



Issue Date August 17, 2009
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Audit Report Number 2009-AT-1010
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TO: Michael A. Williams, Director, Office of Public Housing, Greensboro, NC, 4FPH

FROM: //signed//  
James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The High Point Housing Authority, High Point, North Carolina, Needs to Improve Internal Controls over Its Section 8 Program

## **HIGHLIGHTS**

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

We audited the High Point Housing Authority's (Authority) U.S. Department of Housing and Urban Development (HUD) Section 8 Housing Choice Voucher program pursuant to a citizen's complaint. Our objectives were to determine whether the Authority properly (1) enforced HUD's housing quality standards, (2) calculated Section 8 administrative fees, and (3) determined housing assistance subsidies and issued vouchers to qualified participants.

### **What We Found**

The Authority's administration of the Housing Choice Voucher program with respect to enforcement of housing quality standards, calculation of administrative fees, rent reasonableness determinations, and eligibility of landlords was inadequate due to missing or ineffective controls.

For the sample of 15 units we inspected, 12 (80 percent) did not meet minimum housing quality standards. In addition, the Authority paid rental assistance for

four units that were in material noncompliance with housing quality standards for conditions that existed at the time of the last Authority inspection.

The Authority received excessive administrative fees during fiscal year 2008 because it did not remove over income tenants from its program on a timely basis. Our testing showed that the Authority correctly calculated housing assistance subsidies and issued vouchers to qualified participants for our 12 sampled tenants. However, the Authority did not properly document rent reasonableness using recent comparable unit data prior to signing housing assistance payment contracts and did not prescreen landlords as required by HUD.

### **What We Recommend**

We recommend that the Director of the Greensboro Office of Public Housing require the Authority to repay its voucher program from non-federal funds for rental assistance paid landlords for units in material noncompliance with housing quality standards. We also recommend that the Authority perform a special inspection of a representative sample of its units to determine the extent of noncompliance and develop and implement controls for ensuring that its units meet standards. Further, the Authority must implement controls to ensure that its administrative fees are correct, rent reasonableness determinations are made on a timely basis using appropriate comparable data, and its landlords qualify.

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

### **Auditee's Response**

We discussed the findings with the Authority and HUD officials during the audit. We provided the draft report to the Authority on July 15, 2009, and discussed the findings with Authority officials at an exit conference on July 27, 2009. The Authority provided its written comments on July 31, 2009. Authority officials expressed general agreement with the findings and recommendations.

The complete text of the Authority's response can be found in Appendix B of this report.

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## **BACKGROUND AND OBJECTIVES**

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The Housing Authority of High Point, North Carolina, (Authority) was chartered in 1940 as a non-profit corporation under the General Statutes, Article 157, of the state of North Carolina. Its primary objective is to provide decent, safe, and sanitary housing to the low-income citizens of High Point, North Carolina, in accordance with regulations set forth by the U.S. Department of Housing and Urban Development (HUD). The Authority is located at 500 East Russell Avenue, High Point, North Carolina.

A seven-member board of commissioners appointed by the mayor of High Point governs the Authority. Mr. Bob Davis is the chairman of the board, and Mr. Robert Kenner has been the executive director since January 20, 2003.

The Authority administers approximately 1,350 units funded under the Housing Voucher Choice program. HUD's Greensboro, North Carolina, Office of Public Housing oversees the Authority. The Authority is budgeted to receive \$4.9 million for HUD housing assistance payments during fiscal year 2009.

Our objectives were to determine whether the Authority properly (1) enforced HUD's housing quality standards, (2) calculated Section 8 administrative fees, and (3) determined housing assistance subsidies and issued vouchers to qualified participants.

## RESULTS OF AUDIT

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### Finding 1: Tenants Lived in Units That Were Not Decent, Safe, and Sanitary

Our inspection of 15 units showed that 12 units (80 percent) did not meet minimum housing quality standards. Of the 12 units not meeting standards, four were in material noncompliance with housing quality standards. This condition occurred because Authority management did not place sufficient emphasis on housing quality standards by implementing controls sufficient to ensure that units met minimum housing quality standards and inspections complied with HUD requirements. As a result, tenants lived in units that were not decent, safe, and sanitary, and the Authority made housing assistance payments for units that did not meet standards. For the units sampled, the Authority spent \$9,106 for four units in material noncompliance.

