Town of Amherst, NY

Housing Choice Voucher Program

Office of Audit, Region 2
New York, New Jersey

Audit Report Number: 2017-NY-1003
December 14, 2016

To: Lisa Pugliese, Director, Office of Public Housing, Buffalo, NY, 2PH

//SIGNED//
From: Kimberly Greene, Regional Inspector General for Audit, 2AGA

Subject: The Town of Amherst, NY, Did Not Ensure That Its Housing Choice Voucher Program Units Met Housing Quality Standards

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 Town of Amherst, NY's 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 (212) 264-4174.

Audit Report Number: 2017-NY-1003
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The Town of Amherst, NY, Did Not Ensure That Its Housing Choice Voucher Program Units Met Housing Quality Standards

Highlights

What We Audited and Why

We audited the Town of Amherst's Housing Choice Voucher program administered through a contractor, Belmont Housing Resources for Western New York, to address our audit plan priority to ensure that the U.S. Department of Housing and Urban Development's (HUD) public and Indian housing programs are sufficiently administered by public housing agencies (PHA). We selected this auditee based on a risk analysis of PHAs administered by the HUD Buffalo field office. The audit objective was to determine whether officials established and implemented adequate controls over the Town's Housing Choice Voucher program to ensure compliance with HUD regulations.

What We Found

The Town and its contractor generally established and implemented adequate controls over the Town's Housing Choice Voucher program for admission, initial application, recertification, and rental assistance payment and unit size determinations; however, they did not ensure that units met housing quality standards. Specifically, of 70 units inspected, 63 failed to meet housing quality standards, and 41 were materially noncompliant. Additionally, the Town and its contractor did not conduct adequate housing quality standards quality control inspections and did not address tenant complaints related to the condition of program units adequately and in a timely manner. If the Town and its contractor do not improve the housing quality standards inspection process for the Town's Housing Choice Voucher program, the Town could spend more than $9.3 million on units that fail to meet HUD's minimum housing standards in the next year.

What We Recommend

We recommend that HUD instruct Town officials to (1) reimburse the program from non-Federal funds $118,060 spent on ineligible costs related to housing assistance payments disbursed and administrative fees received for units that materially failed to meet HUD's housing quality standards and overpayments of housing assistance due to recertification errors; (2) certify that the identified deficiencies have been corrected for the units cited; and (3) implement procedures to ensure that the Town's Housing Choice Voucher program units meet housing quality standards, housing quality standards quality control inspections are adequately conducted, and tenant complaints related to the condition of program units are resolved adequately and in a timely manner, which will result in more than $9.3 million in future program funds being spent for units that are decent, safe, and sanitary.

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Background and Objective

The United States Housing Act of 1937 established the Federal framework for government-owned affordable housing and was amended by the Quality Housing and Work Responsibility Act of 1998. The U.S. Department of Housing and Urban Development (HUD) provides funding for rent subsidies for tenants eligible for the Housing Choice Voucher program under Section 8 of the Housing Act. The Housing Choice Voucher program is the Federal Government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Since housing assistance is provided on behalf of the family or individual, participants are able to find their own housing, including single-family homes, townhouses, and apartments.

The Erie County PHA (public housing agency) Consortium was established in 1976 when individual municipalities established local PHAs and entered into a cooperative arrangement for participation in the Section 8 rental assistance program. The Town of Amherst, NY, volunteered to meet the HUD requirement that one municipality act as "applicant PHA." The Town has contracted on behalf of the Consortium with Belmont Housing Resources for Western New York to act as the administering agency since 1977. All of the program administration and day-to-day operations, including intake, certification, orientation, unit search, landlord negotiations, and inspections, are performed by Belmont. Belmont's Finance and Administration unit, under the supervision of the chief financial officer, handles all accounting, financial, and computer functions associated with the program, including housing assistance payments, budgets, requisitions, audits, and reporting to HUD. The Consortium includes 41 member communities and is responsible for making major policy decisions for program operation, participating in periodic review of the program, providing space in municipal buildings as needed, and being generally helpful to the administering agency. Ultimate program policy responsibility rests with the Consortium, but ultimate legal responsibility rests with the applicant PHA.

The Town received more than $24.1 million and $21.8 million in Housing Choice Voucher program funds in fiscal years 2015 and 2014, respectively, to administer more than 5,630 Section 8 units, which is the second largest of any of the 86 PHAs receiving Section 8 funds administered by the Buffalo field office.

The objective of the audit was to determine whether officials established and implemented adequate controls over the Town's Housing Choice Voucher program to ensure compliance with HUD regulations. Specifically, we reviewed the Town's (1) compliance with housing quality standards, (2) admission policies, (3) initial application and recertification procedures, and (4) rental assistance payment and unit size determinations.

Results of Audit

Finding 1: The Town and Its Contractor Did Not Ensure That Housing Choice Voucher Program Units Met Housing Quality Standards

The Town and its contractor did not (1) ensure that the Town's Housing Choice Voucher program units met HUD's housing quality standards, (2) conduct adequate housing quality standards quality control inspections and followup, and (3) ensure that tenant complaints related to the condition of program units were addressed adequately and in a timely manner. We attributed these deficiencies to inadequate oversight and training of housing inspectors and the contractor's lack of formal written policies and procedures for the intake, recording, and resolution of tenant complaints. As a result, 63 of the 70 (90 percent) units inspected failed to meet HUD's housing quality standards, and 41 (58.6 percent) of the units were materially noncompliant. The Town disbursed $98,899[1] in housing assistance payments and received $13,968 in administrative fees for the 41 units that materially failed to meet HUD's housing quality standards. Unless, the Town and its contractor implement improved controls to ensure that all units meet housing quality standards, we estimate that it will spend more than $9.3 million in housing assistance for units that materially fail to meet HUD's standards over the next year.

Housing Units Did Not Meet HUD's Housing Quality Standards

We selected a statistical sample of 70 of the Town's program units to inspect from a universe of 3,696 program units that passed a contractor-administered housing quality standards inspection between January 1 and March 31, 2016. We inspected the selected units between May 11 and August 26, 2016, to determine whether the Town's program units met HUD's housing quality standards.

