

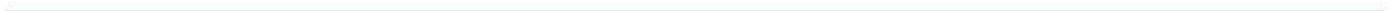


# Sanford Housing Authority, Sanford, NC

## Section 8 Housing Choice Voucher Program

**Office of Audit, Region 4  
Atlanta, GA**

**Audit Report Number: 2016-AT-1013  
September 13, 2016**





**To:** Michael Williams, Director, Public and Indian Housing, Greensboro Field Office, 4FPH

Craig T. Clemmensen, Director, Departmental Enforcement Center, CACB

//signed//

**From:** Nikita N. Irons, Regional Inspector General for Audit, 4AGA

**Subject:** The Sanford Housing Authority, Sanford, NC, Did Not Comply With HUD's and Its Own Section 8 Housing Choice Voucher Program Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Sanford Housing Authority's Section 8 Housing Choice Voucher program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



**Audit Report Number: 2016-AT-1013**

**Date: September 13, 2016**

**The Sanford Housing Authority, Sanford, NC, Did Not Comply With HUD's and Its Own Section 8 Housing Choice Voucher Program Requirements**

## Highlights

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### What We Audited and Why

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We audited the Sanford Housing Authority's Section 8 Housing Choice Voucher Programs as a result of problems identified during a technical assistance review performed by the U.S. Department of Housing and Urban Development's (HUD) North Carolina State Office of Public Housing. Additionally, our audit is in keeping with our annual audit plan to ensure that public housing agencies sufficiently administer HUD's programs in accordance with regulations and guidance. This is the second and last of two reports we plan to issue on the Authority's operations. Our audit objective was to determine whether the Authority administered its program in accordance with HUD's and its own requirements.

### What We Found

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The Authority did not administer its program in accordance with HUD regulations and its own requirements. Specifically, it did not ensure that the physical conditions of its units complied with housing quality standards or maintain required eligibility documentation. Also, it made housing assistance payments on an expired project-based contract. These conditions occurred because the Authority did not have adequate policies and procedures or follow its administrative plan. In addition, the former executive director did not provide proper guidance or training. As a result, the Authority disbursed and earned more than \$250,000 for improper housing assistance payments and administrative fees and disbursed and earned more than \$3,000 in housing assistance payments and administrative fees for files with missing documentation. Unless the Authority improves the administration of its program, we estimate that over the next year, HUD will pay more than \$3.3 million in improper housing assistance.

### What We Recommend

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We recommend that the Director of Public and Indian Housing require the Authority to (1) reimburse its program more than \$250,000 from non-Federal funds, (2) support or reimburse its program more than \$3,000 from non-Federal funds, (3) ensure that all unit violations cited have been corrected and certify that the units meet standards, and (4) develop and implement program controls to address deficiencies cited. We also recommend that the Director of the Departmental Enforcement Center take appropriate administrative action against the Authority's former executive director.

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# Background and Objective

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The Sanford Housing Authority was established on September 8, 1961, in accordance with State and Federal laws. The Authority's mission is to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination. The Authority is responsible for administering 446 low-income public housing units and 741 housing choice vouchers.

The Authority is governed by the provisions of a consolidated annual contributions contract between it and the U.S. Department of Housing and Urban Development (HUD). The Authority's oversight is the responsibility of a seven-member board of commissioners, appointed by the mayor of Sanford, NC. The board of commissioners selects the executive director. The board is responsible for the operational, financial, and compliance oversight of the Authority. The executive director is responsible for the day-to-day activities at the Authority.

The Section 8 Housing Choice Voucher program provides subsidies helping very low-income families, the elderly, and the disabled afford decent, safe, and sanitary housing in the private market. The program regulations include basic housing quality standards, which all units must meet before assistance can be paid on behalf of a family and at least annually throughout the term of the assisted tenancy. The Authority administered more than 1,900 tenant-based housing choice vouchers and received more than \$8 million in program funding for fiscal years 2013 through 2015.

The Authority's former executive director left the Authority on November 12, 2014. The current executive director began on January 1, 2015. The current executive director assessed the Authority's operating systems and identified significant issues. HUD then performed a technical assistance review of the Authority's public housing and Housing Choice Voucher programs in August 2015.

Our audit objective was to determine whether the Authority administered its program in accordance with HUD's and its own requirements. Specifically, we focused on the physical conditions of the units as well as the policies and procedures for administering the Authority's program.

