



Issue Date	May 30, 2008
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Audit Report Number	2008-AT-1007
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TO: Olga I. Saez, Director, Public and Indian Housing, San Juan Field Office, 4NPH

*James D. McKay*

FROM: James D. McKay, Regional Inspector General for Audit, 4AGA

SUBJECT: The Municipality of Caguas, Puerto Rico, Needs to Improve Controls over Its Section 8 Program

## **HIGHLIGHTS**

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

As part of the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General's (OIG) strategic plan, we audited the Municipality of Caguas' (authority) Section 8 Housing Choice Voucher program. We selected the authority for review based on a risk assessment. Our audit objectives were to determine whether Section 8 units met housing quality standards in accordance with HUD requirements and whether the authority properly determined housing assistance subsidies.

### **What We Found**

Of the 10 units inspected, eight (80 percent) did not meet minimum housing quality standards, and three of those were in material noncompliance. The authority also failed to ensure that quality control inspections were performed in accordance with HUD requirements. As a result, the authority made housing assistance payments for units that did not meet standards.

The authority miscalculated Section 8 assistance, overhoused tenants, made duplicate payments, and did not abate rents. As a result, it made overpayments

and underpayments totaling \$14,074 and did not support \$1,957 in assistance payments. We estimate that over the next year, the authority will disburse more than \$6,800 in subsidy overpayments if it does not implement adequate controls.

### **What We Recommend**

We recommend that the Director of the Office of Public Housing require the authority to inspect the eight units that did not meet minimum housing quality standards to verify that the landlords took appropriate corrective actions to make the units decent, safe, and sanitary. If appropriate actions were not taken, the authority should abate the rents or terminate the housing assistance contracts. The Director should also require the authority to ensure that errors in tenant files are corrected and reimburse its program \$13,086 and the tenants or landlords \$988 for the identified errors that affected the assistance payments. We also recommend that the Director require the authority to submit supporting documentation that would justify the issuance of a voucher larger than the administrative plan allowed or reimburse its program \$1,957 from nonfederal funds for the five unsupported vouchers. Additionally, we recommend that the Director require the authority to establish and implement controls to prevent \$6,804 in overpayments because of incorrect payment standards.

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 discussed the findings with the authority and HUD officials during the audit. We provided a copy of the draft report to authority officials on April 7, 2008, for their comments and discussed the report with the officials at the exit conference on April 14, 2008. The authority provided its written comments to our draft report on April 24, 2008. In its response, the authority generally agreed with the findings, except for recommendation 2C. The authority partially addressed recommendation 2A but did not address recommendations 2B, 2D, and 2F.

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

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## **BACKGROUND AND OBJECTIVES**

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The Municipality of Caguas (authority) was founded in 1894, and its governing system consists of an executive and legislative body: a mayor and 16 members of the municipal legislature elected for four-year terms. The municipal government provides a full range of services, including public health and safety, urban and economic development, education, and others.

The authority administers approximately 1,200 housing choice vouchers in Caguas, Puerto Rico. It uses its Section 8 voucher funds to provide rental assistance to eligible families. From July 1, 2006, through June 30, 2007, the U.S. Department of Housing and Urban Development (HUD) authorized and disbursed \$5.94 million to the authority in Section 8 program voucher funds. The authority's housing department was assigned the responsibility of administering the Section 8 program. The authority's records for the Section 8 program are maintained at the Angel Luis Rivera Municipal Government Center, Caguas, Puerto Rico.

The objectives of our audit were to determine whether the authority's Section 8 units met housing quality standards in accordance with HUD requirements and whether the authority properly determined housing assistance subsidies.

## RESULTS OF AUDIT

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### Finding 1: Controls over Housing Quality Standards Were Inadequate

The authority did not adequately enforce HUD's housing quality standards. Of the 10 units inspected, eight (80 percent) did not meet minimum housing quality standards, and three were in material noncompliance. It also failed to ensure that quality control inspections were performed in accordance with HUD requirements. This noncompliance occurred because the authority's management did not implement adequate internal controls over its inspection process and did not have adequate procedures for conducting quality control inspections. As a result, the authority made housing assistance payments for units that did not meet standards.

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#### Health and Safety Hazards Were Predominant

From the authority's 222 program units that passed inspection between August and October 2007, we selected 10 units for inspection. The 10 units were inspected to determine whether the authority ensured that its program units met housing quality standards. Of the 10 units, eight (80 percent) had 34 housing quality standards violations. The following table lists the most frequently occurring violations for the eight units.