The 70 units inspected included 63 (90 percent) units containing 517 housing quality standards violations determined to be preexisting and not correctly identified by the contractor's inspectors. Further, 41 of the 70 (58.6 percent) units were determined to be in material noncompliance with housing quality standards, based both on the number of preexisting deficiencies identified and the impact of these deficiencies on the family members living in the units. These 41 units included 460 violations that were determined to be preexisting at the time of the contractor's last inspection and created living conditions that were not decent, safe, and sanitary for tenants. According to regulations at 24 CFR (Code of Federal Regulations) 982.401(a)(3), all program housing must meet the housing quality standards performance requirements both at commencement of assisted occupancy and throughout the assisted tenancy. The Town disbursed $98,899 in housing assistance payments and received $13,968 in

[1] The total questioned amount for each housing unit is based on months between the Authority's inspection and our inspection, multiplied by the monthly housing assistance payment. See appendix C and the Scope and Methodology section for the detailed calculations of the $98,899 and $9.3 million, respectively.

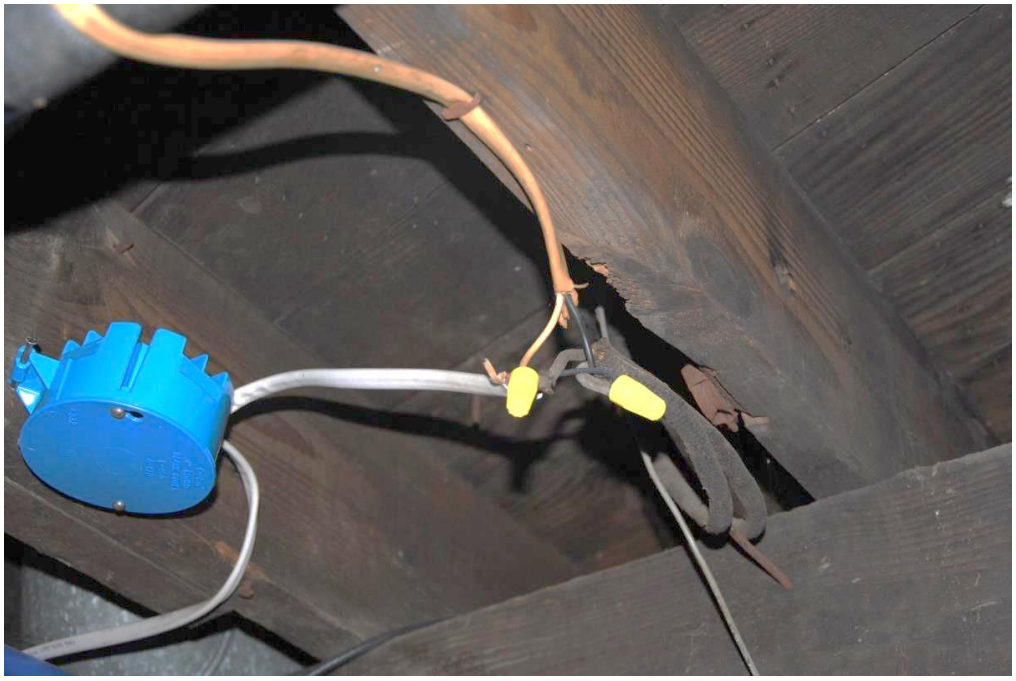
administrative fees for these 41 units that materially failed to meet HUD's housing quality standards. The following table categorizes the 517 preexisting housing quality standards violations identified in the 63 program units inspected.

Deficiency type	Number of violations	Number of units	Percentage of units
Electrical hazards	175	55	78.57%
Windows & exterior doors	78	40	57.14
Exterior, foundation & site conditions	55	36	51.43
Interior walls, ceilings, floors & doors	69	36	51.43
Bathroom plumbing & hazards	27	22	31.43
Stair & handrail hazards	34	19	27.14
Smoke detectors	18	15	21.43
Heating, ventilation & air conditioning hazards	15	14	20.00
Kitchen plumbing, appliances & hazards	14	13	18.57
Tripping hazards	16	13	18.57
Leaks & flooding	9	8	11.43
Other hazards	4	4	5.71
Evidence of infestation	3	3	4.29
Totals	**517**		

We provided our inspection results to the contractor during the audit.

The following photographs illustrate some of the violations noted during inspections of the 41 units that materially failed to meet HUD's housing quality standards.

The photo above shows a junction box on a basement wall that is missing a secure cover, resulting in exposed electrical contacts being accessible to the tenants.

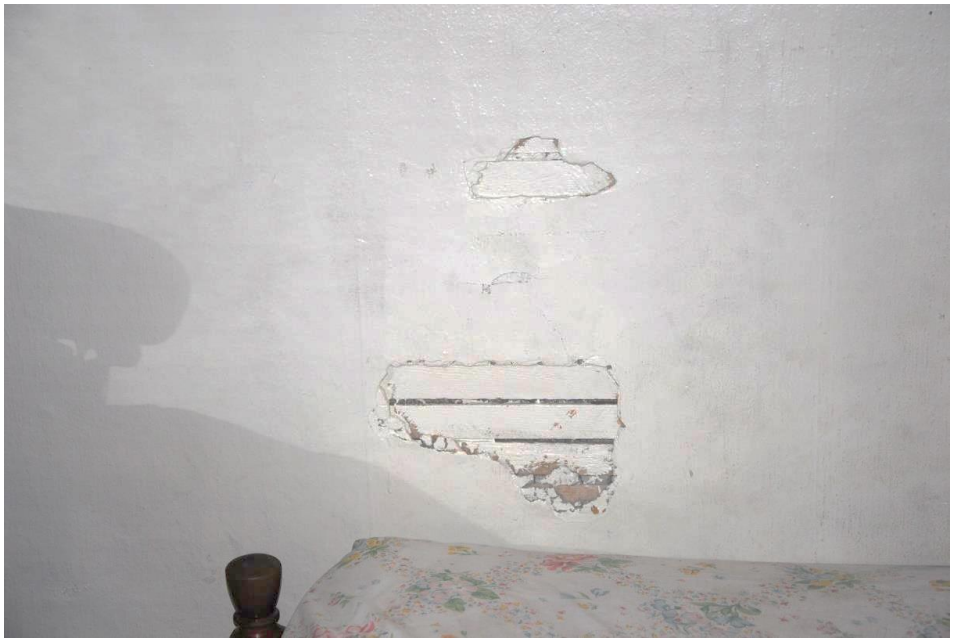


The photo above shows spliced wires on a basement ceiling without the use of a junction box, resulting in exposed electrical contacts being accessible to the tenants.

The photo above shows one of three light fixtures hanging from electrical wire on a unit's attic ceiling, resulting in exposed electrical contacts being accessible to the tenants.