# Results of Audit

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## **Finding 1: The Authority Did Not Ensure That Program Units Met HUD's Housing Quality Standards**

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The Authority did not ensure that its program participants lived in units that complied with HUD standards and its own administrative plan. For the 62 program units inspected, 56 (90 percent) failed to meet minimum acceptability requirements for housing quality standards. Additionally, 37 (66 percent) of the 56 failed units were in material noncompliance with HUD standards. For the 56 units that failed inspection, the Authority's inspectors failed to observe or report 541 violations that existed when they conducted their latest inspections. The excessive violations occurred because the previous executive director's administration did not follow its administrative plan and did not have quality control inspection procedures to ensure that its inspectors performed complete and accurate inspections. As a result, some tenants lived in units that did not meet minimum housing quality standards, and the Authority paid more than \$65,000 in housing assistance and received more than \$8,700 in administrative fees for the 37 units in material noncompliance with HUD standards. Unless the Authority improves its inspection process and ensures that all program units meet minimum housing quality standards, we estimate that over the next year, HUD will pay more than \$1.7 million in housing assistance for units in material noncompliance with HUD standards.

### **Housing Quality Standards Were Not Met**

We performed housing quality standards inspections on 62<sup>1</sup> statistically selected units from a universe of 167 program units that passed an Authority housing quality standards inspection between August and October 2015. The 62 units were selected to determine whether the Authority ensured that its program units met minimum housing quality standards. We inspected the units in December 2015 and from January to March 2016. Of the 62 units inspected, 56 (90 percent) failed to meet minimum housing quality standards and had a total of 607 housing quality standards violations, 541 of which existed before the Authority's latest inspection. The following table lists the top 3 most frequently occurring violations for the 56 units.

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<sup>1</sup> Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

Violation category	Number of violations	Number of units
Security of unit windows	125	35
Security of unit doors (interior and exterior)	93	32
Exposure to live electrical components	84	34

Additionally, 37 of the 56 (66 percent) failed units were in material noncompliance with housing quality standards. We considered these units to be in material noncompliance based on the severity of the violations and the period when the deficiency existed. Violations were determined to be preexisting if they existed before the Authority’s latest inspection. A combination of less severe violations caused a unit to be in material noncompliance if the violations caused a significant risk of danger to the family. Of the 37 units that materially failed the inspection, 21 were found to have 39 life-threatening items requiring correction within 24 hours, which existed at the time of the Authority’s latest inspection. Appendix C provides the number of violations for the 37 units and identifies the number of 24-hour, health and safety, and non-health and safety violations.

Throughout the inspection process, we kept the Authority’s staff aware of the life-threatening 24-hour violations and the results of each inspection. The Authority immediately required the landlords make the 24-hour repairs and address the other violations identified. HUD regulations<sup>2</sup> require that owners correct life-threatening defects within 24 hours of the inspection.

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<sup>2</sup> 24 CFR (Code of Federal Regulations) 982.404

### **Types of Deficiencies**

The following photographs illustrate some of the violations noted during our housing quality standards inspections of the 56 units that failed to meet HUD standards. The most prevalent deficiencies were window, door, and electrical violations.

#### Windows

A total of 125 window violations were found in 35 units that failed to meet housing quality standards.



This picture shows a bent frame and torn screen on a window. The tenant could not open the window without letting insects and debris into the house.

Doors

A total of 94 door violations were found in 32 units that failed to meet housing quality standards.



The picture above shows a keyed deadbolt lock on the kitchen exit door. If the tenant could not find the key, the exit would be blocked in case of emergency.

## Electrical

A total of 84 electrical violations were found in 34 units that failed to meet housing quality standards.



The picture above shows a fuse panel without an internal cover, and the external cover could easily be removed, exposing electrical contacts.

We also found other health and safety hazards, including unsound structural kitchen cabinets, holes in the foundation of the property, and damaged walls. The following photographs illustrate examples of these types of violations noted during our inspection of the units.



The picture above shows dilapidated kitchen cabinets and a sagging counter top sitting on bricks.



The picture above shows a large hole in the foundation of the property, allowing water, air, and insect infiltration.



The picture above shows damage to a wall in the hallway.

Code of Federal Regulations<sup>3</sup> require that all program housing meet housing quality standards performance requirements, both at commencement of assistance and throughout the assisted tenancy. In accordance with regulations,<sup>4</sup> HUD may reduce or offset program administrative fees paid to a public housing agency if it fails to correctly or adequately meet its administrative responsibilities, such as enforcing housing quality standards.

The Authority disbursed more than \$65,000 in housing assistance payments and received more than \$8,700 in program administrative fees for the 37 units that materially failed to meet HUD's housing quality standards. Based on the results of the 62 statistically selected units, we estimate that over the next year, HUD will pay more than \$1.7 million in housing assistance for units in material noncompliance with the standards unless the Authority takes action to improve its inspection process.

### **Management Lacked Quality Controls To Ensure Adequate Inspections**

Under the previous executive director's administration, the Authority did not follow its administrative plan and did not have quality control procedures to ensure that its inspectors performed complete and accurate inspections. This deficiency resulted in 56 of 62 units inspected not meeting housing quality standards.