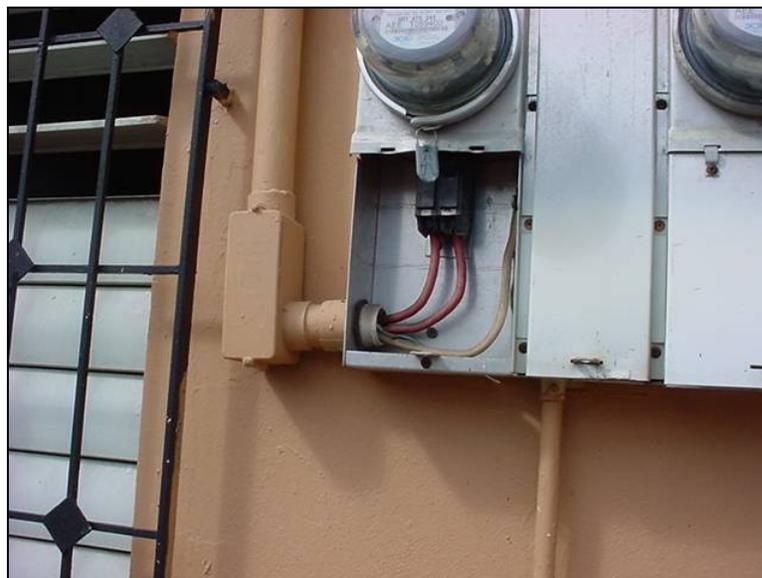
Type of deficiency	Number of deficiencies	Number of units	Percentage of units
Illumination and electrical	19	7	70
Structure and materials	4	2	20
Water supply	5	4	40
Food preparation and refuse disposal	2	2	20
Smoke detector	3	3	30

Additionally, three of the eight failed units were in material noncompliance with housing quality standards. Appendix D provides details on the three units.

The most predominant deficiencies were electrical hazards, including exposed wiring, improper wiring of water heaters, and unshielded electrical wires. We also found other health and safety hazards, including stairs needing handrails, porch area with tripping hazards, and unsafe bathrooms. The following pictures show some of these deficiencies.



Electrical outlet improperly wired and unshielded electrical wires. This deficiency was not reported by the authority during its September 7, 2007, inspection.



Primary breaker box with no internal cover and with exposed electrical contacts, creating an electrical shock hazard. The deficiency was not reported by the authority during its September 24, 2007, inspection.



Improper wiring of water heater with exposed wire connections, creating an electrical shock hazard. In addition, the pressure relief valve discharge pipe was too short. This deficiency was not reported by the authority during its August 23, 2007, inspection.



No guardrail on left side of entrance stairs. The tenant informed us that this condition had existed since move-in in October 2007. This deficiency was not reported by the authority during its September 13, 2007, inspection.

We found 25 deficiencies that existed at the time of the authority's most recent inspection, but the inspectors did not identify or did not report them. Improper water heater and electrical installations were some of the deficiencies not reported by inspectors. Authority inspectors attributed some of the deficient inspections to oversight or their unfamiliarity with HUD requirements. As a result, authority inspectors improperly passed units that did not meet the required standards.

We provided our inspection results to the authority's Section 8 program supervisor, who agreed to notify tenants and owners and ensure that violations were corrected.

### **Quality Control Review Sample Was Inadequate**

The authority's quality control inspection sample was also inadequate. While HUD requires the authority to complete quality control reviews of a sample of the routine (i.e., initial and periodic) inspections that represent a cross-section of neighborhoods and inspectors' work, this procedure was not followed during the May and June 2007 reinspections. The authority limited its sample to only those units that failed the initial inspection and passed the reinspection between January and April 2007. It excluded from the review any unit that passed the authority's initial inspection. As a result, the quality control review sample did not represent a cross-section of the inspections conducted in the units under contract as required by HUD. In addition, the authority did not document any feedback provided to inspectors on recurring inspection deficiencies noted that needed to be addressed.

This noncompliance occurred because the authority did not establish adequate policies and procedural guidelines for conducting the required quality control inspections. The authority's Section 8 administrative plan only made a general reference to the universe from which the sampled units should be obtained and stated that the size of the sample had to comply with HUD requirements. The plan lacked sufficient detail to instruct staff on how to carry out the quality control inspections and select the sample of the units to be reinspected.

