



Lexington-Fayette Urban County Housing Authority, Lexington, KY

Section 8 Housing Choice Voucher Program

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

**Audit Report Number: 2018-AT-1006
July 13, 2018**



To: Carol C. Spencer, Director, Public and Indian Housing, Louisville, KY,
Field Office, 41PH

//Signed//

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

Subject: The Lexington-Fayette Urban County Housing Authority, Lexington, KY, Did
Not Always 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 Lexington-Fayette Urban County 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: 2018-AT-1006

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**The Lexington-Fayette Urban County Housing Authority, Lexington, KY,
Did Not Always Comply With HUD's and Its Own Section 8 Housing Choice
Voucher Program Requirements**

Highlights

What We Audited and Why

We audited the Lexington-Fayette Urban County 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

The Authority did not always administer its program units in accordance with HUD's and its own requirements. Specifically, it did not always comply with (1) HUD's third-party requirements for conducting inspections and rent reasonableness determinations for Authority-owned units, (2) its requirements for conducting unit inspections in a timely manner, and (3) HUD's housing quality standards for the program units. These conditions occurred because the Authority did not follow HUD's requirements for performing unit inspections and was not familiar with the requirements for rent reasonableness determinations, the Authority's inspection software was inadequate for scheduling inspections, and the Authority did not perform the required quality control inspections. As a result, HUD and the Authority lacked assurance that the unit inspections and rent reasonableness determinations were properly conducted and units were eligible to be on the program, and some tenants lived in inadequately maintained units. In addition, the Authority inappropriately paid nearly \$147,000 in housing assistance payments and received more than \$20,000 in administrative fees for the units cited in this report.

What We Recommend

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 \$167,000 from non-Federal funds, (2) coordinate with HUD and provide adequate training to its staff to ensure compliance with HUD's requirements, (3) upgrade its inspection software system or develop and implement an alternative method for timeliness of unit inspections, (4) perform all housing quality standards quality control inspections as required, and (5) ensure that all violations cited for units failing to meet housing quality requirements have been corrected and certify that the units meet program requirements.

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Background and Objective

Established under the State of Kentucky's Municipal Housing Commission Act of 1934, the Lexington-Fayette Urban County Housing Authority came into its current form after a merger between the City of Lexington and Fayette Urban County in April 1970 and a name change in March 1974. The Authority is governed by a five-member board of commissioners and an executive director. The Authority's mission is to provide safe and desirable housing to low- and moderate-income individuals and families while partnering with other agencies to enhance its community involvement and self-sufficiency and a higher quality of life for its residents.

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 throughout the term of the assisted tenancy. The U.S. Department of Housing and Urban Development's (HUD) housing quality standards establish the minimum criteria for the health and safety of program participants. The Authority administered more than 2,400 tenant-based housing choice vouchers and disbursed more than \$17.7 million in program funding for fiscal year 2017.

In addition, the Authority has participated in HUD's Moving to Work (MTW) demonstration since November 2011. MTW agencies are provided 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. Further, MTW allows more flexibility to public housing agencies via exemptions from existing public housing and voucher rules. This flexibility is authorized via exemptions of program requirements approved by HUD's Secretary that are identified in the public housing agencies' MTW agreement. To use an exemption, the public housing agencies identify the specific authorized exemption in any of their annual MTW plans. However, the Authority's participation in the MTW demonstration program did not exempt it from complying with HUD's (1) minimal housing quality standards under HUD's Housing Choice Voucher program and (2) third-party requirements for conducting inspections and rent reasonableness determinations for Authority-owned units prior to August 5, 2015.

Our objective was to determine whether the Authority administered its Section 8 Housing Choice Voucher program units in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the Authority complied with (1) HUD's third-party requirements for Authority-owned units, (2) its requirements for conducting timely unit inspections, and (3) HUD's housing quality standards for its program units.

Results of Audit

Finding 1: The Authority Did Not Always Comply With HUD's Third-Party Requirements for Authority-Owned Units on the Program

The Authority did not always comply with HUD's third-party requirements for Authority-owned units on the program. Specifically, for 35 tenants residing in Authority-owned units, the Authority did not obtain the services of a HUD-approved independent third party to conduct (1) unit inspections for 27 (77 percent) tenants and (2) rent reasonableness determinations for all 35 tenants. This condition occurred because the Authority did not follow HUD's requirements for performing unit inspections and was not familiar with the requirements for conducting rent reasonableness determinations. As a result, it inappropriately paid more than \$108,000 in housing assistance payments and received more than \$15,000 in administrative fees. Further, HUD and the Authority lacked assurance that the unit inspections and rent reasonableness determinations were properly conducted and HUD's and the tenant's interest was protected.

