



Issue Date	April 9, 2010
------------	---------------

Audit Report Number	2010-CH-1005
---------------------	--------------

TO: Thomas S. Marshall, Director of Public Housing Hub, 5DPH  
James M. Beaudette, Acting Director of Departmental Enforcement Center, CV

  
FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Housing Authority of the City of Terre Haute, IN, Did Not Effectively Operate  
Its Section 8 Housing Quality Standards Inspection Program

## **HIGHLIGHTS**

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

We audited the Housing Authority of the City of Terre Haute's (Authority) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2010 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction and our audits of the Authority's nonprofit development activities, Public Housing Capital Fund program, and Turnkey III Homeownership program. Our objective was to determine whether the Authority administered its program in accordance with applicable U.S. Department of Housing and Urban Development (HUD) requirements and the Authority's program administrative plan. This is the first of two planned audit reports on the Authority's program.

### **What We Found**

The Authority's program administration regarding housing unit conditions was inadequate. Of the 55 housing units statistically selected for inspection, 31 did not meet HUD's housing quality standards, and 22 had 133 violations that existed at the time of the Authority's previous inspections. The 22 units had between 1 and 32 preexisting violations per unit. Based on our statistical sample, we

estimate that over the next year, HUD will pay more than \$341,000 in housing assistance for units with material housing quality standards violations.

The Authority generally complied with Federal regulations when abating units that failed inspections.

### **What We Recommend**

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to reimburse its program from non-Federal funds for the improper use of more than \$11,000 in program funds and implement adequate procedures and controls to address the finding cited in this audit report to prevent more than \$341,000 from being spent on units with material housing quality standards violations over the next year.

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 issued because of the audit.

### **Auditee's Response**

We provided our review results and supporting schedules to the Director of HUD's Cleveland Office of Public Housing and the Authority's executive director during the audit. We provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on March 29, 2010.

We asked the executive director to provide comments on our discussion draft audit report by April 1, 2010. The executive director provided written comments, dated March 31, 2010. The executive director generally agreed with our finding. The complete text of the written comments, along with our evaluation of those comments, can be found in appendix B of this report except for 34 pages of documentation that was not necessary for understanding the Authority's comments. A complete copy of the Authority's comments plus the documentation was provided to the Director of HUD's Cleveland Office of Public Housing.

# TABLE OF CONTENTS

---

Background and Objective	4
Results of Audit	
Finding: Controls Over Housing Unit Inspections Were Inadequate	5
Scope and Methodology	12
Internal Controls	14
Appendixes	
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	16
B. Auditee Comments and OIG's Evaluation	17
C. Federal Requirements	21

## BACKGROUND AND OBJECTIVE

---

The Housing Authority of the City of Terre Haute (Authority), IN, was established on April 28, 1960, as a municipal corporation under Section 36-7-18-4 of the Indiana Code to provide decent, safe, and sanitary housing to low-income families under the United States Housing Act of 1937. The Authority is governed by a seven-member board of commissioners appointed by the mayor of Terre Haute to 4-year terms. The board governs the business, policies, and transactions of the Authority. The executive director is appointed by the board and has overall responsibility for carrying out the board's policies and managing the Authority's day-to-day operations. The Authority's books and records are located at 2001 North 19<sup>th</sup> Street, Terre Haute, IN. As of January 31, 2010, the Authority owned 868 low-rent public housing units in six projects, administered 857 Section 8 voucher units, and managed another 169 housing units for two nonprofit and two for-profit entities.

This is the third of five planned audit reports on the Authority's programs. The first audit report (report #2009-CH-1011, issued on July 31, 2009) included three findings. The objectives of our first audit were to determine whether the Authority diverted or pledged resources subject to its annual contributions contract, other agreement, or regulation for the benefit of non-U.S. Department of Housing and Urban Development (HUD) developments without specific HUD approval. The second audit report (report #2009-CH-1017, issued on September 29, 2009) included one finding. The objective of the second audit was to determine whether the Authority followed HUD's requirements regarding the administration of its Turnkey III Homeownership program. The fourth audit's objectives are to determine whether the Authority: (1) effectively administered its Capital Fund Program, and followed HUD's and its requirements; and (2) has the capacity to administer its American Recovery and Reinvestment Act of 2009 Capital Fund program.

Our objective was to determine whether the Authority's Section 8 Housing Choice Voucher program (program) units met HUD's housing quality standards when the units passed the Authority's previous inspections. This is the first of two planned audit reports on the Authority's program.

