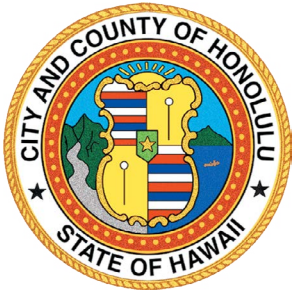




Office of the City Auditor



**City and County of
Honolulu
State of Hawai`i**

**Report to the Mayor
and the
City Council of Honolulu**

**Follow-Up on
Recommendations from
Report No. 17-03,
*Audit of the City's
Section 8 Tenant-Based
Assistance Program***

**Report No. 21-01
April 2021**

**Follow-Up on Recommendations
from Report No. 17-03, *Audit of
the City's Section 8 Tenant-Based
Assistance Program***

A Report to the
Mayor
and the
City Council
of Honolulu

Submitted by

THE CITY AUDITOR
CITY AND COUNTY
OF HONOLULU
STATE OF HAWAII

Report No. 21-01
April 2021



OFFICE OF THE CITY AUDITOR
CITY AND COUNTY OF HONOLULU

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TROY SHIMASAKI
ACTING CITY AUDITOR

April 29, 2021

The Honorable Tommy Waters, Chair
and Members
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawai'i 96813

Dear Chair Waters and Councilmembers:

A copy of our audit report, *Follow-up on Recommendations from Report No. 17-03, Audit of the City's Section 8 Tenant-Based Assistance Program*, is attached. This audit was conducted pursuant to Section 3-502.1(d), Revised Charter of Honolulu, which authorizes the Office of the City Auditor to perform follow-up audits and monitor compliance with auditor recommendations. This audit was also included in our office's Annual Work Plan for FY 2021.

The original audit, *Audit of the City's Tenant-Based Assistance Program*, Report No. 17-03, issued in July 2017, was conducted pursuant to Council Resolution 15-281, CD1. The resolution asked the Office of the City Auditor to determine whether the city was effectively and appropriately administering the federally-supported Section 8 Program. Report No. 17-03 made 19 recommendations to improve the Section 8 program administered by the Department of Community Services.

In this follow-up audit, we found that 14 recommendations were *completed*, 3 were *resolved*, and 2 were *in process*.

In response to a draft of this follow-up audit, the Director of Community Services and Managing Director expressed general agreement with our audit findings and recommendations. The department also committed to addressing the two outstanding recommendations that we deemed *in-process*. A copy of management's full response can be found in Appendix B.

We would like to express our sincere appreciation for the cooperation and assistance provided us by the managers and staff of the Department of Community Services. The audit team is available to meet with you and your staff to discuss this report and to provide more information. If you have any questions, please call me at 768-3134.

Sincerely,

A handwritten signature in black ink that reads "Troy Shimasaki". The signature is written in a cursive style.

Troy Shimasaki
Acting City Auditor

c: Rick Blangiardi, Mayor
Michael D. Formby, Managing Director
Sarah Allen, Director, Department of Community Services
Andrew Kawano, Director, Department of Budget and Fiscal Services

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Follow-Up on Recommendations from Report No. 17-03, *Audit of the City's Section 8 Tenant-Based Assistance Program*

April 2021

Background

The *Audit of the City's Section 8 Tenant-Based Assistance Program, Report No. 17-03*, issued in July 2017, was conducted pursuant to City Council Resolution 15-281, CD1. The resolution was adopted by the City Council and requested that the city auditor determine whether the city is effectively and appropriately administering the federally-supported Section 8 program.

The city receives funding for the program from the U.S. Department of Housing and Urban Development (HUD). The HUD Section 8 program provides low income, very low income, and extremely low income families with rental and housing assistance payments. Applicants must apply for housing assistance and city housing specialists determine eligibility and the amount of housing subsidy to be paid to the applicant. Applicants pay about 30 percent of their monthly income for housing and the HUD Section 8 program pays the balance directly to the landlord.

We found that the Department of Community Services (DCS) needed to improve administration of the tenant-based assistance program:

- The program needs better staffing for fraud prevention and information technology (IT) to prevent, detect, and correct potential fraud, waste, and abuse from occurring;
- The department needs to follow-up on delinquent accounts receivable, debt collections, and bad debt write-offs;
- Better landlord outreach efforts and better landlord briefings to increase landlord participation and the available housing inventory;
- The department needs formal policies, procedures, and plans that can be used to guide program staff and efforts;
- Program improvements in collecting consistent landlord data, using social media and other techniques used by other jurisdictions to promote landlord participation;
- Improve active case management and continuous monitoring of client eligibility; and
- Improvements in documentation to ensure program participants remain eligible for rental assistance such as allowing qualified voucher-holders on the waitlist to receive housing and ensuring hearing and fraud recovery result recommendations are implemented.

Based on these findings, the audit made 19 recommendations that DCS should:

1. *Develop and maintain accurate and complete data on staffing and caseloads that can be used to achieve HUD 8 housing program goals and manage staffing caseloads;*
2. *Establish a formal fraud program with resources, and written policies and procedures for fraud prevention, detection, correction, and investigation;*
3. *Train Section 8 program staff to prevent, detect, correct, and investigate fraud;*
4. *Submit accounts to be collected or written off annually in accordance with the city financial policy;*
5. *Maintain internal controls by segregating IT, housing specialist, and other duties so no one has control over activities and resources that could be used to commit fraud, waste, or abuse without being detected;*
6. *Develop a system to receive, track, monitor, follow-up on, and report on complaints, particularly complaints related to potential fraud, waste, and abuse;*
7. *Provide a formal structure and resources for landlord outreach activities;*
8. *Provide a formal plan for increasing landlord participation by using social media applications and other techniques used by other jurisdictions to promote the HUD 8 rental assistance program to prospective landlords;*
9. *More widely advertise and enhance landlord briefings so that more landlords attend briefings and participate in the rental subsidy program;*
10. *Follow-up and obtain feedback from landlords on how to improve the outreach program efforts;*
11. *Provide consistent and reliable landlord participation statistics than can be used to improve the DCS outreach program;*
12. *Assign full-time staff to the outreach effort;*
13. *Coordinate DCS efforts with other city programs to expand the housing supply available;*
14. *Evenly distribute housing specialist caseloads;*
15. *Organize files and replacing missing forms needed to prove participants are eligible for Section 8 benefits;*
16. *Improve voucher verifications and Housing Pro data verifications;*
17. *Establish a program integrity system for identifying and monitoring at-risk families;*

