



Issue Date	March 2, 2009
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Audit Report Number	2009-KC-1005
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TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The East St. Louis, Illinois, Housing Authority's Section 8 Voucher Program
Units Did Not Always Meet HUD's Housing Quality Standards

HIGHLIGHTS

What We Audited and Why

We audited the East St. Louis Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program). We selected the Authority for an audit based on our risk analysis of public housing authorities in the state of Illinois. Our risk analysis was based primarily on the number of units and the amount of funding received by the public housing authorities. Our audit objective was to determine whether the Authority's Section 8 program units met the U.S. Department of Housing and Urban Development's (HUD) housing quality standards.

What We Found

Seventy-nine percent of the Authority's Section 8 program units materially failed to meet HUD's housing quality standards. As a result, the Authority paid more than \$64,000 in housing assistance for 46 units that materially failed to meet housing quality standards. If the Authority does not implement our recommendation, it will pay an estimated \$1.7 million over the next year for units that do not meet the standards.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$64,000 and implement adequate procedures to address the finding cited in this report. These procedures should ensure that approximately \$1.7 million in program funds is spent on housing units that meet HUD requirements.

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

Auditee's Response

We provided the draft report to the Authority on February 6, 2009, and held an exit conference on February 11, 2009. The Authority provided its written response dated February 24, 2009 and agreed with our audit findings.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The East St. Louis Housing Authority (Authority) provides housing to low-income families, the elderly, and people with disabilities in St. Clair County, Illinois.

The Authority has been under an administrative receivership with the U.S. Department of Housing and Urban Development (HUD) since 1985. Administrative receivership is a process whereby HUD declares a public housing authority in substantial default of its annual contributions contract and takes control of the authority. For the Authority, a HUD representative who works in the Chicago office acts as the board. The board selects an executive director who is then hired by the Authority to run its day-to-day operations.

The Section 8 Housing Choice Voucher program (program) provides rental assistance to low-income families seeking decent, safe, and sanitary housing who rent from a private landlord. The Authority served approximately 677 households participating in the program throughout St. Clair County and spent approximately \$4.5 million on these families during fiscal year 2008.

HUD establishes minimum housing quality standards for units receiving federal assistance at 24 CFR [*Code of Federal Regulations*] 982.401.

HUD regulations at 24 CFR 982.405(a) require public housing authorities to perform unit inspections before the initial move-in and at least annually. The authority must inspect the unit leased to a family before the term of the lease, at least annually during assisted occupancy, and at other times as needed to determine whether the unit meets HUD's housing quality standards.

Our audit objective was to determine whether the Authority's Section 8 voucher units met HUD's housing quality standards.

RESULTS OF AUDIT

Finding: The Authority’s Section 8 Voucher Program Units Did Not Always Meet HUD’s Housing Quality Standards

Seventy-nine percent of the Authority’s program units materially failed to meet HUD’s housing quality standards. The violations occurred because Authority inspectors lacked knowledge of the requirements. As a result, the Authority paid more than \$64,000 in housing assistance for 46 units that materially failed to meet housing quality standards. If the Authority does not implement our recommendation, it will pay an estimated \$1.7 million over the next year for units that do not meet the standards.

The Authority’s Section 8 Units Did Not Meet HUD’s Standards

Of the 58 units inspected, 57 (98 percent) had 669 housing quality standards violations. Forty-six of these units materially failed the inspection with 321 health and safety violations that existed at the time of the last inspection. The following table classifies all violations observed during the audit and lists the number of preexisting health and safety violations by category.

Category of violation	Total # of violations	# of preexisting health & safety violations for 46 materially failing units
Electrical	261	217
Doors	92	18
Windows	41	17
Structure & materials	30	11
Floor condition	20	9
Stairs/porch	14	9
Infestation	15	7
Appliances	53	6
Water heater	10	6
Hand rails	7	6
Sump pump	6	4
Foundation	3	3
Smoke detector	12	2
Miscellaneous	105	6
Total	669	321

The most common violation involved open ground electrical outlets. These violations accounted for approximately one-third of the preexisting health and safety

violations. Open ground outlets are those in which a three-prong outlet is substituted for a two-prong outlet without the necessary rewiring that adds a ground wire to the new outlet. Such outlets create a safety hazard that violates the building and national wiring codes and needs to be made safe immediately.

The following pictures provide examples of the other major violations.



Electrical violation in unit 1302: The junction box contains exposed hot wires.



Door violation in unit 1905: A fire hazard is created by the burglar bars on the rear door. The tenant did not have the key to the padlock.



Window violation in unit 1383: A trapping hazard in event of fire was created by the burglar bars on the rear bedroom window and the air conditioning unit on the other window.