Unit Inspections Not Always Performed by an Independent Entity

We reviewed inspection reports for 35 tenants associated with all 33 Authority-owned units on the Section 8 Housing Choice Voucher program for the period July 1, 2015, through August 5, 2016.¹ HUD required at 24 CFR (Code of Federal Regulation) 982.352(b)(1)(iv)(A)(3) that the Authority-owned units be inspected by an independent agency. However, the Authority failed to comply with the requirement when it inappropriately conducted unit inspections on some Authority-owned units, instead of having an independent entity do them.

Although, it obtained the services of an independent entity² to perform unit inspections, the Authority conducted additional inspections without seeking further services of the independent entity. The list below provides a breakdown of the 35 tenants' unit inspections by the Authority and the independent entity.

- Inspections on eight units were performed by only the Authority.
- Inspections on 16 units were performed by the independent entity, resulting in a fail outcome. However, the Authority performed the reinspections of these failed units.
- Inspections on three units were performed by the independent entity, resulting in a pass outcome. However, the Authority performed the later inspections on these units.
- Inspections on four units were performed by the independent entity, resulting in a pass outcome. However, a later inspection was not due at the time of our review.

¹ The number of tenants was greater than the number of units due to tenants moving in and moving out during the review period

² The City of Richmond Section 8 Housing Program, Richmond, KY, staff performed unit inspections as an independent entity for the Authority. In addition, HUD had approved the City of Richmond Section 8 Housing Program to perform unit inspections of the Authority-owned units.

- Inspections on four units were not due during the period July 1, 2015, through August 5, 2016.

Rent Reasonableness Determinations Not Conducted by an Independent Entity

Our review considered all 33 units owned by the Authority on the Section 8 Housing Choice Voucher program associated with 35 tenants during the period July 1, 2015, through October 31, 2017. According to 24 CFR 982.352(b)(1)(iv)(A)(1) Authority-owned units' rent reasonableness determinations must be performed by an independent entity. However, the Authority failed to obtain the services of an independent entity to conduct the rent reasonableness determinations for all 33 Authority-owned units. However, the Authority obtained the services of a HUD-approved independent entity during our review and provided documentation to support that the rents it previously approved were within the range of reasonable rents at the time of approval.

Noncompliance With Third-Party Requirements

The Authority did not follow HUD's requirements for conducting inspections on Authority-owned units because it expected HUD to exempt it from the requirements. Specifically, the Authority included an exemption in its fiscal year 2017 MTW plan regarding third-party inspections, which HUD approved on August 5, 2016. Therefore, the Authority was required to comply with the requirements up to that date. However, in anticipation of HUD's approval, the Authority did not obtain the services of an independent entity to perform unit inspections between July 1, 2015, and August 5, 2016.

In addition, the Authority staff incorrectly believed that if an Authority-owned program unit was inspected by an independent entity, the Authority could perform all later unit inspections, including reinspections. However, HUD's requirements did not differentiate between the types of inspections but rather required inspections of Authority-owned units to be performed by an independent entity. Further, the Authority's staff mistakenly believed that its fiscal year 2017 MTW plan, which included an exemption of third-party requirements for unit inspections, also provided an exemption of third-party requirements for rent reasonableness determinations.

Conclusion

In anticipation of a HUD approval, the Authority did not follow program requirements for having an independent entity perform unit inspections and conduct rent reasonableness determinations for Authority-owned units. In addition, the Authority was not familiar with program requirements that all inspections, including reinspections, be conducted by an independent entity and that its MTW plan did not include an exemption of rent reasonableness requirements for Authority-owned units. As a result, the Authority inappropriately paid \$108,687 in housing assistance payments and received \$15,388 in associated administrative fees for 32 Authority-owned units between July 1, 2015, and August 5, 2016. Further, HUD and the Authority lacked assurance that the unit inspections and rent reasonableness determinations were properly conducted and HUD's and the tenant's interest was protected.

Recommendations

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

- 1A. Reimburse its Section 8 Housing Choice Voucher program \$124,075 (\$108,687 in housing assistance payments and \$15,388 in associated administrative fees) from non-Federal funds for the payments related to the Authority-owned units' inspections not conducted by an independent entity.
- 1B. Ensure that HUD-approved independent third parties complete unit inspections and determine the rent reasonableness determinations for units it owns or seek an appropriate exemption of program requirements from the HUD Secretary.
- 1C. Provide adequate training to its staff to ensure compliance with Section 8 Housing Choice Voucher program requirements for unit inspections and rent reasonableness determinations.