## RESULTS OF AUDIT

---

### Finding: Controls Over Housing Unit Inspections Were Inadequate

The Authority did not adequately enforce HUD's housing quality standards. Of the 55 program units statistically selected for inspection, 31 failed to meet minimum housing quality standards, and 22 had material violations that existed before the Authority's previous inspections. The violations existed because the Authority failed to exercise proper supervision and oversight of its program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards. As a result, more than \$10,000 in program funds was spent on 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 \$341,000 in housing assistance on units with material housing quality standards violations.

---

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

From the 292 program units that were inspected by the Authority from September 1 through December 7, 2009, we statistically selected 55 units for inspection by using data mining software. The 55 units were inspected to determine whether the Authority ensured that its program units met HUD's housing quality standards. We inspected the 55 units between January 11 and January 26, 2010.

Of the 55 units inspected, 31 (56 percent) had 207 housing quality standards violations including 133 violations that predated the Authority's previous inspections. In addition, 22 units containing 133 violations were considered in material noncompliance since they had health and safety violations and/or multiple violations that predated the Authority's previous inspections. The following table categorizes the 207 violations in the 31 units.

Category of violations	Number of violations
Electrical	58
Windows	39
Stairs, rails, and porches	23
Floor	16
Other potentially hazardous features	14
Smoke detectors	8
Ventilation	8
Security	7
Ceiling	5
Infestation	5
Interior walls and surfaces	4
Foundation	4
Garbage and debris	4
Lead-based paint	3
Toilet	3
Sink	3
Exterior surfaces	<u>3</u>
Total	<u>207</u>

We provided our inspection results to the Director of HUD’s Cleveland Office of Public Housing and the Authority’s executive director on February 23, 2010.

### Electrical Violations

Fifty-eight electrical violations were present in 22 of the Authority’s units inspected. The following items are examples of the electrical violations listed in the table: outlets with open ground, disconnect boxes with exposed electrical contacts, ground fault circuit interrupters that did not turn off once tripped, exposed electrical outlets, and holes or gaps in a breaker box. The following pictures are examples of the electrical-related violations.

Household 9236: The fuse box on a basement stairway was without a cover and had exposed electrical contacts.



Household 8936: The electrical outlet pulls out of a kitchen wall.



### Window Violations

Thirty-nine window violations were present in 16 of the Authority's units inspected. The following items are examples of window violations listed in the table: windows that did not stay up, windows that did not lock, rotted sashes and frames, broken panes, and windows that would not open. The following pictures are examples of the exterior window violations identified.

Household 7614: The window sash did not meet to close off a gap, and the glass pane was cracked.



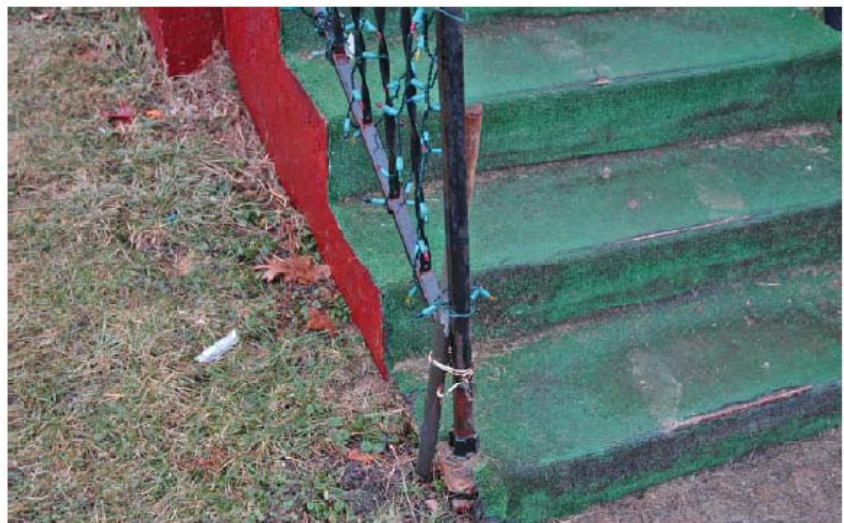


Household 7614: A large gap between the top of the window and the window frame was filled with fibrous material and allowed air filtration. A window pane in a young (5 years old) child's room was broken.