Structure and material violation in unit 1279: The cyclone fence lying in the backyard is a tripping and cutting hazard.



Floor condition violation in unit 1038: The vinyl kitchen flooring is torn, and the subfloor is rotten and spongy.



Stairs/porch violation in unit 5: The left side of the basement stairs needs railing to prevent tenants from falling down the second flight of stairs.



Infestation violation in unit 1523: There is a dead mouse under the kitchen sink.

Staff Did Not Implement All Requirements

Most of the Authority's inspectors had not recently received housing quality standards training. Three of the inspectors received their last training in May 2002, and the remaining inspector received her training in 2006. Inspectors require continuous education to ensure that their knowledge of inspection methods and procedures is up-to-date.

In addition, the Authority's inspectors did not consistently check electrical outlets for wiring problems such as open grounds. They erroneously believed that only open ground outlets in new or gut-rehabilitated units needed to be cited and corrected but that old units with open ground electrical outlets were exempt.

Further, the inspectors were unaware of requirements in the Authority's administrative plan. For example, the plan required separate cutoffs for water supplies in the kitchen and bathroom and interior doors to be free of holes. Since the inspectors were unaware of these standards, they did not enforce them.

Finally, when we observed the Authority's inspection process, the inspectors did not always conduct accurate and complete inspections. Specifically, the Authority's inspectors did not always inspect items such as windows and electrical outlets to determine whether they worked properly to avoid exposing the household to potential risks.

Conclusion

As a result of the violations cited above, the Authority's tenants were subjected to health- and safety-related violations and the Authority paid more than \$64,000 in housing assistance for 46 units that materially failed to meet housing quality standards. If the Authority ensures that its inspectors are equipped with the knowledge that they need to perform inspections in a consistent manner and in compliance with HUD requirements, we estimate that more than \$1.7 million in future housing assistance payments will instead be spent for units that are decent, safe, and sanitary. Our methodology for this estimate is explained in the Scope and Methodology section of this report.

Recommendations

We recommend that the Director of HUD's Chicago Office of Public Housing ensure that the Authority

- 1A. Verifies that the owners of the 57 program units cited in this finding have corrected the housing quality standards violations.
- 1B. Repays the voucher program fund from nonfederal sources \$64,528 in improper housing assistance.
- 1C. Develops and implements procedures to ensure that inspectors receive adequate housing quality standards training to properly perform unit inspections, thereby ensuring that \$1,708,938 in program funds is expended only for units that are decent, safe, and sanitary.

SCOPE AND METHODOLOGY

To accomplish our audit objective, we

- Interviewed HUD and Authority staff,
- Reviewed independent public accountant reports,
- Reviewed the Authority's policies and procedures, and
- Reviewed HUD federal regulations and the Housing Choice Voucher Guidebook.

To perform our review, we used an Authority download of all program unit inspections from August 2007 through July 2008 and a download from HUD's Public and Indian Housing Information Center system. We also relied upon an Authority download that contained data on housing assistance subsidy payments. We analyzed the data and concluded that the data were sufficiently reliable for our purposes of sample selection and projecting the impact of units' failure to meet housing quality standards.

We developed an unrestricted attribute sampling plan using a 90 percent confidence level with 10 percent desired precision and 50 percent estimated error rate. We then used the Army Audit Agency's statistical sampling software to calculate the sample size and a random number generator to identify the sample items. The sampling plan resulted in a sample size of 58 program units from the 386 units that passed inspections by the Authority from February through July 2008.

Our sampling results determined that 46 of 58 units (79 percent) materially failed to meet HUD's housing quality standards. We determined that 46 units were in material noncompliance because they had 321 health and safety violations that existed before the Authority's last inspection report. All units were ranked, and we used auditors' judgment to determine the material cutoff line. Materially failed units were those with more than one preexisting health and safety violation or those with one preexisting violation that was a 24-hour emergency notice item.

Based upon the sample size of 58 from a total population of 386 units, an estimate of 79.31 percent (46 units) of the sample population materially failed housing quality standards inspections. The sampling error is plus or minus 8.07 percent. There is a 90 percent confidence that the frequency of occurrence of units materially failing housing quality standards inspections lays between 71.25 and 87.38 percent of the population. This equates to an occurrence of between 275 and 337 units of the 386 units in the population. We used the most conservative number, which is the lower limit or 275 units.