The photo above shows possible mold that had developed on a bedroom ceiling likely due to a leak in the deteriorated roof.

The photo above shows water and possible mold on a basement floor and walls due to leaks in the foundation.



The photo above shows missing plaster and chipping paint on a bedroom wall. This unit was built before 1978 and was occupied by a tenant with a child under 6 years of age. Therefore, potential lead-based paint hazards should have been identified. Also, the holes in the plaster were down to the lathe and could have caused drafts and allowed vermin to enter the room.

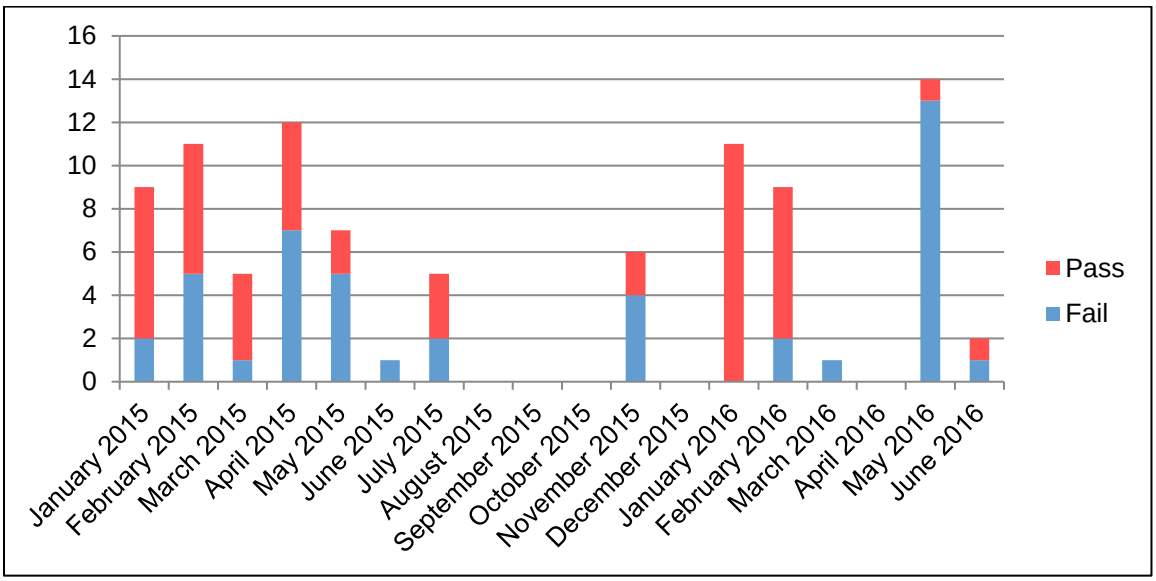
The photo above shows a bathroom window that was made inoperable by filling in all of the edges with foam insulation.

The photo above shows the remnants of an infestation in the corner of a unit's bedroom.

The photo above shows a rusting and leaking water pipe on a unit's water heater that could fail and cause the basement floor to flood.

The Quality Control Process Was Inadequate

The contractor's housing quality standards quality control process was inadequate. Regulations at 24 CFR 982.405(b) require that the PHA conduct supervisory quality control housing quality standards inspections. The contractor's procedures required each full-time inspector to have three of his or her inspected units selected for quality control monthly, which would result in 12 quality control inspections per month. However, contractor officials completed an average of only 5 inspections per month during the 18-month period reviewed from January 2015 through June 2016. Further, there were 5 months during the 18-month period when no quality control inspections were performed, including 3 consecutive months from August through October 2015. The chart below presents the number of quality control inspections performed by contractor officials during the 18-month period.



As can be seen in the chart above, nearly half of the overall units inspected for quality control during the 18-month period received failing grades. Specifically, 44 of 93 (47.3 percent) units failed their quality control inspections. Although nearly half of the units had received failing grades before our review, the contractor had not effectively followed up with its inspectors and taken appropriate and impactful action. We attributed these deficiencies to inadequate oversight and training of housing inspectors. Therefore, the quality control process implemented by contractor officials was ineffective and did not ensure the quality of work performed by its inspectors. Also, the contractor's housing inspectors were each assigned geographical regions, resulting in program units continually being inspected by the same official. However, throughout our review, contractor officials were responsive to the issues identified and improved procedures, removed one poorly performing inspector, and started a new training program for all its inspectors.

Tenant Complaints Were Not Always Documented Sufficiently and Resolved in a Timely Manner

The contractor's housing specialists informally tracked tenant complaints in their housing software but did not maintain sufficient documentation to allow adequate tracking and resolution

of all tenant complaints. Contractor officials performed inspections for 634 complaints from 509 different tenants related to the condition of program units in the 18-month period reviewed. However, during that period, 225 tenant complaints did not have final resolutions until more than 30 days after they were submitted. Although this delay could have been affected by several outside factors, it included 26 tenant complaints that were not resolved until more than 90 days after they were submitted. Additionally, contractor officials documented the receipt of 17 complaints related to 11 of the program units included in our 70 sample housing quality standards inspections; however, the results of our inspections included housing quality standards violations similar to those noted in 10 of the complaints for 5 of the sample program units. Regulations at 24 CFR 982.404(a)(3) state that if a defect is life threatening, the owner must correct it within no more than 24 hours and for other defects, the owner must correct them within no more than 30 calendar days. Therefore, contractor officials did not always resolve tenant complaints related to the condition of program units adequately and in a timely manner. These deficiencies were attributed to the contractor's lack of formal written policies and procedures for the intake, recording, and resolution of tenant complaints related to the condition of program units. Without formal procedures for tracking the intake, recording, and resolution of tenant complaints, there was no assurance that complaints were adequately received and addressed.

Conclusion

The Town and its contractor did not ensure that program units met HUD's housing quality standards, did not conduct adequate housing quality standards quality control inspections, and did not address tenant complaints related to the condition of program units adequately and in a timely manner. We attributed these deficiencies to the inadequate oversight and training of housing inspectors and the contractor's lack of formal written policies and procedures for the intake, recording, and resolution of tenant complaints. As a result, program participants were subjected to housing quality standards violations that created unsafe living conditions. The Town disbursed $98,899 in housing assistance payments and received $13,968 in administrative fees for the 41 units that materially failed to meet HUD's housing quality standards. If the Town and its contractor implement improved controls to ensure that all units meet housing quality standards, we estimate that more than $9.3 million in future housing assistance payments will be spent for units that are decent, safe, and sanitary.