Finding 2: The Authority Did Not Always Inspect Its Program Units in a Timely Manner

The Authority did not always perform recurring inspections of its program units in a timely manner. Of the 62 unit inspections reviewed, 46 (74 percent) inspections were performed outside the required inspection intervals, with 16 (35 percent) late inspections having a monetary impact. This condition occurred because the Authority’s inspection software was not adequate for scheduling timely unit inspections and the Authority did not develop and implement an adequate alternate method to compensate for its software deficiency. As a result, HUD and the Authority lacked assurance that units were eligible to be on the program during the time when inspections were not conducted, and the Authority inappropriately paid more than \$33,000 in housing assistance payments and received more than \$4,400 in administrative fees for the 16 units.

Untimely Unit Inspections

HUD required that program units be inspected at least biannually.³ However, under the Authority’s HUD-approved MTW and Section 8 Housing Choice Voucher program administrative plans, the Authority was authorized to conduct unit inspections based on different intervals. Specifically, the Authority developed and implemented a five-star landlord rating system, which defined when recurring inspections of program units were due.⁴ Each landlord’s star rating and resulting inspection interval was based on several factors, including (1) inspection scores from past inspections, (2) results of driveby inspections,⁵ (3) the proportion of units that had been abated in the past, and (4) past complaints reported by voucher holders. For example, if a landlord had a four-star rating, all units on the program owned by that landlord were required to be inspected every 36 months, or three 3 years. The table below details the Authority’s five-star rating system and associated inspection intervals.

Star rating	Frequency of inspections (months)	Frequency of inspections (years)
★	12	1.0
★★	24	2.0
★★★	30	2.5
★★★★	36	3.0
★★★★★	42	3.5

We reviewed a sample of 62 statistically selected units from a universe of 728 inspections from October 1, 2016, through September 30, 2017. We reviewed the sampled items to determine

³ Regulations at 24 CFR 982.405 required unit inspections to be performed at least annually. However, beginning in April 2016, the interval was extended to at least biannual performance.

⁴ According to the fiscal year 2016 MTW plan, page 20 of 53, the Authority had begun implementing its star-rating system for performing unit inspections. In addition, appendix C (pages 246 through 251 of 260) of the Authority’s administrative plan detailed the frequency with which the recurring inspections must occur.

⁵ To consider performing a special inspection, the Authority’s inspectors drive by a program unit(s) in their assigned neighborhood at the time of their inspection of another unit in the same geographic area.

whether the units' recurring inspections were performed in compliance with the Authority's HUD-approved MTW and administrative plans. Of the 62 units, 46 (74 percent) units' recurring inspections were performed outside the required inspection intervals. The late inspections ranged from 2 days to about 20 months past the required inspection interval period. Further, of the 46 late inspections, 16 (35 percent) units' inspections had a failed outcome, which resulted in a monetary impact. For these 16 units, the Authority inappropriately paid more than \$33,000 in housing assistance and inappropriately received more than \$4,400 in administrative fees.⁶

According to 24 CFR 982.401(a)(3), all program units were required to comply with HUD's housing quality standards, both at commencement of assisted occupancy and throughout the assisted tenancy. Based on our review results,⁷ we estimate that of the 728 unit inspections performed from October 1, 2016, through September 30, 2017, at least 475 (65 percent) inspections were not conducted in a timely manner, at least 187 (26 percent) inspections were not conducted in a timely manner and resulted in a failed inspection, and at least 122 (17 percent) inspections were not conducted in a timely manner and failed an inspection with a monetary impact.

Inadequate Inspection Scheduling System

The Authority's inspection software was not adequate to ensure that its program units were inspected in a timely manner. At the time of our review, the Authority was aware of the deficiency with its untimely scheduling of unit inspections and was working with its software vendor to address the issue. Specifically, the Authority's Section 8 director explained that the software system went live in June 2014 and the Authority requested a fix from its vendor in late 2014 and early 2015 but the vendor was slow in addressing the issue. As of January 31, 2018, the Authority was working with the vendor for resolution. However, the Authority had not developed an adequate alternate method to ensure that unit inspections were performed in a timely manner in accordance with its star-rating intervals.

Conclusion

The Authority's inspection software scheduling was not adequate to ensure that its program units were inspected in a timely manner. In addition, the Authority did not have adequate oversight of the timeliness of unit inspections when it did not use an alternate method to compensate for the software deficiency. As a result, HUD and the Authority lacked assurance that 46 of the units reviewed were eligible to be on the program during the time when these units' inspections were not conducted and inappropriately paid \$33,085 in housing assistance payments and received \$4,423 in administrative fees for 16 units that failed an inspection performed outside the required inspection interval.

⁶ See the Scope and Methodology section of this report for details on how the monetary impact was determined.

⁷ See the Scope and Methodology section of this report for details of the projection methodology.

Recommendations

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

- 2A. Reimburse its program \$37,508 (\$33,085 in housing assistance payments and \$4,423 in associated administrative fees) from non-Federal funds for failing to perform unit inspections in a timely manner.
- 2B. Develop and implement procedures, including but not limited to software upgrades, and staff training to ensure that unit inspections are conducted in a timely manner.
- 2C. Develop and implement adequate oversight to ensure that unit inspections are conducted in a timely manner.

