



Issue Date	November 17, 2008
Audit Report Number	2009-LA-1002

TO: K. J. Brockington, Director, Los Angeles Office of Public Housing, 9DPH  
*Joan S. Hobbs*

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The Housing Authority of the City of Los Angeles, Los Angeles, California, Did Not Adequately Conduct Housing Quality Standards Inspections

## **HIGHLIGHTS**

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

We reviewed the Housing Authority of the City of Los Angeles' (Authority) housing quality standards policies and procedures for its Section 8 Housing Choice Voucher program based on the Authority's prior notification to the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG) for Audit of problems with some of its inspectors. Furthermore, the Authority's having received poor scores on two of five housing quality standards indicators for 2006 under HUD's Section Eight Management Assessment Program further warranted review.

The objective of the audit was to determine whether the Authority adequately enforced HUD's housing quality standards.

### **What We Found**

The Authority did not adequately enforce HUD's housing quality standards. Of 68 program units statistically selected for inspection, 43 did not meet minimum housing quality standards, of which 19 were in material noncompliance with housing quality standards. Based on our statistical sample, we estimate that over the next year, HUD will pay more than \$65.6 million in housing assistance on units with material housing quality standards deficiencies.

## **What We Recommend**

We recommend that the Director of HUD's Los Angeles Office of Public Housing (1) require the Authority to implement adequate procedures and controls regarding its inspection process to ensure that all units meet HUD's housing quality standards to prevent \$65.6 million in program funds from being spent on units that are in material noncompliance with the standards and (2) verify and certify that the applicable owners have taken appropriate corrective action regarding the housing quality standards deficiencies identified during our inspections or take enforcement action.

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 Authority the draft report on October 9, 2008, and held an exit conference with the Authority on October 22, 2008. The Authority generally disagreed with our report.

We received the Authority's response on November 7, 2008. 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

---

Background and Objectives	4
Results of Audit	5
Finding: The Authority's Section 8 Units Did Not Meet Housing Quality Standards	
Scope and Methodology	12
Internal Controls	14
Appendixes	
A. Schedule of Funds to Be Put to Better Use	16
B. Auditee Comments and OIG's Evaluation	17
C. Schedule of Units in Noncompliance with Housing Quality Standards	25
D. Criteria	27

## **BACKGROUND AND OBJECTIVES**

---

The Housing Authority of the City of Los Angeles (Authority) was organized as a public housing authority in 1938 to provide low-cost housing to individuals meeting established criteria. The Authority is a state-chartered public agency that provides the largest stock of affordable housing in the Los Angeles area. The Authority gets the majority of its funding from the U.S. Department of Housing and Urban Development (HUD). Additionally, it has built a number of key partnerships with city and state agencies, nonprofit foundations, and community-based organizations, as well as private developers.

In 1975, the Authority implemented the Section 8 program to provide rent subsidies in the form of housing assistance payments to private landlords on behalf of eligible families. The Section 8 program, funded by HUD, provides housing assistance to extremely low- and very low-income families, senior citizens, and disabled or handicapped persons. Its objective is to provide affordable, decent, and safe housing for eligible families, while increasing a family's residential mobility and choice. The Authority administers the second largest Section 8 program in the country.

The Authority has two different types of rental subsidies—tenant-based and project-based programs. Both programs have similar income-based admission requirements set by HUD. Households with a tenant-based subsidy have a voucher that allows them to move from one place to another. Those in the project-based programs live in a building in which the units are subsidized. Households in the Housing Choice Voucher tenant-based program (program) come from the Housing Authority's waiting list of applicants.

HUD's approved budget authority for the Authority's program for fiscal years 2005, 2006, and 2007 was \$364.7 million, \$383.9 million, and \$368.6 million, respectively.

The Los Angeles HUD OIG for Audit initiated an audit of the Authority's program based on the Authority's prior notification to the OIG Office of Audit of problems with some of its inspectors. In addition, the Authority had received a zero for Section Eight Management Assessment Program indicators #11 – precontract housing quality standards inspections and #12 – annual housing quality standards inspections for 2006, which indicate prior problems with the Authority's meeting HUD's housing quality standards requirements.

The objective of the audit was to determine whether the Authority adequately enforced HUD's housing quality standards.

## RESULTS OF AUDIT

---

### Finding: The Authority's Section 8 Units Did Not Meet Housing Quality Standards

The Authority did not adequately enforce HUD's housing quality standards. Of 68 program units statistically selected for inspection, 43 units did not meet minimum housing quality standards, and inspectors did not identify 130 deficiencies during the Authority's latest inspection. The Authority inspectors did not identify these deficiencies because it did not implement adequate controls to ensure that all housing quality standards deficiencies were detected during its inspections. As a result, it did not properly use its program funds, and program tenants lived in units that were not decent, safe, and sanitary. Based on our statistical sample, we estimate that over the next year, HUD will pay more than \$65.6 million in housing assistance on units with material housing quality standards deficiencies if inspection procedures do not improve.