Recommendations

We recommend that the Director of HUD's Buffalo Office of Public Housing instruct Town officials to

1A. Reimburse the program from non-Federal funds $112,867 ($98,899 + $13,968) disbursed for the 41 Housing Choice Voucher program units that materially failed to meet HUD's housing quality standards.

1B. Ensure that the housing quality standards violations have been corrected for the 63 failed units cited in this finding and certify that the units meet HUD standards.

1C. Develop and implement procedures and controls to ensure that program units meet housing quality standards, thereby ensuring that an estimated $9,351,175 in future program funds is spent for units that are decent, safe, and sanitary. These

procedures should include but not be limited to regular, updated training for the contractor's housing inspectors to ensure that they are familiar with all relevant regulations and rotating its contractor's housing inspectors to prevent units from always being inspected by the same official.

1D. Implement procedures to ensure that housing quality standards quality control inspections are adequately performed by its contractor. Specifically, they should ensure that a sufficient number of inspections are performed by a qualified official and results are followed up on appropriately.

1E. Develop and implement procedures to ensure adequate and timely resolution and sufficient documentation of all Housing Choice Voucher tenant complaints related to the condition of program units.

Finding 2: The Town and Its Contractor Had Adequate Procedures but Errors in Recertification Occurred

The Town and its contractor had established adequate procedures for the Town's Housing Choice Voucher program admission, initial application, recertification, rental assistance payment calculations, and unit size determinations, but contractor officials made a few errors related to verification and documentation. Specifically, our review of 14 sample tenant files found that officials made errors related to 3 tenants and 1 tenant provided incorrect information upon recertification. Additionally, we found that Housing Choice Voucher program funds were incorrectly used for a different program. We attributed these deficiencies to human error. As a result, the Town had $5,193 in ineligible costs.

The Town Had Adequate Procedures

The Town's and its contractor's procedures for admission, initial application, recertification, rental assistance payment calculations, and unit size determinations in the Housing Choice Voucher program were adequate. Specifically, there were detailed written procedures in place that identified the steps taken for these processes. The contractor used a secure Web site monitored by its housing software program, which enabled applicants to view their status and position on the waiting list. Contractor officials did not conduct a regularly scheduled purging of the waiting list but, instead, removed unresponsive applicants from the list as they were selected for admission into the program. Applications had not been taken since August 2011 as the waiting list period was approximately 10 years at that point. The applicants were ranked in order of when the application was received, and once an applicant reached the front of the waiting list and had been selected, the applicant was assigned to a housing specialist to have the application reviewed for eligibility. Program tenants were notified of a pending recertification 60 days before its effective date. Contractor officials requested the necessary verification documentation from tenants and followed up until the recertification was complete.

Four Tenant Files Had Recertification Errors

A review of 14 sample tenant files found that contractor officials made errors related to 3 tenants and 1 tenant provided incorrect information upon recertification. Specifically,

- Contractor officials made errors when verifying income and allowances for two tenants, resulting in overpayments of rental subsidies totaling $1,028 ($556 + $472). The errors made in verifying the two Housing Choice Voucher program tenants' incomes and allowances included an overstatement in the calculation of one tenant's medical expenses and an understatement in income for another tenant based on the lack of updated income verification documentation during recertification.

- Contractor officials did not maintain sufficient documentation for one tenant file when recertification documentation was prematurely purged. Contrary to regulations, this tenant file was purged before 3 years from the date of recertification. Contractor officials explained that this file was prematurely purged in error due to a change in the annual recertification date once the tenant moved to a new unit.

- We identified one tenant who did not report the incarceration of a household member, which resulted in the use of a higher payment standard and an overpayment of the rental subsidy. The household member was incarcerated for weapons-related criminal activity, and contractor officials were not made aware of this incarceration during recertification. Upon identifying this matter, contractor officials immediately met with the tenant to enter into a repayment agreement for $3,393 for the rental subsidy overpayment.

Housing Choice Voucher Program Funds Were Used for a Different Program

Housing Choice Voucher program funds were incorrectly used for a different program. Specifically, a Housing Choice Voucher program tenant had previously been a participant under the Moderate Rehabilitation program, and a damage and vacancy claim of $772 was mistakenly paid to the landlord with Housing Choice Voucher program funds instead of Moderate Rehabilitation program funds. As a result of our review, contractor officials corrected this error with a June 9, 2016, bank transfer returning the funds.

Conclusion

The Town's and its contractor's procedures for admission, application, and recertification in the Town's Housing Choice Voucher program were adequate and in accordance with HUD requirements, but contractor officials made errors, and one tenant provided incorrect information upon recertification. We attributed these deficiencies to human error. As a result, the Town had $5,193 in ineligible costs.

Recommendations

We recommend that the Director of HUD's Buffalo Office of Public Housing instruct Town officials to

2A. Reimburse the program from non-Federal funds $1,028 ($556 + $472) spent on ineligible costs pertaining to overpayments in rental subsidies.

2B. Continue collection efforts from the tenant on the repayment agreement for $3,393 in ineligible costs for the overpayment of the rental subsidy.

2C. Reimburse the program from non-Federal funds $772 spent on ineligible costs pertaining to program funds disbursed for the expenses of a different program. Repayment of $772 to the program for these ineligible costs has been verified; thus, this recommendation will be closed upon issuance of the report.

Scope and Methodology

We performed onsite audit work at Belmont Housing Resources for Western New York's offices located in Buffalo, NY, between March and September 2016. The audit scope covered the period January 1, 2014, through February 29, 2016, and was extended as necessary. We relied on computer-processed data for selecting our statistical samples. We performed an assessment of the reliability of computer-processed data and determined that the data used significant to any findings, conclusions, or recommendations were reliable based on interviews, research, and our reconciliation of the electronic and hardcopy sample data reviewed. To accomplish our objective, we

