



Issue Date November 28, 2007
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Audit Report Number 2008-FW-1002
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TO: Cheryl J. Williams  
Director, Office of Public Housing, 6HPH  
*Gerald R. Kirkland*

FROM: Gerald R. Kirkland  
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Shreveport Housing Authority, Shreveport, Louisiana, Did Not Ensure That Section 8 Units Met Housing Quality Standards

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Shreveport Housing Authority's (Authority) Section 8 Housing Choice Voucher (Section 8) program as part of our strategic plan. Our objective was to determine whether the Authority's Section 8 units met housing quality standards and if not, determine the extent, cause, and impact of its noncompliance on its Section 8 program.

### **What We Found**

The Authority did not have adequate management controls to ensure that it complied with U. S. Department of Housing and Urban Development (HUD) requirements. Of the 66 statistically selected sample units we inspected, 62 (94 percent) did not meet minimum housing quality standards, and 47 (71 percent) were materially noncompliant with housing quality standards. As a result, tenants lived in units that were not decent, safe, and sanitary. If the Authority does not establish effective management controls, we estimate that it will pay more than \$6.1 million in the next 12 months for units that are materially noncompliant with HUD's housing quality standards.

## What We Recommend

We recommend that the Director of the Office of Public Housing require the Authority to inspect the 62 units that did not meet minimum housing quality standards to verify that the owners took appropriate corrective action to make the units decent, safe, and sanitary. Further, the Director should require the Authority to reinspect all of its Section 8 units, including those units that it owns, and ensure that they meet housing quality standards. If any of the units cannot be made decent, safe, and sanitary, the Authority must either abate the housing assistance payments or terminate the tenant's voucher as appropriate. Further, we recommend that the Director require the Authority to implement procedures and controls to ensure that its Section 8 units and inspections meet HUD requirements to prevent \$6.1 million in future assistance payments from being spent on units that do not meet standards.

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

## Auditee's Response

We provided a copy of the draft report to Authority officials on October 31, 2007, for their comments and discussed the report with them at the exit conference on November 2, 2007. We requested the Authority respond on November 13, 2007. The Authority asked for additional time to respond to the report and provided its written comments to our draft report on November 26, 2007.

The Authority agreed with the audit report and provided a corrective action plan. We attached the Authority's response in Appendix B. However, we did not include the corrective action plan because it was too voluminous, but it is available upon request. We provided the entire response to HUD who agreed with the finding.

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## **BACKGROUND AND OBJECTIVES**

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The Housing Authority of the City of Shreveport (Authority) was established in 1940 to provide decent, safe, and sanitary housing for low-income families residing in or expected to reside in its jurisdiction area. The Authority is governed by a mayor-appointed five-member board of commissioners serving staggered five-year terms. The board of commissioners appoints the executive director, who is charged with the responsibility of overseeing the day-to-day affairs of the Authority.

The Authority operates a Section 8 Housing Choice Voucher (Section 8) program consisting of approximately 2,500 Section 8 units. It entered into its first annual contributions contract with the U. S. Department of Housing and Urban Development (HUD) in the mid-1970's. The Authority has never operated its Section 8 program with its own staff; rather, it has contracted for program administration. Since 1990, it has contracted with Pendleton Development Corporation (Pendleton) as its Section 8 administrator.

In its current contract, Pendleton claimed credit for achieving high performer status for the Authority on its 2003, 2004, and 2005 Section Eight Management Assessment Program (SEMAP) scores. The Authority's SEMAP scores have reflected standard or high performance since 2002. However, there has been no recent monitoring by HUD to confirm those scores. In addition, documents maintained by the Authority's staff as well as the Authority's annual audit reports show Pendleton's performance problems in administering the Authority's Section 8 programs.

The Authority has a 63-member staff, two of whom—an administrative coordinator and a housing inspector—monitor Pendleton's performance. The administrative coordinator monitors file actions and assistance payments while the housing inspector monitors Pendleton's inspections performance. The two staff members maintain their monitoring records in the Authority's administrative building at 2500 Line Avenue in Shreveport, Louisiana.

Pendleton has a 16-member staff, including three inspectors. It maintains the Section 8 tenant files, inspection records, and assistance payment records in its office at 533 Jordan Street in Shreveport Louisiana.

The annual housing assistance payments for the Authority's fiscal year 2007 were approximately \$9.7 million.