---

#### HUD's Housing Quality Standards Not Met

From the 36,626 active program units in the Authority's housing inventory as of January 1, 2008, we statistically selected 68 units for inspection. The 68 program units were inspected to determine whether the Authority ensured that its program units met HUD's housing quality standards. The inspections took place between March 17 and March 28, 2008.

Of the 68 units inspected, 43 (63 percent) had 318 housing quality standards deficiencies, including one unit with 39 deficiencies. Of the 318 deficiencies, 134 deficiencies (42 percent) in 33 units predated the Authority's latest inspection, but only four (3 percent) of those 134 deficiencies were included in the Authority's latest inspection report. This means that inspectors did not identify 130 deficiencies during the Authority's latest inspection. The following table categorizes the 318 housing quality standards deficiencies in the 43 units.

Categories of deficiencies	Number of deficiencies	Number of units affected
Security	43	20
Window	42	20
Tub or shower in unit	41	22
Electrical	26	15
Wall	24	13
Sink	18	13
Fire exits	15	11
Ceiling	13	10
Floor	13	9
Range/refrigerator	13	11
Ventilation/plumbing	11	7
Garbage and debris	9	5
Smoke detectors	9	6
Chimney/heating equipment	8	5
Water heater	8	5
Space for preparation, storage, and serving of food	6	6
Crawl vents	4	4
Other interior hazards	4	4
Roof/gutters	4	4
Flush toilet in enclosed space	3	3
Stairs, rails, and porches	2	2
Exterior surface	1	1
Foundation	1	1
<b>Total number of deficiencies</b>	<b>318</b>	

In addition, we considered 19 (28 percent) of the 68 units to be in material noncompliance with HUD requirements.<sup>1</sup> The materially deficient units had multiple deficiencies per unit that predated the Authority’s last inspection (i.e., had existed for an extended period) or contained any deficiency noted in a prior inspection that was not corrected, creating unsafe living conditions. Overall, we identified 115 deficiencies that predated the Authority’s last inspection<sup>2</sup> among all 19 units that we deemed materially deficient, including corrosion, wood rot, advanced mildew, fixed break away bars on windows, badly worn carpet, and peeling paint. By contrast, those units that were not considered to be materially deficient had deficiencies such as missing screens on vents, doors off hinges, or missing outlet covers. In addition, 2 of the 19 materially deficient units had four deficiencies between them that were noted in a prior Authority inspection report but had not been corrected, despite having been cited as “passed” on the followup inspections that the Authority conducted four and seven months before our OIG inspection.

<sup>1</sup> Our use of the term, “material noncompliance,” primarily refers to deficiencies in the Authority’s prior inspections and/or inspection process leading to the unit’s unacceptable condition at the time of our inspection.

<sup>2</sup> When the Authority’s inspections were overdue at the time of our inspection, we included deficiencies that the Authority should have identified before our inspection. This was the case in 2 of the 19 materially deficient units.

We provided our inspection results to the Authority's Section 8 inspections manager. Appendix C details the deficiencies found in each of the 43 failed units, with an asterisk denoting which of the units were determined to be materially deficient.

## Types of Violations

Our inspector identified 41 tub/shower deficiencies in 22 of the program units inspected. The following items are examples of tub/shower deficiencies listed in the table: advanced mildew around tub/shower, water controls separated from wall by one-fourth to one-half inch, glass enclosure off track, missing hot/cold water controls, and missing tiles. The following picture is an example of the tub/shower deficiencies identified in the program units inspected.



Tubs were missing the water control knobs and overflow drain covers, and the water spouts were separated from the wall.

In addition, our inspector identified 43 security deficiencies in 20 of the program units inspected. The security deficiencies identified included missing strikers, defective or missing locks/latches/dead bolts, split doors, door dragging, cracked door glass, unauthorized dead bolts, air infiltration, unfit closure, defective door handle, and wood rot. The following picture is an example of the security deficiencies identified in the program units inspected.





Doors were split, allowed air infiltration, and had unfit closures; and door strikers did not work properly.

Further, our inspector identified 42 window deficiencies in 20 of the program units inspected. The window deficiencies identified included missing or inoperative latch/locks, window sill damage, water wood rot, air and/or water infiltration, and cracked and/or broken glass panes. The following pictures are examples of the window deficiencies identified in the program units inspected.



Windows were loose/missing, had cracked glass, and allowed air infiltration.

