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2008-AT-0801

MEMORANDUM FOR: Deborah A. Hernandez, Deputy Assistant Secretary for Field Operations, PQ

James D. McKay

FROM: James D. McKay, Regional Inspector General for Audit, 4AGA

SUBJECT: Corrective Action Verification
Miami-Dade Housing Agency Did Not Ensure Section 8-Assisted Units Met Housing Quality Standards
Audit Report 2006-AT-1001

We performed a corrective action verification of the subject audit recommendations at the Miami Dade Housing Agency (Agency) in response to a request from the HUD Deputy Secretary. The purpose of the corrective action verification was to determine if the selected audit recommendations were implemented and the deficiencies reported in the audit report corrected.

Scope and Methodology

Our Corrective Action Verification focused on Recommendation 1A, 1B, and 1C from audit report 2006-AT-1001 issued December 21, 2005. We reviewed the audit report and associated supporting documentation, as well as the HUD management decisions and the supporting documentation used by HUD to close the recommendations. We also reviewed Agency inspection files, quality control reports, accounting records and other supporting documentation, and applicable HUD regulations. We conducted housing quality standards inspections on 30 Section 8 housing choice voucher-assisted units throughout Miami Dade County and were accompanied by Agency inspection officials. In addition, we interviewed staff from the Miami Office of Public Housing, Miami Dade Housing Agency, and the Miami Dade County Finance Department.

Background

On December 21, 2005, we issued audit report 2006-AT-1001 on the Miami-Dade Housing Agency Section 8 Housing Quality Standards inspection program. Finding 1 of the report noted that Section 8 housing choice voucher-assisted units did not meet housing quality standards. As a result, tenants lived in units that were not decent, safe, and sanitary, and HUD made housing assistance payments (HAP) for units that did not meet housing quality standards.

We recommended that the Miami Office of Public Housing require the Agency to:

- 1A. Inspect the 117 Section 8 housing choice voucher-assisted units to verify that corrective actions were taken by the landlords and if not, to abate the rent or terminate the tenants' vouchers.
- 1B. Develop and implement an internal control plan and incorporate it into the Agency's Section 8 administrative plan to ensure units meet housing quality standards and inspections meet HUD requirements to prevent an estimated \$25.9 million from being spent on units with significant violations.
- 1C. Reduce or offset \$7,300 in the Section 8 administrative fees for the 38 units with significant housing quality standards violations.

The December 19, 2005 proposed management decisions from the Miami Office of Public Housing stated that:

- For recommendation 1A, the Agency shall provide a final report, by unit number, summarizing the results of the housing quality standards reinspections by categories of violations. The report will outline, for each reinspected unit, if the unit failed or passed the reinspection; the failed deficiencies found (new or previously identified by the OIG) and a determination as to the abatement or termination of the housing assistance payment contract.
- For recommendation 1B, the Agency shall provide (1) a copy of the amended Section 8 Administrative Plan outlining in detail the amended quality control program, including a certification that the minimal five percent goal identified will be achieved every year, and (2) a certification that all Agency staff responsible for unit and quality control inspections receive training conducted by a nationally recognized training or consulting firm, identifying the name of the firm.
- For recommendation 1C, the Agency will show proof of deposit of the \$7,300 into their Section 8 Housing Choice Voucher Program Administrative Fee account within 60 days of the date of the issuance of the final audit report.

On December 27, 2005, our office concurred with the proposed management decisions. On June 29, 2006, the Miami Office of Public Housing certified that final action had been completed on the recommendations.

Results of Review

Our corrective action verification found that the Agency disregarded the management decisions and did not implement the three recommendations. As a result, the deficiencies reported in our audit report were not corrected, and the Agency continued to violate HUD requirements.

Recommendation 1A

The Agency provided HUD with a final report summarizing the results of the housing quality standards reinspections of the 117 failed units. HUD reviewed the Agency's inspection reports for 14 units and accounting records for evidence the Agency reinspected the units and abated housing assistance payments for units that failed the reinspections. HUD accepted the Agency's report.

Our review found that the Agency did not correct the housing quality standards violations we cited in our prior audit. We reinspected 20 units and found that 18 units continue to have the same violations. Three of the 18 failed units HUD had confirmed as being corrected in reviewing the Agency inspection reports. We also consider eight units to have failed our reinspection with significant housing quality standards violations.

The following factors may have contributed to the violations being uncorrected:

- Agency inspectors accompanied us on our inspections of the 117 units during the prior audit, and we provided Agency management with our preliminary inspection results. However, during our corrective action verification, we found that many of the violations cited were not documented in Agency inspection files. As a result, Agency inspectors who reinspected these units may have been unaware of these violations and therefore did not verify if they were corrected.
- Agency inspectors may have passed a unit despite the existence of housing quality standards violations because of (1) a lack of consistency on what is considered a violation; (2) a misunderstanding of the intended meaning of violations cited by other inspectors when conducting compliance inspections; (3) an avoidance to conduct compliance inspections if a few minor violations continue to exist; (4) pressure and complaints from landlords, tenants, and Agency supervisors to pass units; and (5) lack of enforcement to conduct adequate housing quality standards inspections and accountability of Agency inspectors by supervisors.