Our objective was to determine whether the Authority's Section 8 units met housing quality standards and if not, to determine the extent, cause, and impact of its noncompliance on its Section 8 program. This is the first of three audit reports on the Authority's Section 8 program.

## RESULTS OF AUDIT

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### Finding: Tenants Lived in Units That Were Not Decent, Safe, and Sanitary

The Authority housed tenants in units that were not decent, safe, and sanitary because it did not have adequate management controls to ensure that it complied with HUD requirements. Of the 66 statistically selected sample units we inspected, 62 (94 percent) did not meet minimum housing quality standards, and 47 (71 percent), including two Authority owned units, were materially noncompliant with housing quality standards. If the Authority does not establish effective management controls, we estimate that it will pay more than \$6.1 million in the next 12 months for units that are materially noncompliant with HUD's housing quality standards.

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#### **The Authority's Section 8 Units Did Not Meet HUD's Housing Quality Standards**

The Authority did not implement adequate management controls to ensure that it complied with HUD's requirements for maintaining units in decent, safe, and sanitary condition. We inspected a statistical sample of 66 units with a HUD inspector and the Authority's quality control inspector and found that 62 units (94 percent) did not meet minimum housing quality standards. Projecting the results of the overall failure rate to the Authority's universe of 2,456 units shows that at least 2,168 of the units would not meet minimum housing quality standards. Further, 47 of the 66 failed units (71 percent), including two Authority owned units, were in material noncompliance with the standards.<sup>1</sup> Projecting the results of the 47 significant failures to the universe shows that at least 1,547 of the Authority's units would be materially noncompliant with housing quality standards.

#### **Pendleton Passed Units That Did Not Meet Standards**

Of the 62 units that did not meet minimum housing quality standards, 51 had deficiencies that existed at the time of Pendleton's most recent inspections. However, Pendleton's inspectors only failed 22 of the units. Instead, Pendleton's inspectors either did not identify the deficiencies or did not report them as failing

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<sup>1</sup> See the Scope and Methodology section of this report for our definition of and method of determining which units were materially noncompliant.

conditions. The following pictures demonstrate deficiencies that were either not identified or not reported by Pendleton.



A Pendleton inspector did not document the long standing peeling paint in the above pictures taken on June 25, 2007. There was peeling paint both inside and outside the unit, which was occupied by a family of six with four children, ages 2 through 11. Pendleton passed the unit on August 13, 2006, without notating the condition.



A Pendleton inspector failed the above unit on January 22, 2007, because the window was broken and the bathroom heater did not work. He did not note that the unit had been vacated and the utilities had been disconnected. He passed the unit on February 7, 2007, even though the window was still broken, and the gas and electricity had long since been disconnected. According to the Authority, the gas was turned off in February 2003, the electricity was turned off in August 2006, and the water was turned off in February 2007. According to neighbors, the unit had been vacant since August 2006.



## Pendleton Did Not Ensure That Deficiencies Were Corrected

For the 22 units that Pendleton did fail, it did not ensure that the deficiencies were properly corrected or corrected in a timely manner as required by HUD and the Authority.<sup>2</sup> For 14 of the 22 failed units, Pendleton's inspectors did not follow up on deficiencies that they documented or did not follow up on them within regulatory timeframes. Further, for 13 of the 22 units, Pendleton's inspectors failed to ensure that deficiencies they documented were corrected before passing them. As a result, Section 8 tenants continued to live in substandard units after Pendleton's inspectors documented unsafe and unsanitary conditions in those units.



For example, the above picture on the left shows a leaning water heater that a Pendleton inspector reported as a 24-hour emergency repair item on March 16, 2007. The inspector passed the unit on May 17, 2007, without ensuring the deficiency was properly corrected. Although two wooden blocks had been placed under the left side of the water heater, it was still leaning dangerously at the time of our inspection on June 28, 2007. Unstable cinderblock supports under the rear of the unit likely caused the floor to bow, resulting in the leaning water heater.

To further illustrate the condition of this unit, the above picture on the right shows the unstable cinderblocks, a sewer leak, and loose handrails on the rear steps. Pendleton did not identify these deficiencies on its March 16, 2007, inspection form.