Twenty-three stair, rail, and porch violations were present in 15 of the Authority's units inspected. The following items are examples of the stair, rail, and porch violations listed in the table: handrails too short, missing handrails, crumbling stairs, and porches with rotting rails. The following pictures are examples of stair, rail, and porch violations.

Household 102311: A loose handrail post on the left side of the porch was tied with wires to a metal rod in an unsuccessful attempt to reinforce it.





Household 5296:  
Parts of the railing  
around the rear porch  
were rotten and  
unstable.



### **Adequate Procedures and Controls Lacking**

The Authority failed to exercise proper supervision and oversight of its program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD's requirements. The Authority has more than 850 units in its program at any given time. It previously employed two inspectors who also inspected the public housing units. As of October 2009, the Authority had only one inspector. Additionally, the inspector performed inspections for the Authority's homeless grant and the Housing Authority of Edgar County, Illinois' Section 8 program.

The inspector did not utilize HUD's inspection checklist, HUD form 52580, while conducting inspections and only filled out an inspection checklist when a unit passes the inspection. This has been the Authority's procedure for at least 20 years. HUD's Housing Choice Voucher Guidebook, 7420.10G, Chapter 10, states that in order to meet all housing quality standards requirements, inspections must be conducted and recorded using form HUD 52580-A or HUD 52580.

The Authority's inspector stated he neglected to report violations that existed at the units when he did inspections to increase the housing stock and enable the Authority to utilize its available vouchers. He was aware that he did not conduct inspections in accordance with federal regulations.

The Authority's executive director stated that he requires his employees to follow Federal regulations. However, the Authority had not conducted quality control reinspections since October 2009 or contract to have them completed. HUD's Housing Choice Voucher Guidebook, 7420.10G, Chapter 10, states that quality control reinspections should be conducted by staff trained in the authority's inspection standards and those staff members should receive the same guidance as other authority inspectors on inspection policies and procedures. The Authority

needs to ensure that its inspector(s) is equipped with the knowledge needed to consistently perform inspections in compliance with HUD's housing quality standards requirements.

## Conclusion

The housing quality standards violations existed because the Authority failed to exercise proper supervision and oversight of its program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards. The Authority's households were subjected to health- and safety-related violations, and the Authority did not properly use its program funds when it failed to ensure that units complied with HUD's housing quality standards. In accordance with 24 CFR (Code of Federal Regulations) 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing authority if it fails to enforce HUD's housing quality standards. The Authority disbursed \$10,447 in housing assistance payments for the 22 units that materially failed to meet HUD's housing quality standards and received \$1,497 in program administrative fees.

If the Authority implements adequate procedures and controls over its unit inspections to ensure compliance with HUD's housing quality standards, we estimate that it can avoid spending more than \$341,000 over the next year in housing assistance payments on units that are not decent, safe, and sanitary. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

## Recommendations

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

- 1A. Certify that the applicable housing quality standards violations have been repaired.
- 1B. Reimburse its program \$11,974 from non-Federal funds (\$10,477 for program housing assistance payments plus \$1,497 in associated administrative fees) for the 22 units that materially failed to meet HUD's housing quality standards.
- 1C. Implement procedures and controls to ensure that program units meet housing quality standards, thereby ensuring that \$341,088 in program funds is expended only on units that are decent, safe, and sanitary.
- 1D. Implement adequate procedures and controls to ensure that it meets HUD's requirements for conducting and documenting quality control inspections.

We also recommend that the Director of HUD's Cleveland Office of Public Housing, in conjunction with the Acting Director of HUD's Departmental Enforcement Center

- 1E. Pursue the appropriate administrative sanction(s) against the Authority's inspector for failing to enforce HUD's housing quality standards, if within six months his performance is not in accordance with HUD's requirements.

## SCOPE AND METHODOLOGY

---

To accomplish our objective, we reviewed

- Applicable laws, HUD's program requirements at 24 CFR Part 982, and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's program administrative plan, revised July 2007; accounting records; annual audited financial statements for 2007 and 2008; program household files; computerized databases; policies and procedures; board meeting minutes for 2007, 2008, and 2009; organizational chart; and program annual contributions contract.
- HUD's files for the Authority.

We also interviewed the Authority's employees, HUD staff, and program households.

We statistically selected 55 of the Authority's program units to inspect from the 292 units that were inspected by the Authority and passed from September 1 through December 7, 2009, using data mining software. The 55 units were selected to determine whether the Authority ensured that its program units met HUD's housing quality standards. Our sampling criteria used a 90 percent confidence level with a 50 percent estimated error rate and precision level of plus or minus 10 percent.