Based on the results of our review, we will reopen the following recommendation from our previous audit report 2006-AT-1001 because the Agency did not implement the agreed upon corrective actions.

- 1A. Inspect the 117 Section 8 housing choice voucher-assisted units to verify that corrective actions were taken by the landlords and if not, to abate the rent or terminate the tenants' vouchers.

Recommendation 1B

The Agency provided HUD with its revised Section 8 administrative plan effective April 2006. The revision included three main components: (1) conducting quality control inspections on five percent of the units under lease annually; (2) conducting quality assurance inspections on five percent of the quality control inspections; and (3) having inspection supervisors assure corrective action is taken on violations cited in both quality control and quality assurance reports, and to analyze the reports for repeated patterns of failure by individual inspectors for disciplinary action. HUD reviewed the revised plan and found it to be adequate. In addition, the Agency provided HUD with housing quality standards certifications for its inspectors. HUD arranged a two-day seminar for Agency inspectors on how to conduct housing quality standards inspections.

Our review found that the Agency failed to implement its revised Section 8 administrative plan. Specifically, the Agency (1) excluded quality control inspections on initial and complaint inspections, and did not ensure that quality control inspections were conducted on five percent of the units under lease annually; (2) failed to ensure that quality assurance inspections were conducted; and (3) neglected to prepare and distribute quality control reports in a timely manner to the appropriate Agency officials for corrective action. In addition, the Agency failed to conduct housing quality standards inspections in accordance with HUD requirements.

Insufficient Quality Control Inspections

The Agency conducted quality control inspections from April 2006 to June 2007. However, the Agency excluded initial and complaint inspections even though they were required by the revised Section 8 administrative plan. Also, the Agency did not conduct quality control inspections on five percent of the units under lease annually for fiscal year 2007. Agency management believed that they met the annual five percent goal and discontinued quality control inspections as of June 2007. However, the five percent goal does not appear to have been met because multiple quality control inspections were conducted on the same units.

Lack of Quality Assurance Inspections

The Quality Assurance Inspector stated that inspections were not conducted due to missing and untimely distribution of the quality control reports. The Quality Assurance Inspector said he received the July and August 2006 reports in September 2006; the September and October 2006 reports in January 2007; never received the November and December 2006 reports; and received the January to June 2007 reports in August 2007. Agency management failed to ensure that quality assurance inspections were conducted on the quality control reports received by the Quality Assurance Inspector.

Failure to Distribute Quality Control Reports

The Agency plan required both quality control and quality assurance reports to be distributed to Section 8 Inspection supervisors, Quality Control Supervisor, Quality Assurance Inspector, and the Private Rental Director at the beginning of each month for the previous month's inspections. The Agency failed to distribute the quality control reports in a timely manner to the appropriate officials for corrective action. Agency staff stated that management did not provide a clerk to type up the handwritten inspection results into a report.

The Section 8 Inspection supervisors informed us that they had not received quality control reports for June 2006 – June 2007, and had never received any quality assurance reports. Thus the Section 8 Inspection supervisors said they could not analyze the reports for repeated patterns of failure by individual inspectors for disciplinary action. In addition, Section 8 Inspection supervisors said they could not take corrective action to assure violations cited in the quality control reports were corrected. However, we found that when the Section 8 Inspection supervisors did receive quality control reports they did not take action to assure that violations were corrected.

Inadequate Housing Quality Standards Inspections

We reinspected 10 units in September 2007 that were inspected by the Agency between May and July 2007. All 10 units failed the housing quality standards inspections with eight units found to have significant housing quality standards violations. Of the eight units with significant housing quality standards violations, seven units appear to have violations that existed when the Agency conducted its inspections. The most frequently cited violations were the same as our prior audit and include electrical hazards, heating and cooling ventilation equipment problems, and security issues.

Based on the results of our review, we will reopen the following recommendation from our previous audit report 2006-AT-1001 because the Agency did not implement the agreed upon corrective actions.

- 1B. Develop and implement an internal control plan and incorporate it into the Agency's Section 8 administrative plan to ensure units meet housing quality standards and inspections meet HUD requirements to prevent an estimated \$25.9 million from being spent on units with significant violations.

Recommendation 1C

The Agency provided HUD with an accounting entry that the Section 8 administrative fees account was replenished by \$7,300. The Agency informed HUD that their Overhead account used to repay the \$7,300 to the Agency Section 8 administrative fees account contained nonfederal funds. HUD accepted the explanation and supporting documentation.