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**Fifty-six of sixty-two units did not meet housing quality standards.**

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Although the Authority had an administrative plan in place that was developed in accordance with Federal regulations,<sup>5</sup> the former inspectors did not follow the administrative plan. The current executive director became aware that program units did not meet housing quality standards after HUD's technical assistance review in August 2015. She hired a new program director in November 2015, and when the former inspector retired in December 2015, the Authority immediately hired a new inspector. During our inspections, tenants informed us that the former inspectors conducted inspections within 5 minutes and were surprised that our inspections took much longer to perform.

HUD regulations<sup>6</sup> require public housing agencies to perform supervisory quality control inspections. Before March 2016, the Authority did not perform quality control inspections to ensure that its inspectors conducted inspections in accordance with housing quality standards. Of the 554 total failed items for the 37 units that materially failed our inspections, 505 (91 percent) existed at the time of the Authority's latest inspection. The Authority should use the quality control inspections to verify that each inspector conducts accurate and complete inspections to ensure consistency among inspectors in applying the housing quality standards and determine whether individual performance or training issues need to be addressed.

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<sup>3</sup> 24 CFR 982.401(a)(3)

<sup>4</sup> 24 CFR 982.152(d)

<sup>5</sup> Sanford Housing Authority Administrative Plan, chapter 8 page 189

<sup>6</sup> 24 CFR 982.405(b)

The Authority started taking corrective actions to resolve the issues with its housing quality standards process. The current executive director began establishing and implementing quality control procedures in March 2016. Although corrective action has taken place under the current administration, there are still instances where program units are not meeting housing quality standards. In addition, the Authority hired a contractor to inspect all of the program units to ensure that they comply with housing quality standards.

### **Conclusion**

The housing quality standards deficiencies described above occurred because the former executive director did not have quality control procedures in place to ensure that the Authority's program units complied with HUD's housing quality standards. The Authority did not follow its administrative plan, and its quality control program was ineffective in improving its inspectors' performance. As a result, some of the Authority's households lived in inadequately maintained units and were subjected to health- and safety-related violations, and the Authority did not properly use its program funds when it failed to ensure that the units complied with HUD's housing quality standards. The Authority disbursed more than \$65,000 in program housing assistance payments and received more than \$8,700 in program administration fees for the 37 units that materially failed to meet HUD's standards. Unless the Authority improves its unit inspection program to ensure compliance with HUD's housing quality standards, we estimate that over the next year, HUD will pay more than \$1.7 million<sup>7</sup> in housing assistance for units in material noncompliance with the standards.

### **Recommendations**

We recommend that the Director of HUD's Greensboro, NC, Office of Public Housing require the Authority to

- 1A. Reimburse its program \$74,210 from non-Federal funds for the \$65,430 in housing assistance payments and \$8,780 in administrative fees received for the 37 units that failed to meet HUD's housing quality standards.
- 1B. Ensure that housing quality standards violations identified for the 56 units were corrected and certify that the units meet HUD's housing quality standards.
- 1C. Fully implement its procedures to ensure that all program units meet HUD's housing quality standards to prevent \$1,709,556 in program funds from being spent on units that do not comply with HUD's requirements over the next year. The procedures should include but not be limited to ensuring that inspectors consistently conduct accurate and complete inspections.
- 1D. Fully implement its quality control inspection procedures to ensure that supervisory inspections are used to determine whether individual performance or training issues need to be addressed and ensure consistency among the Authority's inspectors when applying HUD's housing quality standards.

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<sup>7</sup> Our calculation for the \$1.7 million in housing assistance payments is located in the Scope & Methodology section of this audit report.

## **Finding 2: The Authority Did Not Comply With Program Eligibility Requirements**

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The Authority did not comply with HUD's requirements and its own administrative policies and procedures when determining tenant eligibility. For 57 (76 percent) of the 75 payments made, the Authority did not maintain required eligibility documentation. These conditions occurred because the Authority's former executive director provided improper guidance to the Section 8 staff. In addition, the staff was not properly trained and lacked sufficient knowledge of documentation requirements. Further, the Authority did not have quality control procedures to ensure that files were properly documented. As a result, the Authority paid more than \$22,000 in housing assistance and earned more than \$3,000 in administrative fees for housing assistance payments that did not comply with documentation requirements. Unless the Authority improves the administration of its program, we estimate that over the next year, HUD will pay more than \$1.6 million in housing assistance for households in noncompliance with program requirements.

### **The Authority Lacked Proper Documentation to Support Eligibility**

We statistically selected 75<sup>8</sup> single monthly housing assistance payments from the universe of 13,866 housing assistance and utility allowance payments from October 1, 2013, through September 30, 2015. We reviewed the housing assistance payments to determine the tenants' eligibility for the sampled months. We also verified the eligibility of the tenants' units by ensuring that the tenant files contained the housing assistance payments contracts, deeds, utility allowances, and inspection reports<sup>9</sup> for the monthly payments reviewed. Of the 75 tenant files, 57 (76 percent) were missing one or more documents needed to determine tenant eligibility.

