



# Louisville Metro Housing Authority, Louisville, KY

## Section 8 Housing Choice Voucher Program

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

**Audit Report Number: 2017-AT-1010  
August 4, 2017**





**To:** Carol C. Spencer, Acting Director, Public and Indian Housing, Louisville, KY,  
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**From:** *//signed//*  
Nikita N. Irons, Regional Inspector General for Audit, 4AGA

**Subject:** The Louisville Metro Housing Authority, Louisville, KY, 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 Louisville Metro 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 website. 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: 2017-AT-1010**

**Date: August 4, 2017**

**The Louisville Metro Housing Authority, Louisville, KY, 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 Louisville Metro Housing Authority's Section 8 Housing Choice Voucher program based on our risk assessment of all Kentucky public housing agencies and as part of the activities in our annual audit plan. Our audit objective was to determine whether the Authority administered its program units in accordance with the U.S. Department of Housing and Urban Development's (HUD) and its own requirements.

### What We Found

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The Authority did not administer its program units in accordance with HUD's and its own requirements. Due to an inadequate quality control inspections process, the Authority did not ensure that 103 of 106 (97 percent) program units inspected met HUD's or its own housing quality requirements, and 44 of the 103 units were found to be in material noncompliance with the requirements. In addition, for abatement of housing assistance payments and determination of rent reasonableness and owner eligibility, the Authority did not always comply with HUD's and its own requirements. These conditions occurred because the Authority lacked written procedures for its staff to follow in performing their respective duties. As a result, some tenants lived in inadequately maintained units, and the Authority disbursed more than \$65,500 in housing assistance payments and received more than \$7,800 in administrative fees for the units in noncompliance with program requirements. Unless the Authority improves its inspection program and ensures that all of its units meet housing quality requirements, we estimate that over the next year, HUD will pay more than \$20.5 million in housing assistance for units in material noncompliance with requirements.

### What We Recommend

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We recommend that the Director of HUD's Louisville, KY, Office of Public and Indian Housing require the Authority to (1) reimburse its program more than \$73,000 from non-Federal funds, (2) ensure that all violations cited for units failing to meet housing quality requirements have been corrected and certify that the units meet program requirements, and (3) develop and implement adequate controls and written procedures to address deficiencies cited and prevent more than \$20.5 million in program funds from being spent over the next year on units that do not materially comply with program requirements.

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# Background and Objective

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The Louisville Metro Housing Authority came into being in its current form in 2003 when the governments of Jefferson County, KY, and the former City of Louisville, KY, merged to form a consolidated local government under Kentucky Revised Statutes 67C.101. The resulting body, Louisville Metro Government (Louisville Metro), replaced the former City and County governments to become the single, unified, and consolidated governing body of all of Jefferson County. The Authority is governed by a nine-member board of commissioners and an executive director appointed by the mayor and approved by the Louisville Metro Council. The Authority's mission is to provide quality, affordable housing for low-income residents of metropolitan Louisville, assist residents in their efforts to achieve financial independence, and work to strengthen the metropolitan Louisville community and its neighborhoods.

HUD's Moving to Work (MTW) demonstration program provides public housing agencies the opportunity to design and test innovative, locally designed strategies that use Federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families. MTW gives public housing agencies exemptions from many public housing and Section 8 Housing Choice Voucher program rules and more flexibility with how they use their Federal funds. The Authority became part of HUD's MTW demonstration program in April 2008, and this designation has been extended through the Authority's 2028 fiscal yearend. However, the Authority's participation in the MTW demonstration did not exempt it from complying with HUD's minimal housing quality standards under HUD's Housing Choice Voucher program.

The Housing Choice Voucher program assists very low-income families, the elderly, and the disabled in affording 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. HUD's housing quality standards establish the minimum criteria necessary for the health and safety of program participants. In addition to complying with HUD's housing quality standards, section 13 of the Authority's program administrative plan required the Authority to comply with its own housing quality requirements, which included Louisville Metro's property maintenance code. In addition, the Authority entered into an agreement<sup>1</sup> with Louisville Metro to conduct its unit inspections for compliance with HUD's and Louisville Metro's housing code. The Authority administered more than 10,000 tenant-based housing choice vouchers and received more than \$69 million in program funding for fiscal year 2016.