- Reviewed relevant HUD regulations, guidebooks, and files.
- Interviewed HUD officials to obtain an understanding of and identify HUD's concerns with the Town's operations if any.
- Reviewed HUD's central files for the Town's Housing Choice Voucher program, including general correspondence, monitoring, Section Eight Management Assessment Program, administrative plan, and audit files.
- Reviewed the Town's and contractor's policies, procedures, and practices.
- Interviewed key personnel responsible for the administration of the Town's Housing Choice Voucher program.
- Reviewed the documentation related to the Town's procurement of the contract with Belmont to act as the administering agency for its Housing Choice Voucher program.
- Reviewed the contractor's calculation and verification of housing assistance payments documented in the Housing Choice Voucher tenant files to ensure accuracy. Specifically, we selected a statistical sample of 87 single-month subsidy payments to housing assistance payment recipients from the audit universe of 92,544 monthly housing assistance payments to program participants during the period January 2014 through February 2016 totaling more than $35.6 million. This universe was compiled from monthly payment data provided by contractor officials. After our survey review of 14 payments, we determined that the observed deficiencies did not rise to the level of materiality needed to justify reviewing the complete audit sample of 87 tenant files. Therefore, the results of our review of this sample were not projected to the universe.
- Inspected Housing Choice Voucher program-assisted units to determine the adequacy of the contractor's inspection process and whether the Town ensured that housing quality standards were met. Specifically, we selected a statistical sample of 70 housing quality

standards inspections on occupied program rental units administered by the Town that passed a housing quality standards inspection conducted by contractor officials from January through March 2016 from the audit universe of 3,696 monthly occupied Housing Choice Voucher rental units administered by the Town as of March 2016. The results of our review of this sample were projected to the universe, which is detailed below.

- Reviewed the housing quality standards quality control process used by contractor officials to ensure its adequacy. Specifically, we selected a sample of all housing quality standards quality control inspections performed from January 2015 through June 2016. This sample period consisted of quality control inspections of 93 Housing Choice Voucher program-assisted units. The results of our review of this sample were not projected to the universe as it was not a statistical sample.

- Reviewed the housing quality standards tenant complaint process used by contractor officials to ensure its adequacy. Specifically, we selected a sample of all Housing Choice Voucher program tenant complaints related to potential housing quality standards deficiencies received from January 2015 through June 2016. This sample period consisted of 634 complaints from 509 different tenants, resulting in 1,317 corresponding scheduled inspections. The results of our review of this sample were not projected to the universe as it was not a statistical sample.

As mentioned above, we selected a statistical sample of 70 of the Town's program units to inspect from a universe of 3,696 program units that passed a contractor-administered housing quality standards inspection between January 1 and March 31, 2016. We inspected the selected units between May 11 and August 26, 2016, to determine whether the Town's program units met HUD's housing quality standards. We were accompanied on these inspections by a contractor official.

The results of our inspections identified any preexisting deficiencies not on the prior inspection reports, preexisting deficiencies on the prior inspection reports but still unresolved, deficiencies based on the appraiser's opinion and expertise, deficiencies based on a tenant's statement, health- and safety-related deficiencies, and exigent health and safety deficiencies requiring 24-hour resolution. Using these results, we ranked all of the units based on a thoughtful assessment, considering the preexisting deficiencies identified and the impact on the family members living in the units. The number of deficiencies was considered and used as a starting point but was not the basis for determining the level of noncompliance in each unit. Specifically, we counted the number of preexisting deficiencies for each unit and considered those with five or more preexisting deficiencies as potentially materially noncompliant. Then, we reviewed the details of all units with less than 10 preexisting deficiencies to determine whether any of them should be lowered below or raised above the level of materiality based on the type of deficiencies identified. Using our ranking, we determined a level of significance and considered all units above this level to be materially noncompliant. Any housing assistance payments disbursed to owners between Belmont's prior inspection and our inspection were considered ineligible.

We determined that 41 of the 70 statistically selected units were materially noncompliant during the audit inspections, although they had recently passed an inspection by the contractor. Therefore, the Town paid a weighted average of $251 in Housing Choice Voucher subsidy per unit per month on substandard housing. After deducting a statistical margin of error to accommodate for the uncertainties inherent in statistical sampling, we can still say, with a one-sided confidence interval of 95 percent, that this amounted to at least $210 per unit in a given month. Extending this amount to the monthly count of 3,696 occupied Housing Choice Voucher program units as of March 2016 yielded at least $779,264 in monthly Housing Choice Voucher program subsidies paid on substandard housing. After annualizing this result, the Town would pay at least $9.3 million in program subsidies on substandard housing over the next year. The calculations are shown below.

Per unit monthly calculation:	$251.35 – 1.67 × $24.26 ≈ $210.84
Total monthly projection:	3,696 units × $210.84 ≈ $779,264.64
Projection forward 1 year:	$779,264.64 × 12 months ≈ $9,351,175.68

The calculation of administrative fees was based on HUD's administrative fee per household month for the Town. 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 housing quality standards.

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

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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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 Town did not have adequate controls over the effectiveness and efficiency of program operations when it did not ensure that program units met housing quality standards (finding 1).

- The Town did not have adequate controls over compliance with laws and regulations as it did not ensure that its Housing Choice Voucher program units met housing quality standards (finding 1).
- The Town did not have adequate controls to ensure that Housing Choice Voucher program resources were safeguarded when rent subsidy payments were provided for units that did not meet housing quality standards (finding 1).

Appendixes

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	$112,867	
1B		$9,351,175
2A	1,028	
2B	772	
2C	3,393	
Totals	**118,060**	**9,351,175**

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 case, if the Town implements our recommendation to improve procedures related to its housing quality standards inspection process, it will be assured that $9.3 million in future program funds will be spent for units that are decent, safe, and sanitary.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

TOWN OF AMHERST

BARRY A. WEINSTEIN, M.D.
SUPERVISOR

November 28, 2016

Ms. Kimberly Greene
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
26 Federal Plaza, Room 3430
New York, NY 10278

Subject: Erie County PHA Housing Choice Voucher Program Draft Audit Report

Dear Ms. Greene,

The Town of Amherst (the Town) as lead community for the consortium of Erie County communities, has reviewed your letter of November 10, 2016 and the attached Draft Audit Report. That review consisted of a staff review of the document and meetings with the contractor, Belmont Housing Resources of Western New York (Belmont), the agency that administers the consortium's Section 8 Housing Choice Voucher Program and has successfully done so over the past 36 years. The Town has not, as yet, discussed the draft finding or our responses with the other members of the consortium.

During this period the Town has relied on HUD's guidance in regard to Section 8 monitoring and the Rental Integrity Monitoring Guide (RIM) for on-site monitoring for PHA's. This document, does not provide guidance to lead PHAs regarding the requirement to complete on-site inspections. Our yearly audits involve a review of randomly selected client files that document income eligibility of the tenants. In addition Belmont's financial reports are evaluated. Over time, this monitoring protocol has been open to HUD and no recommendations for amendments have been forthcoming. The Town's conclusion has been that this protocol was sufficient.

