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TO: Ada Holloway, Director, Office of Public Housing, 4APH

FROM: //signed//
James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Jonesboro Housing Authority Generally Complied with Housing Quality Standards Inspections Requirements although Certain Weaknesses Existed

HIGHLIGHTS

What We Audited and Why

We conducted an audit of the Jonesboro Housing Authority's (Authority) Section 8 Housing Choice Voucher program as part of the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General's (OIG) annual audit plan. We selected the Authority for audit based on a Section 8 risk assessment that we conducted. Our objective was to determine whether the Authority's Section 8 housing choice voucher units met HUD standards.

What We Found

The Authority's Section 8 units generally met housing quality standards. Our inspection of 16 Section 8 units resulted in 11 that did not meet minimum housing quality standards, but only one unit was in material noncompliance. However, the Authority needed to improve (1) enforcement of certain housing quality standards requirements, (2) tracking and timely performance of annual inspections, and (3) abatement notification and timely follow-up inspections of units that fail their initial inspections. The violations resulted in the payment of more than \$6,000 in ineligible housing assistance. The violations occurred because the Authority's

oversight of the program and procedures for conducting, tracking, and following up on housing quality standards inspections had weaknesses.

What We Recommend

We recommend that the Director of the Office of Public Housing require the Authority to repay \$6,663 from nonfederal funds for inappropriate housing assistance payments. We also recommend that the Director require the Authority to establish and implement adequate controls and procedures for conducting, tracking, and following up on future housing quality standards inspections.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the finding with the Authority and HUD officials during the audit. On March 23, 2009, we provided a copy of the draft report to Authority officials for their comments and discussed the report with them at the exit conference on March 31, 2009. The Authority provided its written comments to our draft report on April 1, 2009. It generally agreed with the facts presented in the finding but believed it should not be required to repay the amount questioned by the audit.

The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The U.S Department of Housing and Urban Development's (HUD) Atlanta, Georgia, Office of Public Housing is responsible for overseeing the Jonesboro Housing Authority (Authority). The Authority is a public body and a body corporate and politic organized under the laws of the State of Georgia by the City of Jonesboro (City) for the purpose of providing adequate housing for low-income individuals. The City provides no financial support to the Authority and is not responsible for the Authority's debts, nor is it entitled to surpluses generated by the Authority's operations. As of September 2008, the Authority administered 1,795 Section 8 housing choice vouchers.

We started the audit in October 2008, and in November 2008, the Authority informed us that it planned to terminate its inspections department and to contract with a private contractor to perform the inspection work. The Authority terminated the inspection department in December 2008. Effective January 23, 2009, the Authority contracted with a private firm to track housing quality standards inspection due dates, conduct all inspections, and provide abatement notification for units that fail to meet housing quality standards.

Our objective was to determine whether the Authority's Section 8 housing choice voucher units met HUD standards.

RESULTS OF AUDIT

Finding 1: The Authority's Controls and Procedures for Conducting, Tracking, and Following Up on Housing Quality Standards Inspections Had Weaknesses

The Authority generally complied with HUD standards and we identified only one unit that was in material noncompliance with HUD's housing quality standards. However, we found weaknesses related to the Authority's (1) enforcement of certain housing quality standards requirements, (2) tracking and timely performance of annual inspections, and (3) abatement notification and timely follow-up inspections of units that fail their initial inspections. The weaknesses noted above resulted in the payment of more than \$6,000 in ineligible housing assistance. The violations occurred because the Authority's oversight of the program and procedures for conducting, tracking, and following up on its in-house housing quality standards inspections needed improvement.

The actions needed to resolve the weaknesses apply to the Authority and its recently hired contractor. In January 2009, the Authority contracted out its housing quality standard inspection process and will no longer perform that function using its staff. However, the agreement did not contain adequate provisions to ensure resolution of the above weaknesses and the Authority had not established and implemented adequate procedures to correct them. We did not audit the contractor's performance because the contract was recently executed, and it had not been in effect long enough to audit.