Our sampling results determined that 22 of the 55 units (40 percent) materially failed to meet HUD's housing quality standards. Materially failed units were those considered to have health and safety violations and/or multiple violations that predated the Authority's previous inspections.

The Authority's Voucher Management System reports for the 12-month period January to December 2009 showed that the average monthly housing assistance payment was \$323 (\$3,151,327 divided by 9,761 units). Projecting our sampling results of the 22 units that materially failed to meet HUD's housing quality standards to the population indicates that 88 units or 30.21 percent of the population contained the attributes tested (would materially fail to meet HUD's housing quality standards). The sampling error was plus or minus 9.79 percent. In other words, we are 90 percent confident that the frequency of occurrence of the attributes tested lies between 30.21 and 49.79 percent of the population. This frequency equates to an occurrence of between 88 and 145 of the 292 units in the population.

- The lower limit is 30.21 percent times 292 units equals 88 units that materially failed to meet HUD's housing quality standards.
- The point estimate is 40 percent times 292 units equals 117 units that materially failed to meet HUD's housing quality standards.
- The upper limit is 49.79 percent times 292 units equals 145 units that materially failed to meet HUD's housing quality standards.

Using the lower limit of the estimate of the number of units and the average housing assistance payment, we estimate that the Authority will annually spend \$341,088 (88 units times \$323 monthly average payment times 12 months) for units that materially failed to meet HUD's housing quality standards. This estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use on decent, safe, and sanitary housing if the Authority implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We performed our on-site audit work between October 2009 and January 2010 at the Authority's office located at 2001 North 19<sup>th</sup> Street, Terre Haute, IN. The audit covered the period October 1, 2007, through August 31, 2009, but was expanded when necessary to include other periods.

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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 objectives 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 objective:

- 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 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 Weakness

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

- The Authority lacked procedures and controls to ensure compliance with HUD's requirements regarding unit inspections (see finding).

# 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	<u>\$11,974</u>	
1C		<u>\$341,088</u>
Totals	<u>\$11,974</u>	<u>\$341,088</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.
- 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 program costs for units that are not decent, safe, and sanitary and, instead, will expend those funds in accordance with HUD's requirements. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

# Appendix B

## AUDITEE COMMENTS AND OIG's EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

#### HOUSING AUTHORITY OF THE CITY OF TERRE HAUTE

##### Board of Commissioners

JOHN WOLF    TERESA PRINCE    BRYAN KAUFMAN    JEFF HARPOLE  
TOM HUNT    PATRICIA PARKER-ZAIKOVSKY    MARSHALL RECTOR

March 31, 2010

Ronald Farrell, Assistant Regional Inspector General for Audit  
United States Department of HUD Office of Inspector General  
200 North High Street, Room 334  
Columbus, OH 43125

Mr. Farrell,

#### Comment 1

This shall serve as the Authority's response to your Discussion Draft Audit Report on OIG's Phase 1 Audit of the Housing Authority of the City of Terre Haute's Section 8 Housing Choice Voucher Program dated March 18, 2010.

The Draft Report notes one finding: Controls Over Housing Unit Inspections Were Inadequate. We generally agree with the finding. We have subsequently re-inspected the 31 units that did not meet HUD's housing quality standards during the OIG inspections. All health and safety violations were corrected within the required 24 hours and those corrections were certified to the Indianapolis Field Office. Fail letters on all remaining violations have been sent by the date of this letter and are included as exhibit A.

#### Comment 2

The report indicates that the "Authority failed to exercise proper supervision and oversight of its program unit inspections." We will allow that recent personnel changes may have provided a gap in oversight of the inspection process. The personnel restructuring is now complete and the Authority believes it has appropriate resources in place to adequately monitor the inspection function. The report correctly notes that the "Authority previously employed two inspectors who also inspected the public housing units. As of October 2009, the Authority had only one inspector." The report omits that the remaining inspector no longer has the responsibility of inspecting the 868 public housing units. The Authority believes that one inspector is sufficient to perform the HQS inspection process adequately.

#### Comment 3

The report indicates "the inspector did not utilize HUD's inspection checklist, HUD form 52580" until the unit passed inspection. We agree with this statement. The inspector was instructed to perform inspections in this manner by prior inspection department personnel and this had apparently been the practice of the Authority prior to the current inspector being hired. As of March 24, 2010 the inspector will utilize HUD form 52580 each time he performs an inspection. A monitoring mechanism will be established to ensure consistent use of HUD form 52580.