### **Conclusion**

Because the authority did not implement adequate internal controls, it made housing assistance payments for units that did not meet housing quality standards. The authority did not maintain adequate controls to ensure that inspections met HUD requirements. Management must emphasize the importance of housing quality standards and implement policies and procedures which ensure that it

complies with HUD requirements and gives tenants the opportunity to live in decent, safe, and sanitary conditions.

## Recommendations

We recommend that the Director of the Office of Public Housing

- 1A. Require the authority to inspect the eight units that did not meet minimum housing quality standards to verify that the owners took appropriate corrective actions to make the units decent, safe, and sanitary. If appropriate actions were not taken, the authority should abate the rents or terminate the housing assistance contracts.
- 1B. Require the authority to implement internal controls which ensure that inspections meet HUD requirements, to prevent Section 8 funds from being spent on units that are in material noncompliance with standards.
- 1C. Require the authority to develop and implement an internal control plan and procedural guidelines to ensure that quality control inspections are performed in accordance with HUD requirements and that it documents the feedback provided to inspectors to correct recurring inspection deficiencies noted.

## Finding 2: Controls over Housing Assistance Payments Were Inadequate

The authority did not comply with HUD requirements. It miscalculated Section 8 assistance, overhoused tenants, made duplicate payments, and did not abate rents. This noncompliance occurred because the authority did not have effective controls in place to ensure that its staff assigned the correct voucher size and determined the correct assistance payment. As a result, it made overpayments and underpayments totaling \$14,074 and did not support \$1,957 in subsidy payments. We estimate that over the next year, the authority will disburse more than \$6,800 in subsidy overpayments if it does not implement adequate controls.

### The Authority Overpaid and Underpaid Section 8 Assistance

The authority overpaid and underpaid assistance due to calculation errors; it overpaid assistance for tenants who resided in units larger than the authority's subsidy standards allowed (overhousing) and made other erroneous payments.

Calculation errors - We reviewed a sample of 15 vouchers to determine whether the authority correctly determined the housing assistance of Section 8 tenants. The authority did not properly calculate housing assistance payments for 14 of them, 11 of which resulted in overpayments and underpayments totaling \$8,341.<sup>1</sup> These 14 vouchers contained the following errors:

Type of error	Number of vouchers	Percentage of sample
Payment standard selection	8	53
Utility allowance calculation	8	53
Adjusted gross income calculation	3	20
Payment administration	4	27

Appendix E of this report details the errors and associated improper payments for the 11 vouchers that resulted in overpayments and underpayments.

The authority's housing assistance payment register showed 379 vouchers with certifications that were effective on or after October 1, 2007. The authority's staff used the incorrect payment standard on at least 230 of these vouchers when determining the housing assistance of tenants. On October 1, 2007, the authority established new payment standards for its Section 8 program, but its staff incorrectly applied a higher payment standard when it keyed in the data in the authority's certification system. The authority's housing counselor used the

<sup>1</sup> The authority did not overpay or underpay for the remaining three vouchers, as the gross rents were less than the applicable payment standard.

incorrect payment standards, because she was not aware that a lower payment standard had been established.

We recalculated the housing assistance for these tenants to determine the possible effect on the Section 8 program if the authority had used the correct payment standard. With the incorrect payment standard, the authority made overpayments in 48 of the 230 vouchers.<sup>2</sup> We estimate that the authority will overpay more than \$6,800 in subsidies over the next 12 months, if it does not use the correct payment standard.

During the audit, the authority initiated corrective measures to change the incorrect payment standards used and recuperate any overpayments.

Overhoused tenants - Of the Authority's 1,205 Section 8 active tenants, 71 were potentially overhoused. We reviewed a sample of 15 vouchers of tenants who appeared to be overhoused to determine whether there was acceptable justification for issuing a voucher larger than the authority's administrative plan allowed. For six vouchers, the authority assigned the correct voucher size, but it overhoused four tenants in our sample. The authority overhoused tenants because it did not assign the correct voucher size during admission or reduce the voucher's size at its annual reexamination for tenants who had experienced a change in family composition. The authority overpaid assistance totaling \$1,713 to the four overhoused tenants.

For the remaining five vouchers in our sample, the authority did not provide acceptable justification for issuing a voucher larger than the authority's administrative plan allowed. Although the authority claimed that a larger voucher was approved because of medical reasons, the tenants' files did not contain sufficient information to support the authority's determination. Therefore, there are potentially overhoused tenants, and housing assistance payments totaling \$1,957 are considered unsupported.<sup>3</sup>

Duplicate payments - Review of the subsidy payments made during our audit period showed that the authority paid \$2,651 in duplicate housing assistance associated with six vouchers. This condition occurred because the authority did not suspend or cancel the subsidy payment associated with portability-in vouchers of tenants who transferred to the authority's jurisdiction and who were given new vouchers. As a result, the tenants were assigned two vouchers, and the authority made subsidy payments for both vouchers. Authority officials were not aware that duplicate payments were made.