Finding 3: The Authority Did Not Always Ensure That Program Units Met HUD’s Housing Quality Standards

The Authority did not always ensure that program units met HUD’s housing quality standards. For the 30 program units inspected, 26 (87 percent) units failed to meet the minimum housing quality requirements, and 4 (15 percent) of the failing units were in material noncompliance with HUD’s housing quality requirements. The violations occurred because the Authority did not follow the program requirement for performing quality control housing quality standards inspections, which lead to missed violations during unit inspections. As a result, some tenants lived in units that did not meet HUD’s housing quality standards, and the Authority inappropriately paid more than \$5,500 in housing assistance and received more than \$500 in administrative fees for the four units in material noncompliance with housing quality standards.

Housing Quality Requirements Not Met

To determine whether the Authority ensured that the program units complied with HUD’s housing quality standards, we statistically selected 67 units for inspection from a universe of 220 program units that had recently passed an inspection by the Authority and inspected 30 units during the week of November 27, 2017.⁸ Of the 30 units inspected, 26 (87 percent) failed to meet minimum housing quality requirements and had a total of 198 housing quality requirement violations, 106 of which existed before the Authority’s latest inspection. The following table lists the top 5 most frequently occurring violations for the 30 units.

Violation category for noted deficiencies	Number of violations	Number of units
Security	31	17
Electrical	22	14
Wall	20	11
Other interior	18	9
Floor	15	9

Additionally, 4 of 26 (15 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 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 26 units failing to meet HUD’s housing quality requirements.

Further, of the four units that materially failed the inspection, one was found to have a life-threatening item requiring correction within 24 hours, which existed at the time of the

⁸ We did not inspect all 67 units because the percentage of materially failing units in the 30 units we inspected did not reach the threshold for projecting the results to the universe from which the statistical sample was drawn. Our methodology for the sample selection is explained in the Scope and Methodology section of this audit report.

Authority's latest inspection. HUD regulations at 24 CFR 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 26 units that failed to meet requirements. The most prevalent deficiencies were security, electrical, wall, other interior, and floor violations.

Security

A total of 31 security violations were found in 17 units that failed to meet program requirements.



The picture above shows a passage lock striker plate that was not secured, and the door did not latch when closed, posing a risk to the tenant's security.

Electrical

A total of 22 electrical violations were found in 14 units that failed to meet program requirements.



The picture above shows that the cover of the electric meter disconnect was not secured, exposing electrical contacts.

Wall

A total of 20 wall violations were found in 11 units that failed to meet program requirements.



The picture above shows soft drywall from a water leak.

Other Interior

A total of 18 other interior violations were found in 9 units that failed to meet program requirements.



The picture above shows a broken vanity top, causing a severe cutting hazard.

Floor

A total of 15 floor violations were found in 9 units that failed to meet program requirements.



The picture above shows a broken tread cover on the basement stairs, causing a tripping hazard.

HUD regulations at 24 CFR 982.401(a)(3) required that all program housing meet housing quality standards, both at beginning 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 more than \$5,500 in housing assistance payments and received more than \$500 in administrative fees for the 4 units that materially failed to meet HUD's housing quality standards.

Quality Control Inspections Program Not Adequate

At 24 CFR 982.405(a), HUD required quality control housing quality standards inspections of the program units based on the number of program units administered by the Authority annually. However, the Authority required⁹ additional quality control inspections. Specifically, beginning in fiscal year 2015, the Authority required 50 quality control inspections per fiscal year, regardless of the number of program units administered. However, the Authority did not perform any quality control inspections in fiscal years 2015, 2016, or 2017, covering the period July 1, 2014, through June 30, 2017, when a total of 150 quality control inspections were

⁹ Activity 5, page 42 of 170, of the Authority's fiscal year 2014 MTW plan

required to be performed in accordance with its own requirements. The Authority's staff explained that it did not have time to conduct the required supervisory quality control housing quality standards inspections because the Authority was participating in HUD's rent reform study and the staff was learning a new software system. However, the Authority began performing housing quality standards quality control inspections for fiscal year 2018 in September 2017.

Conclusion

The Authority did not follow the program requirement for performing quality control housing quality standards inspections; therefore, its inspection staff lacked adequate oversight, leading to missed violations during unit inspections. As a result, the Authority inappropriately paid \$5,553 in program housing assistance payments and received \$531 in program administration fees for four units that materially failed to meet housing quality requirements.