Our audit objective was to determine whether the Authority administered its program units 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 units.

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<sup>1</sup> The initial agreement was executed in November 2003, and the most recent updated agreement was executed in June 2013.

# Results of Audit

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## **Finding 1: The Authority Did Not Always Ensure That Program Units Met HUD’s and Its Own Housing Quality Requirements**

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The Authority did not always ensure that program units met HUD’s and its own housing quality requirements. For the 106 program units inspected, 103 (97 percent) units failed to meet the minimum housing quality requirements, and 44 (43 percent) of those were in material noncompliance with HUD’s and the Authority’s housing quality requirements. The violations occurred because the Authority lacked an adequate quality control inspection program. As a result, some tenants lived in units that did not meet HUD’s housing quality standards, and the Authority paid more than \$63,000 in housing assistance and received more than \$7,600 in administrative fees for the 44 units in material noncompliance with applicable housing quality requirements. Unless the Authority improves its inspection process and ensures that all program units are in material compliance with housing quality requirements, we estimate that over the next year, HUD will pay more than \$20.5 million in housing assistance for units in material noncompliance with program requirements.

### **Housing Quality Requirements Not Met**

We selected 106<sup>2</sup> units for inspection from an average universe of 1,902 program units that had recently passed an inspection by Louisville Metro on behalf of the Authority.<sup>3</sup> The 106 program units were inspected to determine whether the Authority ensured that the program units complied with HUD’s and its own housing quality requirements. We inspected the units during the week of November 7, 2016, and January through February 2017. Of the 106 units inspected, 103 (97 percent) failed to meet minimum housing quality requirements and had a total of 898 housing quality requirement violations, 684 of which existed before the Authority’s latest inspection. The following table lists the top 5 most frequently occurring violations for the 103 units.

Violation category for noted deficiencies	Number of violations	Number of units
Window	212	74
Electrical	135	60
Floor	109	55
Security	84	44
Wall	54	35

Additionally, 44 of the 103 (43 percent) failed units were in material noncompliance with housing quality requirements. 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

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<sup>2</sup> Our methodology for the sample selection is explained in the Scope and Methodology section of this audit report.

<sup>3</sup> The Authority entered into an agreement for Louisville Metro to conduct its unit inspections.

be preexisting if they existed before the Authority's latest inspection. In addition, we determined a unit to be in material noncompliance based on a combination of less severe violations if the violations caused a risk of danger or injury to the family. Appendix C provides the number of violations for the 106 units failing to meet HUD's and the Authority's own housing quality requirements.

Further, of the 44 units that materially failed the inspection, 27 were found to have 41 life-threatening items requiring correction within 24 hours, which existed at the time of the Authority's latest inspection. HUD regulations at 24 CFR (Code of Federal Regulations) 982.404 require that owners correct life-threatening defects within 24 hours of the inspection. Throughout the inspection process, we kept the Authority's staff aware of the life-threatening 24-hour violations, and the Authority immediately required the landlords make the 24-hour repairs.

#### Types of Deficiencies

The following photographs illustrate some of the violations noted during our housing quality inspections of the 103 units that failed to meet requirements. The most prevalent deficiencies were window, electrical, floor, security, and wall violations.

#### Windows

A total of 212 window violations were found in 74 units that failed to meet program requirements.



The picture above shows bars on a front bedroom window, which block the tenant's ability to exit the room in case of an emergency.

#### Electrical

A total of 135 electrical violations were found in 60 units that failed to meet program requirements.



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

#### Floor

A total of 109 floor violations were found in 55 units that failed to meet program requirements.



The picture above shows a damaged cast iron grill on an air vent on the bathroom floor.