Weaknesses in the Enforcement of Certain Requirements

Generally, our inspections showed that the Authority's Section 8 housing units were in sound condition. This finding reflects the positive impact of the Authority's past in-house inspections which, based on the inspection log, failed 38 percent of the units inspected. However, based on our inspections, the Authority needs to improve its enforcement of certain housing quality standards requirements. For instance, we inspected 16 units, 11 of which failed, but only one failed unit contained significant violations. The significant violations were caused by conditions such as (1) deficiencies that had existed for an extended period, (2) deficiencies noted in prior inspections but not corrected, and (3) deferred maintenance.

Our inspection identified eight violations for the unit, five of which we considered significant and involved more than \$5,000 in inappropriate housing assistance payments over a seven-month period.

| Significant violations | | | Violations not classified as significant | Total deficiencies |
|------------------------|--------------------|----------|--|--------------------|
| Structural damage | Vermin infestation | Security | | |
| 2 | 1 | 2 | 3 | 8 |



Deterioration caused by boring insects

The Authority's inspectors noted the structural damage and possible infestation and had failed the unit on two prior inspections. However, the Authority passed the unit on its third inspection, although the owner had not corrected the violations. The Authority's inspection report also did not note a preexisting broken deadbolt lockset on an exterior door.

The above unit and the 10 other failed units had 49 violations that we did not consider to be significant but which required corrective action. The identified items generally involved low-cost and easily fixable housing quality standards violations. They included 14 violations for four units that existed at the time the Authority conducted its inspection, but the inspectors had not identified them and failed the units. For instance, several of the violations involved open ground outlets, which Authority inspectors did not identify, although the executive director stated that the inspectors had the test equipment needed to identify the violations. We provided Authority officials with copies of our inspection reports for each of the failed units, and they agreed to ensure that the owners completed the required repairs.

Federal regulations at 24 CFR [*Code of Federal Regulations*] 982.401(a)(3) require that all program housing must meet housing quality standards

performance requirements, both at commencement of assisted occupancy and throughout the assisted tenancy.

Inadequate Inspection Tracking System and Untimely Annual Inspections

The Authority's housing quality standards tracking system often did not contain lease dates needed to determine when inspections were due, coupled with more than 260 instances in which the inspections were performed late. Regulations at 24 CFR 982.405(a) provide that an Authority must inspect leased units at least annually during occupancy to determine whether they meet housing quality standards. We assessed the Authority's November 2008 inspection log and identified 266 units (about 14 percent of the total authorized Section 8 units) that were inspected after the tenants' annual lease termination dates.

| Days past due | Units that failed | Units that passed | Total |
|---------------|-------------------|-------------------|-------|
| 61 to 159 | 14 | 27 | 41 |
| 31 to 60 | 24 | 30 | 54 |
| 1 to 30 | 79 | 92 | 171 |
| Total | 117 | 149 | 266 |

The late, failed inspections indicate that tenants were allowed to stay in substandard units longer than should have been the case if the inspections had been performed on a timely basis. Due to incomplete data, we could not readily determine whether the Authority had missed performing any required annual inspections. The executive director stated that the overdue annual inspections resulted from an increased workload due to disaster housing assistance programs. In January 2009, the Authority contracted with a private firm to perform its inspection work. The executive director stated that the contractor will use six inspectors to conduct unit inspections, compared with four staff inspectors employed by the Authority.

In late February 2009, an Authority representative told us that the Authority had implemented a new inspection tracking system. The representative stated that the new system was maintained by the contractor that the Authority selected in January 2009 to handle its housing quality standards inspection process. We did not assess the new system, but we reviewed the contract to determine the Authority's oversight role. The contract mentioned that the Authority would monitor the contractor's performance, but it did not state what procedures the contractor should follow in maintaining the tracking system, how the Authority would monitor the contractor's tracking system, and how frequently it would perform such reviews.

Inadequate Procedures for Communicating Inspection Results, Reinspections, and Abatements

Regulations at 24 CFR 982.404(a)(3) provide that owners must correct life-threatening violations within 24 hours and other violations within 30 calendar days or any public housing authority-approved extension. The Authority's administrative plan provided that owners would be given time to correct noted violations. If failed items endangered a family's health and safety, the owner would be given 24 hours to correct the violations; and for less serious failures, the owner would be given up to 30 calendar days. According to Authority staff, the administrative plan was the only set of written procedures they had with which to govern the Section 8 program. However, the administrative plan did not clearly state when and what type of written notification Authority staff should use to notify owners and tenants concerning inspection results. The plan also did not specify the date by which housing quality standards violations should be corrected, and it did not specify the type and due dates for abatement notifications.