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<sup>2</sup> Regulations at 24 CFR [Code of Federal Regulations] 982.404(3) and section 105 B of the Authority's administrative plan require that emergency fail items be corrected within 24 hours and that nonemergency fail items be corrected within 30 days. Further, the Authority is required to either abate the assistance until the deficiencies are corrected or terminate the assistance contract.



The above pictures show that Pendleton's inspectors did not ensure that corrections were properly completed. The above left picture shows a missing cover plate in a unit occupied by a family of six with five children ages 5 through 14. Pendleton's inspector initially reported the unit as a 24-hour emergency failure due to an empty electrical plug opening on November 29, 2006. The landlord installed the electrical outlet into the opening but did not install a cover plate. On January 4, 2007 (36 days after the emergency failure), Pendleton's inspector passed the unit without reviewing the repair. According to the tenant, the inspector did not want to look at the repairs and asked her to tell him what was wrong with the unit. The picture on the right is from a unit that the inspector initially failed on February 27, 2007, due to repairs that were needed on the central heating unit. After the landlord installed a new central heating unit, the inspector passed the repair on April 23, 2007, although a switch plate cover was missing inside the central heating unit closet. The switch was new and appeared to be part of the repairs.



**Both Authority-Owned Units in the Sample Had Significant Deficiencies**



The Authority owned two of the units in the sample. As the owner, the Authority was required to maintain the units; however, both units had material deficiencies. One of the units was in such serious condition that it should not have been admitted into the Section 8 program. The unit had significant problems such as missing handrails, nonoperational electrical outlets, and a hole in the bathtub and bathroom floor where the bathtub had rusted through, which allowed bath water to pool under the house and in the yard (photo above left). The tenants created additional hazards because electrical outlets in the unit were inoperable. The tenants ran electrical cords across rooms and between rooms to connect window air conditioners to operating outlets (photo above right). Pendleton passed the unit on January 30, 2007, without comment.

**The Authority Did Not Have Adequate Management Controls**

Although the Authority contracted with Pendleton to administer its Section 8 program, the Authority is required by its annual contribution's contract with HUD to ensure that its units meet housing quality standards. HUD requirements provide minimum conditions that must exist for a unit to be considered decent, safe, and sanitary. However, the Authority did not have adequate management controls to ensure that the requirements were met. Specifically, the Authority failed to 1) establish a strong contract for Section 8 services provided by Pendleton, 2) implement an effective quality control system to ensure that Pendleton properly inspected units and required deficiencies to be corrected, and 3) ensure that its or Pendleton's policies and procedures were current or followed.

As a result, the Authority did not take action to prevent its tenants from living in unsafe and unsanitary conditions.

The Authority's contract with Pendleton did not protect the Authority or its Section 8 tenants if Pendleton did not adequately perform its responsibilities for inspecting units and ensuring that deficiencies were corrected. For example, in the contract, Pendleton agreed to keep a professionally trained staff. However, the contract did not contain provisions requiring Pendleton to document or ensure that its staff was qualified. The contract did not contain provisions for the Authority to assess penalties if Pendleton failed to perform inspections or to perform them properly. Also, while the contract required Pendleton to submit inspection reports, it did not require Pendleton to provide performance summaries that would allow the Authority to monitor its performance.

The Authority's management also established an ineffective quality control system with unrealistic goals that provided misleading results. The Authority claimed to have reinspected 100 percent of the units inspected by Pendleton. However, the Authority's housing inspector actually reinspected only 60-70 percent of the units for which Pendleton provided inspection forms and did not know whether Pendleton provided all of the inspection reports. Further, the Authority's inspector inspected only the exteriors of nearly half of the units he inspected and did not follow up on whether the deficiencies he documented were corrected. As a result, units that Pendleton should have failed went undetected by the Authority, and failed units went uncorrected.

Lastly, Authority management did not ensure that its or Pendleton's policies and procedures were current or followed. The Authority's administrative plan is its only policy document for inspections. However, the administrative plan had not been updated since 2001 and was out of date. Further, neither the Authority nor Pendleton followed the administrative plan. For example, the administrative plan required inspectors to use HUD's inspection form to document inspections. Both the Authority and Pendleton used locally developed forms which were not as detailed as the HUD forms. The administrative plan also prohibited the Authority from allowing marginal units<sup>3</sup> into its Section 8 program, but our inspection results show that marginal units existed in the program.