During our discussions with Belmont regarding the audit report, a number of issues internal to that organization have been explored. Those issues and or joint responses are as follows:

Finding 1A: Housing Units Did Not Meet HUD's Housing Quality Standards

Comment 1

Although the Contractor's position is that some of the OIG-determined deficiencies were over and above HQS, the overall number and scope of citations clearly supports the OIG's finding. There are indications that inspectors did not routinely and systematically inspect electrical outlets for proper grounding or polarity, as evidenced by more than 100 citations of that particular deficiency. There is no reasonable justification for missing handrails and non-existent pressure relief lines on water heaters. However, the job of enforcing HQS is usually not that black or white. Far more often the inspector must determine the degree to which a housing component meets or fails to meet HQS. Although the contractor works to

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Comment 1

achieve consistency, what is acceptable to one inspector may not be to another and what was marginally acceptable during an annual inspection may not be acceptable 6 months later. Furthermore, while the Contractor certainly does not suggest that tenants choose to live in substandard units, the issue of tenant preference when it comes to certain housing conditions must be considered. It is often not only the owner who pressures the inspector to overlook a deficiency or accept a marginal repair. Tenants routinely tail an inspector pleading with him to pass the unit so they can move in or remain housed. Even HUD's Housing Choice Voucher (HCV) Handbook (Chapter 10, HQS) mentions the role of tenant preference in the determination of acceptability"

> *Acceptability criteria for each performance requirement help PHAs determine if the unit meets mandatory minimum standards. For some standards, specific guidance is provided to PHAs, but PHAs must rely upon inspector judgment in other areas. In some instances, family preference should be considered in the determination of acceptability.*

Comment 1

This section of the Handbook goes on to the cite several examples of tenant preference such as the tenant finding as acceptable a faucet with a minor leak or a sink with worn enamel, a lack of paint or worn flooring , and even the presence on an occasional mouse. The Contractor's purpose in bringing up this guidance provided in HUD's Handbook is to point out that HQS interpretation and enforcement is not solely identifying a defect and requiring its repair. There is very often some consideration of degree and quality that informs the determination, a variety of distractions at play, and pressures being applied to the inspector from several directions. In response, the Contractor accepts the OIG's finding that an unacceptable number of surveyed units did not meet HQS upon reinspection, and has been directed to implement corrective actions without delay.

Finding 1B: The Quality Control Process Was Inadequate

While the Section 8 Management Assessment Program (SEMAP) requires that at least 45 quality control (QC) inspections be conducted each year, given the HCV program size, the Contractor determined that additional QC inspections were necessary to adequately assess inspector performance. The Contractor established as its threshold 3 inspections per inspector per month, but was unable to maintain its self-imposed schedule. That may have been acceptable had the QC inspections verified inspector competence and consistency; however, that did not occur. The percentage of failed QC inspections was unacceptable.

Furthermore, a closer look at the follow-up that was done in response to the QC inspections (conducted from January 2015-June 2016) shows that owners received a Unit Inspection Summary listing items in need of repair along with a deadline, but the manager did not appear to use the results to re-train or evaluate the performance of the inspectors. While there was also evidence that the Contractor re-inspected subject units to ensure repairs were made or payments abated, there was no indication of any corrective conversations with individual inspectors, written evaluations or corrective action plans. The results of the QC inspections factored into an inspector's annual evaluation but they should also have been discussed with the inspector on an on-going basis along with a requirement of improved performance.

Comment 2

While the QC Program as designed should have been adequate, it was not aggressively implemented or applied and thus yielded unsatisfactory results. The Contractor has begun to improve its performance in this area by 1) enlisting a highly experienced HQS inspector to conduct the QC Program, 2) increasing the number of QC inspections, 3) ensuring the provision of a detailed written evaluative report for each inspector every month (followed by a supervisory session), and 4) by using the overall QC results to inform on-going training.

2

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Finding 1C: Tenant Complaints Were Not Always Documented Sufficiently and Resolved in a Timely Manner

The Contractor handles tenant-requested inspections in much the same manner as initial or annual inspections unless a tenant reports a failure that constitutes an emergency, in which case staff have been instructed to contact the owner or property manager immediately to apprise them of the failure as well as the 24-hour repair deadline.

The Contractor acknowledges that a tenant-requested inspection, which it classifies as a Priority Inspection needs to be just that – a priority.

The Contractor explained that resolving these complaints is particularly difficult and time-consuming as the tenant and landlord are often at odds with each other. Hard as it may be to comprehend, even when tenants claim to want and need a repair they will, for what reason, make it difficult for the owner to access the unit and complete the repair.

There is also the issue of absentee landlords. Downstate and foreign investors have found Buffalo real estate quite attractive in recent years given the relatively low prices. Some have hired (or claim to have hired) local representatives while others have not, leading to delays in communication and response. Nonetheless, the Contractor realizes that it must consistently bring these matters to more timely and satisfactory conclusion, and that it must better document the time and actions taken.

Comment 3

The Contractor is committed to improving its performance relative to the intake, recording and resolution of tenant complaints. The current development of a more detailed procedure for tenant priority inspections and the addition of an administrative assistant are intended to address this deficiency.

Finding 2A: Four Tenant Files Had Recertification Errors

Comment 4

1. An overstatement in the calculation of a tenant's medical expenses.
   - Staff erred in the analysis of one tenant's medical insurance premiums and podiatry payment history. The error resulted in a determination of medical expense that was higher than it should have been.
2. An understatement of income for a tenant due to lack of updated verification.
   - Staff erred by not requiring the submission of updated SSI and child support verification for one particular recertification.
3. Tenant file was purged of recertification documents prior to 3 years.
   - Staff erred when a recertification that was not quite three years old was purged. The error occurred due to the tenant's move to a new unit which caused staff to miscalculate the 3-year period.
4. A tenant failed to report the incarceration of her 17 year old son.

3

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- In fact, the head of household listed the incarcerated individual as a household member on her recertification application. There was absolutely no reason for the Contractor to question the continued presence of the minor child in the assisted household. As the OIG mentioned, the family entered into repayment agreement for the $3,392 paid on its behalf and is current on its payments.

Comment 5

Finding 2B: HCV Funds Were Used For a Different Program

It was the HCV Senior Program Manager who discovered this error prior to providing the requested tenant records to the auditor. The accounting error was corrected.