#### Security

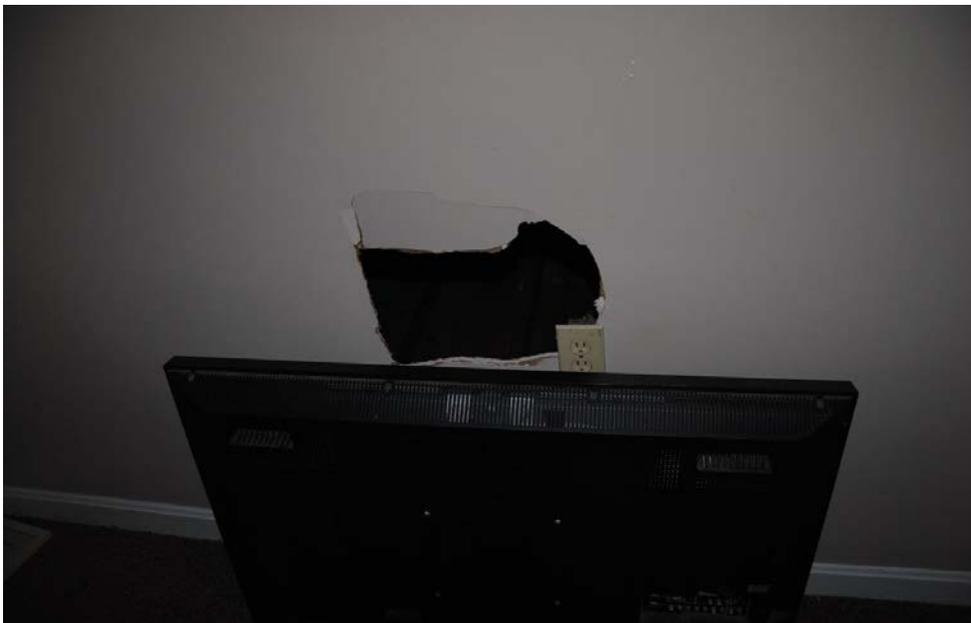
A total of 84 security violations were found in 44 units that failed to meet program requirements.



The picture above shows a keyed deadbolt lock on the unit's rear security door. The exit would be blocked in case of emergency if the tenant could not find the key.

#### Wall

A total of 54 wall violations were found in 35 units that failed to meet program requirements.



The picture above shows a large hole in the drywall of a bedroom.

#### Other Deficiencies

We also found other health and safety hazard violations. The following photographs show examples of these types of violations noted during our inspections of the units.



The picture above shows a stairway to the basement that has no handrail.



The picture above shows a ventless, open-flame heater mounted on the living room wall, which creates a health and safety hazard.

HUD regulations at 24 CFR 982.401(a)(3) require that all program housing meet housing quality standards, both at commencement of assistance and throughout the assisted tenancy. In addition, in accordance with 24 CFR 982.152(d), HUD is permitted to 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 \$63,312 in housing assistance payments and received \$7,680 in program administrative fees for the 44 units that

materially failed to meet HUD's and its own housing quality requirements. Based on these results, we estimate that over the next year, HUD will pay more than \$20.5 million<sup>4</sup> in housing assistance for units in material noncompliance with the standards unless the Authority takes action to improve its inspection process.

### **Quality Control Inspections Program Not Adequate**

The Authority's quality control inspection process was not adequate to ensure that the inspectors performed complete and accurate inspections. Authority staff members did not comply with HUD requirements and the Authority's program administrative plan and stated that they were unaware of the requirements for quality control inspections. The staff members further stated that there were no written procedures for performing quality control inspections.

Specifically, the Authority's quality control inspection process did not comply with HUD's or its own requirements.<sup>5</sup> The Authority was required to have a system in place for selecting quality control inspections to ensure that (1) a correct number of quality control inspections were performed, (2) each type of inspection was selected for reinspection, and (3) reinspections were of units from different areas (zip codes, census tracts, etc.) and of inspections performed by different inspectors. Based on our review, the only documented quality control inspections were performed by Authority staff and consisted of a random sample of initial inspections. Authority records showed that 49 quality control inspections were performed using this method during the period July 1, 2015, through June 30, 2016. However, the Authority should have performed quality control inspections on 66 units based on the total number of units under contract as of July 1, 2015, which was 9,127.

In addition, the Authority's program administrative plan required its program unit inspections to be performed in compliance with HUD's housing quality standards. The Authority had an intergovernmental agreement with Louisville Metro to conduct housing quality standards inspections on its program units in accordance with Louisville Metro's local housing code. The most recent intergovernmental agreement between the Authority and Louisville Metro required that Louisville Metro perform all Section 8 inspections in a timely manner but did not specifically state whether Louisville Metro was also responsible for performing the required quality control inspections.