Specifically,

- 51 files were missing housing assistance payments contracts,<sup>10</sup>
- 5 files were missing only the deeds,<sup>11</sup> and
- 1 file was only missing the utility allowance documentation<sup>12</sup> (appendix D).

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<sup>8</sup> The sample selection methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

<sup>9</sup> The Authority was unable to locate one file resulting in a missing inspection report. Since the housing assistance payment contract was also missing, the housing assistance payment was considered ineligible.

<sup>10</sup> Regulations at 24 CFR 982.158(e) require the Authority to keep the housing assistance payments contract during the term of each assisted lease.

<sup>11</sup> Sanford Housing Authority Administrative Plan, chapter 13, pages 320-321, states that a deed is required to establish legal ownership of a unit.

<sup>12</sup> Regulations at 24 CFR 982.517 require that the PHA maintain a utility allowance schedule.

From the 57 monthly housing assistance payments that did not comply with HUD's requirements, 51 were improperly paid because staff did not obtain housing assistance payments contracts. Federal regulations provide that during the term of each assisted lease and for at least 3 years thereafter, the authority must keep the housing assistance payments contract.<sup>13</sup> The Housing Choice Voucher Guidebook states that the contract must run concurrently with the lease.<sup>14</sup> The failure to establish and maintain the housing assistance payments contracts made the housing assistance payments inappropriate. As a result, the Authority paid more than \$20,000 in improper housing assistance and earned more than \$2,800 in improper administrative fees for the 51 monthly housing assistance payments (appendix E). Unless the Authority improves the administration of its program, we estimate that over the next year, HUD will pay more than \$1.6 million<sup>15</sup> in housing assistance for households in noncompliance with program requirements.

In addition, the remaining 6 of the 57 tenant files were missing only the deeds (5 instances)<sup>16</sup> and a utility allowance determination (1 instance)<sup>17</sup> necessary to support the housing assistance payment and household eligibility. The Authority's administrative plan states that certified copies of deeds are necessary to establish legal ownership of the units.<sup>18</sup> Federal regulations also require that the PHA maintain a utility allowance schedule.<sup>19</sup> Therefore, the Authority paid more than \$2,700 in housing assistance and earned more than \$300 in administrative fees for the six monthly housing assistance payments that were not properly documented (appendix E). After we informed the current executive director of the issue, she began obtaining and providing the missing documentation.

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<sup>13</sup> 24 CFR 982.158(e)(2)

<sup>14</sup> Housing Choice Voucher Program Guidebook, section 11.3

<sup>15</sup> Our calculation for the \$1.6 million in housing assistance payments is located in the Scope & Methodology section of this audit report.

<sup>16</sup> There were 14 total files missing deeds. The other nine files missing deeds were also missing housing assistance payment contracts; therefore, the housing assistance was improper. That left only 5 files counted as missing deeds.

<sup>17</sup> There were 3 utility allowance reviews missing from the files. Only 1 was counted for reporting purposes because the other 2 were also missing HAP contracts which made them ineligible.

<sup>18</sup> Sanford Housing Authority Administrative Plan, chapter 13, pages 320-321

<sup>19</sup> 24 CFR 982.517

### **Staff Lacked Proper Guidance and Training on Requirements**

Under the previous executive director's administration, the Authority did not provide proper guidance to its Section 8 staff. The former executive director informed the Section 8 staff that housing assistance contracts were required only when the tenant moved into a unit or transferred to another unit. The former executive director did not require staff to obtain and maintain contracts for each assisted lease and did not require staff to obtain warranty deeds. In addition, Section 8 staff members were not properly trained and did not know they were required to document the necessary support in the tenant files. The Section 8 staff members stated that they did not receive formal program training under the former executive director. Instead, they stated that they received day-to-day instructions. These conditions continued to occur because the Authority did not have quality control procedures to provide assurance that monthly housing assistance payments were proper and supported. The current executive director began taking corrective actions by revising the Authority's procedures, scheduling formal training for its Section 8 manager and staff, and developing formal quality control policies and procedures.

### **Conclusion**

Because 76 percent of the files were missing the required eligibility documentation, HUD and the Authority lacked assurance that tenants were eligible to receive housing assistance payments. As a result, the Authority paid more than \$22,000 in housing assistance and earned more than \$3,000 in administrative fees for housing assistance payments that did not comply with documentation requirements. Unless the Authority improves the administration of its Housing Choice Voucher program, we estimate that over the next year, HUD will pay more than \$1.6 million in housing assistance for households in noncompliance with program requirements. Although the Authority had made progress, improvement is needed. Once the Authority fully implements its policies and procedures, it will be able to assure HUD that it can properly administer its program.

