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Audit Report Number	2009-BO-1004
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TO: Robert P. Cwieka, Acting Director, Office of Public Housing, Boston Hub, 1APH

FROM:   
John A. Dvorak, Regional Inspector General for Audit, Region 1, 1AGA

SUBJECT: The City of Hartford, Connecticut, Did Not Always Comply with Its Annual Contributions Contracts and HUD Regulations in Administering Its Housing Choice Voucher Program

## **HIGHLIGHTS**

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

We audited the City of Hartford, Connecticut's (City) administration of its Housing Choice Voucher program (Voucher program) as part of our annual audit plan. Our overall audit objective was to determine whether the City properly administered its Voucher program in compliance with its annual contributions contracts and HUD regulations.

### **What We Found**

The City generally administered its Voucher program in compliance with its annual contributions contracts and HUD regulations with regard to tenant eligibility requirements, properly calculating and supporting housing assistance payments, ensuring reasonable subsidized rents, and adequately using its authorized vouchers. However, we identified questioned costs and opportunities for funds to be put to better use totaling more than \$2.4 million. Specifically,

housing did not always meet minimum standards, the City continued to pay for housing with uncorrected housing quality standards deficiency violations, it could not support administrative fees charged, and it did not properly account for tenant fraud recoveries.

Of the housing units we inspected, 47 percent did not meet minimum standards, and 27 percent had serious safety hazards. We estimate that the City may pay more than \$1.5 million over the next year for units with material deficiencies if it does not monitor its contract inspectors and implement effective quality control procedures. In addition, rent payments were made when owners failed to correct deficiencies within required timeframes. If this condition is not corrected, we estimate that the City may pay more than \$225,000 for housing with uncorrected deficiencies.

The City could not support more than \$623,000 in administrative fees charged to the program. It also did not properly account for and monitor tenant fraud recoveries due to inadequate accounting controls and oversight of its contract administrator. During the audit, the contractor implemented corrective actions, and we estimate that the City will now receive more than \$17,000 in additional funds from HUD in 2009.

### **What We Recommend**

We recommend that the Director of HUD's Boston Office of Public Housing require the City to (1) implement controls to ensure that housing units meet minimum housing quality standards and abate rents when units are not repaired within required timeframes; (2) implement a reasonable method for allocating salaries, benefits, and other costs to its Voucher program and repay the program for any unsupported costs; and (3) properly monitor, account for, and report tenant fraud recoveries to HUD.

For each recommendation in the body of the report 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 the City the draft report on November 19, 2008, and held an exit conference on November 24, 2008. The City generally concurred with our findings and recommendations. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

# TABLE OF CONTENTS

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Background and Objectives	4
Results of Audit	
Finding 1: The City Did Not Always Ensure That Its Housing Units Met Housing Quality Standards and Abate Rents When Required	5
Finding 2: The City Could Not Support \$623,229 in Costs Charged to the Voucher Program	9
Finding 3: The City Did Not Account for and Report Tenant Fraud Recoveries in Accordance with HUD's Regulations	12
Scope and Methodology	15
Internal Controls	18
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	20
B. Auditee Comments and OIG's Evaluation	21
C. Summary of Deficiencies Observed during Inspector General Housing Inspections	29
D. Summary of Housing Units Not Abated When Required	30

## BACKGROUND AND OBJECTIVES

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The Housing Choice Voucher program (Voucher program) is the federal government's major program for helping very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Participants are free to choose any housing that meets program requirements. Public housing agencies administer U.S. Department of Housing and Urban Development (HUD)-funded vouchers, which pay a housing subsidy directly to the landlord on behalf of the participating family. Public housing agencies also determine family eligibility based on income and family size and determine the amount of tenant subsidy. The agencies verify family income and composition and ensure that units meet minimum housing quality standards annually.

The City of Hartford (City) received more than \$32 million in Voucher program funds from HUD to support more than 4,500 families during its fiscal year 2007. The City has contracted out the day-to-day duties of its Voucher program and paid its contract administrator 93.25 percent of the administrative fees the City received from HUD. The contractor's duties include all major program functions including lease-up, accounting for and administering rent subsidies, fraud recoveries, housing inspections, complying with HUD's requirements, and submitting required reports to HUD. The City is responsible for program oversight, and to ensure the program is administered according to the rules and regulations prescribed by HUD in accordance with its annual contributions contract and 24 CFR (*Code of Federal Regulations*) Part 982.

Our overall audit objective was to determine whether the City properly administered its Voucher program in compliance with its annual contributions contracts and HUD regulations. Our specific audit objectives were to determine whether

- Tenants met eligibility requirements,
- Housing assistance payments were properly calculated and supported,
- Subsidized rents were reasonable,
- The City adequately used its authorized vouchers,
- Housing met minimum standards and rents were abated for units that did not meet the minimum housing standards,
- The City used Voucher program funds only for the program, and
- The City adequately monitored and accounted for tenant fraud recoveries.

## RESULTS OF AUDIT

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### Finding 1: The City Did Not Always Ensure That Its Housing Units Met Housing Quality Standards and Abate Rents When Required

Our review of 55 recently inspected housing units showed that 26 units did not meet minimum standards. Of the 26 units that failed our inspections, 21 units were materially noncompliant with housing quality standards, and 15 units had serious safety hazards. We estimate that the City may pay more than \$1.5 million over the next year for units with material deficiencies if it does not establish effective management controls. In addition, our review showed that inspectors did not always verify that life-threatening deficiencies were repaired within 24 hours and did not abate more than \$7,000 in rent for units that were not repaired within required timeframes.

These conditions occurred because the City failed to monitor its contract inspectors and ensure that they complied with HUD's requirements. We estimate that the City may avoid paying more than \$225,000 in housing costs for substandard housing during the next year if it abates rents for noncompliant units when required.