### **Conclusion**

Some of the Authority's households lived in poorly maintained units and were subjected to health- and safety-related violations, and the Authority disbursed more than \$63,000 in program housing assistance payments and received more than \$7,600 in program administration fees for the units that materially failed to meet housing quality requirements because the Authority lacked an adequate process for performing quality control inspections. Unless the Authority improves its unit inspection program to ensure compliance with applicable housing quality requirements, we estimate that over the next year, HUD will pay more than \$20.5 million in housing assistance for units in material noncompliance with the requirements.

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<sup>4</sup> The calculation of the projected questioned cost is detailed in the Scope and Methodology section of the report.

<sup>5</sup> HUD's Housing Choice Voucher Guidebook 7420.10G, table 10.1, defines the minimum number of quality control inspections that public housing agencies must perform based on the number of units on the program. Further, section 13.1(G) of the Authority's program administrative plan states, "Quality Control Inspection - Supervisory inspections based on at least the minimum number required by the Housing Choice Voucher Management Assessment Program."

## **Recommendations**

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

- 1A. Reimburse the program \$70,992 (\$63,312 + \$7,680) from non-Federal funds for housing assistance payments made and administrative fees received for the units that materially failed to meet HUD's housing quality standards.
- 1B. Certify, along with the owners of the 103 units cited in the finding, that the applicable housing quality standards violations have been corrected.
- 1C. Develop and implement adequate policies and procedures for conducting quality control inspections in accordance with HUD's requirements.
- 1D. Develop and implement adequate procedures and controls to ensure that its quality control inspection program functions properly to include adequately monitoring the inspection contractor to prevent \$20,566,345 in program funds from being spent over the next year on units that do not materially comply with requirements.

## **Finding 2: The Authority Did Not Always Abate Subsidy or Determine Rent Reasonableness and Owner Eligibility**

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The Authority did not always abate housing assistance payments and determining rent reasonableness and owner eligibility in compliance with HUD's and its own program requirements. These conditions occurred because the Authority lacked written procedures for its staff members to follow in performing their respective duties. Specifically, the Authority (1) lacked a process for retroactively abating rental subsidies, (2) improperly relied on its rent increase restrictions to determine rent reasonableness, and (3) was unaware of the requirements for conducting owner eligibility reviews. As a result, it (1) paid more than \$2,200 in housing assistance and received more than \$200 in administrative fees for units in noncompliance with program requirements, (2) lacked assurance that housing assistance payments were provided for units meeting rent reasonableness requirements, and (3) potentially approved tenancy when the owners may have been debarred, suspended, or subject to a limited denial of participation.

### **Inconsistent Abatement of Housing Assistance Payments**

HUD and the Authority's administrative plan required<sup>6</sup> the Authority to abate housing assistance payments on the first day of the month after a failing unit was found to have not been repaired in a timely manner. We reviewed 30 nonstatistically selected<sup>7</sup> units, which either failed a first or second inspection or had not been inspected, to determine whether the Authority adequately abated rental subsidies when applicable. The Authority failed to abate \$2,286 in housing assistance payments and received \$206 in administrative fees for 4 (13 percent) of the 30 units reviewed. For example, one unit failed a second inspection on August 25, 2016, which required an abatement beginning September 1, 2016. However, the Authority did not begin abating the housing assistance payments until October 1, 2016, and failed to retroactively abate the rental subsidy for the month of September 2016. Authority staff explained that retroactive abatements were not processed if the housing assistance payment was issued before the inspection results were received. The staff further explained that there were no written procedures for performing retroactive abatements of housing assistance payments.

### **Inconsistent Rent Reasonableness Determinations**

We reviewed 68<sup>7</sup> tenant files to determine whether the Authority conducted a rent reasonableness determination before approving an increase in rent. During the period January 1, 2014, through October 31, 2016, the Authority approved 85 rent increases for 42 tenants. However, it failed to conduct a rent reasonableness determination that was required in 54 (77 percent) of the 70 applicable rent increases for 35 tenants. The Authority allowed owners to request a maximum 2 percent increase in rent per year per unit. However, this internal policy did not agree with HUD's and the

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<sup>6</sup> Regulations at 24 CFR 982.404(a)(3) state that public housing agencies must not make housing assistance payments for a dwelling unit that fails to meet the housing quality standards unless the owner corrects the defect within the period specified by the agency and the agency verifies the correction. In addition, section 13.8 of the Authority's administrative plan states that when a unit fails to meet housing quality standards and the owner has been given an opportunity to correct the deficiencies but has failed to do so within the required timeframe, the rent for the dwelling unit will be abated as of the first day of the next month.