Our inspector identified other deficiencies, including electrical deficiencies such as exposed electrical wiring, insecure wiring, inoperative sockets, inoperative ground fault interrupters, main service panel missing safety shields, and missing faceplates; wall deficiencies such as holes, cracks, exposed framing, peeling paint, water stains, and defective repairs; inoperable smoke detectors; garbage and debris in and around program units; loose handrails on stairways; missing screens on outside vents; loose toilet base; and inoperative ventilation systems both in the kitchen and bathroom. The following pictures are examples of other deficiencies identified in the program units inspected.





Main service panels were missing the interior safety panels, exposing electrical wiring.



Units had evidence of roach infestations.



Garbage, debris, and safety hazards were in and around program units.

### **Inadequate Controls**

The Authority inspectors did not identify the deficiencies noted above because it did not implement adequate controls to ensure that its program units met HUD's housing quality standards. Although the Authority's written procedures and controls required it to ensure that its program units met housing quality standards, it failed to fully implement those procedures. The Authority's Section 8 administrative plan states that the Authority uses HUD standards described in the *Code of Federal Regulations*, HUD inspection manuals, and HUD handbooks during its inspections. In addition, the Authority publishes housing quality standards training bulletins as needed to establish and clarify policy and procedure regarding inspection standards. Our review of the Authority's training bulletins determined that they were sufficient to comply with HUD rules and regulations regarding housing quality standards; however, inspectors did not identify a number of deficiencies of housing quality standards because they did not follow the Authority's (and, therefore, HUD's) guidance.

We noted the Authority is conducting more quality control inspections than HUD requires, and its quality control inspector has identified additional deficiencies during his quality control review that the inspectors missed during their inspection. However, we noted instances where the inspection supervisors who are also responsible for conducting quality control reviews may not be adequately noting inspector oversights during their quality control reviews. Although there is no indication this is an intentional disregard of deficiencies, this may undermine the Authority's quality control efforts.

## Conclusion

The Authority's tenants were subjected to health- and safety-related deficiencies, and the Authority did not properly use its program funds when it failed to ensure that units complied with HUD's housing quality standards. If the Authority implements adequate procedures and controls regarding its unit inspections to ensure compliance with HUD's housing quality standards, we estimate that more than \$65.6 million in future housing assistance payments will be spent on units that are decent, safe, and sanitary. The complete explanation of our calculations can be found in the scope and methodology section of this report.

## Recommendations

We recommend that the Director of HUD's Los Angeles Office of Public Housing require the Authority to

- 1A. Implement adequate procedures and controls to ensure that all units meet HUD's housing quality standards to prevent \$65.6 million in program funds from being spent on units that are in material noncompliance with HUD's standards.
- 1B. Verify and certify that the owners have taken appropriate corrective actions for all applicable housing quality standards deficiencies identified during our inspections. If appropriate actions have not been taken, the Authority should abate the rents or terminate the housing assistance payments contracts.

## SCOPE AND METHODOLOGY

---

We performed our on-site audit work from February through August 2008 at the Authority's office in Los Angeles, California. The audit generally covered the period February 1, 2007, through January 31, 2008. We expanded our audit period as needed to accomplish our objectives. We reviewed guidance applicable to Section 8 housing quality standards, performed on-site inspections with a qualified HUD OIG inspector, and interviewed applicable Authority supervisors and staff.

To accomplish our audit objectives, we

- Reviewed applicable HUD regulations, including 24 CFR Part 982 and Housing Choice Voucher Guidebook 7420.10G.
- Reviewed the Authority's administrative plan for 2007, financial independent public audit reports for 2006, quality control procedures and sampling methods, and staff listing and organizational chart.
- Interviewed personnel from the HUD Office of Public Housing, Los Angeles field office, to obtain background information on the Authority's housing quality standards performance.
- Interviewed Authority supervisors and staff to determine their job responsibilities and their understanding of housing quality standards.
- Reviewed Authority data from HUD's Public Housing Information Center system.
- Analyzed databases provided by the Authority to obtain a random sample of units.
- Conducted inspections of 68 randomly selected units with a qualified HUD OIG inspector and recorded and summarized the inspection results provided.

We statistically selected a sample of 68 of the program units to determine whether the Authority ensured that its units met housing quality standards. The sample was based on the Authority's housing assistance payment register for one month as of January 2008. The universe contained 36,626 units that received regular housing assistance payments from the Authority as of January 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 50 percent. Fifty-seven additional sample units were selected to be used as replacements if necessary.

We initially surveyed 13 of the 68 units in our statistical sample in order to determine if the Authority was completing timely inspections, and we determined the Authority did complete annual inspections in a timely manner for the most part. We noted two instances of late annual inspections for the 13 units we reviewed for timeliness for fiscal years 2006 and 2007, although none of the 13 units were overdue at the time of our review. We determined this was not a material issue to proceed with and eliminated that objective from our audit.