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#### **Housing Did Not Meet Minimum Standards**

We conservatively selected and inspected a statistical sample of 55 housing units from 717 recently inspected housing units.<sup>1</sup> Our inspections showed that 26 units were not compliant with HUD's minimum housing standards and failed inspections (see appendix C). In addition, 21 of the 26 units were materially noncompliant with housing quality standards.

The housing units that were materially noncompliant had deficiencies that created substantially unsafe and/or unsanitary tenant living conditions, including nonfunctioning electrical safety devices, inoperable smoke detectors, infestations, and broken windows. By contrast, those units that were not considered to be materially deficient had deficiencies such as a broken electrical cover, baseboard heaters separating from the wall, and a water-damaged common entryway ceiling that was delaminating and coming down. These types of deficiencies resulted in violations of HUD's minimum housing standards but not to a high enough degree to consider the units materially deficient.

In addition, we identified serious safety hazards at 27 percent (15 of 55) of the units we inspected. The majority of units, 13 of 15, failed for inoperable ground fault circuit interrupters near water sources, which posed life-threatening shock hazards. This condition occurred because inspectors did not test these electrical

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<sup>1</sup> The City's contract inspectors inspected these 717 units within 90 days of our initial inspection on May 6, 2008, and conduct over 4,500 inspections annually. We limited our universe to these recently inspected housing units.

circuits to ensure that they were installed and working properly. The other two units failed for inoperable smoke detectors. One detector adjacent to a bedroom was a carbon monoxide detector that the inspectors improperly signed off as an operable smoke detector. The other deficient smoke detector was disconnected from electricity and had a dead battery. As a result of our audit, the City revised its administrative plan and added the requirement to test ground fault circuit interrupters.

By projecting the 21 failed units in our sample to the 717 units in the universe, we estimate that 200 of the 717 units may be materially noncompliant with HUD's housing quality standards. If corrective action is not taken, we estimated the City may spend more than \$1.5 million in the next 12 months on these 200 materially noncompliant units.

**The Contractor Did Not Verify  
Life Threatening Deficiencies  
Were Repaired Within 24  
Hours**

We also selected and reviewed a statistical sample of 44 tenant files from a universe of 4,580 active tenants.<sup>2</sup> This review showed that inspectors did not always verify that life-threatening deficiencies were repaired within the required 24 hours. The contract inspectors identified inoperable smoke detectors in 14 of the 44 housing units. Inspectors prepared letters requesting that owners sign and return the letters to verify that the deficiencies were repaired within 24 hours. However, the files showed that 5 of 14 owners did not certify that corrective action was taken within 24 hours. In addition, logs documenting follow-up on emergency repairs did not show that the repairs were completed within 24 hours. By projecting the five deficient units in our sample to the universe of 4,580 units, we estimate that at least 162 life-threatening safety hazards might not have been verified as repaired within 24 hours.<sup>6</sup> The contract administrator ultimately verified that the smoke detectors were repaired, but not ensuring that the smoke detectors were working properly within 24 hours put the family at great risk. Quality control reports prepared by the contractor showed that it did not always follow up on 24-hour violations adequately, and there was no evidence that the City reviewed these reports or took corrective action.

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4 As of April 2, 2008.

## **The City Did Not Always Abate Payments**

Federal regulations require prompt and vigorous action to abate payments for housing that does not meet minimum quality standards and is not repaired within the required period.<sup>3</sup> Our review of 44 tenant files showed that inspectors successfully identified deficiencies in 33 units and verified that 24 units were repaired within the required period. However, they did not abate payments for nine units that were not repaired or not verified as having been repaired within the required period.<sup>4</sup> Specifically, the contractor did not inspect or verify that smoke detectors in five units were repaired before making the monthly rent payments. The contractor inspected the other four units and verified that the repairs had not been completed. The inspectors verified that these deficiencies were ultimately repaired; however, they did not process \$7,726 in required abatements for the nine units (see appendix D). This condition occurred because the contractor did not follow HUD's requirements and was not detected because the City failed to adequately monitor its contract inspectors and ensure that payments for substandard units were abated when required.

Based on our sample showing that rents for nine units were not abated when required, we determined that rents for at least 481<sup>5</sup> units were not abated when required. If corrective action is not taken, we estimate that the City may pay more than \$225,000 next year for deficient units that are not repaired within the required period.

## **The City Did Not Monitor Its Contract Inspectors**

The City relied on its contract inspectors to monitor its housing inspection program. However, the contractor's quality control program limited inspections to a sample of newly occupied units only<sup>6</sup> and failed to verify the reliability of the more than 4,500 annual housing inspections.<sup>7</sup> The contractor's limited quality control inspection reports indicated problems with the inspection program when

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<sup>3</sup>Payment is not authorized for units that fail to meet minimum standards unless the defect is repaired within the period specified by the public housing agency and the agency verifies the correction. Life-threatening defects must be corrected within 24 hours. Other defects must be corrected within 30 days or an agency-approved extension (24 CFR 982.404(a)(3)).

<sup>4</sup>During the 18-month period reviewed, January 1, 2007, through June 30, 2008.

<sup>5</sup>Of the total 4,580 program units.

<sup>6</sup>During the period August 2007 through February 2008.

<sup>7</sup>Quality control inspections should include a cross-section of initial and annual inspections according to the Housing Choice Voucher Program Guidebook 7420.10G, indicator 5, HQS [housing quality standards] Quality Control Inspections.

<sup>8</sup>Between July 1, 2005, and June 30, 2008.

they showed that more than 27 percent of recently inspected units failed to meet minimum standards. Although the City received the contractor's reports, we found no evidence that the City reviewed the contractor's quality control reports, verified that they were accurate, questioned why annual inspections were not tested, or investigated the high failure rate.

## Conclusion

The City failed to monitor its contract inspectors and ensure that they complied with HUD's requirements. As a result, tenants lived in units that did not meet minimum standards, safety devices to protect tenants from fire and electrical shock hazards did not operate properly, and the City paid for housing that did not meet minimum standards. Unless the City corrects these deficiencies, it will incorrectly pay more than \$1.5 million for substandard housing and fail to abate units with uncorrected deficiencies.

## Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require the City to

- 1A. Certify, along with the owners of the 26 program units cited in this finding, that the applicable housing quality standards violations have been corrected.
- 1B. Develop and implement adequate procedures and controls, including improving use of quality control inspection reports, to ensure that all units meet HUD's housing quality standards and prevent \$1,531,200 in program funds from being spent over the next year on units that are in material noncompliance with the standards.
- 1C. Implement controls to ensure that units with deficiencies that are required to be repaired in 24 hours are repaired and the repairs are verified.
- 1D. Repay its Voucher program \$7,726 from nonfederal funds for units that remained in noncompliance with housing quality standards and were not abated when required.
- 1E. Implement controls to ensure that housing assistance payments are abated when required to avoid paying \$225,044 in housing assistance on units with violations that are not corrected timely over the next year.

## RESULTS OF AUDIT

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### Finding 2: The City Could Not Support \$623,229 in Costs Charged to the Voucher Program

The City received more than \$12 million to administer its Voucher program during the period July 1, 2005, through June 30, 2008. The City paid the majority of these costs to its contract administrators for eligible program costs. However, it could not provide sufficient documentation to support more than \$623,000 that it charged the program for salaries, benefits, and indirect costs. This condition occurred due to weak accounting controls and the lack of supporting records. As a result, the Voucher program's administrative reserve account may be understated, and these funds may not be available for future expenses or to house additional families. The City recognized that its procedures and records required improvement and hired a certified public accountant to improve its record-keeping procedures.

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#### **Contractor Costs Were Eligible Program Costs**

City staff spent the majority of their time on other programs and relied on the contract administrator to manage the City's Voucher program. The contractor's duties included all major program functions including lease-up, accounting for and administering rent subsidies, fraud recoveries, housing inspections, complying with HUD's requirements, and submitting required reports to HUD. The City paid the contractor the majority of the \$12 million that HUD provided to administer the program.<sup>8</sup> We determined that these payments were eligible program costs.

#### **The City Could Not Support the Costs It Charged to the Program**

The City could not support its method of charging its Voucher program for its salaries and other indirect costs. This condition occurred due to weak accounting controls and the lack of supporting records. Federal regulations and the City's contract with HUD<sup>9</sup> require the City to maintain records to support all program

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<sup>8</sup> Between July 1, 2005, and June 30, 2008.

<sup>9</sup> 24 CFR 982.152 and the City's annual contributions contract, HUD Form 52520.

costs<sup>10</sup> and to use program funds only for the program. Although City staff maintained time cards to record the amount of time they spent on various projects, the City did not use the time cards or any other reasonable method for determining the amount of salary and benefit costs attributed to its Voucher program and did not have a method for identifying indirect costs incurred to manage the program. As a result, the City could not show that it incurred the \$623,229 in costs charged to the Voucher program.<sup>11</sup>

The City agreed to establish an auditable method for supporting the salaries and indirect costs charged to the program and hired a certified public accountant to update its central service cost allocation plan and departmental indirect cost plan to serve as a basis for determining the total administrative fees earned by the City. The expected delivery date was May of 2008; however, the plan had not been completed by the end of our audit.

### **The City Had \$7,681 in Administrative Reserves**

HUD requires program administrators to maintain an administrative fee reserve account. When the amount of funds HUD provides for program administration exceeds the amount required to administer the program, the excess funds must be credited to the reserve account.<sup>12</sup> The excess funds in the reserve account provide a buffer that may be used when additional funds are needed to administer the program. In addition, the reserve may be used to subsidize families' rent payments. Although the City received more than \$12 million to administer its Voucher program during the last three years, it only maintained \$7,681 in its administrative fee reserve account.

### **Conclusion**

The City did not maintain adequate records to support more than \$623,000 in administrative costs charged to its Voucher program. As a result, the Voucher program's administrative reserve account may be understated, and funds may not be available for future expenses or to house additional families. Also, the City failed to maintain adequate reserves in its administrative fee reserve account

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<sup>10</sup> Records must be kept for at least three years, 24 CFR 982.158 and the annual contributions contract, section 14, page 3.

<sup>11</sup> Between July 1, 2005, and June 30, 2008.

<sup>12</sup> The City must credit to its administrative fee reserve at fiscal year-end (1) the amount by which administrative fees paid by HUD exceed the City's administrative expenses plus (2) interest earned on the administrative fee reserve (24 CFR 982.155).

should its expenses exceed the amount HUD provides to fund the Voucher program.

## Recommendations

We recommend that the Director of the HUD's Boston Office of Public Housing require the City to

- 2A. Provide supporting documentation to show that \$623,229 in costs was properly chargeable to its Voucher program or repay from nonfederal funds any unsupported costs to its administrative reserve account.
- 2B. Develop, document, and implement a reasonable method for allocating salaries and benefits and other costs to its Voucher program.

## RESULTS OF AUDIT

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### Finding 3: The City Did Not Account for and Report Tenant Fraud Recoveries in Accordance with HUD's Regulations

The contract administrator collected and returned more than \$452,000 in fraud recoveries to the Voucher program.<sup>13</sup> However, the funds were not properly reported, which caused an understatement of housing assistance payments and a reduction in funds that the City received in 2008. This condition occurred because the City lacked oversight and the contract administrator had improper accounting procedures. The City is now correctly reporting housing assistance payments and tenant fraud recoveries to HUD, and the Voucher program should receive an additional \$17,649 in calendar year 2009.