Unabated rents - The authority failed to abate \$1,369 in housing assistance payments for a unit not meeting housing quality standards. Although the

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<sup>2</sup> The authority did not overpay for the remaining 182 vouchers, as the gross rents were less than the correct payment standard.

<sup>3</sup> We questioned the difference between the subsidy paid for the larger unit and the subsidy that would have been paid based on the household size.

authority initially abated the rents, it resumed the housing assistance payments when the unit was brought up to standards and improperly paid all rents previously abated. The authority attributed the improper payment to an oversight.

## Conclusion

The authority overpaid \$13,086 and underpaid \$988 in housing assistance, because it did not have effective controls in place to ensure that its staff assigned the correct voucher size and determined the correct assistance payment. Although the monetary impact of the housing assistance errors is not significant, the number of vouchers with errors, more than 200, warrants special attention from HUD and the authority. Management must emphasize the importance of the certification process and implement policies and procedures to ensure that it complies with HUD requirements and prevent future housing assistance errors. We estimate that by making the necessary improvements, the authority will prevent disbursements of more than \$6,800 in subsidy overpayments.

## Recommendations

We recommend that the Director of the Office of Public Housing

- 2A. Require the authority to reimburse its program \$13,086 (\$7,353 in assistance errors, \$1,713 in overhoused tenants, \$2,651 in duplicate payments, and \$1,369 for not abating rents) from nonfederal funds for the overpayment of housing assistance.
- 2B. Require the authority to reimburse the applicable households or landlords \$988 from its program funds for the underpayment of housing assistance.
- 2C. Require the authority to submit supporting documentation that would justify the issuance of a voucher larger than the authority's administrative plan allowed or reimburse its program \$1,957 from nonfederal funds for the five unsupported vouchers.
- 2D. Require the authority to review the remaining 56 potentially overhoused tenants, determine the appropriateness of the housing assistance disbursed, and repay the Section 8 Housing Choice Voucher program from nonfederal funds any amounts determined ineligible.
- 2E. Require the authority to implement adequate procedures and controls to ensure that its calculations regarding tenants' housing assistance payments and voucher size are correct as required by HUD and prevent more than \$6,800 in subsidy overpayments.

- 2F. Increase monitoring of the authority's performance in the administration of its Section 8 Housing Choice Voucher program. If the authority fails to improve and fulfill its administrative responsibilities, consider imposing sanctions in accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d).

## SCOPE AND METHODOLOGY

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To accomplish our objectives, we did the following:

- Reviewed applicable laws, regulations, and other HUD program requirements.
- Reviewed the authority's Section 8 policies, procedures, and administrative plan.
- Interviewed HUD and authority management and staff.
- Reviewed the authority's latest independent public accountant report and HUD program monitoring reviews.
- Obtained a download of the authority's Section 8 units for the Housing Choice Voucher program as of November 5, 2007.<sup>4</sup>

We selected a random sample of the authority's program units to inspect from the 222 units that passed its inspections conducted from August through October 2007. We used the U.S. Army Audit Agency's Statistical Sampling software to select 52 of the 222 units. We only reviewed 10 of the 52 selected units, therefore the results apply only to the units inspected and cannot be projected to the universe or population.

Our sampling results indicated that three of the eight failed units were in material noncompliance with housing quality standards. We based our assessment on prior authority inspection reports, tenants' comments, and our observation and judgment of the condition of the unit during the inspection. We judged units to be in material noncompliance with housing quality standards, because the units had preexisting conditions that threatened the living conditions of the tenants.

To perform our housing assistance review, we relied upon computer-processed data provided by the authority. Specifically, we relied upon a spreadsheet that contained data on housing subsidies paid to landlords and tenants during our 15-month audit period for 1,298 households. We analyzed the data and concluded that the data were sufficiently reliable for our purposes of sample selection and projection.

We randomly selected 32 of the 1,298 household files for detailed review. We only reviewed 15 of the 32 randomly selected household files and did not use these files for projecting our sample results. Therefore, the results apply only to items selected and cannot be projected to the universe or population.