We reviewed the sample of 68 units and determined that 19 of 43 failed units were materially deficient and in noncompliance with housing quality standards. We determined that the 19 units were in material noncompliance because they had 115 deficiencies that predated the Authority's latest inspection and created unsafe living conditions. Two of the units had deficiencies that were noted in a prior Authority inspection report but had not been corrected.

Projecting the results of the 19 units that were in material noncompliance with housing quality standards to the population of 36,626 Section 8 voucher program units indicates that 10,234 or 27.94 percent of these units contain deficiencies that predated the Authority's latest inspection and created unsafe living conditions. The sampling error is plus or minus 8.92 percent. In other words, we are 90 percent confident that the number of units in unacceptable condition lies between 19.03 and 36.86 percent of the population. This equates to an occurrence of between 6,968 and 13,499 units of the 36,626 units of the population.

- The lower limit is 19.03 percent x 36,626 units = 6,968 units in noncompliance with minimum housing quality standards.
- The point estimate is 27.94 percent x 36,626 units = 10,234 units in noncompliance with minimum housing quality standards.
- The upper limit is 36.86 percent x 36,626 units = 13,499 units in noncompliance with minimum housing quality standards.

Using the lower limit and the average annual housing assistance payments for the population based on the Authority's housing assistance payment register, dated February 1, 2007, through January 31, 2008, we estimate that the Authority will spend at least \$65,565,605 (6,968 units x \$9,409 average annual housing assistance payment) for units that are in material noncompliance with housing quality standards. This estimate is presented solely to demonstrate the annual amount of Section 8 program funds that could be put to better use on decent, safe, and sanitary housing if the Authority implements our recommendations.

We performed our review in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

---

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

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

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

---

## Relevant Internal Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- 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 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 internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

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

- The Authority did not fully implement adequate controls to ensure that inspections of Section 8 units detected all deficiencies of housing quality standards.



## APPENDIXES

### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

---

Recommendation number	Funds to be put to better use <u>1/</u>
1A	\$65,565,605

- 1/ 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. In this instance, if the Authority implements our recommendations, it will cease to incur program costs for units that are not decent, safe, and sanitary. Instead, it will expend those funds for units that meet HUD's standards. Once the Authority successfully improves its controls, this will be a recurring benefit. To be conservative, our estimate reflects only the initial year of this benefit.


## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

### Comment 1

	<p><b>HOUSING AUTHORITY</b> OF THE CITY OF LOS ANGELES AN EQUAL EMPLOYMENT OPPORTUNITY-AFFIRMATIVE ACTION EMPLOYER 2600 Wilshire Boulevard • Los Angeles, California 90057 • (213) 252-2500 www.hacla.org</p>
<p>BOARD OF COMMISSIONERS <i>BEATRIZ C. STOTZER, Chairperson</i></p>	<p>PRESIDENT AND CEO <i>RUOLF C. MONTIEL</i></p>
<p>November 6, 2008</p>	
<p>Joan S. Hobbs Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of Inspector General 611 West 6th Street, Suite 1160 Los Angeles, CA 90017-3101</p>	
<p>Dear Ms. Hobbs:</p> <p>On behalf of the Housing Authority of the City of Los Angeles (the Authority), thank you for undertaking an audit of the Authority's housing quality standards (HQS) inspections. As indicated in your report, this audit is the result of poor scores on the 2006 HUD Section Eight Management Assessment Program (SEMAP) report and the Authority's notification to the HUD OIG of problems with some of our inspectors.</p> <p>Since 2005, the Authority has partnered with the U.S. Department of Housing and Urban Development, Office of the Inspector General for Audit (OIG) to transform the country's second largest Housing Choice Voucher Program from a troubled program to one that is "high performing" with strong internal controls and continuously improving its quality of service delivery.</p> <p>In general, the Authority believes that the HQS audit conducted by HUD OIG was useful. The approach of this audit introduced a new metric into HQS enforcement and therefore afforded the Authority an opportunity to re-evaluate our HQS inspection program, which we welcome. In addition, we found the HUD OIG Audit team to be accessible and we appreciate their willingness to discuss and modify their initial findings. Nevertheless, we disagree with some underlying assumptions of the audit, with the general audit approach, and with specific results related to individual inspections.</p> <p><b>HACLA PROGRAM STRENGTHS IDENTIFIED IN REPORT</b> We noted that HUD OIG acknowledged several strengths of the Authority's HQS program:</p> <ul style="list-style-type: none"><li>• <b>Timely Annual Inspections</b> - "...we determined the Authority did complete annual inspections in a timely manner for the most part."</li></ul>	

- **Quality Control Inspections Exceeded Requirements** - "We noted the Authority is conducting more quality control inspections than HUD requires, and its quality control inspector has identified additional deficiencies during his quality control review that the inspectors missed during their inspection."
- **Written Procedures and Training Materials** - "The Authority's Section 8 administrative plan states that the Authority uses HUD standards described in the *Code of Federal Regulations*, HUD inspection manuals and HUD handbooks during its inspections. In addition, the Authority publishes housing quality standards training bulletins as needed to establish and clarify policy and procedure regarding inspection standards. Our review of the Authority's training bulletins determined that they were sufficient to comply with HUD rules and regulations regarding housing quality standards..."