Recommendations

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

- 3A. Reimburse its program \$6,084 (\$5,553 in housing assistance payments and \$531 in associated administrative fees) from non-Federal funds for the units that materially failed to meet HUD's housing quality standards.
- 3B. Certify, along with the owners of the 26 units cited in the finding, that the applicable housing quality standards violations have been corrected.
- 3C. Perform all required quality control housing quality standards inspections in compliance with its HUD-approved MTW plan, thus helping to ensure that its inspectors perform housing quality standards inspections in accordance with HUD's requirements.

Scope and Methodology

We performed our onsite audit work between October 2017 and February 2018 at the Authority's office located at 300 West New Circle Road, Lexington, KY. The audit period was July 1, 2015, through September 30, 2017. We expanded the audit period to October 31, 2017, to accomplish our objective.

To accomplish our audit objective, we interviewed the Authority's employees and tenants and the City of Richmond Section 8 Housing Program staff. 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 MTW and program administrative plans; policies and procedures; organizational chart; annual audited financial statements for fiscal years 2014, 2015, and 2016; board meeting minutes for July 2015 through September 2017; program tenant files; and housing assistance payments registers and the Authority's and independent entity's inspection reports.

We also conducted housing quality standards inspections of 30 program units.

Finding 1

We reviewed inspection reports for 35 tenants associated with all 33 Authority-owned program units during the period July 1, 2015, through August 5, 2016, to determine whether the Authority ensured that a HUD-approved independent entity performed unit inspections and rent reasonableness determinations for program units that the Authority owned. We limited the questioned costs to August 5, 2016, because there was HUD approval on that date through which the Authority expected it to waive third-party requirements for unit inspections and rent reasonableness determinations under its MTW status.¹⁰

The calculation of administrative fees was based on the Authority's average administrative fee per unit per month for the Authority's respective fiscal years. The fees were considered inappropriately received for the same time period when the Authority performed inspections of program units it owned. 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 was inappropriately inspected in-house by the Authority.

¹⁰ Questioned costs included both inappropriately paid housing assistance and administrative fees received for inspections performed by the Authority of units it owned from July 1, 2015, through August 5, 2016.

Finding 2

To evaluate the Authority's compliance with performing recurring program unit inspections in a timely manner, we selected a statistical sample of 62 tenant files for review. We reviewed all 62 statistically selected files from a total of 728 unit inspections performed during the most recent year, October 1, 2016, through September 30, 2017, to determine whether the Authority inspected its program units in compliance with its HUD-approved MTW and administrative plans. We determined the questioned cost of \$37,508 for the failed inspections that were performed outside the required interval by allowing a 1-month grace period for the owners to make repairs from when the inspection was required to be performed through the date when the inspection was performed and failed.

Based on the results of the 62 sampled items, we projected the results to the universe of 728 inspections using a one-sided confidence interval of 95 percent and an average percentage of error or deficiency identified in our review. Specifically, our review of the 62 sampled units identified deficiencies in 46 units inspected late, 22 units failing the late inspection, and 16 units with a failed inspection that was performed late having a monetary impact after accounting for a 1-month grace period as discussed above. Therefore, after adjusting for a statistical margin of error, we can say with a one-sided confidence interval of 95 percent that (1) at least 475 inspections were not performed in a timely manner; (2) at least 187 inspections were not performed in a timely manner and failed an inspection; and (3) at least 122 inspections were not performed in a timely manner and failed an inspection, resulting in a monetary impact.

Our sampling methodology was not designed to project a monetary impact to the universe of inspections from which the sample was selected but, rather, to only project the number of late inspections that resulted in a monetary impact. Thus, the monetary impact of \$37,508 cited above is limited to only the 62 sample items reviewed and deficiencies identified.

The calculation of administrative fees was based on the Authority's average administrative fee per unit per month for the Authority's respective fiscal years. The fees were considered inappropriately received for the same time period that the units were not inspected in a timely manner as required, allowing for a 1-month grace period for owners to make needed repairs. 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 was not inspected timely as required.

Finding 3

During the week of November 27, 2017, we inspected 30 of the 67 statistically selected units from a universe of 220 program units that had passed an inspection between July 15 and October 15, 2017, performed by the Authority. We inspected the units to assess the physical conditions of the Authority's units. After our inspections, we determined whether each unit passed, failed, or materially failed. 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 for the unit. 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 also noted whether a violation existed at the Authority's last inspection by considering tenant statements, and using our inspection expertise and experience and the context surrounding the violation. We did not cite a violation as preexisting if there was reasonable doubt as to whether the violation existed previously.

We found that 26 (87 percent) inspections failed to meet the housing quality requirements and 4 (15 percent) of the failing units were in material noncompliance with HUD's housing quality requirements. We selected a statistical sample to project the results of the unit inspections to the universe from which it was drawn. However, during the audit survey we found the percentage of materially failing units did not reach the threshold for projecting the results to the universe from which the statistical sample was drawn; therefore, we did not perform inspections of the remaining 37 statistically selected units. Therefore, the results of the inspections discussed apply only to the 30 units inspected.