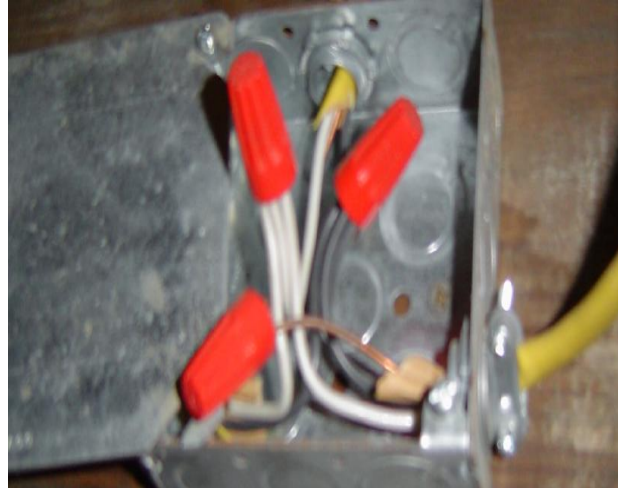
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#### **Units Were in Material Noncompliance with Standards**

We inspected 15 units from 1,247 units under contract for compliance with HUD's housing quality standards. An Authority inspector accompanied us on the inspections and generally agreed with our results. HUD regulations (24 CFR [*Code of Federal Regulations*] 982.401(a)(3)) require that assisted units meet housing quality standards both at commencement of assisted occupancy and throughout the assisted tenancy.

Of the 15 units inspected, 12 units (80 percent) having a total of 48 housing quality standards violations did not meet minimum housing quality standards. Additionally, four of the units were in material noncompliance with housing quality standards. These units were in material noncompliance because they had one or more material deficiencies that existed at the time of the Authority's previous inspection. We determined that the Authority spent \$9,106 in housing assistance payments for units in material noncompliance with housing quality standards.

Electrical violations were the most frequently occurring deficiency. Nine of the failing units had one or more such deficiencies. Examples of deficiencies are shown below.



Exposed wiring



Missing outlet cover



Cracked foundation and missing window pane in crawlspace



Leaking kitchen sink with a pot to contain the water

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

Authority management had not placed appropriate emphasis on housing quality standards requirements. Until recently, the Authority used only one inspector for up to 1,350 Housing Choice Voucher program units. Interviews with Authority staff indicated that the Authority's two inspectors were performing 10 to 15 inspections per day and allowing only 20 to 30 minutes, including travel time, per inspection. In one case, a handwritten note on a form indicated that the inspection had been performed in 15 minutes. This inspection was performed on a large three-bedroom unit with multiple living areas and an additional bathroom. Such a

small amount of time is generally not sufficient to adequately perform an inspection.

The inspectors lacked guidance and oversight. Our interviews with staff performing inspections revealed inconsistent treatment for some requirements. For instance, in some cases, inspectors did not immediately notify owners of life-threatening conditions or require correction of the condition(s) within 24 hours as the regulations (24 CFR 982.404 (a)(3)) require. Instead, owners were notified by mail, which resulted in such conditions existing for at least several days. The Authority's Section 8 administrative plan did not clearly require correction of such conditions within 24 hours. It stated that such conditions must be corrected within 24 hours of "notice." When notification is made by mail, the regulatory requirement is impossible to meet.

The files did not contain documentation evidencing that a complete inspection had been performed for any of the 15 units sampled. The inspectors hand wrote inspections in the field and entered the results into the computer system upon return to the office. For the 15 units sampled, all of the inspection forms contained missing or incomplete information.

Deficiencies were also found regarding the required supervisory reinspections. According to staff, these inspections were not performed until a month or more after the original inspection. The passage of time makes it more difficult for the supervisor to determine whether identified deficiencies existed at the time of the original inspection or occurred later. In addition, the Authority did not maintain records sufficient to evidence the results of the inspections or how the results were used to improve the quality of future inspections.

## **Conclusion**

Because Authority management did not place sufficient emphasis on housing quality standards requirements and did not implement adequate internal controls, HUD issued housing assistance payments for units that were in material noncompliance with standards. Management must emphasize the importance of housing quality standards and implement policies and procedures to better ensure that it complies with HUD requirements and gives tenants the opportunity to live in decent, safe, and sanitary conditions.