#### Comment 4

The report further indicates that "the Authority had not conducted quality control re-inspections since October 2009 or contract to have them completed." We agree the quality control re-inspections have not been completed in fiscal year 2010 to date. However, HUD's Housing Choice Voucher Guidebook, 7420.10G, chapter 10 (pages 10.31-10.33, attached as exhibit B), establishes the baseline for fulfilling the Authority's quality control requirements of no less than 20 units (see table 10-1) within the fiscal year. Although not completed during the audit, the Authority fully intends to comply with this requirement within the fiscal year. We expect to procure a contract for these services, to be completed by August 30, 2010. We further note, that none of the prior independent audits has referenced a deficiency in this area. The guidebook references that the quality control process is to be verified by the independent auditor.

#### Recommendations:

#### Comment 5

1A. All health and safety violations were repaired within 24 hours of notification. Certification of these repairs was made to the Indianapolis Field Office. We have re-inspected the 31 units noted in the report. As of the date of this letter, we have mailed fail letters for all remaining violations. We will certify, to the Indianapolis Field Office, that the repairs have been made or payment abated by the end of May 2010.

P.O. BOX 3086    TERRE HAUTE, INDIANA    47803-0086  
812-232-1381    812-234-4164 (FAX)    800-545-1833, ext. 271 (TDD)

Ref to OIG Evaluation

Auditee Comments

**Comment 6**

1B. We fail to see the logic in financially penalizing a troubled housing authority that is clearly working to correct a variety of issues. Reimbursement of these funds will not benefit the Authority in any way. In fact, it will likely create financial hardship in other areas of the Authority. We agree that HUD "is permitted to reduce or offset" the mentioned funds. Being permitted to take such action doesn't always mean it is the appropriate action to take.

**Comment 7**

1C. We agree the procedures and controls should be tightened to ensure compliance with housing quality standards. We will establish written inspection procedures that will outline the requirements (including the appropriate forms to be used) and process to be followed. Further, it will detail the quality control process. Also, we will ensure that staff receives the appropriate training on an on-going basis.

**Comment 8**

1D. As mentioned above, we do not believe we are out of compliance. The above referenced guidebook provides for quality control within the fiscal year. We agree no quality control has occurred thus far in the current fiscal year. We intend to procure an outside contractor to complete our quality control requirements by the end of August, 2010. Our written inspection procedures referenced in 1C, will include procedures for quality control.

**Comment 9**

**1E. Please note: This recommendation was not discussed with the Authority prior to receipt of the Discussion Draft.** We are disappointed this recommendation was included in the report without prior discussion. The Authority has been diligent in its cooperation with OIG during all audits. This is the first time something has appeared in a report that we were not previously apprised of.

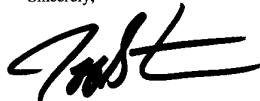
We could not disagree more strongly with this recommendation. The inspector in question is a 17 year veteran employee with a stellar employment record. He has performed his duties as he was trained and instructed to, by prior management and prior members of the inspection staff. Current management was not aware of any deficiencies in the inspection process. No reference of deficiency was noted in any prior audit, the HUD Independent Assessment, other OIG audits, or any other HUD review. Current management will act promptly to correct the noted deficiencies and develop appropriate monitoring to ensure compliance on an on-going basis. Previous management did not place a high degree of priority on training. The inspector has not had the opportunity to attend formal training since 1993. We have enrolled him and another staff member in a Nan McKay HQS training course with a certification exam in April 2010(see Exhibit C). We will stay committed to providing him and all employees with regular training. The inspector has shown a willingness to do what is necessary to correct noted deficiencies.

**Comment 10**

With the noted training, written inspection procedures, proper quality controls, and a renewed emphasis from management, we believe the issues noted in this report will be promptly corrected. We further believe this inspector will play an integral role in correcting the deficiencies. He has indicated his desire to rapidly bring the inspection process to standards that are required by HUD. He has been open and forthright regarding the current state of the department. Further, he has been proactive in seeking solutions to the issues. In short, he has acknowledged any shortcomings and has shown a genuine interest in improving the quality of his inspections. In the opinion of management, the Housing Authority of the City of Terre Haute and the program will suffer if this recommendation is followed.