### **Recommendations**

We recommend that the Director of HUD's Greensboro, NC, Office of Public Housing require the Authority to

- 2A. Reimburse its program \$22,967 from non-Federal funds for the \$20,111 in housing assistance payments and \$2,856 in administrative fees received for the 51 ineligible housing assistance payments missing housing assistance payments contracts.
- 2B. Support or reimburse its program \$3,092 from non-Federal funds for the \$2,756 in housing assistance payments and \$336 in administrative fees received for the six unsupported housing assistance payments missing deeds, utility allowance determinations, and inspection reports.
- 2C. Develop and implement quality control procedures to ensure that its staff complies with HUD regulations and its administrative plan.

- 2D. Fully implement its policies and procedures to ensure that its staff complies with HUD regulations and its administrative plan when administering its program to prevent disbursing \$ 1,607,706 in program funds for improper housing assistance payments over the next year.
  
- 2E. Continue providing training to ensure that its staff administers its Housing Choice Voucher program in compliance with HUD regulations and its administrative plan.

### **Finding 3: The Authority Made Housing Assistance Payments on an Expired Project-Based Contract**

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The Authority continued making housing assistance payments to Brick Capital Community Development Corporation, a project-based manager, on an expired contract from September 1, 2012, to August 31, 2015. This condition occurred because the former executive director did not follow regulations for extending the housing assistance payments contract. As a result, the Authority paid Brick Capital more than \$129,000 in housing assistance and earned more than \$24,000 in improper administrative fees.

#### **Payments Were Made on an Expired Contract**

The former executive director did not follow 24 CFR 983<sup>20</sup> requirements for extending the housing assistance payments contract. The former executive director did not require staff to maintain the original contract after it was executed; therefore, the Authority continued to pay on the contract after the expiration date. Once a contract was executed, the former administration treated it as a never ending agreement. If the service provided through the contract was still needed, the Authority continued to operate under the contract without renewing it.

The current executive director was made aware of the expired contract when HUD completed its review of the Authority's program in August 2015; however, the funds were not reimbursed to the program. On August 24, 2015, the current executive director informed Brick Capital that the agreement had expired and the Authority would not extend the agreement. The Authority provided the 12 tenants individual housing choice vouchers and advised Brick Capital that it would need to sign a new housing assistance payments contract for each tenant if the tenant chose not to move out.

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<sup>20</sup> 24 CFR Part 983 – A public housing agency may enter into a housing assistance payments contract for a term of up to 10 years. At the end of the contract term, the agency may extend the housing assistance payments contract with an owner for a period appropriate to achieve long-term affordability or to expand housing opportunities.

## **Recommendations**

We recommend that the Director of HUD's Greensboro, NC, Office of Public Housing require the Authority to

- 3A. Reimburse its program \$153,593 from non-Federal funds for the \$129,558 in housing assistance payments made and \$24,035 in administrative fees received for the payments made to Brick Capital Community Development Corporation on the expired contract.

Based on the lack of oversight by the former executive director noted in all three findings, we recommend that the Director of the Departmental Enforcement Center, in coordination with the Director of the Greensboro HUD Office of Public Housing,

- 3B. Take appropriate enforcement action against the former executive director responsible for the noncompliance with Federal regulations.

# Scope and Methodology

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We performed our onsite audit work between December 2015 and July 2016, at the Authority's central office located at 1000 Carthage Street, Sanford, NC, and at our office in Atlanta, GA. Our audit period was November 1, 2013, through October 31, 2015. We expanded the audit period as needed to accomplish our objective.

To accomplish our audit objective we did the following:

- Reviewed HUD's technical assistance review conducted in August 2015.
- Reviewed and obtained an understanding of the Authority's policies and procedures, relevant laws, regulations, bylaws, consolidated annual contributions contract with HUD, and HUD's guidance.
- Reviewed applicable laws, HUD's regulations at 24 CFR Part 982, Office of Public and Indian Housing notices, HUD's Guidebook 7420.10G, and HUD's Housing Inspection Manual.
- Reviewed the Authority's program administrative plan, tenant files, inspection reports, and housing assistance payment register.
- Reviewed the Authority's board of commissioners meeting minutes and organizational chart and HUD monitoring reports.
- Conducted a housing quality standards inspection of the tenants' units.
- Reviewed documents between the Authority and Brick Capital for the project-based tenants.
- Reviewed the Authority's audited financial statements for its fiscal years 2013 and 2014.
- Interviewed the Authority's employees, tenants, and former executive director and HUD staff.

## Finding 1

To assess the physical conditions of the Authority's units, we statistically selected a stratified systematic sample of 62 of the Authority's program units to inspect from the 167 units that passed the Authority's inspections from August 1 through October 31, 2015. The 62 units were inspected to determine whether the Authority ensured that its program units met HUD's and its own housing quality standards. We used statistical sampling because each sampling unit was selected without bias from the audit population, allowing the results to be projected to the population. After our inspections, we determined whether each unit passed, failed, or materially failed. All units were ranked, and we used our materiality standards and auditors' judgment to determine the material cutoff point. Materially failed units were based on the severity of the

violation and the period when the deficiency existed. Violations were determined to be preexisting if they existed before the Authority's latest inspection. A combination of less severe violations caused a unit to be in material noncompliance if the violations caused a risk of danger to the family.