The calculation of administrative fees was based on the Authority's average administrative fee per unit per month for the Authority's respective fiscal years. The fees were considered inappropriately received for the same time period that the unit was in material noncompliance with the housing quality standards. 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.

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

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 (1) did not follow HUD's third-party requirements for performing unit inspections and conducting rent reasonableness determinations for Authority-owned units; (2) was not familiar with HUD's requirement that all unit inspections, regardless of the type, be performed by an independent entity on Authority-owned units; and (3) did not realize that

its fiscal year 2017 MTW plan did not include an exemption of third-party requirements for rent reasonableness determinations (finding 1).

- The Authority's inspection software was not sufficient for scheduling, and the Authority did not develop and implement an alternate method for performing unit inspections in a timely manner as required by its MTW and program administrative plans (finding 2).
- The Authority did not follow the program requirement for performing quality control housing quality standards inspections to ensure that its program participants lived in units that complied with HUD's housing quality requirements (finding 3).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/
1A	\$124,075
2A	37,508
3A	6,084
Totals	167,667

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

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3

Comment 4



LEXINGTON-FAYETTE URBAN COUNTY HOUSING AUTHORITY
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June 21, 2018

Equal Housing Opportunity

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Nikita Irons
Regional Inspector for Audit
Office of Inspector General, Office of Audit (Region 4)
75 Ted Turner SW, Room 330
Atlanta, GA 30303-3388

Re: Office of Inspector General (OIG) draft audit entitled "Lexington-Fayette Urban County Housing Authority, Lexington, KY: Section 8 Housing Choice Voucher Program" (the Draft Audit); comments of the Lexington-Fayette Urban County Housing Authority (LHA)

Dear Ms. Irons:

Thank you for the opportunity to submit comments regarding the Draft Audit on behalf of the LHA.

The LHA strongly objects to the Draft Audit's Finding 1 recommendation that the LHA reimburse funds to its voucher program in connections with some inspections conducted by the LHA rather than an independent entity, where there is no indication of any failure to meet Housing Quality Standards (HQS) and thus program participants received full benefit of quality housing. LHA is willing to reimburse the voucher program where delayed inspections or items possibly missed in inspections may have resulted in payments on units that OIG has claimed would have failed HQS (Findings 2 and 3).

Draft Audit Highlights and Background and Objective sections

Both the Highlights section and Finding 1 make the broad statements that the conditions OIG cites occurred because "LHA did not follow HUD's requirements for performing unit inspections" and "was not familiar with the requirements for rent reasonableness determinations." While the LHA acknowledges some issues as discussed below, these statements are too general and need to be narrowed.

With respect to inspections, the OIG's protocol concerns relate to requirements for PHA-owned units principally regarding re-inspections, scheduling and supervisory quality control inspections. The rent reasonableness concern was not regarding the program as a whole, but only the PHA-owned entity requirements where the LHA anticipated HUD approval to waive the requirement under the Moving to Work (MTW) demonstration. LHA acknowledges this error, even though HUD later waived the requirement, but the error was regarding a specific issue and not general unfamiliarity with rent reasonableness requirements. The "because" statement thus at least should be narrowed to say that the LHA did not always follow HUD inspection requirements and in anticipation of a HUD waiver did not follow some rent determination requirements to use independent entities with respect to PHA-owned units.

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Evaluation**

Auditee Comments

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Draft Audit Finding 1

Again, the general statements in the first paragraph are too broad. They should be narrowed along the lines just stated.

Comment 1

Draft Audit Finding 1 acknowledges that all of the PHA-owned units that were due during the time period examined were inspected, the LHA had obtained an independent entity and 23 of the 31 initial inspections were performed by the independent entity. The OIG does not claim that any improper payments were made on failed units. For the most part the OIG's inspections-related finding is that the LHA did not use the independent entity for re-inspections. The OIG acknowledges that the LHA conducted the re-inspections and does not claim that any assisted household suffered from conditions failing to meet HQS because of inspections by LHA rather than the independent entity.

With regard to rent reasonableness, Draft Audit Finding 1 acknowledges that the LHA obtained the services of an independent entity during the review period and provided documentation to support that the rents it previously approved were reasonable at the time of approval.

Comment 5
and 1

Draft Audit Finding recommendation 1A's conclusion is that the LHA should reimburse \$124,025 to the voucher program for payments related to lack of third-party inspections on PHA-owned units. This is unwarranted given that there is no indication that as a result of inspections by the LHA rather than an independent entity, any subsidized household suffered from sub-standard HQS conditions. LHA's ability to undertake affordable housing initiatives would be hampered by such a repayment requirement, imposed even though there is no indication that tenants were harmed and HUD later waived the program requirement in question.