18. *Follow-up on informal hearings and fraud recovery efforts; and*






19. *Improve the validity of the homeless applicant preference waitlist.*

In its response to the 2017 audit report, the department generally agreed with the audit recommendations and indicated that it had implemented, was in the process of implementing, or was actively gathering information to address audit recommendations. While management agreed with our recommendations, DCS staff claimed the report contained factual errors and, upon our request, submitted additional data and documents. We modified the report where we agreed and included their comments and explanations in the final report.

The objective of this current follow-up audit is to report on the status of DCS’s implementation of the original 19 recommendation made in Report No. 17-03.

Audit Results

We found that 14 of the original recommendations have been completed, 2 are in process, and 3 have been resolved.

 Completed 14	 Resolved 3	 In Process 2	 Not Started --	 Dropped --
Agency has sufficiently implemented the audit recommendation.	Although agency did not implement the audit recommendation, it implemented an alternative solution that sufficiently addressed the applicable audit finding or risk.	Agency started or has partially implemented the audit recommendation.	Agency has not begun implementation of the recommendation.	Agency has no plan to implement the recommendation; the risk associated with the recommendation no longer exists, or is no longer applicable.

The following details the audit recommendations made and the status of each recommendation based on our review.

Recommendation 1



Develop and maintain accurate and complete data on staffing and caseloads that can be used to achieve HUD 8 housing program goals and manage staffing caseloads.

DCS supported this recommendation to produce data that will allow assessment of adequate staffing and caseloads for its Section 8 program. According to DCS, the department has always managed housing specialist caseloads based on the following criteria: (1) zip code to determine office assignment; (2) alphabetical order; and (3) the number of housing specialists as adjusted by

their experience level; and rebalances the caseload when rebalancing is necessary. Historically, the caseload ratio was not used to determine staffing because federal administrative fees earned annually limit staff hiring regardless of caseloads. DCS indicated that it began maintaining caseload data as recommended, and that Section 8's newly updated software program allowed supervisors to determine whether team members were completing their caseload timely.

STATUS UPDATE

DCS indicated that caseloads are distributed based on a specialist's experience level and scope of responsibility. During our review, we found that the department sufficiently maintains records of caseloads for their staff. Please refer to our comments in recommendation number 14. We also confirmed with staff that they have the ability to track caseload information.

Recommendation 2



In Process

Establish a formal fraud program with resources, and written policies and procedures for fraud prevention, detection, correction, and investigation.

Although Report No. 17-03 did not reveal any specific instances of fraud, the department supported this recommendation subject to available funding and staffing resources. DCS explained that upon receiving a complaint, the examiner calls the family into the office, determines whether or not the complaint is valid, collects information from the family or outside sources, and takes corrective action. If corrective action is required, the electronic file will reflect the action taken. Initially, DCS will inquire with HUD and work with applicable Public Housing Agencies (PHA) with fraud programs and controls to structure such a program, and by September 2018, DCS will submit a plan/budget to establish such a program to the administration for its consideration.

STATUS UPDATE

Although the department has made progress in implementing this recommendation, it remains in process. According to DCS, there are no new sources to fund a position dedicated to monitoring fraud-related issues. Instead, the department increased staff training related to fraud prevention, detection, correction, and investigation (see Recommendation No. 3). Additionally, we found that written fraud policies and procedures still do not exist. The original audit cited the HUD recommendation that agencies establish a formal fraud program to prevent, detect, correct, and report fraud, waste and abuse. Best practices for handling potential fraudulent claims also include creating a fraud or investigations unit that is responsible for responding to and investigating claims, determining the nature and seriousness and identify the appropriate course of action.

NEXT STEPS

We recommend that the department continue efforts to establish a formal fraud program. The department should also work with the administration to fill necessary positions that support the department's commitment to prevent, detect, correct and investigate fraud. We also note that a position dedicated to handling fraud-related issues would allow staff to focus on other administrative functions. We also continue to urge the department to establish written policies and procedures to support a formal fraud program.

Recommendation 3**Completed****Train Section 8 program staff to prevent, detect, correct, and investigate fraud.**

In its response to Report No. 17-03, the department agreed that staff training related to fraud was important and that it had requested refresher training from HUD, Office of Inspector General (OIG), and would consider other training opportunities. The department also noted that, effective January 31, 2010, HUD required all housing agencies to use the Enterprise Income Verification (EIV) system to guard against program waste, fraud and abuse. EIV data must be generated at annual reexaminations and all adjustments.

STATUS UPDATE

We found that the department took sufficient action to train staff on fraud handling. DCS reported that staff were provided training on June 15, 2018 and August 22, 2019 by HUD. The training on June 15, 2018 included the topic of money laundering and the August 22, 2019 training covered sex offender awareness. The department also noted that staff uses EIV data, which allows DCS to monitor for fraud and other violations. Staff verify family composition, employment, and income during the mandatory recertification process to help identify administrative and subsidy payment errors. We judgmentally reviewed ten participants' files between FY 2016 and FY 2020 and found that staff has sufficiently reviewed and conducted regular recertification.