## Recommendations

We recommend that the Director of the Greensboro Office of Public Housing require the Authority to

- 1A. Repay its Housing Choice Voucher program \$9,106 from non-federal funds for housing assistance payments made for units which were both in material noncompliance and had conditions that existed at the time of the Authority's last inspection.
- 1B. Inspect the 12 units that did not meet minimum housing quality standards to verify that the landlords took appropriate corrective actions to make the units decent, safe, and sanitary. If appropriate actions were not taken, the Authority should abate the rents or terminate the contracts.
- 1C. Develop and implement an internal control plan, including a staffing plan, and make any necessary adjustments to its Section 8 administrative plan and/or any other Authority policies or procedures to ensure that its units meet HUD's housing quality standards.
- 1D. Perform a special inspection of a representative sample of its units to determine the extent of housing quality standards noncompliance. The Authority should report the results of these inspections to you, along with an explanation of how the results were used to develop its new internal control plan.

## Finding 2: The Authority Did Not Have Adequate Controls for Effective Section 8 Administration

The Authority generally complied with the Section 8 administrative requirements but did not have adequate controls. For the 12 tenant files reviewed, the Authority correctly calculated housing assistance subsidies and issued vouchers to qualified participants. However, lack of effective controls resulted in the Authority's (1) not removing some tenants from the program on a timely basis, (2) not adequately reviewing rents for reasonableness before entering into housing assistance payments contracts, and (3) failing to prescreen landlords. As a result, the Authority received an overpayment of \$428 in administrative fees, may have paid excessive rental assistance, and may have ineligible landlords.

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### Tenants Were Not Removed from the Program on a Timely Basis

The Authority did not consistently remove over income tenants from the program in accordance with HUD's requirements. HUD regulations (24 CFR 982.455) require that any individual no longer receiving a housing assistance payment be removed from the program within 180 calendar days. Our review of tenants removed from the program during 2008 showed that five tenants had not been removed on a timely basis. As a result, the Authority received excessive administrative fees totaling \$428. We did not review years before 2008 because of a HUD change in the fee calculation method. Before 2008, the number of active tenants for each month did not impact the administrative fees received by the Authority.

### Rent Reasonableness Was Not Adequately Documented

A review of 12 tenant files showed that the Authority had not adequately documented rent reasonableness. HUD regulations (24 CFR 982.507(a)) prohibit a public housing authority from approving a lease before it establishes that the rent is reasonable. For all 12 tenants, the supporting documentation in the files was dated after the lease and housing assistance contract had been approved. Authority staff stated that they performed an informal check of the rents, which was not documented, before signing the contract.

Although the contract rents for sampled units were reasonable based on the documentation in the files, some of the comparable data used were questionable, since the data were several years old. The rents for proposed program units should be evaluated based on comparable units currently or very recently placed on the market. According to the Housing Choice Voucher Guidebook (7420.10G, section 9.3), the age of comparable unit data should not exceed two years. For 7

of the 12 tenant files reviewed, the age of the comparable data was more than two years.

### **Landlords Were Not Prescreened**

None of the 12 tenant files reviewed contained documentation evidencing that the Authority had prescreened landlords before their participation in the program. HUD regulations (24 CFR 982.306(a)) state that the Authority must not approve a landlord who has been debarred from participation in federal programs or issued a limited denial of participation that excludes or restricts participation in HUD's programs. Authority staff stated that they screened to ensure that their staff and officials were not Section 8 landlords but did not screen prospective landlords to detect possible instances of debarment or limited denial of participation.

### **Conclusion**

Although the Authority generally complied with HUD's Section 8 administrative requirements, the implementation of additional controls should provide better assurance that the administrative fee calculations are properly calculated based on the correct number of tenants, rents paid to landlords are reasonable, and landlords are eligible.

### **Recommendations**

We recommend that the Director of the Greensboro Office of Public Housing require the Authority to

- 2A. Repay HUD \$428 for excess administrative fees for fiscal year 2008 and implement controls to ensure that former program participants are removed from the computer systems on a timely basis.
- 2B. Require the Authority to review all rents for reasonableness using appropriate comparables, and implement controls to better ensure that the rent reasonableness determination for future contracts are made with appropriate comparables on a timely basis.
- 2C. Require the Authority to screen the existing landlords to ensure their eligibility, and implement controls to better ensure the eligibility of new landlords.