To determine whether the authority properly calculated the housing assistance payments made during our audit period for the sample households, we analyzed information entered into the authority's certification system as well as supporting documentation such as household

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<sup>4</sup> To achieve our audit objectives, we relied in part on computer-processed data contained in the authority's database. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

composition, fair market rent data, income verifications, and rental unit records. We then calculated the correct housing assistance payment amounts covering each month of our audit period, and in some cases, we expanded our audit period as needed to accomplish our objectives. Our analyses indicated that in 6 of the 15 vouchers reviewed, the authority underpaid monthly housing subsidies totaling \$988. These funds could be put to better use if the authority correctly determines the rental subsidy.

Authority records identified 379 tenants from the 1,205 active vouchers with certifications that were effective on or after October 1, 2007. We applied a computer formula to the authority's data and identified 230 vouchers in which the authority's staff did not apply the new payment standard that went into effect on October 1, 2007. We also recalculated the housing assistance for the 230 tenants to determine the possible effect on the Section 8 program had the authority's staff used the correct payment standard. To recalculate the housing assistance, we used the payment standard that applied to tenants based on the number of people in their households. We accepted and did not verify the authority's calculation for income and deductions for the overhoused tenants.

Our analyses indicated that in 48 of the 230 vouchers, the authority overpaid monthly housing subsidies totaling \$567. Projecting the results, we estimate that the authority will overpay \$6,804 ( $\$567 \times 12$ ) in subsidies over the next 12 months. This estimate is presented solely to demonstrate the annual amount of Section 8 funds that could be put to better use if the authority uses the correct payment standard.

We also identified 71 potentially overhoused tenants from the 1,205 active vouchers the authority had as of November 5, 2007. We defined an overhoused tenant voucher as any voucher that did not have the minimum number of household members required by the authority's payment standards for voucher size. We reviewed the files of 15 potentially overhoused tenants to determine whether there was acceptable justification for assigning vouchers larger than the authority's administrative plan allowed, and when there was no justification, we calculated the overpayments.<sup>5</sup> We used nonstatistical sampling, therefore the results apply only to items selected and cannot be projected to the universe or population.

We conducted our fieldwork from November 2007 through March 2008 at the authority's offices in Caguas, Puerto Rico. Our audit period was from July 1, 2006, through September 30, 2007, but we expanded our audit period as needed to accomplish our objectives.

We conducted the audit in accordance with generally accepted government auditing standards.

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<sup>5</sup> Our selection was based on the tenants with an admission date between December 1, 2003, and August 7, 2007.

# INTERNAL CONTROLS

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

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

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

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

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The authority did not have internal controls in place to ensure that Section 8 units met housing quality standards (see finding 1).
- The authority did not have adequate internal controls to detect overhoused tenants and miscalculated Section 8 assistance (see finding 2).

## APPENDIXES

### Appendix A

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

<u>Recommendation number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Funds to be put to better use 3/</u>
2A	\$13,086		
2B			\$988
2C		\$1,957	
2E			<u>6,804</u>
Total	<u>\$13,086</u>	<u>\$1,957</u>	<u>\$7,792</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/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes 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 which are specifically identified. In these instances, if the authority implements recommendations 2B and 2E, it will cease to make rental underpayments and overpayments to landlords 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 estimates reflect only the initial year of this benefit.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

 <i>William Miranda Martín, Esq.</i> <i>Mayor</i>	<small>COMMONWEALTH OF PUERTO RICO AUTONOMOUS MUNICIPALITY OF CAGUAS</small>	
<p>April 24, 2008</p> <p>Mr. James D. McKay Regional Inspector General for Audit, 4AGA U.S. Department of Housing &amp; Urban Development Region 4 Office of Inspector General Office of Audit, Box 42 Richard B. Russell Federal Building 75 Spring Street S.W. Room 350 Atlanta, Ga. 30363-3388</p> <p>Subject: Municipality of Caguas Housing Authority Audit Report Section 8 Housing Choice Voucher Program</p> <p>Dear Mr. McKay:</p> <p>This is in response to your audit report number 2008-AT-100X requesting our review and written comments.</p> <p><i>Q</i> <b>Finding 1:</b> We recommend that the statement to the effect that, “the noncompliance occurred because the authority’s management did not implement adequate internal controls over its inspection process and did not have adequate procedures for conducting quality control inspections” be revised.</p>		
<small>P.O. Box 907, Caguas, P.R. 00726-0907 Tel. (787) 653-8833 • Fax (787) 746-6562</small>	 <small>CAGUAS CENTRO AND HEART OF PUERTO RICO</small>	<small>E-mail: <a href="mailto:wmiranda@caguas.gov.pr">wmiranda@caguas.gov.pr</a> <a href="http://www.caguas.gov.pr">http://www.caguas.gov.pr</a></small>

Ref to OIG Evaluation

Auditee Comments

Comment 1

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**Comment I:** To the quality review process already in place, the Authority has established some corrective measures to increase the frequency in which housing units are re-inspected. The inspector’s supervisor will conduct quarterly reviews on March, June, September and December.