The Authority's procedures did not provide adequate instructions for notifying owners and tenants of inspection results. The Authority followed an informal practice that called for inspectors to mail a copy of the inspection report to the owners at the end of the day following the inspections. The inspection report contained a section that showed the date by which the repairs were to be completed but made no mention of abatement. HUD's Housing Choice Voucher Guidebook (7420.10G) provides that "except in the case of life-threatening violations requiring corrections within 24 hours, the owner must receive 30-day notification of abatement. Therefore, it is important that PHAs include the 30-day notice to abate in the original violations notice". According to Authority staff, their practice only called for abatement notification after the second failed inspection. Our audit confirmed that practice and identified one instance in which the practice resulted in the payment of a \$692 subsidy for a unit during a month in which the subsidy should have been abated.

The Authority's November 2008 inspection log showed 47 instances in which follow-up inspections were conducted more than 30 days after the initial failed inspection. This figure included more than 20 cases in which the follow-up inspections were conducted 40 to 70 days after the initial failed inspections. In January 2009, the Authority contracted for its housing quality standards inspection. An Authority official stated that the contractor's online system allows the Authority to review when owners are notified of inspection results and abatements. However, the Authority had not amended its administrative plan to include specific due dates and notification methods for inspection results and abatement notifications. We did not audit the new system, because it had not been in operation long enough to assess.

Conclusion

The above violations relate to the Authority's in-house performance which it has now contracted out to a private firm. However, the violations were caused by weak management oversight or a lack of adequate procedures in areas that also apply to its oversight of the contractor's performance. This includes making appropriate amendments to its administrative plan, also applicable to its contract inspector, related to (1) identifying and reporting all housing quality standards violations, (2) tracking inspection due dates, (3) ensuring that inspections are performed on time, (4) ensuring that owners and tenants are properly notified of inspection results on a timely basis, (5) ensuring that follow-up inspections are conducted in a timely manner, and (6) ensuring that owners and tenants are properly notified of abatement action. Also, the Authority should reimburse the program \$6,663 paid for inappropriate subsidies identified during our audit.

Recommendations

We recommend that the Director of HUD's Atlanta Office of Public Housing require the Authority to

- 1A. Ensure that the owners complete the repairs noted for the 11 failed units or abate the Section 8 subsidies for units in which the owner does not complete the repairs.
- 1B. Reimburse \$6,663 to its program from nonfederal funds for housing assistance payments made for the unit with significant violations (\$5,971) and for one unit during a month when the subsidy should have been abated (\$692).
- 1C. Verify that the tracking system for annual inspections, implemented in February by the Authority's contractor, is working properly and that inspections are performed in a timely manner.
- 1D. Establish and implement adequate procedures governing the methods for notifying owners and tenants of inspection results, conduct timely follow-up inspections for failed units, and provide timely abatement notifications to owners. This includes verification that the Authority communicates the new procedures to its contractor.
- 1E. Establish and implement specific procedures for monitoring the performance of its contract inspector's compliance with housing quality standards requirements and the contractor's maintenance of proper and complete records.

SCOPE AND METHODOLOGY

To achieve the audit objective, we

- Reviewed applicable laws, regulations, and other HUD program requirements;
- Reviewed the Authority's procedures and controls used to administer its Section 8 housing quality standards inspections;
- Reviewed files and documents from HUD and the Authority, including files related to past HUD reviews of the Authority's operations and the Authority's completed and/or planned corrective action;
- Selected and reviewed a random sample of 16 of 966 Section 8 housing choice voucher units inspected in the last six months that received subsidy payments for September 2008; and
- Interviewed appropriate officials and staff from the HUD Atlanta office and the Authority.

During the audit, we inspected 16 units with a HUD OIG inspector to determine whether the units met housing quality standards. We discontinued the audit because the 16 inspections identified only one unit in material noncompliance. Material noncompliance was based on consideration of factors such as (1) deficiencies that had existed for an extended period, (2) deficiencies noted in a prior inspection but not corrected, and/or (3) deferred maintenance that consistently failed the unit.