Comment 6

Auditors' Conclusion: Auditor Attributes Deficiencies to a Breakdown in the Contractor's Procedures and Controls.

The Contractor respectfully disagrees with the auditor's conclusion.

The Contractor's procedures, which OIG determined to be adequate, include QC reviews on a sample of recertification each and every month, and a discussion of the QC results with the appropriate housing specialist. Furthermore, the QC reviews are the basis for monthly training sessions and as-needed memos to HCV staff.

The Contractor's conclusion is that it is unreasonable to think that every recertification can receive a secondary review, which means some minor verification or calculation errors may go undetected. The Contractor attributes these minor deficiencies to human error.

Comment 7

HQS Deficiencies; Corrective Actions Taken Thus Far:

Our conclusion is that Belmont's HQS quality control program was inadequately performed during the audit period. Evidence of an insufficient number of QC inspections is evident. In addition, the percent of failed QC inspections should have raised questions relative to inspector preparedness and prompted more training of inspectors, closer supervision of staff, enhanced oversight of the responsible manager and a reassessment of the inspection process in general. While the Contractor can point to several factors that contributed to its failure in this area, they do not justify the contractor's performance. Belmont can and will significantly improve that performance going forward.

1. Belmont has reassigned personnel from its housing development department to act as senior inspector for the HCV Program. The senior inspector comes with more than 30 years of HQS experience, as well as code enforcement and housing rehab experience. The senior inspector is currently implementing an improved HQS quality control program, providing training and coaching to inspectors, advising other HCV staff relative to HQS and providing technical expertise and advice to landlords.

2. Belmont has increased the number of QC inspections that will be conducted from three (3) per inspector per month to 10% of passed initial and annual inspections per inspector per month. Furthermore, the senior inspector is preparing a written analysis of QC inspections for each inspector every month and discussing those results with the inspector.

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3. The senior inspector is also helping to determine appropriate training for all of the inspectors. Belmont has contracted with Nan McKay & Associates for three days of on-site HQS training; December 12-14, 2016.

4. Prior to the OIG audit, Belmont employed four (4) full-time HQS inspectors, one per diem inspector (scheduled as needed), a scheduling coordinator and a senior housing program manager to carry out its HQS program. When the results of the preliminary sample of 14 units showed inspection deficiencies, a fifth full-time inspector was hired. The contractor is also adding an administrative assistant to bolster its ability to respond to inspection requests, communicate results to tenants and landlords, track repair deadlines and monitor HQS compliance.

5. As OIG mentioned, Belmont terminated the employment of one particularly poorly-performing inspector in April 2016. Also of some note is the fact that the senior manager who had primary responsibility for HQS compliance during the audit period left Belmont's employ in October 2016.

   Belmont is assessing several supervisory and oversight options for the HQS inspection functions, including having the inspectors receive field supervision from Belmont's senior housing rehab program manager, while a HCV program manager (under the supervision of the VP for Housing Programs) oversees the administrative details of scheduling inspections, communicating results, tracking deadlines and monitoring compliance.

6. Most importantly Belmont is developing a more comprehensive and detailed procedure for its HQS inspections program, particularly its QC and tenant-requested inspections. The improved procedure will include a policy that inspectors be rotated through geographic zones so that they do not inspect the same units year after year.

HQS Violations Detected During OIG Inspections; Current Status:

Comment 8

There were 63 units that failed the OIG's inspection. As of today, 48 of those units have passed inspection without loss of rental assistance (abatement), four (4) were abated for a month or two and then passed inspection, and the remaining 11 units were abated for at least two months prompting cancelation of the HAP Contract.

Recertification Errors; Corrective Actions Taken This Far:

Comment 5

1. The $772 in HCV funds spent on a Mod Rehab damage and vacancy claim was returned to the HCV HAP account in June.

Comment 4

2. The family that failed to report the incarceration of one of its members entered into a repayment agreement for the $3,392 to which it was not entitled and continues to make regular payments in accordance with the agreement.

3. HCV staffs have been reminded that required documents must be preserved for at least 3 years.

5

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Comment 4

4. HCV Program managers continue to provide regular training to staff relative to collection& consideration of verification, household determinations, calculations of allowable medical expenses, voucher size determinations, etc.

5. HCV Program mangers continue to provide assigned staff with supervisory sessions.

Comment 9

In conclusion, the Town supports Belmont's corrective actions and will increase its oversight of this contractor by implementing the following:

1. Belmont will continue to track client complaints and provide a log of the date of complaint receipt, the action taken in response to such complaints, the current status of complaint resolution and the date each complaint is fully addressed;
2. During the year beginning in January of 2017, each month, Belmont will be required to transmit a summary of the complaint log to the Town with an analysis of complaint resolution performance;
3. In addition, the Town will meet to discuss the log and any outstanding complaint resolution issues;
4. Similarly, Belmont will provide the Town with a monthly summary of housing quality control activities particularly those related to inspector monitoring, education and unresolved issues. The Town will meet with the contractor to discuss the summary and the resolution of any outstanding housing quality control issues;
5. The requirement for monthly summaries will continue through 2017 at which time the meeting to review such summaries will be held on a quarterly basis; and
6. The Town will continue its current review of the client files that document income eligibility of the tenants.

The Town of Amherst looks forward to the conclusion of the auditing process and the successful continuation of the housing program that has been so very essential to the residents of the communities of Erie County. Should there be any question regarding our responses to this draft, please call on us.

With Highest Regards,

Barry A. Weinstein

Barry A. Weinstein
Town Supervisor

cc: Michael Riegel, Belmont Housing Resources for WNY, Inc.
Kathy O'Brien, Belmont Housing Resources for WNY, Inc.

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OIG Evaluation of Auditee Comments

Comment 1 Contractor officials stated that some of the violations noted were over and above housing quality standards and tenant preference related to certain housing conditions should be considered; however, they agree that an unacceptable number of surveyed units did not meet housing quality standards upon re-inspection. Town officials have directed their contractor to implement corrective actions related to the housing quality standards inspection process. During the audit resolution process, Town officials will need to work with HUD to ensure that $112,867 is reimbursed to the program for the 41 units that materially failed to meet housing quality standards and certify to HUD that the 63 failed units meet HUD standards.

Comment 2 Town officials stated that the housing quality standards quality control process should have been adequate based on its design, but it was not aggressively implemented causing the unsatisfactory results identified during our review. Contractor officials have begun implementing changes to its quality control process to improve its performance in this area. These actions are responsive to our recommendation, however, the Town will need to provide these changes in the quality control process to HUD during the audit resolution process.