Recommendation 4**Completed****Submit accounts to be collected or written off annually in accordance with the city financial policy.**

In its 2017 audit response, DCS agreed with this recommendation and had begun working with the Department of Budget and Fiscal Services to be included in the city's collection agency contract. In the past, DCS was unable to secure collection agency services due to the low likelihood of collecting amounts owed from lower income families. Without a collection agency, DCS was unable to comply with its write-off policy. The department estimated that if collection agency services could be confirmed, DCS would be able to resume submitting write-off requests by December 2019.

STATUS UPDATE

DCS reported that the department is now working with collection agency, Medcah Inc. We reviewed the contract agreement between the City and County of Honolulu and Medcah Inc. and noted that an agreement was entered on November 8, 2018 to engage in delinquent Section 8 account debt collection. We reviewed memos containing write-off of uncollectible accounts less than and greater than \$1,000, and lists of supporting documentation. We found that the department received approval to write-off the accounts less than \$1,000 pursuant to city policy and has adjusted those accounts accordingly. However, the write-off of uncollectible accounts greater than \$1,000 is pending approval from City Council. In order to ensure that uncollectible accounts greater than \$1,000 are written off in a timely manner and avoid projected increases in delinquent accounts, we encourage the department to conduct necessary follow-up procedures to secure City Council approval to write off uncollectible accounts greater than \$1,000 and remove them from city records.

Recommendation 5



Completed

Maintain internal controls by segregating IT, housing specialist, and other duties so no one has control over activities and resources that could be used to commit fraud, waste, or abuse without being detected.

In its 2017 management response, the department indicated that it already started segregating the duties of the software administrator to the extent feasible. DCS was in the process of working with the Department of Human Resources on a revised position description to address the audit's concerns and estimated that a revised position description would be submitted for approval by December 2018.

STATUS UPDATE

We reviewed the Housing Assistance Specialist IV position description, which was revised on December 1, 2018, duties and responsibilities to ensure proper segregation of duties and sufficiency of internal controls. We also interviewed staff and confirmed that the Housing Assistance Specialist IV is working jointly with designated Department of Information Technology staff on approval processes and access rights to the housing software. We conclude that the department's segregation of duties in the IT function are now maintained.

Recommendation 6



In Process

Develop a system to receive, track, monitor, follow-up on, and report on complaints, particularly complaints related to potential fraud, waste, and abuse.

In 2017, the department agreed that complaints should be tracked and follow-up processes strengthened, and that it had already instituted a formal tenant complaint log. The department also explained that many complaints are not formally recorded by the Section 8 program, but are instead addressed immediately. Logistically, it would be extremely time consuming to log all complaints. To the extent operationally and fiscally feasible, DCS agreed that consistent recording and documentation of complaints had merit, and over the course of the next year would develop procedures, with an implementation goal of September 2018. If further staffing was necessary, DCS would concurrently submit a plan/budget to establish such a position.

STATUS UPDATE

We found that although the department established an informal process to track and document fraud related complaints, which is an improvement, it falls short of effectively addressing them. DCS reported that it maintains a log of complaints against tenants alleged to be engaging in fraud. The department receives fraud-related complaints through the Section 8 email address, phone calls, via Hawaii Public Housing Authority, OIG, HUD, and letters to staff or the administration. DCS noted that staff reviews fraud-related complaints within one month and completes a follow-up report that details the investigation and completion dates for correction actions. However, this process is not formalized in written policies or procedures and lacks sufficient accountability.

From FY 2016 to FY 2020, the department recorded 52 program-related complaints. We judgmentally sampled 16 complaints and reviewed its supporting documentations. Of the 16 complaints, we found that 2 complaints did not have the original complaint supporting documentation, 2 complaints had not been reviewed by the assigned staff within one month period, and 8 instances where staff did not consistently complete follow-up reports. We determined that the department needs improvement in the process of handling complaints and resolving them in a timely manner.

NEXT STEPS

We recommend that DCS establish formal policies and procedures for handling and resolving fraud related complaints.

Recommendation 7



Resolved

Provide a formal structure and resources for landlord outreach activities.

In response to Report No. 17-03 the department noted that it already had a structure tailored to the needs of the program. When the need is low, the landlord specialist concentrates on developing relationships with new landlords joining the program as well as existing landlords. When the need for new units is high, the landlord specialist focuses on recruiting landlords who have not participated and landlords that have dropped out of the program.

The department explained that effective program utilization traditionally focuses on the number of families served and not on landlord participation. In 2016, program utilization was at 100 percent, meaning DCS was assisting the maximum number of families possible using the funding available. Because program utilization was at 100 percent, DCS was unable to process any applicants from the program's waiting list and issue new vouchers. Without new vouchers for new families admitted to the program, the need for new landlords was greatly reduced.

To the extent additional landlord outreach equates to more families served, DCS would engage with HUD and work with comparable PHAs to identify and implement best practices in landlord outreach activities, and by September 2018, DCS would submit a plan/budget to establish such a program.

STATUS UPDATE

DCS reported that the department has not established a formal landlord outreach program, with dedicated staff, due to recruitment and budgetary constraints. The department noted that in 2019, DCS was prohibited from entering into any leases starting in April 2019 because of projected shortfall of funds and the challenges caused by COVID in 2020. Despite these challenges, we found that the department has made significant progress to better promote the Section 8 program and conducted effective landlord outreach activities. Please refer to our comments in recommendations 8, 9, and 10. Although the department did not establish a formal landlord outreach program, we found that the improved outreach initiatives sufficiently met the intent of this recommendation.

Recommendation 8



Completed

Provides a formal plan for increasing landlord participation by using social media applications and other techniques used by other jurisdictions to promote the HUD 8 rental assistance program to prospective landlords.