The audit covered the period July 1, 2006, through September 30, 2008. We conducted the fieldwork from November 2008 through February 2009 at HUD, the Authority and the homes of various tenants located within the Authority's jurisdiction.

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

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of data – Policies, procedures, and practices that management has implemented to provide reasonable assurance that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our audit, we believe that the following item is a significant weakness:

- The Authority lacked adequate controls and procedures to (1) enforce certain housing quality standards requirements, (2) track and timely perform annual inspections, and (3) provide proper abatement notification and timely follow-up inspections of units that fail their initial inspections (finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

| Recommendation number | Ineligible 1/ |
|--------------------------|----------------|
| 1B | <u>\$6,663</u> |
| Total | <u>\$6,663</u> |

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

JONESBORO HOUSING AUTHORITY
P. O. BOX 458
JONESBORO, GEORGIA 30237
Telephone: 770-478-7282
Fax: 770-478-2528



March 31, 2009

Mr. James D. McKay,
Regional Inspector General for Audit
Atlanta Region, 4AGA
75 Spring Street, S. W.
Atlanta, Georgia 30303

Dear Sir:

This letter is to respond to the finding and recommendations from you to Jonesboro Housing Authority, found within the draft audit report, dated March 23, 2009. First may I say that as audits go, the experience was positive? We are pleased to know that the Office of the Inspector General found that our Section 8 units generally met Housing Quality Standards and were in sound condition.

Response to Finding 1: *The Authority's Controls and Procedures for Conducting, Tracking, and Following Up on Housing Quality Standards Inspections Had Weaknesses.* We do not disagree with your findings. We recognize there is always need for improvement; we shall work hard to comply with your recommendations. However, we do request forgiveness of the \$6,573 (Appendix A, Page 14, Recommendation number 1 B) in non eligible subsidy for the following reasons:

- The amount of \$6,573 for which you request reimbursement is directly related to a single unit. The Jonesboro Housing Authority inspects more than 2,000 units annually.
- The Management of Jonesboro Housing Authority did conduct the required number of Quality Control samplings of re-inspections to ensure Section 8 residents resided in Safe, Decent, and Sanitary Housing. The unit in question was not one selected from our random sampling of units.

Comment 1

- Management could not have known the Inspector's decision to pass the unit was in error unless it had been one of the units randomly selected for a Quality Control follow-up inspection.
- The Jonesboro Housing Authority hired only qualified inspectors to conduct its inspections.

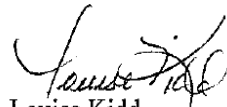
- Management would have abated the contract on said unit had it been one of the units randomly selected for a Quality Control Inspection. However, we could not have abated the contract on the unit without having knowledge that the deficiencies were not accurately assessed by the Inspector.

Based upon the aforementioned reasons, please consider our request to forgive the non-eligible subsidy of \$6,573. And, regardless of your decision, we shall endeavor to develop internal controls that more efficiently (1) enforce housing quality standards requirements, (2) track and timely perform annual inspections, and (3) provide proper abatement notification and timely follow-up inspections of units that fail their initial inspections (Finding 1).

Thank you and your staff for bringing these deficiencies to our attention. We will use your recommendations as building blocks to shore up our weaknesses in the defined areas of operation.

Sincerely,

JONESBORO HOUSING AUTHORITY



Louise Kidd
Executive Director

OIG's Evaluation of Auditee Comments

The Authority generally agreed with the findings and recommendations, as indicated below:

Comment 1 The Authority commented that it does not disagree with the finding and that it will work hard to comply with our recommendations. However, the Authority requested forgiveness of the \$6,573 ineligible subsidy payments because the amount is (a) directly related to one unit, (b) it conducted the required number of quality control inspections although the questioned unit was not included in their sample, (c) its management was not aware of the conditions detected by the audit, and (d) it only hired qualified inspectors to conduct inspections.

We did not question the adequacy of the Authority's quality control procedures and neither of the conditions cited by the authority justify allowing the ineligible subsidy amount. The regulations at 24 CFR 982.401(a)(3) require that all program housing must meet housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the assisted tenancy. Thus, the \$6,663 questioned in the report should be repaid. The difference between the \$6,573 mentioned in the auditee comment and the \$6,663 resulted from a transposition mistake in the draft report.