Comment 3 Town officials stated that its contractor is committed to improving its performance related to intake, recording and resolution of tenant complaints and is currently developing more detailed procedures for tenant priority inspections and adding an administrative assistant to address this deficiency. These actions are responsive to our recommendation; however, the Town will need to provide these procedures to HUD during the audit resolution process.

Comment 4 Town officials agree that its contractor made errors related to three tenant files and that one tenant misreported household information on the recertification application submitted. We agree that the Town and its contractor have taken corrective actions related to these four tenants; however, Town officials will need to work with HUD during the audit resolution process to ensure that the $1,028 is repaid to the program (see recommendation 2A) and that the tenant continues to make repayments of the $3,393 in overpaid rental subsidy (see recommendation 2B).

Comment 5 Town officials agree that there was an accounting error discovered by the Housing Choice Voucher Senior Program Manager while providing us with tenant records in response to our audit. As stated in our recommendations, repayment of $772 to the program for these ineligible costs has been verified and this recommendation will be closed upon issuance of the report (see recommendation 2C).

Comment 6 Contractor officials agree that the errors occurred; however, they disagree with the cause identified in the draft report and we have revised the final report to attribute these deficiencies to human error.

Comment 7 Town officials agree that their contractor's housing quality standards quality control process was inadequately performed and its contractor is developing more comprehensive and detailed procedures. This is responsive to our recommendation, and the Town will need to provide these procedures to HUD during the audit resolution process.

Comment 8 We agree that contractor officials have been proactive in addressing the deficiencies identified during our inspections; however, Town officials will need to provide documentation to HUD during the audit resolution process certifying that the failed units meet HUD standards.

Comment 9 Town officials state that they will increase oversight of its contractor by implementing several procedures including regularly submitted reports and scheduled meetings between the two parties. These actions are responsive to our recommendations, and Town officials will need to provide these procedures to HUD during the audit resolution process.

Appendix C

Schedule of Sample Housing Quality Standards Inspections

Sample unit	Total violations	Pre-existing violations	Pass-fail	Monthly rental subsidy	Materially noncom-pliant months	Materially noncom-pliant subsidy	Materially noncom-pliant admin fee
1	36	36	Fail	$390	6	$2,340	$359.70
2	22	20	Fail	659	7	4,613	419.65
3	8	8	Fail	617	2	1,234	119.90
4	18	16	Fail	290	2	580	119.90
5	14	12	Fail	941	3	2,823	179.85
6	12	12	Fail	102	7	714	419.65
7	17	12	Fail	324	7	2,268	419.65
8	21	17	Fail	157	5	785	299.75
9	18	16	Fail	567	5	2,835	299.75
10	15	15	Fail	374	5	1,870	299.75
11	15	15	Fail	231	6	1,386	359.70
12	17	14	Fail	340	5	1,700	299.75
13	16	14	Fail	379	5	1,895	299.75
14	16	14	Fail	538	7	3,766	419.65
15	16	13	Fail	525	7	3,675	419.65
16	14	13	Fail	254	7	1,778	419.65
17	13	12	Fail	413	5	2,065	299.75
18	12	12	Fail	351	6	2,106	359.70
19	13	11	Fail	385	7	2,695	419.65
20	13	11	Fail	462	6	2,772	359.70
21	13	11	Fail	291	7	2,037	419.65
22	12	11	Fail	331	6	1,986	359.70
23	12	11	Fail	310	7	2,170	419.65
24	21	10	Fail	490	7	3,430	419.65
25	13	10	Fail	409	6	2,454	359.70
26	13	10	Fail	491	7	3,437	419.65
27	10	10	Fail	600	7	4,200	419.65
28	11	8	Fail	560	7	3,920	419.65
29	10	8	Fail	414	7	2,898	419.65
30	10	8	Fail	428	5	2,140	299.75

Sample unit	Total violations	Pre-existing violations	Pass-fail	Monthly rental subsidy	Materially noncom-pliant months	Materially noncom-pliant subsidy	Materially noncom-pliant admin fee
31	8	8	Fail	$236	7	$1,652	$419.65
32	8	8	Fail	370	3	1,110	179.85
33	10	8	Fail	837	4	3,348	239.80
34	11	7	Fail	771	5	3,855	299.75
35	7	7	Fail	249	6	1,494	359.70
36	13	6	Fail	688	5	3,440	299.75
37	8	6	Fail	566	6	3,396	359.70
38	6	5	Fail	414	6	2,484	359.70
39	5	5	Fail	284	6	1,704	359.70
40	5	5	Fail	470	7	3,290	419.65
41	5	5	Fail	277	2	554	119.90
42	7	4	Fail	307	0	0	0.00
43	6	4	Fail	322	0	0	0.00
44	6	4	Fail	437	0	0	0.00
45	4	4	Fail	380	0	0	0.00
46	4	4	Fail	408	0	0	0.00
47	4	4	Fail	148	0	0	0.00
48	4	4	Fail	165	0	0	0.00
49	6	4	Fail	348	0	0	0.00
50	7	3	Fail	219	0	0	0.00
51	4	3	Fail	600	0	0	0.00
52	4	3	Fail	327	0	0	0.00
53	3	3	Fail	388	0	0	0.00
54	5	2	Fail	413	0	0	0.00
55	3	2	Fail	429	0	0	0.00
56	2	2	Fail	25	0	0	0.00
57	3	1	Fail	346	0	0	0.00
58	3	1	Fail	358	0	0	0.00
59	2	1	Fail	168	0	0	0.00
60	1	1	Fail	381	0	0	0.00
61	1	1	Fail	366	0	0	0.00
62	1	1	Fail	417	0	0	0.00
63	1	1	Fail	607	0	0	0.00
64	2	0	Fail	517	0	0	0.00
65	1	0	Fail	372	0	0	0.00

Sample unit	Total violations	Pre-existing violations	Pass-fail	Monthly rental subsidy	Materially noncom-pliant months	Materially noncom-pliant subsidy	Materially noncom-pliant admin fee
66	1	0	Fail	$108	0	$0	$0.00
67	0	0	Pass	407	0	0	0.00
68	0	0	Pass	439	0	0	0.00
69	0	0	Pass	598	0	0	0.00
70	0	0	Pass	462	0	0	0.00
Totals	**622**	**517**		**28,247**	**233**	**98,899**	**13,968.35**