In its 2017 response, DCS agreed that social media could be beneficial in promoting the Section 8 program to prospective landlords and had begun exploring opportunities to leverage social media within existing staffing constraints. DCS indicated that it would begin social media outreach by July 2018.

STATUS UPDATE:

We found that the department has utilized social media to increase landlord participation and promote the assistance program to prospective landlords. On August 6, 2020, DCS conducted a virtual program presentation session to 213 prospective landlords and participants. The remote training included a two hour presentation called *A Place Called Home* and discussed the topics of application, eligibility determination, leasing process, and other rehab and loan payment programs. A survey was completed after the presentation and the participants' responses were favorable. The survey found that 97.5 percent of respondents shared that the speakers conveyed information in an understandable way, 92 percent indicated that they would be able to use what they learned from the presentation in their work in helping people obtain and maintain housing, and 90 percent of respondents would attend a similar workshop again. In addition, DCS launched a Facebook page, posts information on their website and in the digital Midweek page to promote the program to prospective landlords. Please refer to our comments in recommendation number 9.

Recommendation 9



Completed

More widely advertise and enhance landlord briefings so that more landlords attend briefings and participate in the rental subsidy program.

In response to the 2017 audit, DCS noted that the landlord specialist continues to hold group briefings for management companies and individual landlords upon request. DCS agreed that expanded notice of landlord briefings and outreach may be achieved through social media and would begin social media outreach by July 2018.

STATUS UPDATE

We found that the department has improved and expanded advertising for its landlord briefings. DCS reported that landlord briefings are posted on their Facebook page, the DCS website, and the digital Midweek page. The department's Facebook page was launched in February 2019 and has 284 followers. We found that there were seven landlord briefings posted in Facebook from FY 2019 to FY 2020. We also found that the department posts landlord briefing information, calendar of events meetings, and an overview YouTube seminar video on its website. In addition, the department posts landlord briefings information on the digital Midweek page.

The landlord specialist reported that landlord outreach briefings are tracked on a weekly report. We reviewed landlord specialist weekly reports and found that the total number of landlord briefings

increased 51 percent over the last four years from 66 in FY 2017 to 136 in FY 2020, and 63 percent over the last year alone. We concluded that the department took sufficient action to promote its program.

Recommendation 10



Completed

Follow-up and obtain feedback from landlords on how to improve the outreach program efforts.

In response to Report No. 17-03, the department noted that it was already obtaining feedback from landlords through written evaluations. Along with social media efforts, DCS indicated that it would consider the use of online evaluations (e.g. survey monkey) and if feasible, would implement evaluations concurrently with social media outreach. The department established an implementation goal of September 2018.

STATUS UPDATE

We found that the department took sufficient action to address this recommendation. DCS reported that the landlord specialist solicits feedback from landlords via a survey after each landlord presentation to improve outreach program efforts. We reviewed all 76 evaluation report surveys from FY 2016 to FY 2020 to verify that landlords provided feedback. We found that 93 percent of landlords said that they were *very satisfied* with the information covered in the presentation and 93 percent stated that they were *very satisfied* with the relevance of the materials and handouts. Of the 76 evaluation report surveys, we also found that 40 landlords provided positive comments to the landlord specialist. During our review, we did not find any dissatisfied ratings or negative feedback on the landlord presentations.

Recommendation 11



Completed

Provide consistent and reliable landlord participation statistics than can be used to improve the DCS outreach program.

In 2017, the department agreed to improve collecting landlord participation statistics and to clarify and establish what statistics are needed to track landlord participation. DCS established an implementation goal of September 2018.

STATUS UPDATE

We found that the department enhanced its data collection and monitoring to improve its outreach program. The Section 8 program includes a landlord specialist, hired in January 2016, who is responsible for working with prospective and active landlords, and for promoting and publicizing the program to the landlord community. The landlord specialist monitors program data including the number of participating landlords, landlord briefings facilitated, the number of special service providers, and the number of clients provided with technical assistance for landlord activities. Additionally, DCS monitors the number of landlords through its GAX payment reports that track each payee and unit paid.

The exhibit below is a summary of the Landlord Specialist Activities that are tracked weekly. The activities include owners/agents outreach, briefings, community resources outreach affiliation, and voucher holder consultations.

**Exhibit 1
Landlord Specialist Activities, CY 2017 to CY 2020**

	<i>Landlord Specialist Activities</i>
CY 2017	311
CY 2018	181
CY 2019	312
CY 2020	286

Source: Department of Community Services

From FY 2016 to FY 2020, the number of landlords participating in the City's Section 8 program has increased nine percent from 4,044 to 4,406 landlords. As a result of tracking landlord participation statistics, the program is now able to further measure the effectiveness of its landlord's outreach program. The performance metrics and landlord statistics that DCS tracks are consistent and reliable to improve the Section 8 landlord outreach program.

**Exhibit 2
GAX Payment Report: Number of Landlords Participating, FY 2016 to FY 2020**

	<i>Landlords Participating</i>
FY 2016	4,044
FY 2017	4,122
FY 2018	1,723
FY 2019	4,114
FY 2020	4,406
% change over the last five years	9%

Source: Department of Community Services

Recommendation 12



Resolved

Assign full-time staff to the outreach effort.

In its 2017 response, DCS supported this recommendation to the extent a needs assessment justified a full-time assignment. DCS noted that from July 2016 to April 2017, the department was prohibited from new lease-up activity due to a shortfall of funds. During that period, landlord recruitment was halted as no new units were needed.