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#### **The City Did Not Report Tenant Fraud Recoveries**

Tenant fraud recoveries can include a number of situations, perhaps the most common being the underreporting of tenant income, which result in an overpayment of housing assistance to owners. When this fraud is discovered, the public housing agency may pursue the tenant for repayment of the funds. These repayments are referred to as fraud recoveries. HUD regulations, directives, guidebooks, and user manuals provide policies and procedures for accounting for and reporting tenant fraud recoveries.<sup>14</sup>

The contract administrator identified, collected, and returned more than \$452,000 in tenant fraud recoveries to the program. However, the City lacked policies and procedures for accounting for and monitoring tenant fraud recoveries collected by its contract administrator. Consequently, it did not know how much each tenant owed, the nature of the repayment, or the terms of repayment agreements. Further, the City lacked awareness of how fraud recoveries were paid, tracked, or reconciled by its contract administrator. As result, the contractor continued to not report fraud recoveries on Voucher Management System reports and financial data schedules provided to HUD.

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<sup>13</sup> During our audit period July 2005 through September 2008.

<sup>14</sup> 24 CFR Part 792; HUD directive PIH [Public and Indian Housing] 2006-3; HUD's Housing Choice Voucher Program Guidebook 7420-10G, chapter 20-9; Voucher Management System Users Manual.

<sup>15</sup> \$8,779 = \$125,216 - \$116,436.

## Improper Accounting Led to Reduced Program Funding

HUD calculates the amount of housing assistance payment funds provided to agencies by multiplying the previous year's housing assistance payments by an annual adjustment factor. However, the contractor understated the City's 2007 housing assistance payments by \$116,000 in the Voucher Management System because it subtracted the fraud recovery funds from the housing assistance payments requested. This error resulted in HUD's reducing the City's 2008 funding by more than \$125,000. As a result, the City's program net funds were reduced by \$8,779 in 2008.<sup>15</sup> In addition, if the City fails to ensure that its 2008 housing assistance payments are properly reported to HUD, its net funding will be reduced by more than \$17,000 in calendar year 2009 as calculated in the following table.

Description	Actual 2008	Projected 2009
Unreported fraud recoveries	\$116,436	\$234,069
Times annual adjustment factor	106%	106%
Times proration factor	101.453%	101.453%
Amount of reduced annual housing assistance funding	\$125,215	\$251,719
Offset due to returning fraud recoveries to the program by reducing the amount of housing assistance expenses	\$(116,436)	\$(234,069)
Net reduction In funds available to house families	\$8,779	\$17,649

## Conclusion

Lack of reporting and improper accounting procedures for tenant fraud recoveries caused Voucher Management System reports to be understated and resulted in reduced funds to the City to house low-income families. In addition, the City's lack of oversight provided no assurance that fraud recoveries collected by its contractor would be properly accounted for, reported to HUD, and returned to the program in the future.

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<sup>15</sup> \$8,779 = \$125,216 - \$116,436.

## Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require the City to

- 3A. Implement policies and procedures to properly monitor, account for, and report tenant fraud recoveries, thereby resulting in additional program funding totaling \$17,649 for fiscal year 2009.

## SCOPE AND METHODOLOGY

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We conducted our audit between March and October 2008. We completed our fieldwork at the City's offices located at 250 Constitution Plaza in Hartford, Connecticut, the City's contract administrator's offices, and various housing units selected for review. Our audit covered the period July 1, 2005, through June 30, 2008, and was extended when necessary to meet our audit objectives.

To accomplish our audit objectives, we

- Reviewed relevant HUD regulations, including 24 CFR Part 982 and the Housing Choice Voucher Guidebook 7420.10.G.
- Interviewed City staff and its contract administrators to determine what controls were in place to ensure compliance with HUD's requirements.
- Inspected a statistical sample of 55 housing units and recorded and summarized the inspection results (see details below).
- Reviewed a statistical sample of 44 tenant files to obtain the results of inspections and determine whether the City performed adequate follow-up and abated rents for units that did not meet minimum housing standards (see details below).
- Reviewed 100 percent of the City's contractor's quality control housing inspections completed between August 2007 and February 2008 to identify problematic areas and determine whether the reviews included a cross-section of initial and annual inspections.
- Interviewed City staff and officials and reviewed documentation to determine whether the City could support the amount of administrative costs charged to the program.
- Interviewed the City's staff and contract administrator and reviewed documentation to determine whether the City adequately monitored and accounted for tenant fraud recoveries.

To test and evaluate our results we selected two statistical samples:

1. We selected a sample of recently inspected housing units to determine whether they met HUDs' housing quality standards. We evaluated units materially noncompliant that had a life-threatening deficiency such as an inoperable smoke detector or ground fault circuit interrupter, a serious safety hazard such as broken glass, or a serious health hazard such as rodent or roach infestation. We evaluated units with other deficiencies that did not meet HUD's minimum requirements as deficient. We ranked units as materially noncompliant, deficient, or compliant with HUD's requirements.

We selected a statistical sample of 55 of the City's subsidized units to inspect. The sample was based on the 717 inspections conducted by the City's contract administrators during the

period February 6 through May 6, 2008. We obtained the sample based on a confidence level of 90 percent, a precision level of 10 percent, and an assumed error rate of 67 percent. We used 67 percent as our presumed error rate based on our initial sample results.

We inspected the sample of 55 units and determined that 26 of the 55 units were deficient. Further, we determined that the 21 units were in material noncompliance due to unsafe or unsanitary living conditions. Projecting the results of the 21 units that were in material noncompliance with housing quality standards to the universe indicated that 200 (rounded up) or 27.83 percent of the 717 units contained the attributes tested. The sampling error was plus or minus 10.35 percent. Therefore, we are 90 percent confident that the frequency of occurrence of the attributes tested lies between 27.83 and 48.54 percent of the universe. This equates to an occurrence of between 200 and 348.

- The lower limit is 27.83 percent of 717 units = 200 units in material noncompliance with minimum housing quality standards (rounded up).
- The point estimate is 38.18 percent of 717 units = 274 units in material noncompliance with minimum housing quality standards.
- The upper limit is 48.54 percent of 717 units = 348 units in material noncompliance with minimum housing quality standards.