In view of the oversights, the Inspectors will undergo additional training in the identification of common electrical hazards and other health and safety standards. The daily operation will continue to be guided by the Housing Choice Voucher Guide Book, the Administrative Plan and 24 CFR Part 982. These are management tools currently used by the Authority to guide the operation and duly authorized by HUD.

The Authority must also emphasize, that the deficiencies found were corrected within the prescribed period of time and the corrective action taken for each one of the eight cases in question was reported immediately to the O.I.G. auditor in charge. Furthermore, the statement is a generalization that implies that all participants of the Housing Choice Voucher Program in the Municipality of Caguas are at risk due to lack of management control.

Comment 2

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**Finding I -Comment 2:** The Authority is requesting that the statement to the effect of housing payments being made for units that did not meet quality standards be modified to include that the payments were made to owner’s of units approved to participate in the program. In all fairness, the statement should deliver the message that there has been due diligence in all aspects of fund’s management.

In regards to the eight cases found to be deficient, Inspectors have been cautioned about oversights on HQS requirements as a matter of a “verbal warning” and have been provided with information related to the



requirements. Each inspector understands that other findings could result in further disciplinary actions.

Final results showed **only one case** in which payment for the unit should not have been made due to non-compliance with quality standards. Inspectors have been instructed that they must be firm to take action to withhold the rent amount in cases of non-compliance with quality standards.

**Finding 2- Comment 1:** The authority did not comply with HUD requirements. It miscalculated Section 8 assistance, over-housed tenants, made duplicate payments, and did not abate rents. This noncompliance occurred because the authority did not have effective controls in place to ensure that its staff assigned the correct voucher size and determined the correct assistance payment. As a result, it made overpayments and underpayments totaling \$14,074 and did not support \$1,957 in subsidy payments. We estimate that over the next year, the authority will disburse more than \$6,800 in subsidy overpayments if it does not implement adequate controls.

The Authority requests that the above stated conclusion on overpayments be modified based on the following:

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**Calculation errors:** The authority had established 110% of the FMR as of September 30, 2007. There were changes to the FMR that took effect on October 10, 2007. Due to these changes and the budgetary restraints resulting from it, the authority took internal measures to adjust payment standards down to 105% of the new FMR.

As noted by the O.I.G. auditor, 48 of 230 cases resulted in overpayments. This is only a total of 4% as it relates to the number of cases being serviced which amounts to (1,242) one thousand two



hundred & forty two. Also, the Authority made the necessary corrections to the system to recalculate and to process all of the necessary adjustments. The Housing Department recovered all amounts overpaid on each of the 48 cases in question. In addition, corrective measures have been taken to avoid future occurrences of this nature.

The Department has an Internal Monitor for Federal Programs. This position will be responsible to ensure that the Authority does not issue any subsidy overpayments. A process and corresponding procedures are currently being designed to be used as a tool to monitor the amount of assistance payments being made. Form 50058 will be utilized as a tool in the weekly sample selection proposed.

**Overhoused Tenants:** The O.I.G. auditor indicated that in 4 of the 15 cases that were audited to determine the size of the housing unit by the number of family members, there was an error made in the size of the housing unit approved for occupancy by families.

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The authority proceeded to take the necessary measures to rectify the situation as follows:

**OVERHOUSED TENANTS**

FILE	UNIT	TENANT	CORRECTIVE ACTIONS
541	541	[REDACTED]	The PHA changed the voucher to 1brs and asked the family to relocate. The tenant is searching for a unit
986	V-003-	[REDACTED]	Effective 01/01/2008



Name of tenants were deleted by OIG to preserve their privacy.

**Ref to OIG Evaluation**

**Auditee Comments**

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Comment 3

Comment 4

	01		the tenant moved into 2BRS unit in accordance to the voucher size
1058	V-004-66	[REDACTED]	The PHA is paying for 1brs based on FMR The other room is a laundry area (The family is not overhoused)
529	529	[REDACTED]	The family needs 3brs. Medical evidence was provided.