STATUS UPDATE

Although the department still does not have full-time staff dedicated to landlord outreach, we found that outreach initiatives implemented have improved the outreach effort. Part of the improvement comes from prioritizing outreach efforts in current staff responsibilities. We found that the current landlord specialist’s responsibilities includes the following landlord outreach activities that accounts for at least 50 percent of the specialist’s time:

- Marketing via Webex, staff directing potential landlords to specialist;
- Promote program on Facebook page and DCS website;
- Exploring free classified ads; and
- Outreach with service providers.

The landlord specialist tracks outreach activities and reports weekly data to Section 8 management. See recommendation number 11 for a detailed list of activities from CY 2017 to CY 2020. Landlords participating in the Section 8 program has increased nine percent from 4,044 to 4,406 from FY 2016 to FY 2020.

**Exhibit 3
Landlords Participating in Section 8 Program, FY 2016 to FY 2020**

	<i>Landlords Participating</i>
FY 2016	4,044
FY 2017	4,122
FY 2018	1,723
FY 2019	4,114
FY 2020	4,406
% change over the last five years	9%

Source: Department of Community Services

Although the landlord specialist's responsibilities are not solely dedicated to outreach, the specialist's productivity and efforts, along with the increase in the number of landlords participating in the program from FY 2016 to FY 2020, met the recommendation's intent.

Recommendation 13



Resolved

Coordinate DCS efforts with other city programs to expand the housing supply available.

The department, in its 2017 audit response, agreed with this recommendation and indicated that it would continue working with the Mayor's Office of Housing, Department of Planning and Permitting (DPP), and other entities on affordable housing policies and issues.

STATUS UPDATE

The Mayor's Office of Housing created a subcabinet on housing and homelessness in FY 2012. The agency held twice monthly meetings attended by over ten City agencies. Staff from DCS, the Department of Land Management (DLM), and DPP were regular attendees. A description of recent affordable housing projects that involve city agencies is listed in Exhibit 4.

Exhibit 4
Affordable Housing Projects Involving City Agencies

Project	Project Description
Hale Maluhia	<ul style="list-style-type: none"> • 20-bedroom safe house for victims of domestic violence and their families • Partnership with the State for 20 permanent supportive housing vouchers • DCS + DLM Partnership - Land is in DLM Inventory and vouchers managed by DCS
Kumuwai Apartments	<ul style="list-style-type: none"> • Acquisition and renovation of office building into low-income apartments for homeless seniors • Partnership with the State for 20 permanent supportive housing vouchers • DCS + DLM Partnership - Land is in DLM inventory & DLM managed renovations. Vouchers managed by DCS CBDD and case management provided by DCS Work Hawaii Division.
Kauhale Kamaile	<ul style="list-style-type: none"> • 16 pre-fabricated modular housing units provides affordable housing to previously homeless families living in zip code 96792 • DLM with CIP money purchased land and built 16 modular units with parking (total cost - \$5M). DCS provided temporary vouchers
Ena Road	<ul style="list-style-type: none"> • Provides affordable rental units for individuals who are experiencing homelessness or at risk of becoming homeless • DCS acquired building in May 2018 (in future will be transferred to DLM) with CDBG Funds. Clients use Housing First Vouchers
Kahauiki Village Nimitz Highway (Private development with City Assistance)	<ul style="list-style-type: none"> • Rental housing for 144 previously homeless families • Public-private partnership on State land, with City funding for infrastructure and nonprofit services
Ola Ka 'Ilima Artspace Lofts (Private development with City Assistance)	<ul style="list-style-type: none"> • New construction of 84 units of affordable live/work rental units for low-income artists and their families. • Financed using Low Income Housing Tax Credits (LIHTC), HOME Funds, State of Hawai'i Rental Housing Revolving Fund, and City Affordable Housing Fund. • Income limits are 30%, 50%, and 60% of the area median income (AMI). • A portion of units must be rented to households experiencing chronic homelessness
Hale Makana o Ma'ili	<ul style="list-style-type: none"> • Construction of 51 rental units in 6 low-rise garden-style apartment buildings. • Financed using LIHTC, State Rental Housing Revolving Fund, City Affordable Housing Fund, and Housing Trust Fund. • 30% to 60% AMI • A portion of units must be rented to households experiencing chronic homelessness

Source: Department of Community Services

Because the Mayor's Office of Housing's primary focus is housing supply, DCS' responsibility in this area is reduced. As a stakeholder in affordable housing supply, we found that the department's outreach and coordination efforts are sufficient.

Recommendation 14



Completed

Evenly distribute housing specialist caseloads.

The department, in its 2017 response to the audit, disagreed with this recommendation because caseloads were already evenly distributed and considered the housing specialist's experience level.

STATUS UPDATE

We found that, unlike the original audit, caseload distribution is more evenly distributed between its two office locations. The Section 8 program has two offices: Honolulu and Kapolei. Different zip codes are assigned based on proximity to the office. To start the caseload assignment, DCS searches and separates all of the active families by zip code and totals each zip code. DCS then determines how many zip codes to assign to each office for caseload processing and administration. Cases are then distributed based on an examiner's skill level and scope of responsibility (.25, .50, .75, or 1) and then by alphabetical order. Exhibit 5 depicts the caseload distribution for the Section 8 program by housing specialist.