By conservatively using the lower limit and the average annual housing assistance payments for all housing choice vouchers for the period January 2007 through March of 2008, we estimate that the City will spend \$1,531,200 (200 units x \$7,656 average housing assistance payment within the next 12 months) for units that are in material noncompliance with housing quality standards.

2. We selected a statistical sample of 44 of the City's program vouchers and the associated tenant files to determine whether the City abated rents for units that did not meet the minimum housing standards. The sample was based on the 4,580 vouchers and related housing units administered by the City as of April 2, 2008. We obtained the sample based on a confidence level of 90 percent, a precision level of 10 percent, and an assumed error rate of 21 percent. We used 21 percent as our presumed error rate based on our initial sample results.

We reviewed documentation generated between January 1, 2007, and June 30, 2008. We inspected the sample of 44 tenant files and determined that 9 of the 44 units were deficient. Projecting the results of the nine units that were not abated when required to the universe indicated that 481 or 10.5 percent of the 4,580 units contained the attributes tested. The sampling error was plus or minus 9.95 percent. Therefore, we are 90 percent confident that the frequency of occurrence of the attributes tested lies between 10.5 and 30.41 percent of the universe. This equates to an occurrence of between 481 and 1,393.

- The lower limit is 10.5 percent of 4,580 units = 481 units in material noncompliance with minimum housing quality standards.
- The point estimate is 20.45 percent of 4,580 units = 936 units in material noncompliance with minimum housing quality standards.
- The upper limit is 30.41 percent of 4,580 units = 1,393 units in material noncompliance with minimum housing quality standards.

By conservatively using the lower limit, the average monthly housing assistance payments for all housing choice vouchers between January 2007 and March 2008, and the average period rents were not abated from our sample, we estimated that the City may spend at least \$225,044 within the next 12 months for units that should have been abated as follows:

	481	Estimated units that were not abated when required
x	\$638	Average monthly housing assistance payment (payments)
x	<u>1.10</u>	<u>Average number of months payments were not abated (actual from sample)</u>
	\$337,566	Projected payments that were unabated for 18-month period (January 1, 2007- June 30, 2008)

\$225,044 Projected unabated annual housing payments (12/18 months x \$337,566)

We performed our review 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(s).

# 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.
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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.

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## Relevant Internal Controls

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

- Controls over housing quality standards and housing inspections.
- Controls over accounting and maintaining adequate support for administrative expenses charged to the program.
- Controls over monitoring the contract administrator's performance and adequately accounting for and reporting tenant fraud recoveries.

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 that the following items are significant weaknesses:

- Controls over housing inspections and inspection reports did not ensure that housing units met minimum standards, exigent conditions were verified as

having been repaired within 24 hours, and rents were abated when units were not repaired within the required timeframes (see finding 1).

- Procedures to properly allocate costs to the program were insufficient (see finding 2).
- Accounting controls did not ensure that tenant fraud recoveries were accounted for and reported in accordance with HUD's requirements (see finding 3).
- Controls over the City's contract administrator did not ensure that the program met all of HUD's requirements and adequately accounted for and reported tenant fraud recoveries (see findings 1 and 3).

## APPENDIXES

### Appendix A

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

The audit identified questioned costs and funds to be put to better use totaling \$2,404,848 as follows:

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1A			\$1,531,200
1B	\$7,726		
1C			\$225,044
2A		\$623,229	
3A			\$17,649

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. Specifically, the \$1,531,200 is based on the estimated 200 units in material noncompliance with minimum housing quality standards and represents the annual amount of funds that could be put to better use on decent, safe, and sanitary housing if the City implements our recommendation; the \$225,044 is based on the 481 units that we estimated were not abated when required and represents the annual amount in payments the City may avoid if it implements our recommendation and abates rents when required; and the \$17,649 is the net increase in program funds that will be available to administer the program in 2009 if the City properly accounts for and reports tenant fraud recoveries.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



**CITY OF HARTFORD**

DEPARTMENT OF DEVELOPMENT SERVICES  
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December 3, 2008

Mr. John A. Dvorak  
Regional Inspector General for Audit  
Office of Inspector General for Audit I  
Thomas P. O'Neill Federal Building  
10 Causeway Street, Room 370  
Boston, Massachusetts 02222-1092

Dear Mr. Dvorak:

I am writing to provide you with our response to the audit report issued by your office on November 19, 2008. The City of Hartford has already taken measures to address all three findings and will work with the local HUD office on the corrective action plan to close-out all findings.

**Finding 1: The City Did Not Always Ensure Its Section 8 Housing Units Met Housing Quality Standards.**

The City will develop and implement additional controls to monitor inspection and ensure compliance with the Housing Quality Standards and work with the local HUD office on the corrective action plan to close-out this finding. City staff has begun conducting quality control inspections in addition to the contractor's own supervisory inspections. The City will conduct a statistical representative sample of the type of inspection being conducted and will separately summarize the results. The City will ensure the contractor has implemented additional steps to strengthen the abatement process including: ensuring landlord signatures are obtained on 24 hour emergency letters; ensuring documentation is present in the file regarding extensions for valid reasons and ensuring overall abatement execution. The City has conducted a file review to confirm that all deficiencies identified in the units inspected by the OIG have been confirmed as corrected or appropriate action has been taken. The City agrees with audit recommendations regarding the \$7,726 for non-abated units and will cause repayment of these funds back to the Voucher Program. In response to the GFCI issue the City already added to the administrative plan the additional HQS requirement to test ground fault circuit interrupters GFCI when they are present in a unit. Inspections now include the practice of routinely enforcing this requirement.

Comment 1

# AUDITEE COMMENTS AND OIG'S EVALUATION

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## Ref to OIG Evaluation

## Auditee Comments

Mr. John A. Dvorak  
Regional Inspector General for Audit  
Office of Inspector General for Audit I  
Page Two  
December 3, 2008

### **Comment 1**

While the City concurs with the recommendations outlined it is important to recognize that the inspection results that are summarized in the audit and are used to extrapolate across the entire program are misrepresentative in that they also include deficiencies that are post-inspection or tenant-caused issues and, further, impose GFCI testing requirements that are not clearly specified in HUD regulations or guidance.

