962.00		44,885.94
11/30/96	Deposits	6,015.97		50,901.91
12/01/96	Disbursements	(585.00)	4,523.00	54,839.91
12/01/96	Deposits	3,136.50		57,976.41
12/06/96	Deposit	24,707.00		82,683.41
12/30/96	Deposits	5,898.33		88,581.74
12/31/96	Annual Interest	790.34		89,372.08
	Total	<u>\$78,754.08</u>	<u>\$10,618.00</u>	<u>\$89,372.08</u>

* Check printing and service charges would not have occurred without this account.

Appendix A

**HORNING BROTHERS
TAP ESCROW ACCOUNT ENTRIES
FUNDS OWED TO DCHA**

1997

<u>Ledger</u>			<u>Unsupported</u>	
<u>Entry Date</u>	<u>Transactions</u>	<u>Amount</u>	<u>Disbursements</u>	<u>Balance Owed</u>
12/31/96	Carry-over	\$78,754.08	\$10,618.00	\$89,372.08
01/31/97	Service charge	5.00		89,377.08
01/31/97	Deposit	1,265.00		90,642.08
01/31/97	Disbursements	(3,834.00)		86,808.08
02/07/97	Deposit	680.00		87,488.08
03/25/97	Deposit	680.00		88,168.08
10/31/97	Disbursements	(4,662.00)		83,506.08
12/31/97	Annual Interest	<u>2,099.69</u>		<u>85,605.73</u>
	Total	<u>\$74,987.73</u>	<u>\$10,618.00</u>	<u>\$85,605.73</u>

1998

<u>Ledger</u>			<u>Unsupported</u>	
<u>Entry Date</u>	<u>Transactions</u>	<u>Amount</u>	<u>Disbursements</u>	<u>Balance Owed</u>
12/31/97	Carry-over	\$74,987.73	\$10,618.00	\$85,605.73
05/31/98	Deposit	680.00		86,285.73
07/29/98	Deposit	2,879.00		89,164.73
08/31/98	Disbursements	(13,994.00)		75,170.73
09/30/98	Disbursement	(351.00)		74,819.73
11/06/98	Deposit	1,402.00		76,221.73
12/31/98	Deposits	5,680.00		81,901.73
12/31/98	Interest income - 4-months	<u>878.21</u>		<u>82,779.94</u>
	Total	<u>\$72,161.94</u>	<u>\$10,618.00</u>	<u>\$82,779.94</u>

Appendix B**DISTRIBUTION**

Mr. David Gilmore, Receiver, District of Columbia Housing Authority, 1133 North Capitol Street, NE, Suite 133, Washington, DC 20002

Horning Brothers, 1350 Connecticut Avenue, NW, suite 800, Washington, DC 20036

District of Columbia Treasurer, Attn: George Rivera, 441 4th Street, NW, Suite 480North, Washington, DC 20001

Principal Staff

Secretary's Representative, 3AS, HUD Philadelphia Office, The Wanamaker Building, 100 Penn Square, East, Philadelphia, PA 19107-3380

Director, Office of Public Housing, 3GPH

Audit Liaison Officer, Public and Indian Housing, PF

Audit Liaison Officer, Philadelphia, 3AFI

Departmental Audit Liaison Officer, FM, Room 2206

Acquisitions Librarian, Library, AS, Room 8141

Director, Office of Troubled Agency Recovery, PB, (Room 4112)

The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Building, House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, House of Representatives, Washington, DC 20515

Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building, Washington, DC 20515

Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street, NW, Room 2474, Washington, DC 20548

ATTN: Judy England-Joseph

Steve Redburn, Chief, Housing Branch, Office of Management and Budget, Room 9226 725 17th Street, NW, New Executive Office Building, Washington, DC 20503

Ms. Sharon Pinkerton, Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy and Human Resources, B373 Rayburn House Bldg., Washington, DC 20515