Exhibit 5
Caseload Distribution by Housing Specialist, FY 2016 to FY 2020

<i>Caseload by Examiner Breakdown</i>	<i>FY 2016</i>	<i>FY 2017</i>	<i>FY 2018</i>	<i>FY 2019</i>	<i>FY 2020</i>	<i>Position Title</i>
Examination Unit II Downtown Branch						
A	-	-	-	start 07.29.19	164	2
B	start 01.27.16	Intake	Intake	Intake	intake	3
C	144	268	332	332	332	3
D	288	268	332	332	332	3
E	288	268	332	332	332	3
F	255	271	325	325	332	
G	144	135	153	153	153	
H	288	268	268	retired 06.30.18	-	
I	288	268	332	332	retired 12.02.18	
Examination Unit I Downtown Branch						
J	288	268	333	333	333	3
K	144	135	153	153	153	4
L	Intake	Intake	Intake	Intake	Intake	4
M	288	268	332	332	332	3
N	Intake	Intake	Intake	Intake	intake	3
O	288	268	268	retired 12.30.17	-	
Examination Unit II Kapolei Branch						
P	115	139	150	103	150	5
Q	255	270	325	307	307	3
R	255	270	324	306	306	3
S	255	271	325	307	307	3
T	-	-	-	start 08.16.19	158	3
U	-	-	-	start 07.22.19	158	2
V	-	-	start 01.16.18	In training	158	2
W	-	-	-	-	start 01.12.20	1
X	255	255	retired 08.01.17	-	-	
Y	-	start 07.18.16	133	left 05.23.18		

Source: Department of Community Services

In FY 2020, the department's staff comprised:

- Two *Housing Specialist 2* examiners averaged 158 cases;
- Nine *Housing Specialist 3* examiners, not including intake, averaged 304 cases;
- One *Housing Specialist 4* examiner, not including intake, had a caseload of 153 cases; and
- One *Housing Specialist 5* examiner had a caseload of 150 cases.

Based on our review of caseload data and staffing, we determined that cases are distributed in an efficient manner and that cases are more effectively managed.

Recommendation 15



Organize files and replacing missing forms needed to prove participants are eligible for Section 8 benefits.

In response to the 2017 audit, DCS explained that it continuously audits current files as part of required quality control measures and replaces forms that are missing.

STATUS UPDATE

Based on our review of the Housing Pro program and physical records, we determined that file organization has transitioned from a manual to electronic file management system through the use of the Housing Pro program. Although DCS still keeps participant files physically, records scanned and tracked in the Housing Pro System meets HUD's requirements for participant eligibility.

We reviewed a sample of ten participant files active between FY 2016 and FY 2020 and found that each file included HUD required forms, inspection documentation, and updated reexamination data in the department's Housing Pro system. In each file, there was complete documentation. Exhibit 6 details the participant files reviewed.

Exhibit 6

Sample of Participant Files Active Between FY 2016 and FY 2020

<i>Fiscal Year</i>	<i>Last Name</i>	<i>Application (if within last 3 years)</i>	<i>HAP Contract</i>	<i>Rent Reasonableness</i>	<i>Inspection date</i>	<i>Pass/Fail</i>	<i>Reexamination Dates</i>
2016	A	n/a	10/1/2017	9/21/2017	6/8/2020	P	4/16/2020
2016	B	n/a	10/19/2007	12/16/2019	9/8/2020	P	5/7/2020
2017	C	n/a	5/16/2019	2/28/2020	3/22/2017	P	6/15/2020
2017	D	n/a	6/1/2017	3/18/2019	5/19/2017	P	2/1/2020
2018	E	n/a	10/9/2019	9/30/2019	9/30/2019	P	11/1/2020
2018	F	n/a	10/4/2019	9/4/2019	10/1/2019	P	11/5/2020
2019	G	n/a	6/1/2018	5/2/2018	5/30/2018	P	9/1/2020
2019	H	n/a	3/1/2006	10/11/2016	1/29/2010	P	3/1/2020
2020	I	2/18/2019	2/18/2019	1/31/2019	2/9/2019	P	3/1/2021
2020	J	n/a	3/1/2006	4/19/2017	4/29/2016	P	4/1/2019

Source: Department of Community Services

Recommendation 16



Completed

Improve voucher verifications and Housing Pro data verifications.

In 2017, the department supported this recommendation. By September 2018, DCS planned to successfully substantiate a city-funded clerk position dedicated to scanning HUD-required documents into the software system.

STATUS UPDATE

In July 2020, DCS hired a clerk typist dedicated to scanning HUD-required documents into Housing Pro. The clerk scans participant's leasing contracts, checks for completeness of records and ensures confidentiality. In December 2020, DCS hired a student aide to further increase scanning efforts to update the Housing Pro system. We reviewed a sample of ten participant files from FY 2016 to FY 2020 and found that documents in the Housing Pro system were sufficient and organized to be utilized for eligibility and recertification.

Recommendation 17



Completed

Establish a program integrity system for identifying and monitoring at-risk families.

DCS, in its response to Report No. 17-03, indicated that an integrity system was already in place based on HUD guidance, Nan McKay training, and DCS procedures. Based on existing guidance, training and procedures, DCS did not identify any families that would require quarterly rather than annual monitoring.

STATUS UPDATE

We found that DCS's current Housing Choice Voucher Program Operational Procedures includes a Program Integrity section that covers policies designed to prevent, detect, investigate, and resolve instances of program abuse or fraud. It also describes the actions that will be taken in the case of unintentional errors and omissions. DCS uses HUD's EIV system to prevent errors and program abuse. In addition, we reviewed a sample of ten participant files (see Recommendation No. 15) and found that each file was verified to ensure the accuracy of family and housing data with its HUD 50058 Report. We also reviewed 26 informal hearing files that could potentially involve at-risk families and found there was sufficient documentation (see Recommendation No. 18). Based on our review, we determined that the department sufficiently implemented this recommendation.

Recommendation 18**Completed****Follow-up on informal hearings and fraud recovery efforts.**

In response to Report No. 17-03, DCS claimed to have an effective follow-up process. Following the definition of fraud as defined in the HUD occupancy guidebook, the housing specialist determines whether fraud was committed or whether there was misrepresentation by the participant. HUD Public Indian Housing (PIH) Notice 2010-19, Administrative Guidance for Effective and Mandated Use of the EIV System (Section 16) recommends leniency and affordability be considered when drawing up a payment plan. PHAs have the discretion to establish thresholds and policies for repayment agreements in addition to HUD-required procedures.