<sup>7</sup> Our methodology for the sample selection is explained in the Scope and Methodology section of this audit report.

Authority's administrative plan. Both HUD<sup>8</sup> and the Authority's administrative plan<sup>9</sup> required a rent reasonableness determination to be conducted before approving rent increases. The Authority lacked written procedures for determining rent reasonableness and improperly relied on its rent increase restrictions to determine rent reasonableness. The Authority's data entry operator stated that staff was instructed by a former manager that rents exceeding the 2 percent limit could not be approved; therefore, a determination of rent reasonableness was not necessary when requested rent increases were below 2 percent. During our review, the Authority determined the rent reasonableness for all 70 rent increases and provided documentation to support that the rent increases were within the range of reasonable rents at the time of approval. However, based on our review results, we estimate<sup>10</sup> that at least 3,456 (41 percent) units in the universe of 8,363 as of October 2016 did not have a proper rent reasonableness determination before rent increases were approved.

### **Incomplete Owner Eligibility Review**

We reviewed 10 of the 68 statistically selected<sup>11</sup> tenant files to determine whether the Authority properly ensured owner eligibility. The Authority was required to determine whether the owner was eligible to participate in the program before approving tenancy.<sup>12</sup> The Authority's budget analyst stated that he was unaware of the requirement and that such comparison was not conducted in determining owner eligibility. The Authority did not compare any of the owners to the individuals on the Federal debarred and suspended list and those subject to a Federal limited denial of participation. In addition, the staff stated that there were no written procedures for determining owners' eligibility. We compared the 10 owners to the individuals on the Federal debarred and suspended list and those subject to a Federal limited denial of participation and found no matches or issues with the owners' eligibility to participate in the program. Further, all 10 files reviewed had adequate evidence of property ownership.

### **Conclusion**

The Authority lacked written procedures for its staff members to follow in performing their respective duties. Specifically, the Authority (1) lacked a process for retroactively abating housing assistance payments; (2) improperly relied on its rent increase restrictions to determine rent reasonableness; and (3) was unaware of the requirements for ensuring that the owners of the assisted units were not debarred, suspended, or subject to a limited denial of participation. As a result, it (1) provided \$2,286 in housing assistance payments and received \$206 in administrative fees for units not meeting program requirements; (2) lacked assurance that housing assistance payments were provided for units meeting HUD's and its own rent reasonableness requirements; and (3) potentially approved tenancy when the owners may have been debarred, suspended, or subject to a limited denial of participation.

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<sup>8</sup> Regulations at 24 CFR 982.507(a)(2)(i) provide that the Authority must redetermine rent reasonableness before approving owner rent increases.

<sup>9</sup> Section 11.2(A) of the Authority's administrative plan required the Authority to determine the reasonableness of rents before an increase in rent to owner was approved.

<sup>10</sup> The estimate calculation is explained in the Scope and Methodology section of this audit report.

<sup>11</sup> Our methodology for the sample selection is explained in the Scope and Methodology section of this audit report.

<sup>12</sup> Regulations at 24 CFR 982.306 provide that public housing agencies must not approve an assisted tenancy if they have been informed (by HUD or otherwise) that the owner is debarred, suspended, or subject to a limited denial of participation under 2 CFR Part 2424.