Finally, as an administrator of the Section 8 program responsible for ensuring that owners provide decent, safe, and sanitary housing; the Authority should ensure that its own units, at a minimum, meet requirements. The Authority places itself in a difficult position when taking actions against other noncompliant owners if it does not properly maintain its own units. The Authority needs to implement procedures that ensure its Section 8 units meet standards.

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3 The administrative plan defines marginal units as those units that are likely to fall below standards within one year.

## Conclusion

Since the Authority did not have effective management controls over the monitoring of its Section 8 program, tenants lived in units that were not decent, safe, and sanitary. HUD needs to ensure that the Authority develops and implements policies, procedures, and controls that ensure compliance with requirements. If the Authority does not establish effective management controls, we estimate that it will pay at least \$6.1 million in the next 12 months for units that are materially noncompliant with HUD's housing quality standards.

## Recommendations

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

- 1A. Implement procedures and controls to ensure that units meet housing quality standards and its inspections meet requirements to prevent at least \$6,145,796 from being spent in the next 12 months on units that are in material noncompliance with standards.
- 1B. Reinspect before January 1, 2008, the 62 units that failed to meet minimum housing quality standards to verify that the owners took appropriate corrective actions to make the units decent, safe, and sanitary. If appropriate actions were not taken, the Authority must either abate the housing assistance payments or terminate the tenants' vouchers as appropriate.
- 1C. Implement procedures that ensure Section 8 units that it owns meet standards.
- 1D. Inspect all of its owned Section 8 units by April 1, 2008, and ensure that they meet housing quality standards. If any of the units cannot be made decent, safe and sanitary, the Authority must remove them from the Section 8 program.
- 1E. Inspect all of its remaining Section 8 units by April 1, 2008, and ensure they meet housing quality standards. If any of the units cannot be made decent, safe and sanitary, the Authority must either abate the housing assistance payments or terminate the tenants' vouchers as appropriate.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we

- Obtained and reviewed relevant HUD regulations and the Authority's administrative plan;
- Selected a statistical sample of 66 of the Authority's Section 8 units to inspect from its housing assistance payments register;
- Obtained and reviewed the Authority's previous inspection reports for the sample units to determine whether the unit 1) passed its last inspection, (2) was inspected annually, and 3) had a completed inspection report;
- Inspected the 66 sample units with a HUD staff inspector and the Authority's quality control inspector to determine whether the units met housing quality standards; and
- Conducted interviews with Authority staff, Pendleton staff, and program tenants.

We used data maintained by Pendleton in the April 2007 housing assistance payments register for background information and in selecting our sample of units for inspections. We did not rely on the data to base our conclusions. Therefore, we did not assess the reliability of the data.

We performed the audit work at the Authority's office, at sampled unit locations in Shreveport, Louisiana, and at our offices in Houston, Texas, from May through August 2007. Our audit period was June 1, 2006, through July 10, 2007; however, we expanded it as necessary to review prior inspections for each unit. We conducted the audit in accordance with generally accepted government auditing standards.

### **Statistical Sample Selection and Methodology**

We used a representative random statistical sample and projected our results to the universe of 2,456 Section 8 units that received housing assistance payments in April 2007. We determined that an error was a unit that did not meet the minimal housing quality standards.

To obtain our statistical sample, we numbered the Section 8 units from 1-2,456. We used the Statistical Toolbox software application to select the sample size based on the following sampling criteria: 90 percent confidence level, 50 percent expected error rate, and 10 percent desired precision rate. Statistical Toolbox established a total of 66 units to inspect. We used the random number generator feature of Audit Control Language software to select 86 random numbers from 1 to 2,456, and we applied the numbers to our database. The first 66 numbers were our statistical sample, and the remaining 20 numbers were replacement units in case we could not access all of the 66 sample units.

We inspected the 66 sample units between June 25 and July 10, 2007. We replaced six of the original units because the tenants had moved or the units were not accessible.

We used EZ Quant software to project the results of the 62 failed units, 94 percent of the sample, to the universe of 2,456 units. The results showed that

- The lower limit is 88.3 percent x 2,456 = 2,168 units not meeting housing quality standards.

### **Determination of Materially Noncompliant Units**

After we conducted our inspections, we compiled the results using the following definition for materially noncompliant. Materially noncompliant units were units which contained health and safety failures or items not easily correctable including but not limited to blocked fire exits, extreme unsanitary conditions, lack of hot water, inoperable window locks, peeling paint (when potentially lead-based), exposed electrical wiring, and serious sewer and water leaks.