Comment 6

Draft Audit Finding recommendation 1B is that LHA ensure that HUD-approved independent third parties complete unit inspections and determine the rent reasonableness for units it owns or seem an appropriate exemption of program requirements from the HUD Secretary. The LHA already has obtained that waiver as part of its MTW demonstration participation. The OIG is aware of this, and its determination to retain the recommendation in the Draft Audit raises a question regarding its intent. Draft Audit Finding recommendation 1C is that LHA provide adequate training to ensure compliance with Section 8 Housing Choice Voucher program requirements for unit inspections and rent reasonableness determinations. OIG is aware that HUD now has waived the third-party inspection and rent reasonableness requirements that are the entire subject of Draft Audit Finding 1, and thus this recommendation should not be included.

Comment 7

Draft Audit Finding 2

Draft Audit Finding 2 is that a number of program units were not inspected timely because of an LHA software problem, LHA did not devise a wholly effective alternative method to compensate for its software deficiency, and a portion of the late inspections had a failed outcome that resulted in a monetary impact. As a result, Draft Audit recommendation 2A is that the LHA reimburse the voucher program \$37,524. The LHA

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acknowledges that this situation occurred and will reimburse these funds upon final close-out of the audit.

Draft Audit recommendations 2B and 2C are that the LHA develop and implement procedures, including but not limited to software upgrades, and staff training to ensure that unit inspections are conducted in a timely manner. The LHA has taken these steps and the audit can be closed out with respect to those concerns.

Draft Audit Finding 3

Draft Audit Finding 3 claims that the LHA did not always ensure that program units met HQS because the LHA did not follow the program requirement for quality control inspections, "which lead to missed violations during unit inspections." The OIG inspected thirty units and found one to have an item requiring correction within 24 hours (unsecured cover of electric meter disconnect) and three others to be in "material noncompliance" with HQS.

Comment 9

Draft Audit Finding 2 acknowledges that OIG originally selected 67 units for inspection, but stopped at 30 units because the percentage of materially failing units did not reach the threshold for projecting the results to the universe from which the statistical sample was drawn. Along the same lines, the OIG inspector indicated at the exit conference that as a whole the units inspected were in above-average condition for the voucher program. The OIG states that a number of the cited conditions existed before the LHA's last inspection, but that statement seems hard to substantiate and the OIG does not try. The OIG had promised to share its individual inspection results in a timely fashion with LHA, but did not do so until the LHA requested this again at the exit conference and thus the LHA could not check the accuracy of these inspections.

Comment 10

Comment 11

Nevertheless, the LHA acknowledges that it concentrated on other priorities and did not perform supervisory quality control inspections for several fiscal years. In addition, LHA's goal is and has been zero tolerance for violations of HQS conditions. Therefore, in accordance with Draft Audit Recommendation 3A, upon final closing of the audit the LHA will reimburse the voucher program \$6,084 for units that the OIG found to materially fail HQS. LHA also will fulfill Draft Audit recommendation 3B by re-inspecting the 26 cited units and certifying along with the owners that the HQS violations have been corrected, and recommendation 3C by performing required quality control HQS inspections in compliance with its HUD-approved MTW Plan.

Sincerely,



Austin Simms
Executive Director

OIG Evaluation of Auditee Comments

Comment 1 The Authority objected to reimbursing its program per recommendation 1A for inspections conducted by the Authority rather than an independent entity on Authority-owned units where there was no indication of any failure to meet housing quality standards, representing that program participants received full benefit of quality housing.

As stated in Finding 1, per 24 CFR 982.982.352(b)(1)(iv)(A)(3), the Authority was required to obtain the services of an independent entity to perform all inspections, including reinspections, on Authority-owned units. The Authority's failure to comply with this requirement resulted in HUD and the Authority lacking assurance that some inspections were properly conducted and that HUD's and the program participants' interests were protected. Therefore, the Authority should work with HUD during the audit resolution process to fully implement recommendation 1A.

Comment 2 The Authority agreed to reimburse its program per recommendations 2A and 3A for delayed inspections and items possibly missed by the Authority in inspections that we determined as units failing to meet the housing quality standards.

We appreciate the Authority's willingness to reimburse its program for the deficiencies cited in Findings 2 and 3. The Authority should work with HUD to ensure that the repayments are properly completed during the audit resolution process.

Comment 3 The Authority stated that the statements of condition in the Highlights and Finding 1 sections of the report are too broad and need to be narrowed.

The Highlights and Finding 1 sections provide an overall description of the identified conditions, followed by an overall description of the identified cause of the deficiencies; however, specifics on the statements of condition are provided within Finding 1.

Comment 4 The Authority acknowledged the deficiency cited for not having a third party entity perform rent reasonableness determinations of program units it owned. However, the Authority stated that the cause for the deficiency should be revised because the rent reasonableness requirements were later waived by HUD for the Authority under its Moving-to-Work (MTW) demonstration.