Based on our review of the 62 statistically selected units, we found that 37 of the units were in material noncompliance with housing quality standards, although they had recently passed an Authority inspection. Using a one-sided confidence interval of 95 percent, we projected that at least 51.3 percent of the units had material violations. Extending this rate to the monthly count of 633 occupied units on the Authority's program, we can say that at least 325 units would not have complied with housing quality standards or the requirements in the Authority's program administrative plan, despite having passed the Authority's inspection. Based on the average housing assistance paid for the 62 units, less a deduction to account for a statistical margin of error, we can say with a one-sided confidence interval of 95 percent that the average amount of monthly housing assistance spent on inadequate units was \$225 per unit. Extending this amount to the 633 active units on the Authority's program over 12 months yields at least \$1.7 million in monthly housing assistance paid per year for substandard units.

The calculation of administrative fees was based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid for units that materially failed to meet HUD's minimum and its own housing quality standards.

## Finding 2

To evaluate the policies and procedures for administering the program, we statistically selected a stratified random sample of 75 monthly housing assistance payments from the Authority's 13,866 monthly disbursements to landlords from October 1, 2013, through September 30, 2015 (23 months). The total housing assistance paid during this timeframe was more than \$5.3 million. We reviewed 73 housing assistance payments from the selected sample to determine whether the Authority appropriately determined households' eligibility for program participation, correctly calculated the housing assistance payments, and conducted the recertifications in a timely manner. We reviewed only 73 housing assistance payments because 1 was in the Section 8 home-ownership program and the Authority was unable to locate the other file in our sample. The home-ownership voucher case was subject to different requirements, which were unlike the requirements for the other monthly housing assistance payments in the sample. Because the sample could not be reviewed under the same guidelines as the rest of the sample, we kept the original universe and assigned a zero dollar finding (no finding) to the Section 8 home-ownership voucher. The missing tenant file was counted as missing the housing assistance payment contract. We found that 51 of the 75 housing subsidy payments reviewed were not eligible. This amounts to a weighted average of \$268 per month per tenant payment. After deducting the margin of error to accommodate the uncertainties inherent in statistical sampling, we can still say with a one-sided confidence interval of 95 percent that this amounts to \$232 per tenant per month disbursed on subsidy payments that were not eligible. We estimate that over the next year, if the Authority continues to disburse ineligible subsidy payments, this will amount to at least \$1.6 million.

The calculation of administrative fees was based on the administrative fees received by the Authority from HUD and the number of vouchers the Authority reported through HUD's Voucher Management System. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid and household eligibility was unsupported.

### Finding 3

We selected and reviewed Brick Capital Community Development Corporation based on the technical assistance review performed by HUD's Greensboro, NC, Office of Public Housing to determine whether the Authority properly extended the project-based contract from September 1, 2012, to August 31, 2015.

The calculation of administrative fees was based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid.

### Other information

We relied in part on computer-processed data contained in the Authority's system to achieve our audit objective. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes. The tests for reliability included but were not limited to comparing computer-processed data to housing assistance payments, information in the sample tenant files, and other supporting documentation.

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(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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 objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure 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 reasonably ensure that program implementation is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

The Authority did not ensure that its program participants lived in units that complied with HUD's requirements and its own administrative plan. Also, the Authority did not comply with HUD's requirements and its own administrative policies and procedures when administering its Section 8 Housing Choice Voucher program.

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs and Funds To Be Put to Better Use**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Unsupported 2/</b>	<b>Funds to be put to better use 3/</b>
1A	\$74,210		
1C			\$1,709,556
2A	22,967		
2B		\$3,092	
2D			1,607,706
3A	153,593		
<b>Totals</b>	<b>250,770</b>	<b>3,092</b>	<b>3,317,262</b>

- 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.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendations, it will stop incurring program costs for units that are not decent, safe, and sanitary and for households in noncompliance with program requirements. Instead, the Authority will spend those funds in accordance with HUD's requirements and the

Authority's program administrative plan. Once the Authority improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

## Appendix B

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

#### Comment 1



1000 Carthage Street  
P.O. Box 636  
Sanford, NC 27330 (27331)  
919-776-7655  
[www.sha-nc.org](http://www.sha-nc.org)

August 5, 2016

Ms. Nikita N. Irons, Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development, Office of Inspector General  
75 Spring Street SW., Room 330  
Atlanta, GA 30303

Dear Ms. Irons:

The Sanford Housing Authority (SHA) is in agreement with the draft report relative to the results of your review of its Housing Choice Voucher (HCV) Program. SHA understands the importance of the HCV Program requirements, as it is a federally-funded program. SHA further understands that there were/are areas of the HCV Program that require additional modification. In 2015, the SHA updated policies and procedures in accordance with the U.S. Department of Housing and Urban Development's rules and regulations. However, SHA continues to put forth the efforts to bring the HCV Program into full compliance. A very important aspect of this effort has been training the staff, program participants and landlords.