In determining materially noncompliant units, we also considered whether the deficiencies obviously existed during the prior inspection and were not documented by the prior inspector and whether the deficiencies were documented but not properly corrected. We concluded that 47 units, 71 percent of the sample, were materially noncompliant with housing quality standards. Using EZ Quant, we projected the results to the universe of 2,456 units. The results showed that

- The lower limit is 63 percent x 2,456 = 1,547 units materially noncompliant with housing quality standards.

Using the lower limit and the annualized average monthly housing assistance payments of \$331 for the population of 2,456 Section 8 units, we estimated that the Authority will spend at least \$6,145,796 for 1,547 units that are materially noncompliant during the next 12 months.<sup>4</sup>

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<sup>4</sup> [(2,456 x .63 units) x \$331 average monthly housing assistance payment) x 12 months] = \$6,145,796.



# INTERNAL CONTROLS

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

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

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

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## Relevant Internal Controls

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

- Effectiveness and efficiency of program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resources are used consistent with laws and regulations.

We assessed the relevant controls identified above.

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

## Significant Weaknesses

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

- The Authority lacked effective management, controls, and written procedures regarding its inspection process to ensure that its units complied with HUD's requirements.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Funds to be put to better use <u>1/</u>
1A	\$6,145,796

1/ Recommendations that funds to be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the Authority implements our recommendations, it will cease to incur program costs for units that are not decent, safe, and sanitary and will instead expend those funds for units that meet HUD's standards. Once the Authority establishes and successfully implements the recommended procedures and controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.


# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

### Comment 1



*Housing Authority*  
OF THE  
*City of Shreveport*

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BOBBIE R. BROWN  
ASST. EXECUTIVE  
DIRECTOR

21 November 2007

Mr. Gerald R. Kirkland  
Regional Inspector General for Audit  
U. S. Department of Housing and Urban Development  
Region VI, Office of Inspector General  
819 Taylor Street, Room 13A09  
Fort Worth, Texas 76102

**ATTN: Ms. Theresa A. Carroll**

**RE: Housing Authority of the City of Shreveport's (Authority) Section 8 Housing Choice Voucher Program Units' Housing Quality Standards Audit**

Dear Mr. Kirkland:

The Authority acknowledges receipt of the Draft Audit Report under cover letter dated, 31 October 2007, as produced by the U. S. Department of Housing and Urban Development's Office of Inspector General with respect to the aforementioned.

In response thereto, the Authority respectfully dispatches the enclosed Corrective Action and Improvement Plan for implementation to minimize and/or prevent reoccurrence of indicated findings.

There is no opposition presented in the Corrective Action/Improvement Plan on behalf of the Authority with regard to the context of the Draft Audit Report.

Depending on the action taken by the Authority's Board of Commissioners during the upcoming November 2007 meeting, a supplement to this Corrective Action/Improvement Plan may be forthcoming.

Be advised that the Executive Director, Donzetta H. Kimble, will be out of the office on medical leave for approximately three (3) months beginning 5 November 2007. All communication can be directed to the Authority's Assistant Executive Director as indicated below:

Bobbie R. Brown, Assistant Executive Director  
Housing Authority of the City of Shreveport  
2500 Line Avenue  
Shreveport, Louisiana 71104  
E-mail: [brbrown@shvhousauth.com](mailto:brbrown@shvhousauth.com)  
Phone: 318-698-3613  
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Please express and extend the Authority's sincere thanks and appreciation to the review staff for their professionalism extended to the Authority's staff during their visits.

EQUAL HOUSING OPPORTUNITY

Mr. Gerald R. Kirkland  
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21 November 2007

Should you have questions, concerns, or need further information, please contact our office at the above listing.

Sincerely,

**HOUSING AUTHORITY OF THE  
CITY OF SHREVEPORT**

Bobbie R. Brown  
Assistant Executive Director

BRB/jow

Enclosure

cc: Members of the Authority's Board of Commissioners  
Authority's Executive Director  
Authority's Section 8 Staff  
Authority's Legal Counsel  
file

### **OIG Evaluation of Auditee Comments**

**Comment 1** The Authority agreed with our audit report and provided a corrective action plan. We commend them for taking prompt action in preparing a corrective action plan.