## SCOPE AND METHODOLOGY

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To accomplish our objectives, we

- Reviewed applicable laws, regulations, and other HUD program requirements;
- Reviewed the Authority's Section 8 policies, procedures, and administrative plan;
- Interviewed HUD and Authority management and staff;
- Reviewed the Authority's latest independent public accountant report and HUD program monitoring reviews; and
- Obtained a download of the Authority's Section 8 units for the Housing Choice Voucher program.

We inspected 15 units from 1,247 units on the Authority's Section 8 Housing Choice Voucher program. Our results showed that 12 of the 15 units did not meet minimum housing quality standards, and four were in material noncompliance. We based our assessment on prior Authority inspection reports and our observations and judgment of the condition of the units during inspection. We judged the units to be in material noncompliance because they had one or more material deficiencies that existed at the time of the Authority's previous inspection. All units were ranked, and we used auditors' judgment to determine the material cutoff line.

In order to give each unit an equal chance for inspection, we randomly selected 20 units (15 plus 5 extra for replacements) from the Authority's program. Since the universe contained 1,247 units, we generated a random starting point and selected every 63rd unit ( $1,247 / 20 = 62.35$ ), until we had selected 20 units. We elected not to extend the review by selecting and inspecting a statistical sample of the Authority's units. We made this decision because officials from the local HUD office and the Authority agreed to implement recommendations designed to improve housing quality based on our survey results. The inspection results apply only to the units inspected and cannot be projected to the universe or population.

We determined that the Authority had expended \$9,106 in housing assistance payments for units in material noncompliance by

- Identifying those units in material noncompliance for conditions that clearly were present during the Authority's last inspection,
- Determining the amount of time between the Authority's last inspection and our inspection,
- Deducting one month for the standard amount of time the Authority would have allowed the landlord to make to required repairs, and
- Calculating the amount of housing assistance paid to the landlord for the period.

To perform our tenant file reviews, we relied upon computer-processed data provided by the Authority. Specifically, we relied upon a spreadsheet that contained data on housing subsidies and tenant recertification data. We analyzed the data and concluded that the data were sufficiently reliable for our purposes of sample selection.

For the tenant file reviews, we selected a sample of 12 tenant files from a listing of 1,827 tenants on the Authority's program during the audit period. In order to give each tenant an equal chance for selection, we performed a random selection by generating a random starting point and selecting every 152<sup>nd</sup> ( $1,827 / 12 = 152.25$ ) tenant from the list until we had selected 12. Since we did not use a statistical sample, the file review results apply only to the files reviewed and cannot be projected to the universe or population.

We conducted our fieldwork from March to May 2009 at HUD's Greensboro, North Carolina, field office and the Authority's offices in High Point, North Carolina. Our audit period was from January 2006 to December 2008, but we expanded the audit period as needed to accomplish our objectives.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- 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:

- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A 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:

- The Authority did not have internal controls in place to ensure that Section 8 units met housing quality standards (see finding 1).

- The Authority did not have controls for effective Section 8 administration (see finding 2).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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<u>Recommendation number</u>	<u>Ineligible 1/</u>
1A	\$9,106
2A	<u>428</u>
Total	<u>\$9,534</u>

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



## Appendix B

### AUDITEE COMMENTS

Robert L. Kenner  
Executive Director

HOUSING AUTHORITY  
OF THE  
CITY OF HIGH POINT



July 31, 2009

Mr. James D. McKay  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Richard B. Russell Federal Building  
75 Spring Street, SW, Room 330  
Atlanta, GA 30303-3388

**Re: Draft Section 8 Housing Choice Voucher Audit Report – Housing Authority of the City of High Point Comments**

Dear Mr. McKay:

The Housing Authority of the City of High Point (HPHA) is in receipt of the subject draft report dated July 15, 2009 and is pleased to provide comments as required. We concur, in general, with your draft findings and recommendations. Please find enclosed the written comments and corrective actions being implemented for the findings in the draft audit report.