A massive landlord briefing occurred December 2015. Approximately 40 landlords attended the workshop. As a result, sixteen new landlords are participating in the program. A new HCV Specialist has joined the team; one of the two specialists have received training, and has successfully received the National Association of Housing and Redevelopment Officials Certified Specialist HCV Occupancy, Eligibility Income and Rent Calculation certification. The second specialist will receive training no later than December 2016, provided training is made available. A new inspector was hired December 7, 2015 and has successfully received the Nan McKay Certified Housing Quality Standards Inspector certification.

In March 2016, the SHA also procured a third-party contractor to assist with inspecting 100% of the program units; their inspections began May 2016. To-date, 391 of 705 units have been inspected. Units not receiving a passing housing quality standards inspection are noted in

the system, correspondence is sent to the tenant and landlord, and a copy is placed in the file. Failed units are re-inspected. If repairs are not made for failed units, the housing assistance payments are abated.

Again, SHA is in agreement with the draft report relative to the results of your review of its HCV Program. SHA takes the HCV program requirements very seriously, and will continue to take the necessary steps to bring the program into full compliance, to include continuing to provide staff with the necessary training to efficiently and effectively manage the program.

If there are additional questions or additional information needed, please contact me at [smclean@sha-nc.org](mailto:smclean@sha-nc.org) or (919) 776-7655, extension 222.

Sincerely,



Shannon McLean  
Chief Executive Officer

## OIG Evaluation of Auditee Comments

Comment 1 We acknowledge the Authority's agreement with our report concerning its administration of its Housing Choice Voucher program. We also acknowledge the Authority has implemented policies and procedures in accordance with HUD's rules and regulations, provided training for its staff, as well as executed a contract to have its program units inspected. Once the Authority fully implements its policies and procedures, it will be able to assure HUD that it can properly administer its programs. The Authority should work with HUD to ensure violations were corrected and properly certified and that its procedures and controls are implemented.

## Appendix C

**Schedule of Units in Material Noncompliance With Housing Quality Standards**

Unit	Tenant	24-hour deficiencies		Health & safety deficiencies		Non health & safety		Total deficiencies
		Pre-existing	Not pre-existing	Pre-existing	Not pre-existing	Pre-existing	Not pre-existing	
2	12031	4	2	4	0	4	0	14
7	10639	4	2	4	1	11	5	27
9	13461	4	1	4	1	7	0	17
11	13848	1	1	2	0	3	1	8
12	21682	1	0	0	0	4	0	5
13	22592	0	3	1	4	7	3	18
14	21869	1	0	6	0	2	4	13
15	11562	0	0	5	0	0	0	5
25	10498	1	0	1	0	0	0	2
26	13031	0	0	9	0	0	0	9
29	14437	1	0	22	3	0	0	26
30	21592	2	0	37	1	0	0	40
32	21831	0	0	10	1	0	0	11
33	10352	0	1	35	1	0	0	37
34	10510	2	0	16	0	0	0	18
35	10727	0	0	6	0	0	0	6
36	10822	0	1	9	0	0	0	10
37	11608	0	0	5	0	0	0	5
39	20472	3	0	20	0	0	0	23
40	14000	2	0	2	0	0	0	4
41	22312	0	3	5	2	0	0	10
42	22317	1	0	7	0	0	0	8
43	11410	1	0	21	1	0	0	23
44	12139	0	0	16	1	0	0	17
45	13580	3	0	4	0	0	0	7
46	13714	1	0	2	0	0	0	3
47	20177	3	0	21	0	0	0	24
48	21156	0	0	14	0	0	0	14

Unit	Tenant	24-hour deficiencies		Health & safety deficiencies		Non-health & safety deficiencies		Total deficiencies
		Pre-existing	Not pre-existing	Pre-existing	Not pre-existing	Pre-existing	Not pre-existing	
49	10408	0	0	19	0	0	0	<b>19</b>
51	22618	0	0	23	0	0	0	<b>23</b>
52	10766	0	0	6	2	0	0	<b>8</b>
53	22828	0	0	12	0	0	0	<b>12</b>
54	14340	1	0	19	0	0	0	<b>20</b>
55	13208	1	0	40	0	0	0	<b>41</b>
57	10416	0	0	5	0	0	0	<b>5</b>
61	21025	1	1	9	1	0	0	<b>12</b>
62	14313	1	0	7	0	0	2	<b>10</b>
	<b>Totals</b>	<b>39</b>	<b>15</b>	<b>428</b>	<b>19</b>	<b>38</b>	<b>15</b>	<b>554</b>