The management decision was for the Agency to replenish their Section 8 administrative fees account within 60 days of the date of the issuance of the final audit report (December 2005). This did not occur. The Agency accounting entry to replenish their Section 8 administrative fees

account occurred in March 2006. In addition, we reviewed the funding sources for the Overhead account used to repay the \$7,300 from March 2005 to March 2006 and found that the account contained both nonfederal (county surtax) and federal (Federal Emergency Management Agency) funds. The Office of Management and Budget Circular A-87 states that federal funds are not allowed to be used to repay costs that are considered penalties or damages resulting from violations or failure to comply with Federal laws and regulations.

Auditee's Response

We discussed our results with your office during the review. We also provided your office a draft report on December 14, 2007, and discussed the report with your representative at the exit conference on January 10, 2008. You agreed with the finding and agreed with reopening recommendations 1A and 1B from our prior audit report. Based on your response, and in accordance with HUD Handbook 2000.06, REV-3, upon issuance of this report, we are recording the management decisions in the Department's Audit Resolution and Corrective Action Tracking system, with a target completion date of October 1, 2008.

Your response and our evaluation of the response are included in the appendix to this report.

Appendix

Auditee Comments and OIG's Evaluation

Refer to OIG Evaluation



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

JAN 24 2008

MEMORANDUM FOR: James D. McKay, Regional Inspector General for Audit, 4AGA

FROM:

Deborah Hernandez
Deborah Hernandez, Deputy Assistant Secretary for Field
Operations, PQ

SUBJECT:

Draft Report of Corrective Action Verification
Miami-Dade Housing Agency did Not Ensure Section 8-Assisted
Units Met Housing Quality Standards
Audit Report 2006-AT-1001

This memorandum serves as my response to reopening audit recommendations identified in Audit Report 2006-AT-1001. I have reviewed the draft audit and have no disagreement with OIG regarding the past practices of the Miami-Dade Housing Agency (MDHA). In fact, due to the systemic nature of activities related to the Housing Choice voucher (HCV) program and other financial risks at the agency, PIH moved forward with the highest form of sanctions against MDHA, recommending that the agency be placed in administrative receivership.

In October 2007, HUD took over management activities of MDHA and is diligently working toward major improvement in the HCV program. Pursuant to Section C(4)(b) 1-5 of the Work Plan included in the Agreement signed by HUD and Miami-Dade County on October 26, 2007, the HUD Oversight Administrator will review and revise as necessary internal and financial controls at MDHA. The HUD Oversight Administrator is receiving technical assistance and recommendations on the Work Plan tasks related to business processes and internal accounting control deficiencies from Deloitte and Touche as part of an existing contract. I believe that these actions will correct past deficiencies.

Therefore, I accept and agree with reopening recommendation 1A to re-inspect the 117 Section 8 Housing Choice voucher assisted units to verify that corrective actions were taken by the landlords and if not, to abate the rent or terminate the tenant voucher. Final action to be completed by October 1, 2008

I also accept and agree with reopening recommendation 1B that requires MDHA to develop and implement an internal control plan and incorporate it into the Agency's Section 8 administrative plan to ensure units meet housing quality standards and inspections meet HUD requirements to prevent an estimated \$25.9 million from being spent on units with significant violations. Final action to be completed by October 1, 2008

Comment 1

Comment 1

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Appendix

Auditee Comments and OIG's Evaluation

Refer to OIG Evaluation

Comment 2

I do not agree with your proposed new and additional recommendation 1A requiring MDHA to reimburse from nonfederal funds \$175,873 housing assistance payments for 8 units that were found to have the same significant housing quality standards violations cited in the audit.

Comment 2

I do not agree with your proposed new and additional recommendation 1B that requires MDHA to reimburse from nonfederal funds \$1.76 million of Section 8 administrative fees for failing to implement the agreed upon corrective actions for recommendations 1A and 1B previously cited in the audit report. I believe that the HUD decision to place MDHA in receivership and full implementation of the actions included in the Work Plan will resolve the prior problems both with MDHA and oversight activities of the Miami Field Office.

Comment 2

I do not agree with recommendation 1C that MDHA reduce or offset \$7,300 in the Section 8 administrative fees for the 38 units with significant housing quality standards violation. The appropriate action for violations not corrected should have been to abate the housing assistance payment. However, in light of the fact that HUD has now taken over the agency with an existing agreed upon work plan to develop internal controls should satisfy the existing concern.

Please contact me at (202) 708-4016 should you have additional concerns.

OIG Evaluation of Auditee Comments

- Comment 1** We will record your agreement to reopen recommendations 1A and 1B from our prior audit report in the Audit Resolution and Corrective Action Tracking System, with a target completion date of October 1, 2008.
- Comment 2** We recognize that the Agency is under HUD receivership and that seeking recovery of additional funds may be counterproductive to addressing Agency problems. Accordingly, we deleted the proposed new recommendations from this final report. Also, we will not reopen recommendation 1C from the prior report.