#### **HACLA IMPROVEMENT MEASURES**

The audit report refers to poor scores on two of five HQS indicators for 2006 under HUD's Section Eight Management Assessment Program (SEMAP). Significant progress has been made in the Section 8 Housing Choice Voucher Program since 2006. The Authority received the maximum possible points for these indicators on the 2007 SEMAP report and expects to achieve the same in 2008.

As noted in the audit report, the Authority had concerns regarding inspection procedures and control prior to the audit. Prior to receiving the audit results, the Authority had carried-out several measures to resolve problems with some of our inspectors, and to reinforce the standardization and quality control of our inspections.

##### **Intensive Inspector Training**

HACLA contracted with an outside vendor who provided certified, intensive onsite HQS and HQS quality control training for all housing inspectors and supervisors. This human resource investment increased staff knowledge of HQS requirements, and will improve the inspections process.

##### **Improved Technology for HQS Inspections**

To insure control of the inspection process, the Authority has begun implementation of a system that provides automated routing, scheduling, dispatching and tracking of inspectors. This enhanced management tool, which includes GPS tracking, will provide a real-time measurement of productivity and efficiency for operational evaluations.

A second element, to be introduced later, will automate inspection appointment routing through a geographical information system (GIS) to improve efficiency and to eliminate staff time currently used in manual routing. This will improve staff efficiency by maximizing time spent in the field.

The HUD OIG report noted that the number of quality control inspections conducted by the Authority exceeds the standard required by HUD. However, the audit notes that inspection supervisors "may not be adequately noting inspector oversights during their quality control review." To resolve this issue, the following measures are being actively pursued:

- **Processing Complaints as Quality Control Opportunities**  
In the past, if Housing Inspection Supervisors were asked to review or reevaluate the results of an inspection because of a complaint by the family or the owner regarding the inspection results, the supervisor was not required to perform a full HQS inspection of the entire unit. This resulted in missed opportunities for quality control. In the future, all such "complaint" inspections will result in a full HQS quality control re-inspection of the unit.
- **Supervisor Quality Control Review**  
We intend to further enhance and strengthen the quality control procedures at the Authority. In addition to quality control inspections currently conducted by our designated Quality Control Inspection Supervisor, each Housing Inspection Supervisor will be required to conduct full quality control re-inspections of inspections completed by each member of his or her staff. Supervisors will conduct and document a full re-inspection of the unit to determine whether or not the unit and premises meet HQS and whether the inspection was a true representation of the physical condition of the property at the time of the original inspection.

#### **ALL UNITS REINSPECTED BY THE AUTHORITY**

With the exception of three units that were vacated prior to our ability to re-inspect, all units having deficiencies identified during the audit were re-inspected by the Authority. As of the time of this report, all deficiencies cited have been corrected. In two cases, the Authority undertook enforcement action through abatement of Housing Assistance Payments (HAP) to ensure compliance. In both of those cases, repairs were made and the units have passed re-inspection.

#### **CONCERNS AND DISAGREEMENTS WITH THE HUD OIG AUDIT**

While we appreciate the opportunity to review our program with fresh eyes, the Authority also has several concerns with regard to the HUD OIG audit. We believe that the audit approach reflects a misunderstanding of the role the HQS play in the Housing Choice Voucher program. We disagree with the statistical sampling methodology elected, specific HQS deficiencies cited by the HUD OIG inspector and whether specific deficiencies are 'material' using the OIG audit terminology.

## Comment 2

### GENERAL MISUNDERSTANDING OF HQS

Methodologically, we do not believe that the audit correctly identified the objective of HQS inspections by a public housing agency (PHA) in the Housing Choice Voucher program. As noted by Deputy Assistant Secretary for Public Housing and Voucher Programs Milan Ozdinec, in the HUD response to audit 2008-AT-0003, **"PHAs administering the voucher program do not own the units and are not responsible for the routine maintenance of the voucher units and of monitoring of tenant damages. It is therefore unfair to hold PHAs solely responsible for the quality of the units on a daily basis, between PHA inspections."** The Authority agrees with the Secretary that, in the Housing Choice Voucher program, daily maintenance of units is the joint responsibility of the participants and the landlords.