## **Recommendations**

We recommend that the Director of HUD's Louisville, KY, Office of Public and Indian Housing require the Authority to

- 2A. Reimburse the program \$2,492 (\$2,286 in housing assistance payments and \$206 in administrative fees received) from non-Federal funds for rental subsidies not abated on four units.
- 2B. Complete a review of rental subsidy abatements for all current units for which a retroactive abatement was not conducted. The Authority should reimburse the program from non-Federal funds for any overpaid rental subsidy.
- 2C. Develop and implement written procedures and a process for retroactively abating housing assistance payments.
- 2D. Complete a rent reasonableness determination for all current units for which a determination was required but not completed. The Authority should reimburse the program from non-Federal funds for any overpaid rental subsidy.
- 2E. Develop and implement written procedures to ensure that a rent reasonableness determination is performed before rent increases are approved.
- 2F. Complete a review that owners of current assisted units are not debarred, suspended, or subject to a limited denial of participation.
- 2G. Develop and implement written procedures for conducting a complete owner eligibility determination.
- 2H. Provide adequate training to its staff to ensure compliance with HUD's requirements for program units.

# Scope and Methodology

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We performed our onsite audit work between October 2016 and February 2017 at the Authority's Section 8 office located at 801 Vine Street, Louisville, KY. The audit period was January 1 through September 30, 2016. We expanded the audit period as needed to accomplish our objective.

To accomplish our audit objective, we interviewed the Authority's employees, Louisville Metro's inspection staff, and tenants. In addition, we obtained and reviewed the following:

- Applicable laws, HUD's regulations at 24 CFR Parts 5 and 982, HUD's Guidebook 7420.10G, and HUD's housing inspection manual.
- The Authority's program administrative plan; policies and procedures; intergovernmental agreement with Louisville Metro; organizational chart; annual audited financial statements for fiscal years 2013, 2014, and 2015; board meeting minutes for January 1, 2014, through September 30, 2016; tenant files; inspection reports; and housing assistance payment register.

We also conducted housing quality standards inspections of 106 program units.

## **Finding 1**

To assess the physical conditions of the Authority's units, during the week of November 7, 2016, we inspected 21 randomly selected units from a universe of 2,325 program units that had passed an inspection by Louisville Metro on behalf of the Authority between July 1 and September 30, 2016. 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. In addition, we determined a unit to be in material noncompliance based on a combination of less severe violations if the violations caused a risk of danger to the family.

We found that all 21 (100 percent) inspections failed to meet the housing quality requirements and 7 (33 percent) units were in material noncompliance with HUD's and the Authority's housing quality requirements. Therefore, we conducted additional inspections between January 30 and February 21, 2017, of a statistically selected stratified systematic sample of 85 units from a universe of 1,479 units that passed an inspection by Louisville Metro on behalf of the Authority between October 1 and December 31, 2016. The 85 units were inspected to determine whether the Authority ensured that its program units met HUD's and its own housing quality requirements. After finding an indication of improper inspections based on the initial 21 inspections, we used statistical sampling because each sampling unit was selected without bias from the audit population, thereby allowing the results to be projected to the population. Of the 85 statistically selected units, 37 were found to be in material

noncompliance with HUD's and the Authority's own housing quality requirements, although they had recently passed an inspection.

Since the 21 initial units were not statistically selected, we did not include the results of these inspections in our projections calculation. For projections, only the inspection results of the 85 statistically selected units were considered, in which 37 units were found to be in material noncompliance with requirements. The Authority paid a weighted average of \$247 in housing assistance payments per unit per month on materially noncompliant units. After deducting a statistical margin of error to accommodate for the uncertainties inherent in statistical sampling, we can say, with a one-sided confidence interval of 95 percent, that the Authority is paying at least \$190 per unit per month on materially noncompliant units. Extending this to the monthly count of 9,008 occupied Housing Choice Voucher program units as of December 2016, this yields at least \$1.7 million in monthly housing assistance payments on materially noncompliant units. After annualizing this result, HUD would pay at least \$20.5 million in housing assistance on materially noncompliant units over the next year.

The calculation of administrative fees was based on the Authority's administrative fee per unit per month for the Authority. The fees were considered inappropriately received for the same time period that the unit was in material noncompliance. If the questioned period was less than a full month, we limited the questioned administrative fee to a daily rate, based on the number of days during which the unit did not materially comply with HUD's requirements.