1. The inspection results summarized in the audit list all violations without separating between pre-existing violations that inspectors may have missed and post-inspection deficiencies or tenant-caused violations that that will routinely occur.

It is unbalanced to hold an inspector accountable for all deficiencies that are present in a subsequent quality control re-inspection without accounting for tenant-caused violations and post-inspection deficiencies that routinely occur after the inspector leaves and are beyond his/her ability to control. Housing conditions don't necessarily remain static. The average amount of lag time between inspections for the inspection test was 81 days and in one case 159 days. In some cases a tenant's response to an auditor's question was used to justify that violations were pre-existing, while, at the same time, when a tenant acknowledged that they had caused a violation it was still summarized and reflected negatively in the audit finding. This includes smoke detectors that were acknowledged by the OIG as being made non-operative by the household family members but were still summarized on Appendix C as violations that were not detected.

### **Comment 2**

The following cases are some examples where post-inspection deficiencies or tenant-caused violations were listed as violations and summarized and reflected negatively in the audit.

### **Comment 2**

Case #VQ-1758. In this case the tenant and landlord were both present at the time of the OIG inspection and both confirmed that the only deficiency cited thru the OIG QA inspection was due to the tenant incorrectly installing a bathroom mirror medicine cabinet that blocked a window. The apartment unit was last inspected on 3/18/08 before the tenant moved-in and first occupied the unit. The tenant moved-in on 4/1/08 and sometime between the move-in and the OIG QA inspection on 7/1/08 the tenant installed a mirror medicine cabinet covering a window without anyone's knowledge. This is listed as a violation and summarized as one of the non-compliant units.

# AUDITEE COMMENTS AND OIG'S EVALUATION

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**Ref to OIG Evaluation**

**Auditee Comments**

Mr. John A. Dvorak  
Regional Inspector General for Audit  
Office of Inspector General for Audit I  
Page Three  
December 3, 2008

**Comment 2**

Case # VXF-468. In this case the only deficiency noted was water damage to a common hallway ceiling from a recent water event. This was observed a month and half after the last inspection and confirmed by the property owner that it was a post-inspection event. However, it is listed and summarized as one of the non-compliant units.

**Comment 3**

Case #VQ-2523. In this case the tenant acknowledged at the time of the OIG inspection that all deficiencies occurred after the last inspection (which was 4 months earlier) and the landlord also confirmed this later. The OIG summary analysis deemed that the HQS deficiencies don't meet significance required by OIG, yet it is listed and summarized as a non-compliant unit.

**Comment 2**

Case #VXG-455. In this case the lone deficiency noted was a "cracked/unsecured" outlet cover. The OIG deemed at the time of their inspection that it was inconclusive as to when the deficiency occurred.

**Comment 4**

Case #VN-67. In this case the deficiencies noted include missing knobs on the kitchen stove and a broken glass door to a cabinet. The tenant acknowledged during the OIG QA that she removed the knobs and broke the window. However, these items are listed negatively in the audit.

**Comment 4**

Case #VQ-660. In this case the deficiencies noted include a leaking sink. The tenant's son acknowledged during the OIG QA that the leaking sink had started since the last inspection 132 days earlier, but this item is listed negatively in the audit.

**Comment 2**

In several cases smoke detectors were acknowledged as being disabled by the tenants during the OIG inspection and were summarized as if they were violations that were not detected: Three of the non-working smoke detectors that were identified were the result of tenants who had removed batteries or otherwise disabled a smoke detector in their apartment units since the last inspection. In all of these cases the battery was reinstalled during the OIG inspection and tested correctly before leaving the unit. However, the smoke detectors are summarized in Appendix C as failures and reflected negatively against the inspection process, even though the OIG QA field notes acknowledged the tenant was responsible for the smoke detector being disabled since the last inspection. In another case the tenant acknowledged during the OIG inspection that the smoke detector had been tested and was working at the last inspection prior to the OIG inspection and was the result of the battery being dead and not replaced.

# AUDITEE COMMENTS AND OIG'S EVALUATION

## Ref to OIG Evaluation

## Auditee Comments

### Comment 5

Mr. John A. Dvorak  
Regional Inspector General for Audit  
Office of Inspector General for Audit I  
Page Four  
December 3, 2008

2. Half of the units that failed were identified with deficient ground fault circuit interrupters (GFCI). HUD regulations do not currently clearly specify the requirement to test GFCI and, in fact, HUD guidance clearly states that GFCI are not required by HQS without a variation request.

HUD regulations, guidebook, and training manual that govern the minimum Housing Quality Inspection Standards for the Housing Choice Voucher program do not require the presence of ground fault circuit interrupters (GFCI) or clearly specify the requirement of testing of the GFCI if they happen to be present in a unit<sup>1</sup>. In fact, the only instance where the GFCI is referenced in any of the HUD training material is on the HUD Website Question and Answer Guidance<sup>2</sup> which was recently created to guide housing agencies on interpretation matters. In the guidance material it specifically states "*Ground Fault Circuit Interrupters are not required by the Housing Quality Standards. However, if the PHA wishes to add the requirement in order to conform to local code, it may request a variation to the Acceptability Criteria from the local HUD Office*".

HUD written guidance does list seven (7) distinct and specific examples of electrical hazards. The lack of a GFCI or a non-working GFCI is not referenced as one of the examples (nor is it listed at all). Regulations and guidance material do not clearly identify the inspection requirements pertaining to GFCI. If GFCI's are to only be tested when they are present, as suggested, then one of the cures for a non-working GFCI would be to remove it completely and, assuming all other minimum electrical requirements were met, this solution would be acceptable.