The HUD OIG audit states that "the Authority did not adequately enforce HUD's housing quality standards" because HQS deficiencies were found in 43 units inspected. This seems to assert an underlying assumption that no unit inspected should ever contain a deficiency. That would be an impossible standard.

The objective of HQS inspection and enforcement is not that no single unit on the Housing Choice Voucher program should ever exhibit a single deficiency during any inspection. No PHA administering the Housing Choice Voucher program could possibly ensure that every unit was continuously free from a single HQS deficiency.

In fact, the objectives of HQS inspection are (1) that all units pass an initial HQS inspection, (2) that all assisted units be inspected annually, (3) that each deficiency identified on annual re-inspection be corrected promptly or that appropriate enforcement action is taken, and (4) that quality control inspections are conducted to validate inspection results.

These four program elements, which constitute the Section Eight Management Assessment Program (SEMAP) metrics for HQS, express the current standards to which a PHA should be held, and toward which programmatic audit efforts should be directed.

## Comment 3

### SAMPLING METHODOLOGY

The HUD OIG audit methodology involved conducting quality control inspections of annual HQS inspections that had taken place throughout the entire previous year. As a result, the auditor inspected units in which up to 11 months had passed since the Authority's last timely annual HQS inspection.

On average, the 'materially non-compliant' units identified by the auditor were inspected **4.6 months after** the Authority's last annual inspection.

HUD's SEMAP guidelines, which provide the HUD metrics for quality control inspections, state that the quality control sample "is to be drawn from recently completed HQS

inspections (i.e., performed during the 3 months preceding the re-inspection)..." [24 CFR 985.3].

Because it draws a quality control sample of annual HQS inspections that are, on average, more than one and a half times the maximum period set for quality control inspections in the CFR, we believe that the audit report does not provide a meaningful assessment of the Authority's annual HQS inspection process.

PHAs nationally understand that housing stock available to Housing Choice Voucher holders when the Fair Market Rent (FMR) is set at the 40<sup>th</sup> percentile of area median rents will very frequently be housing stock with maintenance issues. The City of Los Angeles, with an aging housing stock and low vacancy rate for housing renting at or below the 40<sup>th</sup> percentile is no exception.

This Authority, like many PHAs, sees first-time failure rates of approximately 40% for annual HQS inspections. We should not expect to find a lower rate of failures in a HUD OIG audit sample that, in effect, mirrors a PHA's expected annual inspection results.

The CFR implicitly recognizes that deterioration of this stratum of the housing stock is an on-going issue, and that any quality control inspection performed more than three months after the original HQS inspection will yield different results and deficiencies. The audit methodology failed to incorporate this fact. We believe this compromises the ability to draw meaningful general conclusions from the audit findings.

The Authority suggests that future HQS quality control audits draw only from the universe of inspections conducted by the PHA during the three months prior to the audit. This would parallel the metrics set forth in 24 CFR 985.3.

#### **DISAGREEMENTS CONCERNING SPECIFIC DEFICIENCIES**

The Authority disagrees with many specific items identified in the audit as HQS deficiencies. Unlike audits of other HCV program elements, findings in the area of HQS inspection results must be tempered by an acknowledgement that this activity necessarily involves individual judgment on the part of inspectors, and that legitimate differences of opinion can and do occur.

The Authority conducts more than 100,000 HQS inspections annually and we have confidence in our expertise in distinguishing between items of note and actual HQS deficiencies.

Although HUD OIG has conceded that several deficiencies initially identified by the auditor were erroneous and the audit results reflect this adjustment, we continue to disagree with many of the remaining citations.

#### **Comment 4**

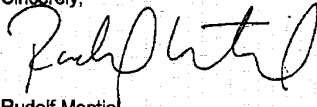
Joan S. Hobbs, Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
November 6, 2008  
Page 6

**CONCLUSION**

Although we disagree with several aspects of this audit, this Authority is fully committed to the goal of insuring that HAP funds are properly spent on housing units that are decent, safe and sanitary. We are prepared to work with the HUD Los Angeles Office of Public Housing on the two recommendations made by this audit and to demonstrate how the Authority has improved its HQS procedures and controls to ensure that all assisted units meet HUD's housing quality standards, that owners take appropriate corrective actions for all HQS deficiencies discovered by the inspection process and that rents are abated or HAP contracts are terminated in those instances in which we cannot gain the owner's compliance.

We extend our appreciation to you and your staff for performing this audit. Should you have any questions please contact me at 213-252-1810 or Lourdes Castro Ramirez, Section 8 Director, at (213) 252-2570.