**Overhoused Tenants:**

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The O.I.G. auditor indicated that 5 cases lacked justification to overhouse the families. The criteria to overhouse, was established in the authority's Administrative Plan based on Federal Regulation; Guide Book Capt. 5.9 and CFR 982.402.

The audit claims that there is unsupported justification on the following cases:

FILE	UNIT	TENANT	EVIDENCE
977	V-002-17	[REDACTED]	Physiological and medical evidence were provided on 5/9/2007, 7/13/2007 that specifies the family needs an additional bedroom.



Name of tenants were deleted by OIG to preserve their privacy.

Ref to OIG Evaluation

Auditee Comments

431	431	[REDACTED]	Medical evidence was provided on 9/25/2006 to support that the family needs an additional bedroom.
1303	V-008-04	[REDACTED]	Medical evidence was provided on 7/2007 to support that the family needs an additional bedroom.
826	K1-17122	[REDACTED]	Medical evidence was provided on 7/11/2007 to support that the family needs an additional bedroom.
740	740	[REDACTED]	Medical evidence was provided on 11/13/2007 to support that the family needs an additional bedroom.

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Comment 5

During the exit interview the O.I.G. auditors informed that the Authority must corroborate the necessity for a larger housing unit. The Authority had not been corroborating the necessity since the need was established by a physician licensed to evaluate the medical need of participating individuals.

Although the Housing Choice Voucher Program regulation does not require the PHA to validate or corroborate the need of an additional room when a health professional has determined the need based on his expertise and authority, from now on the PHA will take the necessary measures to amend the Administrative Plan to include the additional



Name of tenants were deleted by OIG to preserve their privacy.

Ref to OIG Evaluation

Auditee Comments

Comment 6

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requirement as part of the need assessment. However, is important to note that the PHA's employees do not have the expertise to rebut or substitute the determination of a Health Professional's decision and recommendation.

Duplicate payments:

Notwithstanding the rules as established by 24 CFR982.503(b), based on the recommendation of the O.I.G. auditor there were adjustments made to the system to apply 105% of the FRM to all 48 of the 230 cases noted. The system took care of the necessary underpayment adjustments and overpayment amounts. Also, the \$2,651 due to duplicity were recovered as well. This was an isolated incident since it only occurred in renewed cases that were a portability from other jurisdictions. Evidence of the recovered funds was presented to O.I.G auditor.

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The Authority recovered the funds in all of the cases involving duplicity due to a portability from other PHA's. A consultation has been made to a system specialist to find a way to make the necessary program changes to avoid future occurrences.

Tenant: [REDACTED]  
Owner: [REDACTED]  
Move Out: 304-Vss 10/31/2006  
Move In: V-008-20 11/1/2006 \$576.00  
On January 1, 2008 \$576.00 -Reimbursed as an Adjustment

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Tenant: [REDACTED]  
Owner: [REDACTED]  
Move Out 1120-V 10/31/2006  
Move In V-009-23 11/1/2006 \$443.00  
On February 1, 2008 \$443.00 Reimbursed By [REDACTED]



Name of tenants and owners were deleted by OIG to preserve their privacy.

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Tenant: [REDACTED]  
Owner: [REDACTED]  
Move Out Var-P46 10/31/2006  
Move In 286 11/1/2006 \$313.00  
On December 11, 2007 \$313.00 Reimbursed By [REDACTED]  
Tenant: [REDACTED]  
Owner: [REDACTED]  
Move Out 30167202 10/31/2006  
Move In 659 11/1/2006 \$313.00  
On December 11, 2007 \$313.00 Reimbursed By [REDACTED]

9

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Tenant: [REDACTED]  
Owner: [REDACTED]  
Move Out 300v1541 11/14/2006  
Move In V-006-20 11/15/2006 \$635.00  
On December 12, 2007 \$313.00 Reimbursed By [REDACTED] [REDACTED] [REDACTED]  
[REDACTED]

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Tenant: [REDACTED]  
Owner: [REDACTED]  
Move Out Pi-025 10/31/2006  
Move In V-008-30 11/1/2006 \$371.00  
On January 1, 2008 \$313.00 Reimbursed By [REDACTED]

Should you have any questions or require additional information, please feel free to contact Mónica Vega Conde, Municipal Housing Department Director at 787-744-8833 Ext 1510.



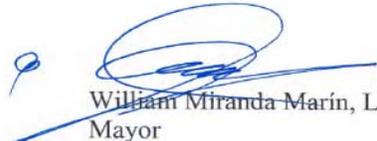
Name of tenants and owners were deleted by OIG to preserve their privacy.