We have since added the additional requirements in the administrative plan to require testing of GFCI's when they are present. We added this additional policy requirement to the administrative plan since it represents a variation to acceptability criteria of HUD HQS and requires local HUD office review. We respectfully suggest that it is unbalanced to apply an inspection standard that the HUD housing quality standards do not clearly require (regarding the presence or testing of GFCI's) and then report that the results suggest the lack of an enforcement effort.

<sup>1</sup>Source Regulations/Training/Guidance Documents: a.) 24 CFR 982.401 Housing Quality Standards (HQS) (f) Illumination and electricity (1) Performance Requirements; b.) Housing Inspection Manual – Section 8 Existing Housing Program; c.) 7420.7 CHG 3 Chapter 5 Housing Quality Standards, Unit Inspections, and Eligible Types of Units; d.) Housing Choice Voucher Program Guidebook 7420.10G Chapter 10 Housing Quality Standards; e.) HUD Website Question and Answer Guidance page at <http://www.hud.gov/local/shared/working/r10/ph/hqs.cfm?STATE=wa>. Other Professional HQS Training Source – HUD Audio-Visual Presentation. Currently, HUD does not offer HQS training other than Lead paint assessment; f.) Prior HUD Management Reviews that involved unit inspections did not involve testing of GFCI. Other Professional HQS training courses that staff have attended and certifications achieved – National Association of Housing and Redevelopment Officials (NAHRO): i.) Housing Quality Standards (HQS) with Proficiency Test; ii.) Section 8 (HCV) Housing Manager (SHM) Seminars and Exam.; e.) Other Professional HQS training courses that staff has attended and certifications achieved – Nan McKay Section 8 HCV Housing Quality Standards and Proficiency Test.

<sup>2</sup>HUD Website Question and Answer Guidance page at - <http://www.hud.gov/local/shared/working/r10/ph/hqs.cfm?STATE=wa>.

# AUDITEE COMMENTS AND OIG'S EVALUATION

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## Ref to OIG Evaluation

## Auditee Comments

Mr. John A. Dvorak  
Regional Inspector General for Audit  
Office of Inspector General for Audit I  
Page Five  
December 3, 2008

**Finding 2: The City Could Not Support \$632,229 in Costs Charged to the Voucher Program**

The City recognizes that it did not adequately document all of the time on Section 8 activity and did not have in place the necessary accounts to segregate administrative funds.

The City has taken steps to create an administrative sub account to deposit and expend administrative funds, establish a properly funded reserve account as well as a sub account for fraud recovery deposits. This will improve fiscal accountability and management.

The City will, upon completion of the indirect cost study, accurately charge indirect and fringe to the direct salary costs.

The City will work with the local HUD office to close-out this finding.

**Finding 3: The City Did Not Account for and Report Tenant Fraud Recoveries in Accordance with HUD's Regulations**

The City will implement additional policies and procedures to properly monitor, account for, and report tenant fraud recoveries. Corrective action has already been completed to restate the tenant fraud recovery funds in the VMS and the Financial Data Schedule to ensure that these funds are reclassified on the appropriate HUD reporting line. The corrections have been made retroactively through calendar year 2008. Therefore, there will be no reduction in funding in 2009 as forecasted in the audit.

As the audit stated more than \$452 thousand in fraud recoveries were identified, collected and returned back to the program. In addition, the City's VMS reporting method was specifically audited by HUD's Quality Assurance Division in both 2005 and 2007. This issue was not identified or raised in either of those audits or this reporting correction would have been previously addressed. In any event, the corrections that have been recommended have already been implemented to positively impact 2009 funding.

If you have any questions, please feel free to contact me at 860-757-9018 or [escay001@hartford.gov](mailto:escay001@hartford.gov).

Sincerely,

  
Yasha Escalera  
Director

YE-08108  
CC: D. Panagore  
R. Cwieka, 1APH

## OIG Evaluation of Auditee Comments

### **Comment 1**

The results are not misrepresentative and identify violations according to HUD regulation and guidance. The auditee's statement that the report extrapolates our results to the entire population is inaccurate and misleading. In fact, we reported on only 717 of the more than 4,500 inspections the auditee conducts each year. As the auditee states, more than 50% of units failed for faulty ground fault circuits. Had we extrapolated our results to the entire population the number of units with exigent electrical safety hazards would be even more egregious.

In addition, the report factually identifies units that were not compliant. We agree the report does not separate between pre-existing violations, post-inspection deficiencies, or tenant-caused violations, but it was not our intention to report these distinctions. This is because HUD regulations require that units comply with the HQS regardless of when the deficiency occurred or who was responsible.

We acknowledge that it is not possible to verify with certainty whether a deficiency was present during the previous inspection unless a quality control inspection is conducted immediately after the inspection under review. However, HUD requires administrators to conduct quality controls inspections within 90 days of the initial inspection. The majority of our inspections that cited deficiencies were conducted within the 90 period. Therefore, we maintain that our results are representative of the condition of the universe of leased housing units.

The finding is not unbalanced and we disagree the finding unreasonably held the City and its inspectors accountable. The fact is that 50 percent of the units failed for inoperable ground fault circuit interrupters the inspectors failed to test. The failure to identify and correct this significant amount of potential life threatening electrical hazards alone supports our audit finding and requires immediate corrective action. Furthermore, identifying and correcting these hazards was clearly not beyond the inspectors' control as stated in the auditee's response as evidenced by the City's agreement to take prompt corrective action and test these circuits in the future.

## OIG Evaluation of Auditee Comments

**Comment 2** We agree that the deficiencies cited for VQ-1758, VXF-468, VQ-2523, VXG-455, VN-67, and VQ-660 may have been tenant caused or have occurred after the auditee's initial inspection. However, HUD regulations require that units comply with the HQS regardless of when the deficiency occurred or who was responsible. Thus, the report identifies these units as not compliant.

**Comment 3** We reported this unit as noncompliant due to several bathroom deficiencies, including the (1) wash basin was leaking from trap, (2) baseboard heater was not secured to the wall, and (3) access to the window was blocked by a temporary wall. Although we did not classify the unit as materially noncompliant, it clearly did not meet HQS.