Sincerely,



Rudolf Montiel  
President and CEO

c: K.J. Brockington, Director



## OIG Evaluation of Auditee Comments

**Comment 1** Since 2005, OIG has issued 5 independent audit reports for the Authority. Following each report, the Authority has worked with HUD to implement our recommendations and gain compliance with HUD rules and regulations.

**Comment 2** We acknowledge that housing quality standards violations can occur after the last annual inspection conducted by the Authority. However, federal regulations require that all program housing must meet housing quality standards performance requirements at commencement of assisted occupancy and throughout the assisted tenancy. Therefore, we reported all violations identified at the time of our inspection so that HUD and the Authority could ensure they were corrected.

We did not hold the Authority to “an impossible standard”, as we did not identify all 43 failed units as material, and we did not project funds to be put to better use using all 43 failed units. In order to avoid calling into question routine maintenance issues, our report determined the number of units that were in material noncompliance with housing quality standards. We cited units that had failing deficiencies that were present at the time of the previous inspection, and were therefore missed by the Authority’s inspectors and remained uncorrected. Thus, we were very conservative when determining a unit as materially deficient, so as not to hold the Authority to an unrealistic expectation.

**Comment 3** The Authority’s objections to our audit methodology, process, and protocol are without merit as we performed the audit in accordance with generally accepted government auditing standards. We agree the Section 8 Management Assessment Program requires the Authority’s sample to be no older than three months. However, our audit was designed to determine whether HUD requirements have been followed with respect to housing quality standards as stated at 24 CFR 982 and was not intended to follow the Section 8 Management Assessment Program self-assessment process.

In conjunction with our inspections, we performed tenant interviews, consulted with our certified inspector/appraiser, and reviewed the Authority’s latest inspection reports to help us to determine whether a housing quality standards violation existed prior to the last inspection conducted by the Authority or had been identified by the Authority but not adequately corrected. Deficiencies were determined to have existed at the time of the Authority’s last inspection as they could not have reasonably deteriorated to such an extent within the time period between the Authority’s last inspection and our HUD OIG inspection. In the event we could not reasonably make that determination, we did not include the violation in our assessment of funds to be put to better use, and as such, we were very conservative in our determination of pre-existing conditions.

Furthermore, while we understand the City of Los Angeles has “aging housing stock” with “maintenance issues”, Public Housing Authorities are held to the same housing quality standards nationwide, and the tenants living in the jurisdiction of the Housing Authority of the City of Los Angeles, deserve and are entitled to housing that meets the same housing quality standards as anywhere else in the nation.

**Comment 4** We performed our inspections accurately and appropriately applied HUD’s housing quality standards in the same manner as we have done in audits throughout the country. In no instance did we apply a higher standard than is required by HUD’s housing quality standards. The form we used to perform our inspections accurately and appropriately applied HUD’s housing quality standards, and our inspector has years of experience conducting numerous housing quality standards inspections across the country. Among our inspector’s many inspection and appraisal certifications, there is one that shows that he is a certified Section 8 Housing Choice Voucher Housing Quality Standards specialist. Additionally, audit staff accompanied our inspector on each inspection, along with a housing authority inspection supervisor; and we evaluated the inspection results and compared the deficiencies to HUD’s housing quality standards.

With respect to the Authority’s statement that “HUD OIG has conceded that several deficiencies initially identified by the auditor were erroneous and the audit results reflect this adjustment”, while we did agree to remove several deficiencies we initially identified, we did so in order to give the Authority the benefit of the doubt in cases where we could not be as certain as to the length of time a condition existed or the severity of the deficiency based on the photographic evidence and inspection notes – not because we deemed the deficiencies as “erroneous” or in error. We scrutinized and reviewed conditions at the units where the Authority questioned our interpretation of housing quality standards in an effort to be as fair and conservative as possible in our estimates, and we eliminated some deficiencies from the audit report if we determined a more lenient interpretation of the housing quality standards could be reasonably accepted. We agree HQS inspections involve “individual judgment on the part of inspectors”, and the Housing Choice Voucher guidebook states as much, contributing to our decision to remove some violations. However, we could not reasonably remove several violations questioned by the Authority considering the photographic evidence, HQS requirements, and less than convincing arguments from the Authority’s staff. As a result, we are confident that this final audit report accurately and fairly depicts the conditions we found in the Authority’s units when we conducted our inspections.