Ref to OIG Evaluation

Auditee Comments

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Respectfully yours,

  
William Miranda Marín, Lcdo.  
Mayor



## OIG Evaluation of Auditee Comments

The authority generally agreed with our recommendations, except for recommendation 2C. The authority partially addressed recommendation 2A (\$1,713 in overhoused tenants and \$2,651 in duplicate payments), but did not address 2B, 2D and 2F.

- Comment 1** The measures taken by the authority should help to improve procedures and controls over its unit inspections. The authority must also ensure that it has adequate written procedures that clearly describe steps to be followed during inspections and that these are performed in accordance with HUD's requirements.
- Comment 2** Our audit showed that 8 of the 10 units inspected had 34 housing quality standards violations. We found 25 deficiencies that existed at the time of the authority's most recent inspection, but the inspectors did not identify or did not report them. As a result, housing inspectors improperly passed units and the authority paid housing assistance for dwellings that did not meet the required standards.
- Comment 3** File number 1058 - The authority stated that the family was not overhoused and that it used the fair market rent of a 1 bedroom unit. According to the supporting documentation the authority provided us during the audit and our interview with the housing counselor, the family was overhoused and the assistance was determined based on a 2 bedroom unit. The authority did not provide additional support that could demonstrate that the family was not overhoused.
- Comment 4** File number 529 - The authority stated that the family was not overhoused because of a medical condition of a family member. According to the supporting documentation the authority provided us during the audit and our interview with the housing counselor, the family was overhoused. The authority overhoused the tenant because it did not reduce the voucher's size at its annual reexamination although it had experienced a reduction in the family composition. The authority did not provide additional support that could demonstrate that the family was not overhoused or the medical conditions warranting the additional bedroom.
- Comment 5** Our report does not state or imply that the medical condition of Section 8 participants should be questioned by the authority. The report clearly states that the authority claimed that a larger voucher was approved because of medical reasons, but the tenants' files did not contain sufficient information to support the authority's determination. In the files reviewed, the recommendation letter from health professionals only gave general information on the participant's medical condition (asthma, hypertension, diabetes, etc.), but did not provide additional information that could explain why the additional room was needed.

The administrative plan allows the authority to issue a larger size voucher than the subsidy standards permit subject to a verified medical or health reason. It also states that the family can request a larger voucher, but the request must explain the need or justification. It is the authority's responsibility that all Section 8

participants comply with HUD requirements and standards, and that all requests are properly supported and verified.

**Comment 6** The authority stated that it recovered all duplicate payments and that evidence was provided to OIG. However, the authority provided documentation on some of the cases, and it did not clearly show that the authority reimbursed its Section 8 program. In addition, the amount that the authority claims it reimbursed to its program (\$2,272) did not agree with the \$2,651 in duplicate payments that we identified during our audit.

## Appendix C

### CRITERIA

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**Federal Regulations at 24 [*Code of Federal Regulations*] 982.54(c)**

The authority must administer the program in accordance with the authority's administrative plan.

**Federal Regulations at 24 [*Code of Federal Regulations*] 982.401(a)(3)**

All program housing must meet housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the assisted tenancy.

**Federal Regulations at 24 [*Code of Federal Regulations*] 982.505(c)(5)**

If the family unit size increases or decreases during the housing assistance payments contract term, the new family unit size must be used to determine the payment standard amount for the family beginning at the family's first regular reexamination following the change in family unit size.

**Federal Regulations at 24 [*Code of Federal Regulations*] 985.3(e)**

The sample for quality control inspections is to be drawn to represent a cross-section of neighborhoods and the work of a cross-section of inspectors.

## Appendix D

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

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Types of violations**				
File number	Water supply	Food preparation and refuse disposal	Illumination and electrical	Structure and materials
611	0	0	2	3
1163	1	0	4	0
102	2	1	2	0

\*\*The table does not indicate all violations found in the unit. We only included the most frequently occurring or serious violations.

## Appendix E

### SCHEDULE OF HOUSING ASSISTANCE ERRORS

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File No.	Type of error				Overpayments	Underpayments
	Payment standard selection	Utility allowance calculation	Adjusted gross income calculation	Payment administration		
140	X	X		X	\$60	\$425
225	X				3,148	
405	X			X	21	21
416		X				96
48	X				1,660	
491		X		X		236
1089	X	X	X		1,840	
1302		X				90
1451			X		600	
1462	X	X				120
1346	X		X	X	24	
Totals	7	6	3	4	\$7,353	\$988