## Appendix D

### Schedule of Missing Eligibility Documentation

Tenant	Housing assistance payment month	Housing assistance payments contract missing	Deed missing	Utility allowance missing	Inspection report missing
2	September 2015	X			
5	September 2014	X			
6	September 2015	X			
8	May 2015	X			
9	July 2014	X			
10	June 2015	X	X		
11	April 2014	X			
12	March 2015	X			
16	May 2014	X			
17	January 2014	X			
20	July 2015	X			
23	March 2014	X	X		
24	January 2014	X			
26	August 2015	X	X		
27	November 2014	X			
28	May 2015	X			
29	February 2015	X			
30	November 2013	X	X		
31	June 2014	X		X	X
32	April 2014	X			
33	August 2014	X			
34	April 2015	X			
35	March 2014	X	X		
36	January 2014	X			
37	November 2014	X			
38	June 2014	X			
39	August 2015	X			

Tenant.	Housing assistance payment month	Housing assistance payments contract missing	Deed missing	Utility allowance missing	Inspection report missing
40	February 2015	X			
41	November 2013	X		X	
43	April 2014		X		
44	December 2014	X	X		
45	June 2015	X	X		
46	February 2014	X			
47	May 2014			X	
49	August 2014		X		
51	September 2015	X			
52	December 2013	X			
53	February 2015	X			
54	March 2014	X			
55	July 2015	X			
56	September 2014	X	X		
57	December 2014	X			
58	October 2013	X			
60	November 2013	X			
61	December 2014	X			
63	March 2015	X			
64	September 2015	X			
65	October 2014		X		
66	May 2014	X			
67	January 2015		X		
68	December 2013	X	X		
69	April 2015	X			
71	August 2014		X		
72	August 2014	X			
73	July 2015	X			
74	November 2014	X			
75	November 2013	X			
<b>Totals</b>		<b><u>51</u></b>	<b><u>14</u></b>	<b><u>3</u></b>	<b><u>1</u></b>

## Appendix E

**Schedule of Costs for Files Missing Eligibility Documentation**

Tenant	Housing assistance payment month	Ineligible housing assistance payment	Ineligible admin. fee	Unsupported housing assistance payment	Unsupported admin. fee
2	September 2015	\$80	\$56		
5	September 2014	\$308	\$56		
6	September 2015	\$360	\$56		
8	May 2015	\$418	\$56		
9	July 2014	\$570 <sup>21</sup>	\$56		
10	June 2015	\$542	\$56		
11	April 2014	\$646	\$56		
12	March 2015	\$745	\$56		
16	May 2014	\$173	\$56		
17	January 2014	\$64	\$56		
20	July 2015	\$205	\$56		
23	March 2014	\$211	\$56		
24	January 2014	\$280	\$56		
26	August 2015	\$208	\$56		
27	November 2014	\$281	\$56		
28	May 2015	\$220	\$56		
29	February 2015	\$276	\$56		
30	November 2013	\$263	\$56		
31	June 2014	\$208	\$56		
32	April 2014	\$243	\$56		
33	August 2014	\$340	\$56		
34	April 2015	\$313	\$56		
35	March 2014	\$356	\$56		
36	January 2014	\$298	\$56		
37	November 2014	\$317	\$56		
38	June 2014	\$315	\$56		
39	August 2015	\$360	\$56		
40	February 2015	\$310	\$56		
41	November 2013	\$319	\$56		

<sup>21</sup> The HAP payment includes the utility allowance payments for sample numbers 9, 10, 11, 12, 65, 68, 69, 72, 73, 74, and 75

Tenant.	Housing assistance payment month	Ineligible housing assistance payment	Ineligible admin. fee	Unsupported housing assistance payment	Unsupported admin. fee
43	April 2014			\$337	\$56
44	December 2014	\$354	\$56		
45	June 2015	\$313	\$56		
46	February 2014	\$402	\$56		
47	May 2014			\$379	\$56
49	August 2014			\$393	\$56
51	September 2015	\$434	\$56		
52	December 2013	\$376	\$56		
53	February 2015	\$445	\$56		
54	March 2014	\$388	\$56		
55	July 2015	\$450	\$56		
56	September 2014	\$383	\$56		
57	December 2014	\$413	\$56		
58	October 2013	\$448	\$56		
60	November 2013	\$488	\$56		
61	December 2014	\$454	\$56		
63	March 2015	\$582	\$56		
64	September 2015	\$461	\$56		
65	October 2014			\$525	\$56
66	May 2014	\$567	\$56		
67	January 2015			\$521	\$56
68	December 2013	\$568	\$56		
69	April 2015	\$555	\$56		
71	August 2014			\$601	\$56
72	August 2014	\$646	\$56		
73	July 2015	\$681	\$56		
74	November 2014	\$751	\$56		
75	November 2013	\$723	\$56		
<b>Totals</b>		<b><u>\$20,111</u></b>	<b><u>\$2,856</u></b>	<b><u>\$2,756</u></b>	<b><u>\$336</u></b>