## Appendix C

### SCHEDULE OF UNITS IN NONCOMPLIANCE WITH HOUSING QUALITY STANDARDS

Item number	Number of deficiencies per lettered category																				Totals			
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T		U	V	W
1			2																					2
2 *		2	1		2			1			2					1								9
3							1																	1
4 *	2				1	1				1						1		1						7
5 *		4		2		1	2	3	1	1	1													15
6 *	9	1		5	3	2	2	1	4	1		2		1	1	1	1	1	1					36
7			1				1																	2
8 *			2		1																			3
9			1																					1
10		1								1														2
11 *	1	5	2	2	1	1	1	2					3	4				1						23
12 *	1		1	1		1			2															6
13		1																						1
14										2										1				3
15	3	1						1																5
16 *		1	3			1	1	1																7
17	2	2			1				1				1											7
18			2				1																	3
19	1		1	1	1						1													5
20 *				3						1	1	2							1					8

Category of deficiencies legend	
A – Security	M – Smoke detectors
B – Window	N – Chimney/heating equipment
C – Tub or shower in unit	O – Water heater
D – Electrical	P – Space for preparation, storage, and serving of food
E – Wall	Q – Crawl vents
F – Sink	R – Other interior hazards
G – Fire exits	S – Roof/gutters
H – Ceiling	T – Flush toilet in enclosed space
I – Floor	U – Stairs, rails, and porches
J – Range/refrigerator	V – Exterior surface
K – Ventilation/plumbing	W – Foundation
L – Garbage and debris	* – Denotes unit determined to be materially deficient

Item number	Number of deficiencies per lettered category																					Totals			
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U		V	W	
21		1	1	1	1			1	1			1					1	1						9	
22 *	2	2	3				1																	8	
23		1											1											2	
24 *	7	9		3	8	3				1		2				3	1	1		1				39	
25	1	1																						2	
26 *	1		2				2		1															6	
27 *		1	3	1	1						1													7	
28			2	2	1		1	1						1		1								9	
29	1																							1	
30 *	4	1	3	1		1														1		1	1	14	
31														1							1			2	
32			2							1						1								4	
33 *	1	2								2	3				1									9	
34			1																					1	
35 *		4													1									5	
36	1			1		2				1												1		6	
37	1	1	1			1					2													6	
38 *	1			1					1	1														4	
39			1											1										2	
40 *	2		5		2	1	2	1	1			2	1		2		1				1			21	
41 *	1		1	1	1	2		1					2	1										10	
42	1					1																		2	
43		1		1					1															3	
<b>Totals</b>	<b>43</b>	<b>42</b>	<b>41</b>	<b>26</b>	<b>24</b>	<b>18</b>	<b>15</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>11</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>8</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>318</b>

Category of deficiencies legend	
<b>A</b> – Security	<b>M</b> – Smoke detectors
<b>B</b> – Window	<b>N</b> – Chimney/heating equipment
<b>C</b> – Tub or shower in unit	<b>O</b> – Water heater
<b>D</b> – Electrical	<b>P</b> – Space for preparation, storage, and serving of food
<b>E</b> – Wall	<b>Q</b> – Crawl vents
<b>F</b> – Sink	<b>R</b> – Other interior hazards
<b>G</b> – Fire exits	<b>S</b> – Roof/gutters
<b>H</b> – Ceiling	<b>T</b> – Flush toilet in enclosed space
<b>I</b> – Floor	<b>U</b> – Stairs, rails, and porches
<b>J</b> – Range/refrigerator	<b>V</b> – Exterior surface
<b>K</b> – Ventilation/plumbing	<b>W</b> – Foundation
<b>L</b> – Garbage and debris	<b>*</b> – Denotes unit determined to be materially deficient

## Appendix D

### CRITERIA

---

The following sections of the *Code of Federal Regulations* apply to housing quality standards inspections:

- 24 CFR 982.54(d)(22) states that the public housing authority administrative plan must cover policies, procedural guidelines, and performance standards for conducting required housing quality standards inspections.
- 24 CFR 982.305(a) states that the public housing authority may not give approval for the family of the assisted tenancy or execute a housing assistance payments contract until the authority has determined that the unit is eligible and has been inspected by the authority and meets HUD's housing quality standards.
- 24 CFR 982.401(a) identifies the housing quality standards for assisted housing, including performance and acceptability criteria for key aspects of housing quality.
- 24 CFR 982.401(a)(3) requires that all program housing meet housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the assisted tenancy.
- 24 CFR 982.404(a)(1) requires the owners of program units to maintain the units in accordance with HUD's housing quality standards.
- 24 CFR 982.404(a)(2) states that if the owner of the program unit fails to maintain the dwelling unit in accordance with HUD's housing quality standards, the authority must take prompt and vigorous action to enforce the owner's obligations. The authority's remedies for such a breach of the housing quality standards include termination, suspension, or reduction of housing assistance payments and termination of the housing assistance payments contract.
- 24 CFR 982.405(a) requires public housing authorities to perform unit inspections before the initial term of the lease, at least annually during assisted occupancy, and at other times as needed to determine whether the unit meets the housing quality standards.