## **Finding 2**

To evaluate the Authority's compliance with housing assistance payments abatement requirements, we selected a nonstatistical sample of 30 tenant files for review. A nonstatistical sample was used because a statistical sample was not viable. The Authority used four categories to capture the inspections results, pass, fail, reinspection, and no-show. A no-show meant a tenant did not show up for their scheduled inspection. From a universe of 4,896 unit inspections attempted and completed between July 1 and September 30, 2016, we selected 10 tenant files from the three categories that did not describe a pass result. We reviewed the 30 files to determine whether the Authority took appropriate action to abate the unit's housing assistance payments if applicable. We determined that the Authority failed to abate housing assistance payments for 4 (13 percent) of the 30 tenants. The results of the review apply only to the specific files reviewed and cannot be projected to the universe of transactions.

To evaluate the Authority's compliance with rent reasonableness determinations and ownership eligibility requirements, we selected a simple random sample of 68 tenant files from a universe of 8,363 tenants as of October 31, 2016, to review. The Authority did not follow proper rent reasonableness procedures in 35 of the 68 tenant files reviewed. This is equivalent to an average of 51.4 percent of the tenants. Deducting the statistical margin of error to accommodate the uncertainties inherent in statistical sampling, we can say, with a one-sided confidence interval of 95 percent, that at least 41.3 percent of all tenants met these criteria. In other words, extrapolating this number to the audit universe of 8,363 tenants for October 2016 and after deducting for the margin of error, we can say, with a one-sided confidence interval of 95 percent that the Authority failed to comply with rent reasonableness requirements in at least 3,456 cases.

The Authority did not follow proper ownership eligibility determination procedures. After the first 10 tenant file reviews of the statistical sample of 68 were completed, we determined that the Authority was not performing the required owner eligibility reviews as required; thus, we did not complete the remaining 58 tenant file reviews. The results of the review apply only to the specific files reviewed and cannot be projected to the universe of transactions.

### **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 lacked an adequate quality control inspections program to ensure that its program participants lived in units that complied with HUD's and its own housing quality requirements (finding 1).

- The Authority lacked written procedures to ensure that its administration of program units included (1) an adequate process for retroactively abating housing assistance payments, (2) an accurate determination that rents were reasonable, and (3) ensuring that owners were checked against the individuals on the Federal debarred and suspended list and those subject to a Federal limited denial of participation (finding 2).

# 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>Funds to be put to better use 2/</b>
1A	\$70,992	
1D		\$20,566,345
2A	2,492	
<b>Totals</b>	<b>73,484</b>	<b>20,566,345</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/ 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

Comment 2



July 7, 2017

Nikita N. Irons, Regional Inspector General for Audit (Region IV)  
U.S. Department of Housing and Urban Development (HUD)  
75 Ted Turner Drive SW, Room 330  
Atlanta, GA 30303

Dear Ms. Irons:

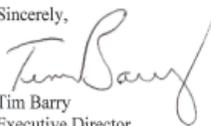
The mission of the Louisville Metro Housing Authority (LMHA) is to provide quality, affordable housing for those in need, assist residents in their efforts to achieve financial independence, and work with the community to strengthen neighborhoods. Within our Housing Choice Voucher (HCV) program one component of achieving this mission is an Inspection program which ensures that private market owned units rented by the over 10,000 low-income families on the HCV program meet or exceed Housing Quality Standards (HQS). LMHA partners with the Louisville Metro Department of Codes and Regulations to accomplish this Inspection program through an Intergovernmental agreement. In 2016 over 18,000 inspections were conducted for the LMHA HCV program by the Department.

As a mission driven organization LMHA fully cooperated with The Office of Inspector General on this audit. Moving forward on the Audit Report recommendations LMHA also intends to fully cooperate with the PIH Director of HUD's Louisville Field Office for direction on corrective actions.

LMHA has already taken corrective action to ensure that units found by the Audit to be in material noncompliance were addressed immediately by the private market owners of these properties. LMHA is also well underway in requiring owner compliance for the non-material inspection issues raised by the Audit.

LMHA thanks the HUD Office of Inspector General for this Audit Report as LMHA partners with the HUD Field Office to ensure that housing units assisted under the HCV program meet or exceed Housing Quality Standards as required by regulations at 24 CFR 982.401.