STATUS UPDATE

We reviewed a sample of 26 informal hearings from FY 2016 to FY 2020 and found that 8 of the 26 informal hearing cases resulted in amounts owed to the city totaling \$143,212.

- Of the eight cases, two cases were written off as uncollectible (\$17,442 and \$11,380) and one case was paid off by the participant (\$8,145);
- Four cases resulted in tenant accounts receivables totaling \$101,495; and
- Of the four tenant accounts receivables, three cases were classified as fraud recoveries totaling \$98,015 in which the tenants were terminated from the program.

According to the department, a fraud recovery is initiated when fraud is found and payment needs to be recovered. The accounts receivable is labeled as a *fraud recovery* if the family violated one or more Section 8 family obligations. If a tenant fails to pay monies owed for fraud recoveries, they may be terminated from the program.

Based on our sample review, we determined that the program improved its informal hearing process with sufficient documentation for each of the 26 informal hearing cases we reviewed. The department also improved its fraud recovery process by writing off uncollectible accounts and terminating tenants, as appropriate.

Recommendation 19



Completed

Improve the validity of the homeless applicant preference waitlist.

In response to the 2017 audit, the department agreed with this recommendation and was in the process of validating the homeless status for applicants taken off the waitlist.

STATUS UPDATE

We reviewed the Housing Pro annual homeless reports from FY 2016 to FY 2020 and found that sufficient information was recorded to improve the validity of the homeless applicant preference waitlist. We reviewed a sample of 42 applicants and found that DCS sufficiently determined if the applicant was homeless upon admission and also tracked if the applicant was eligible for the HUD-VASH program for every applicant in the sample.

Under HUD guidelines and the DCS Operational Procedures Manual, waitlist preference for housing is given to homeless individuals and families. The Housing Pro program that DCS uses for the Section 8 program includes verification to document whether an applicant is homeless at admission and also determines if the applicant is eligible to participate in the HUD-Veterans Affairs Supportive Housing (HUD-VASH) for homeless veterans.

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Appendix A

Audit Objectives, Scope, and Methodology

The objective of this follow-up audit is to determine whether the Department of Community Services (DCS) adequately addressed the 19 recommendations in Report No. 17-03, *Audit of the City's Section 8 Tenant-Based Assistance Program*, with appropriate corrective actions. This follow-up audit is limited to reviewing and reporting on the implementation of the outstanding audit recommendations.

All 19 recommendations were reviewed in order to assess the extent to which DCS's corrective actions are substantiated. We reviewed the original audit and requested updated responses for each recommendation. We reviewed supporting documentation pertinent to the follow-up audit. While initial interviews were conducted, adjustments were made due to the coronavirus pandemic. As a result, additional documentation requests were primarily accomplished through the use of email correspondence and telephone calls as appropriate.

We assessed DCS's internal controls to the extent that they related to the recommendations and as demonstrated in the procedures and processes described in response to the recommendations. During the audit we were not aware of any other investigations, audits, or other work by other agencies that may have impacted our work. We met with responsible representatives of DCS to discuss our preliminary findings in order to identify any concerns or clarifications that may be appropriate to the report. We then provided a written draft of the report that DCS could use as a basis for its formal written response to the follow-up audit.

The audit was conducted from December 2020 to March 2021 in accordance with generally accepted government auditing standards. These 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.

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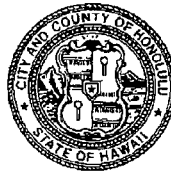
Appendix B

Management Response

DEPARTMENT OF COMMUNITY SERVICES
CITY AND COUNTY OF HONOLULU

925 DILLINGHAM BOULEVARD, SUITE 200 • HONOLULU, HAWAII 96817
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RICK BLANGIARDI
MAYOR



SARAH ALLEN
DIRECTOR

JOY BARUA
DEPUTY DIRECTOR

April 29, 2021

Mr. Troy Shimasaki, Acting City Auditor
1001 Kamokila Boulevard, Suite 216
Kapolei, Hawaii 96707

Dear Mr. Shimasaki:

Subject: Follow-Up on Recommendations from Report No. 17-03, Audit of the City's Section 8 Tenant Based Assistance Program – Draft Audit Report

Thank you for providing an opportunity to review your draft audit report submitted via email on April 15, 2021.

We appreciate your determination that 17 out of 19, or 89% of your 2017 recommendations have either been "completed" or "resolved". The Department has worked hard to address the Auditor's recommendations. Our comments on the two 2017 recommendations found to be "in process" are provided below your draft report narratives.

1. **Recommendation 2: IN PROCESS. Establish a formal fraud program with resources, and written policies and procedures for fraud prevention, detection, correction, and investigation.**

City Auditor Statement from 2017 Audit. Although Report No. 17-03 did not reveal any specific instances of fraud, the department supported this recommendation subject to available funding and staffing resources. DCS explained that upon receiving a complaint, the examiner calls the family into the office, determines whether or not the complaint is valid, collects information from the family or outside sources, and takes corrective action. If corrective action is required, the electronic file will reflect the action taken. Initially, DCS will inquire with HUD and work with applicable Public Housing Agencies (PHA) with fraud programs and controls to structure such a program, and by

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September 2018, DCS will submit a plan/budget to establish such a program to the administration for its consideration.

City Auditor status update as of April 15, 2021. Although the department has made progress in implementing this recommendation, it remains in process. According to DCS, there are no new sources to fund a position dedicated to monitoring fraud-related issues. Instead, the department increased staff training related to fraud prevention, detection, correction, and investigation (see Recommendation No. 3). Additionally, we found that written fraud policies and procedures still do not exist. The original audit cited the U.S. Housing and Urban Development recommendation that agencies establish a formal fraud program to prevent, detect, correct, and report fraud, waste and abuse. Best practices for handling potential fraudulent claims also include creating a fraud or investigations unit that is responsible for responding to and investigating claims, determining the nature and seriousness and identify the appropriate course of action.