As a public body, HPHA welcomes public oversight and scrutiny and it was a privilege to host the OIG during the audit. The HPHA Board of Commissioners and staff always appreciate any advice, encouragement, recommendations, and suggestions that will allow us to better fulfill our important mission of providing housing opportunities to our clients.

HPHA also welcomes the opportunity to work with the Greensboro Office of Public Housing to ensure that internal controls over our Section 8 Program are improved and that the HPHA Section 8 Housing Choice Voucher program is operated in accordance with HUD's regulations and requirements.

If additional information is required, please contact me at (336) 878-2375.

Sincerely,

Handwritten signature of Robert L. Kenner in black ink.

Robert L. Kenner  
Chief Executive Officer

Handwritten signature of Dr. Burdell Knight in black ink.

Dr. Burdell Knight  
HPHA Board Vice-Chair

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## Ref to OIG Evaluation

### AUTHORITY COMMENTS TO FINDINGS

#### **Finding 1: "Tenants Lived in Units That Were Not Decent, Safe, and Sanitary"**

- 1A. **Recommendation:** In your original draft report, it was indicated that you found that the Authority spent \$9,106 for (4) four units in material noncompliance of the (15) fifteen units sampled.

**Response:** The HPHA will repay the Housing Choice Voucher program the \$9,106 from nonfederal funds for the housing assistance payments made for units that were determined to be noncompliant.

- 1B. **Recommendation:** "Inspect the 12 units that did not meet minimum Housing Quality Standards (HQS) to verify that the landlords took appropriate actions to make the units decent, safe, and sanitary.

**Response:** The HPHA re-inspected the 12 units and confirmed the landlords' compliance with HQS. HPHA will provide the Office of Public Housing with the detailed documentation for the re-inspections and verifications upon request.

- 1C. **Recommendation:** "Develop and implement an internal control plan and make any necessary adjustments to its Section 8 Administrative Plan and /or other Authority policies and procedures to ensure that is units meet HUD's HQS."

**Response:** The HPHA is currently in the process of updating and making the necessary policy revisions to the Section 8 Administrative Plan and developing internal control procedures to ensure that HQS compliance with 24 CFR 982.401(a)(3).

- 1D. **Recommendation:** "Perform a special inspection of a representative sample of its units to determine the extent of HQS noncompliance."

**Response:** The HPHA will schedule and begin performing special inspections immediately of all units to determine if noncompliance exists and will report the results to the Director of Greensboro Office of Public Housing, along with an explanation of how the results are implemented in the new internal control plan on a monthly basis beginning on September 2009.

## Ref to OIG Evaluation

### **Finding 2: The Authority Did Not Have Adequate Controls for Effective Section 8 Administration**

- 2A. **Recommendation:** “Our review of tenants removed from the program during 2008 showed that five tenants had not been removed on a timely basis. As a result, the Authority received excessive administrative fees totaling \$428.”

**Response:** The HPHA will repay HUD \$428.24 for excess administrative fees for fiscal year 2008. The HPHA has implemented an internal control process to ensure that program participants are removed from the Section 8 program and the computer system in a timely manner. First, at the end of each month, we run an over income report. It is then determined who is over income and they are sent a letter stating when they will be removed from the Section 8 program. Next, we document on our calendar indicated the date of removal from the program.

- 2B. **Recommendation:** “Require the Authority to review all rents for reasonableness using appropriate comparables, and implement controls to better ensure the rent reasonableness determination for future contracts are made timely with appropriate comparables.”

**Response:** The HPHA has implemented a rent reasonableness procedure and controls to better ensure determination of rent comparables. First, the system is checked to determine unit comparability with unassisted units. Next, the comparable units are listed on the rent reasonableness form. After that, the lease and contract is prepared for a new lease agreement. The documents for the procedure and controls will be forwarded to HUD to demonstrate the compliance with HUD requirements upon request.

- 2C. **Recommendation:** “Require the Authority to screen the existing landlords to ensure their eligibility and implement controls to better ensure the eligibility of new landlords.

**Response:** The HPHA has screened all current and new landlords utilizing the Section 8 program. The HPHA has implemented better controls to ensure that all landlords are screened accordingly by screening landlords via the Excluded Parties List system (EPLS) to verify landlord status. A form is retained as verification of the screening results for all landlords. Documentation will be provided to the Director of Public Housing upon request.