Using the Authority's July 2008 housing assistance payments register, we determined that the average monthly housing assistance payment was \$517.86. Using the lower limit of the estimate of the number of units and the average monthly housing assistance payment, we estimated that the Authority will annually spend at least \$1,708,938 [275 units x \$517.86 x 12 months] for units that materially failed to meet housing quality standards. This estimate is presented solely to demonstrate the annual amount of Section 8 funds that could be put to better use on decent, safe, and sanitary housing if the Authority implements our recommendations. While these benefits

would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We performed our audit between September 2008 and January 2009 at the Authority's office at 700 North 20th Street in East St. Louis, Illinois, and in various program units. Our audit period generally covered February 1 through July 31, 2008.

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

INTERNAL CONTROLS

Internal control is 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.

Relevant Internal Controls

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

- Controls over housing choice voucher unit inspections

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 lacked sufficient procedures to ensure that unit inspections complied with HUD minimum housing quality standards.

Separate Communication of Minor Deficiencies

Minor internal control and compliance issues were reported to the auditee by a separate letter, dated March 2, 2009.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1B	\$64,528	
1C		\$1,708,938

- 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/ 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, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendation, it will cease to incur Section 8 costs for units that are in material noncompliance with housing quality standards and, instead, will expend those funds for units that meet HUD's standards. When the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit. The amount does not reflect any offsetting costs to implement the recommendations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

700 NORTH 20TH STREET
EAST ST. LOUIS, ILLINOIS 62205
(618) 646-7100

February 24, 2009

Ronald J. Hosking, Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of Inspector General for Audit
Great Plains Regions, 7AGA
400 State Avenue
Kansas City, Kansas 66101-2406

RE: Auditee Comments: (September 2008- January 2009 Audit of The East St. Louis Housing Authority's Section 8 Housing Choice Voucher Program)

Attn: Dear Mr. Hosking:

We are in receipt of your letter dated February 6, 2009 and discussed in our February 11, 2009 meeting regarding the audit of the Authority's Section 8 Housing Choice Voucher program. The audit occurred between September 2008 and January 2009 and covered the period of February 1, through July 31, 2008.

Under the cover of this letter please find the Housing Authority of the City of East St. Louis' (ESLHA) comments on the audit findings resulting from your review of the Authority's Section 8 Housing Choice Voucher program in Appendix B.

Sincerely,


Elizabeth Tolliver
Executive Director

cc: Steven E. Meiss, Director, and Office of Public Housing
Elmore Richardson, Operations Divisions Director, Office of Public Housing

Ref to OIG Evaluation

Auditee Comments

THE HOUSING AUTHORITY OF THE CITY OF EAST ST. LOUIS

700 NORTH 20TH STREET
 EAST ST. LOUIS, ILLINOIS 62205
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Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref. to OIG Evaluation	Auditee Comments
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OIG Recommendations:

We recommend that the Director of HUD's Chicago Office of Public Housing ensure that the Authority:

Recommendation:

1A. Verify that the owners of the 57 program units cited in this findings have corrected Housing Quality Standards Violations.

Comment: The Housing Authority of the City of East St. Louis has implemented a plan to re-inspect the units cited on the audit to ensure compliance with HQS regulations.

Action(s): Notices were sent to the owners and tenants regarding re-inspection of the units, HQS violations, and the required corrective action in January 2009. Re-inspections of the units for corrective action on the emergency HQS violations were completed. Re-inspection of the other units to verify compliance is scheduled for February – March 2009. All HCV units will be inspected and/or re-inspected for HQS compliance by August 2009.

Comment 1

Recommendation:

1B. Repays the voucher program fund from non-federal sources \$64,528 for improper housing assistance.

Comment: The Housing Authority will comply with all regulations regarding repayment of any funds due its Housing Choice Voucher program.

Recommendation:

1C. Develop and Implement procedures to ensure that inspectors receive adequate Housing Quality Standards training to properly perform unit inspections, thereby ensuring that \$1,708,938 in program funds is expended only for units that are decent, safe, and sanitary.

Comment 1

Ref to OIG Evaluation

Auditee Comments

THE HOUSING AUTHORITY OF THE CITY OF EAST ST. LOUIS

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Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref. to OIG Evaluation

Auditee Comments

OIG Recommendations:

Comment: The Authority has implemented a plan to ensure its inspectors receive training. The plan includes actions to improve awareness of the program requirements for the owners and tenants as well.

Actions(s): Staff training - February – May 2009
Facilitate a campaign to increase the tenants and landlords' awareness of HUD and ESLHA program requirements, HQS compliance, and their responsibilities under the program –April 2009
Inspect and/or re-inspect all HCV units for HQS Compliance by August 2009.

OIG Evaluation of Auditee Comments

Comment 1 The Authority's written response along with its verbal response at the exit conference indicates agreement with the finding and recommendations. Planned actions on the part of the Authority should resolve identified issues.