We appreciate the Authority's acknowledging its deficiencies relating to HUD's third party rent reasonableness determination requirements. However, the Authority's assertion that it received a waiver on rent reasonableness

requirements is incorrect. The Authority's fiscal year 2017 MTW plan included a waiver for only third party inspections of Authority-owned units, not third party rent reasonableness determinations.

- Comment 5 The Authority stated that its ability to undertake affordable housing initiatives would be hampered by having to repay its program for not requiring an independent party to conduct inspections on units that it owned.

The Authority should work with HUD during the audit resolution process on available options for reimbursing its program. However, once repaid into the program, the funds will further help the Authority's affordable housing initiatives.

- Comment 6 The Authority disagreed with recommendations 1B and 1C for obtaining the services of an independent entity for performing inspections and rent reasonableness determinations on Authority-owned units or seeking an appropriate exemption from the HUD Secretary of the third party requirements, and training its staff on the same, because it has already obtained a waiver as part of its MTW demonstration participation.

As stated in Comment 4, the Authority did not receive an approval to waive the third party rent reasonableness determinations requirements. Therefore, the Authority should work with HUD during the audit resolution process to seek an appropriate exemption for both rent reasonableness determinations and inspection requirements in order to fully implement recommendation 1B, and provide adequate training to its staff to ensure compliance with Section 8 program requirements for unit inspections and rent reasonableness determinations for implementing recommendation 1C.

- Comment 7 The Authority agreed to reimburse its program, per recommendation 2A. The Authority also stated that it has taken steps to address recommendations 2B and 2C to develop and implement procedures, including but not limited to software upgrades, and staff training to ensure that unit inspections are conducted in a timely manner.

We appreciate the Authority's willingness to reimburse its program for the units cited in Findings 2, and taking steps to address recommendations 2B and 2C. The Authority should work with HUD during the audit resolution process to ensure that the recommendations are fully implemented.

- Comment 8 The Authority summarized that we inspected 30 units and found one to have an item requiring correction within 24 hours and that three others were in material noncompliance with housing quality standards.

The Authority incorrectly summarized the inspection results by exclusively identifying one unit as having an item requiring correction with 24 hours. It was

one unit within the four units that materially failed that required correction within 24 hours. However, in the 30 units inspected, 27 violations requiring correction within 24 hours were noted in 14 units.

Comment 9 The Authority stated that whether violations existed before the Authority's last inspection is hard to substantiate and that we did not provide an explanation.

We added an explanation of our approach for citing a violation as preexisting in the Scope and Methodology section of the report.

Comment 10 The Authority stated that we did not share our individual inspection results in a timely fashion until the Authority's request at the exit conference; therefore, the Authority could not check the accuracy of these inspections.

We provided the inspection results after the exit conference. Nonetheless, the Authority staff was present at all of the inspections, took notes during the inspections, and we discussed the results at the conclusion of each inspection. Furthermore, we believe the Authority had ample time to review and verify our individual inspection results before providing its written response. The Authority should work with HUD during the audit resolution process to sufficiently review and fully address the cited findings.

Comment 11 The Authority acknowledged that it concentrated on other priorities and had not performed supervisory quality control inspections for several fiscal years; and therefore, per recommendations 3A, 3B, and 3C it will (1) reimburse the voucher program \$6,084 for units that we found to materially fail the housing quality standards, (2) reinspect the 26 failing units cited and certify along with the owners that the housing quality standards violations have been corrected, and (3) perform the required quality control housing quality standards inspections in compliance with its HUD-approved MTW Plan.

We appreciate the Authority's commitment to implement recommendations 3A, 3B, and 3C. The Authority should work with the HUD during the audit resolution process to ensure that the findings are appropriately addressed and recommendations are fully implemented.

Appendix C

Schedule of OIG Housing Quality Standards Inspection Results

Identification number	Materially failed unit	Failed unit	Passed unit	Total violations for materially failed units	Total number of housing quality violations	Total number of preexisting violations
1	X	X		17	17	10
2	X	X		8	8	5
3		X			9	7
4		X			1	0
5		X			14	9
6		X			9	7
7		X			8	2
8		X			17	6
9		X			8	3
10		X			9	3
11		X			4	2
12		X			5	5
13		X			7	5
14	X	X		18	18	12
15		X			4	4
16		X			6	4
17			X		0	0
18		X			3	0
19		X			13	7
20		X			4	2
21			X		0	0
22	X	X		18	18	6
23			X		0	0
24		X			2	1
25		X			4	1
26		X			5	3
27		X			3	1
28		X			1	0
29		X			1	1
30			X		0	0
Total	4	26	4	61	198	106