In summary, the Housing Authority of the City of Terre Haute generally agrees with the finding in this report. We disagree with recommendations 1B, 1D, and 1E. We would like to compliment Auditor, Mr. James Olsen on his professionalism. We take seriously the issues noted in this and other reports and will work diligently to resolve them.

Sincerely,



Jeff Stewart  
Executive Director  
Housing Authority of the City of Terre Haute

## OIG Evaluation of Auditee Comments

- Comment 1** All the reinspection certifications need to be evaluated by HUD. It is HUD's responsibility to make the final determination as to whether the certifications are appropriate.
- Comment 2** We commend the Authority for taking steps to improve its inspection process. However, the Authority had not conducted an analysis to determine the number of inspectors it needed to sufficiently inspect its program units as suggested in HUD's Housing Choice Voucher Guidebook, Chapter 10, page 10-24.
- Comment 3** We acknowledge the Authority's efforts and look forward to HUD's verification that the monitoring mechanism was sufficient to address the matter.
- Comment 4** While we do not disagree that quality control inspections are only required once a fiscal year, we do not agree with the Authority waiting until August 2010 to conduct them. The sooner the Authority begins the process, the sooner it can start addressing the deficiencies in its inspection process.
- Comment 5** We commend the Authority for its prompt action to the inspection results completed in May 2010. As previously noted above in comment 1, HUD needs to ensure that all certifications of repairs or abatements have been appropriately received and completed.
- Comment 6** The Authority failed to perform its program administrative responsibilities correctly. Therefore, we recommend a penalty or offset of the administrative fees.
- Comment 7** The Authority's proposed actions, if fully implemented, should establish procedures and controls to ensure that units meet HUD's housing quality standards and units are decent, safe, and sanitary. The Authority should provide supporting documentation to HUD's staff who will work with the Authority to resolve the recommendations.
- Comment 8** The Authority did not have a quality control inspection program in place as of March 2010. Until such time as the Authority implements a quality control program, the Authority is not in compliance with HUD's requirements.
- Comment 9** We regret the decision to include a recommendation for administrative sanctions prior to us being able to fully discuss the recommendation with the Authority. However, the Authority's inspector knowingly disregarded HUD's requirements in conducting housing quality standards to benefit the Authority, its landlords, and its tenants. The Authority had not been operating with procedures and controls. The best preventive measure is procedures and controls over the inspection process to ensure housing quality standards are applied.
- Comment 10** The proposed actions, if fully implemented, should establish procedures and controls over the Authority's inspection process. HUD will make the final

determination as to whether the housing inspector is conducting his inspections in accordance with HUD's requirements. Therefore, recommendation 1E was revised to reflect this.



## Appendix C

### FEDERAL REQUIREMENTS

---

HUD's regulations at 24 CFR 982.305(a) state that the public housing authority may not give approval for the family of the assisted tenancy or approve a housing assistance contract until the authority has determined that the following meet program requirements: (1) the unit is eligible, (2) the unit has been inspected by the housing authority and meets HUD's housing quality standards, and (3) the rent to the owner is reasonable.

HUD's regulations at 24 CFR 982.401 require that all program housing meet HUD's housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the tenancy.

HUD's regulations at 24 CFR 982.404(a) state that the owner must maintain the unit in accordance with HUD's housing quality standards. If the owner 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. Remedies for such breach of the housing quality standards include termination, suspension, or reduction of housing assistance payments and the termination of the housing assistance payments contract. The authority must not make any housing assistance payments for a dwelling unit that fails to meet the housing quality standards unless the owner corrects the defect within the period specified by the authority and the authority verifies the correction. If a defect is life threatening, the owner must correct the defect within 24 hours.

Federal regulations at 2 CFR 2424.10 state that HUD adopted, as HUD's policies, procedures, and requirements for nonprocurement debarment and suspension, the federal regulations at 2 CFR Part 180.

HUD's regulations at 24 CFR 24.1 state that the policies, procedures, and requirements at 2 CFR Part 2424 permit HUD to take administrative sanctions against employees of recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation and are authorized by 2 CFR 180.800, 2 CFR 180.700, or 2 CFR 2424.1110, respectively. HUD may impose administrative sanctions based upon the following conditions:

- ❖ Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);
- ❖ Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance, or guarantee or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee (limited denial of participation);

- ❖ Violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program, such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment); or
- ❖ Any other cause so serious or compelling in nature that it affects the present responsibility of a person (debarment).