**Comment 4** These units had an inoperable ground fault circuit interrupters the inspectors did not test and thus were materially noncompliant. See comment 2 for our response regarding post inspection deficiencies.

**Comment 5** The auditee's argument that the installation of ground fault circuit interrupters is not required by HUD is separate and distinct from the deficiency we reported that the ground fault circuit interrupters were not being tested when they were installed.

It is common sense that ground fault circuit interrupters should be in proper working order. The very reason they were installed was to protect against life threatening electrical shocks. To state they did not test ground fault circuit interrupters because HUD did not specifically instruct them to; and to suggest that testing ground fault circuit interrupters required a higher standard of care than HUD required is inaccurate and disingenuous. Quite simply, this is a safety and compliance issue that the inspectors and City had missed and the City has agreed to correct. Specifically, we cite the following HUD Regulations and guidance;

- HUD Regulations for the Housing choice Voucher program at 24 CFR 982.401 par. (f) (2) (ii) and (III), require that electrical installations must be "in proper operating condition". An inoperable ground fault circuit interrupter clearly is not "in proper operating condition" and testing ground fault circuit interrupter is the method to ensure compliance with this requirement.

## OIG Evaluation of Auditee Comments

### **Comment 5**

- HUD's Inspection Form 52580a items 3.3, Electrical Hazards, states "In addition to the previously mentioned hazards, outlets that are located where water might splash or collect are considered an electrical hazard." Although the inspection form does not specifically cite that ground fault circuit interrupters must be tested; testing these circuits near water sources is clearly the only way to ensure that they are operating safely.
- HUD'S Housing Choice Voucher Guidebook also states; "The PHA must be satisfied that the electrical system is free of hazardous conditions, including: exposed, uninsulated, or frayed wires, improper connections, improper insulation or grounding of any component of the system, overloading of capacity, or wires lying in or located near standing water or other unsafe places."(HUD HCVP Guidebook 7420.10 Chap 10.3, Performance Requirements and Acceptability Standards, Illumination and Electricity. Once again, although HUD did not specifically cite ground fault circuit interrupters it is clear in order to be satisfied the electrical system is free of hazardous conditions inspectors should test GFCI's near water sources.

## Appendix C

### SUMMARY OF DEFICIENCIES OBSERVED DURING INSPECTOR GENERAL HOUSING INSPECTIONS

Test #	Voucher #	non-compliant with HQS	Materially non-compliant with HQS	Exigent condition	GFCI	Smoke detector	Other electrical hazards	Infestation	Broken glass	Mold	Stove	Chipping paint	Entry trip hazards	Windows	Heating	Lighting	Ceiling and walls	Plumbing leaks	Internal doors	Other
1	VQ-2020	1	1						1			1	1			1	1			1
2	VQ-2570	1	1	1	1		1				1									
3	VQ-2456	1	1	1	1									1		1				1
4	VQ-1087	1	1	1		1				1						1				
5	VQ-1669	1	1	1	1															1
7	VQ-2995	1	1	1	1	1		1			1									5
9	VM-49#	1	1			1		1		1		1		1			1			1
10	VQ-2451	1	1	1	1															
11	MB-1299	1	1	1	1	1		1		1										1
13	VXV-5*	1	1						1			1				1				2
14	VXF-468	1															1			
15	VQ-2232	1	1	1		1														
16	VXG-600*	1	1	1	1	1							1	1						
19	VXN-27	1	1	1	1															
21	VQ-2204	1	1	1	1			1												1
22	VQ-3005	1	1				1													
24	VQ-2334	1	1					1						1	1				1	1
28	PO-599	1	1										1							
30	VQ-496	1	1	1	1		1		1					1		1			1	
32	VXG-455	1					1													
33	VN-67	1	1	1	1				1		1					1				
34	VQ-2544	1											1		1					
39	VQ-1758	1												1						
40	VQ-660	1	1	1	1													1		
41	VH-93	1	1	1	1															
42	VQ-2523	1												1	1			1		
<b>Totals</b>		<b>26</b>	<b>21</b>	<b>15</b>	<b>13</b>	<b>6</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>7</b>	<b>3</b>	<b>6</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>14</b>

#### Abbreviations

HQS - Housing Quality Standards

GFCI – ground fault circuit interrupter

## Appendix D

### SUMMARY OF HOUSING UNITS NOT ABATED WHEN REQUIRED

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Voucher	Date failed	Date passed	Required abatement	Amount abated	Amount not abated
VXW-18	Apr. 20, 2007	June 22, 2007	\$ 1,014	\$ -	\$ 1,014
VXQ-83	Aug. 1, 2007	Sept. 25, 2007	\$ 330	\$ -	\$ 330
MD-55	May 21, 2007	July 24, 2007	\$ 586	\$ -	\$ 586
VXJ-179	Aug. 15, 2007	Sept. 14, 2007	\$ 232	\$ -	\$ 232
VQ-2383	Dec. 3, 2007	Lease terminated	\$ 6,480	\$ 3,240	\$ 3,240
VQ-335	Dec. 20, 2007	Jan. 17, 2008	\$ 433	\$ -	\$ 433
VXT-13	June 19, 2007	Aug. 10, 2007	\$ 255	\$ -	\$ 255
VQ-493	June 19, 2007	Aug. 14, 2007	\$ 1,213	\$ -	\$ 1,213
HP-227	Dec. 31, 2007	Feb. 26, 2008	\$ 423	\$ -	\$ 423
<b>Total</b>			<b>\$ 10,966</b>	<b>\$ 3,240</b>	<b>\$ 7,726</b>

Note – Although two units were repaired within 30 days, VXJ-179 VQ-335, these units required abatement because the contractor did not verify that smoke detectors, requiring repair within 24 hours, were repaired prior to making the monthly housing assistance payment to the owner.