Sincerely,



Tim Barry  
Executive Director  
Louisville Metro Housing Authority



470 South Fifth Street | Louisville KY 40203 | 502 569 3400 | 502 569 3459 Fax

## OIG Evaluation of Auditee Comments

- Comment 1 We acknowledge the Authority's cooperation during our audit and its commitment to cooperate with the HUD field office in addressing the recommendations.
- Comment 2 The Authority stated that it took corrective action on all of the deficiencies found to be in material noncompliance, and is working on addressing the remaining cited deficiencies. Although we commend the Authority's efforts, no support was provided to show that the deficiencies were corrected. The Authority should work with HUD to ensure all violations were corrected and properly certified, and that the audit recommendations are fully addressed.

## Appendix C

**Schedule of OIG Housing Quality Requirements Inspection Results**

Identification number*	Materially failed unit	Failed unit	Passed unit	Total violations for materially failed units <sup>13</sup>	Total number of housing quality violations <sup>13</sup>	Total number of preexisting violations <sup>13</sup>
1		X			3	3
2	X	X		5	5	5
3	X	X		12	12	11
4		X			3	2
5		X			10	9
6		X			1	0
7		X			5	5
8	X	X		16	16	13
9		X			9	6
10	X	X		13	13	13
11	X	X		31	31	31
12		X			9	5
13		X			3	3
14		X			5	5
15		X			3	1
16		X			1	1
17		X			1	1
18		X			6	6
19	X	X		7	7	4
20	X	X		8	8	8
21		X			5	4
22		X			3	3
23		X			3	3
24	X	X		10	10	7
25	X	X		12	12	10
26	X	X		5	5	5
27		X			1	0
28		X			3	3
29		X			5	4
30	X	X		9	9	8
31	X	X		10	10	8

<sup>13</sup> The total violations for materially failed units, the total number of housing quality violations, and the total number of preexisting violations include violations according to HUD's housing quality standards and the Authority's own requirements.

Identification number*	Materially failed unit	Failed unit	Passed unit	Total violations for materially failed units <sup>13</sup>	Total number of housing quality violations <sup>13</sup>	Total number of preexisting violations <sup>13</sup>
32	X	X		7	7	6
33	X	X		12	12	6
34	X	X		23	23	18
35		X			5	4
36		X			6	0
37		X			11	4
38			X			
39			X			
40	X	X		15	15	12
41		X			2	1
42		X			3	2
43	X	X		16	16	14
44		X			2	1
45	X	X		31	31	30
46		X			4	1
47	X	X		10	10	10
48	X	X		16	16	14
49	X	X		8	8	8
50	X	X		20	20	16
51		X			1	1
52		X			3	2
53		X			6	6
54	X	X		25	25	19
55	X	X		7	7	6
56	X	X		9	9	9
57	X	X		6	6	6
58	X	X		7	7	6
59		X			1	0
60			X			
61	X	X		11	11	10
62		X			2	2
63	X	X		12	12	9
64	X	X		8	8	6
65		X			2	2
66		X			6	4
67	X	X		15	15	12
68	X	X		32	32	27
69		X			4	2
70		X			6	3
71		X			8	2

Identification number*	Materially failed unit	Failed unit	Passed unit	Total violations for materially failed units <sup>13</sup>	Total number of housing quality violations <sup>13</sup>	Total number of preexisting violations <sup>13</sup>
72		X			4	4
73	X	X		15	15	10
74		X			3	3
75	X	X		21	21	14
76		X			23	13
77	X	X		15	15	10
78		X			9	3
79		X			6	5
80	X	X		7	7	7
81	X	X		13	13	11
82		X			6	4
83	X	X		23	23	19
84		X			2	1
85		X			7	6
86		X			7	4
87	X	X		12	12	10
88		X			8	4
89		X			7	5
90		X			11	6
91		X			1	1
92		X			1	0
93		X			2	0
94		X			3	3
95		X			1	1
96	X	X		7	7	7
97		X			8	4
98		X			2	1
99	X	X		18	18	14
100	X	X		23	23	12
101		X			5	3
102		X			2	2
103		X			9	5
104		X			11	3
105	X	X		14	14	9
106	X	X		13	13	12
<b>Total</b>	<b>44</b>	<b>103</b>	<b>3</b>	<b>609</b>	<b>898</b>	<b>684</b>

\*The first 21 units on the table were randomly selected, and the remaining 85 units beginning with row 22 on the table were statistically selected. See the Scope and Methodology section of this report for details.