City Auditor Next Steps as of April 15, 2021. We recommend that the department continue efforts to establish a formal fraud program. The department should also work with the administration to fill necessary positions that support the department's commitment to prevent, detect, correct and investigate fraud. We also note that a position dedicated to handling fraud-related issues would allow staff to focus on other administrative functions. We also continue to urge the department to establish written policies and procedures to support a formal fraud program.

DCS Response. DCS will establish detailed written policies and procedures for fraud prevention, detection, correction, and investigation. DCS continues to lack sufficient funding to cover a separate fraud unit with full time positions as recommended by the Auditor in 2017. Seven out of eight of the agencies cited by the Auditor in 2017 as having fraud staff or investigators were much larger housing agencies than DCS's Rental Assistance Branch.¹ Our benchmarking shows that agencies with a comparable number of vouchers do not typically hold a separate fraud unit. With the City's limited resources, the number of average annual complaints may not justify a program with full time staff positions. From FY2016 to FY2020, there were 52 program-related complaints which averages 11.4 per year. While the city auditor states that: "a position dedicated to handling fraud-related issues would allow staff to focus on other administrative functions", DCS considers detecting and preventing fraud to be the responsibility of every DCS employee. DCS is also concerned that if a separate unit is created, the emphasis on each employee to be responsible for preventing and detecting fraud will be nullified by the presence of the unit, and thus the risk employees will stop looking with the expectation that it is someone else's job. In the last year, DCS

¹ Compared to the housing agencies cited, based on units under lease in 2017, Honolulu had 36% of units that Santa Clara County has; 57% of units that Denver has; 48% of the units that Indianapolis has; 26% of the units that Boston has; 87% of the units that Oklahoma City has; 53% of the units that the Metropolitan Development and Housing Agency in Tennessee has; and 84% of the units that Dallas County has. Of the agencies cited by the Auditor on this issue, only Tarrant County had fewer units under lease than Honolulu.

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employees have detected possible cases of fraud, have elevated these issues to management and they have been dealt with accordingly. Thus, the process is happening, albeit off paper. DCS's next step is to formalize the informal process by writing policies and procedures.

2. Recommendation 6: IN PROCESS. Develop a system to receive, track, monitor, follow-up on, and report on complaints, particularly complaints related to potential fraud, waste, and abuse.

City Auditor Statement from 2017 Audit. In 2017, the department agreed that complaints should be tracked and follow-up processes strengthened, and that it had already instituted a formal tenant complaint log. The department also explained that many complaints are not formally recorded by the Section 8 program but are instead addressed immediately. To the extent operationally and fiscally feasible, DCS agreed that consistent recording and documentation of complaints had merit, and over the course of the next year would develop procedures, with an implementation goal of September 2018. If further staffing was necessary, DCS would concurrently submit a plan/budget to establish such a position.

City Auditor status update as of April 15, 2021. We found that although the department established an informal process to track and document fraud related complaints, which is an improvement, it falls short of effectively addressing them. DCS reported that it maintains a log of complaints against tenants alleged to be engaging in fraud. The department receives fraud related complaints through the Section 8 email address, phone calls, via Hawaii Public Housing Authority, Office of Inspector General, U.S. Department of Housing and Urban Development, and letters to staff or the administration. DCS noted that staff reviews fraud-related complaints within one month and completes a follow-up report that details the investigation and completion dates for correction actions. However, this process is not formalized in written policies or procedures and lacks sufficient accountability.

From FY 2016 to FY 2020, the department recorded 52 program-related complaints. We judgmentally sampled 16 complaints and reviewed its supporting documentations. Of the 16 complaints, we found that 2 complaints did not have the original complaint supporting documentation, 2 complaints had not been reviewed by the assigned staff within one month period, and 8 instances where staff did not consistently complete follow-up reports. We determined that the department needs improvement in the process of handling complaints and resolving them in a timely manner.

City Auditor Next Steps as of April 15, 2021. We recommend that DCS establish formal policies and procedures for handling and resolving fraud-related complaints.

DCS Response. DCS shall establish better policies and procedures to receive,

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track, monitor, follow-up on, and report fraud-related complaints. The program website has a form with which to report suspected fraudulent activity at <http://www.honolulu.gov/cms-dcs-menu/site-dcs-sitearticles/28075-cad-fraud-page.html>. The website notes that fraud may be reported by telephone, postal mail or electronic mail to either DCS or to the HUD Office of Inspector General.

The Auditor indicated that two of complaints on the complaint log lacked documentation of the original complaint; these were erroneously listed as email complaints when they were received by phone instead. Phone calls, by their nature, lack original source documentation as DCS does not record phone calls. The Auditor found there was no follow up report in several instances when we believed the matter was closed but did not so indicate on the log. The log has since been updated to correct the complaint source for the two complaints relayed by telephone calls and to indicate the complaints which were deemed closed.

The new procedures being drafted will include immediate scanning of the complaint onto the log to minimize insufficient complaint documentation. In addition, should a complaint arrive via a phone call, the procedure will require DCS staff to encourage the caller to submit their complaint in writing through the website form.

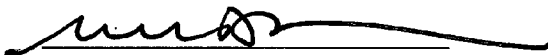
Thank you for the opportunity to review and comment on the draft Audit Report. Should you have any questions, please do not hesitate to call me at 768-7760.

Sincerely,



Sarah Allen
Director

APPROVED:



Michael D. Formby
Managing Director