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Audit Report Number 2009-PH-1012

TO: Dennis G. Bellingtier, Director, Office of Public Housing, Pennsylvania State Office, 3APH

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The Housing Authority of the City of York, Pennsylvania, Did Not Ensure That Its Section 8 Housing Choice Voucher Program Units Met Housing Quality Standards

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of York's (Authority) administration of its housing quality standards inspection program for its Section 8 Housing Choice Voucher program as part of our fiscal year 2009 audit plan. The audit objective was to determine whether the Authority ensured that its program units met the U.S. Department of Housing and Urban Development's (HUD) housing quality standards.

What We Found

The Authority did not ensure that its program units met housing quality standards as required. Of 61 program units statistically selected for inspection, 44 did not meet HUD's housing quality standards. Moreover, 23 of the 44 units were in material noncompliance with housing quality standards. The Authority spent \$24,357 in program and administrative funds for these 23 units. We estimate that over the next year if the Authority does not implement adequate procedures and controls to ensure that its program units meet housing quality standards, HUD

will pay more than \$587,000 in housing assistance on units that materially fail to meet HUD's housing quality standards.

What We Recommend

We recommend that HUD require the Authority to ensure that housing units inspected during the audit are repaired to meet HUD's housing quality standards, reimburse its program from nonfederal funds for the improper use of \$24,357 in program and administrative funds for units that materially failed to meet HUD's housing quality standards, and implement adequate procedures and controls to ensure that in the future, program units meet housing quality standards to prevent an estimated \$587,000 from being spent annually on units that materially fail to meet HUD's housing quality 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 provided a draft audit report to the Authority and HUD officials on July 20, 2009. We discussed the audit results with the Authority and HUD officials throughout the audit and at an exit conference on July 24, 2009. The Authority provided written comments to our draft report on July 27, 2009. The Authority agreed with the audit report. The complete text of the Authority's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The Housing Authority of the City of York (Authority) was established in February 1949 under the Housing Authority Law of the Commonwealth of Pennsylvania. The Authority is governed by a five-member board of commissioners. The current executive director is Ms. Debbie Loucks. The Authority's main administrative office is located at 31 South Broad Street, York, Pennsylvania.

Under the Section 8 Housing Choice Voucher program, the U.S. Department of Housing and Urban Development (HUD) authorized the Authority to provide leased housing assistance payments to 1,452 eligible households. HUD authorized the Authority the following financial assistance for housing choice vouchers for fiscal years 2006 through 2008:

Authority fiscal year	Number of vouchers authorized	Annual budget authority
2006	1,452	\$6,474,263
2007	1,452	\$5,944,029
2008	1,452	\$5,723,241
Total		\$18,141,533

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

Our audit objective was to determine whether the Authority ensured that its program units met HUD's housing quality standards.

RESULTS OF AUDIT

Finding: Controls over Housing Quality Standards Were Inadequate

The Authority did not adequately enforce HUD's housing quality standards. Of 61 program housing units selected for inspection, 44 did not meet HUD's housing quality standards, and 23 materially failed to meet housing quality standards. The Authority's inspectors did not observe or report 326 violations, which existed at the units when they conducted their inspections. This occurred because the Authority did not ensure that its housing inspectors had sufficient knowledge of housing quality standards and did not implement an effective quality control program for its inspection process. As a result, the Authority spent \$24,357 in program and administrative funds for 23 units that materially failed to meet HUD's housing quality standards. Unless the Authority implements adequate procedures and controls to ensure that its program units meet housing quality standards, we estimated that it will pay more than \$587,000 in housing assistance for units that materially fail to meet housing quality standards over the next year.

Housing Units Did Not Meet HUD's Housing Quality Standards

We statistically selected 61 units from unit inspections passed by the Authority's inspectors during the period September 1, 2008, to March 6, 2009. The 61 units were selected to determine whether the Authority ensured that the units in its program met housing quality standards. We inspected the selected units between March 31 and April 9, 2009.

Of the 61 units inspected, 44 (72 percent) had 499 housing quality standards violations. Additionally, 23 of the 44 units (52 percent) were considered to be in material noncompliance since they had numerous violations that predated the Authority's last inspection and were not identified by the Authority's inspectors, creating unsafe living conditions. Of the 44 units with housing quality standards violations, four units had violations that were noted on the Authority's previous inspection report, and the Authority later passed the units. However, during our inspection, it was determined that the violations had not been corrected. The 23 units had 326 violations (including 5 violations identified by the Authority but not corrected) that existed before the Authority's last inspection. HUD regulations at 24 CFR 982.401 require that all program housing meet HUD's housing quality standards at the beginning of the assisted occupancy and throughout the tenancy. The following table categorizes the 499 housing quality standards violations in the 44 units that failed the housing quality standards inspections.

Category of violations	Number of violations	Number of Units
Electrical	123	32
Condition of doors	69	27
Stairs, rail, and deck	65	29
Windows	62	18
Other potentially hazardous features	32	17
Exterior surfaces	23	18
Interior floors	22	14
Other interior hazards	18	11
Site and neighborhood conditions	18	11
Roof and gutters	16	10
Tub, shower, sink, toilet	16	11
Kitchen appliances	8	6
Smoke detectors	8	7
Evidence of infestation	6	6
Lead-based paint	5	4
Wall condition	5	5
Ceiling condition	3	3
Total	499	

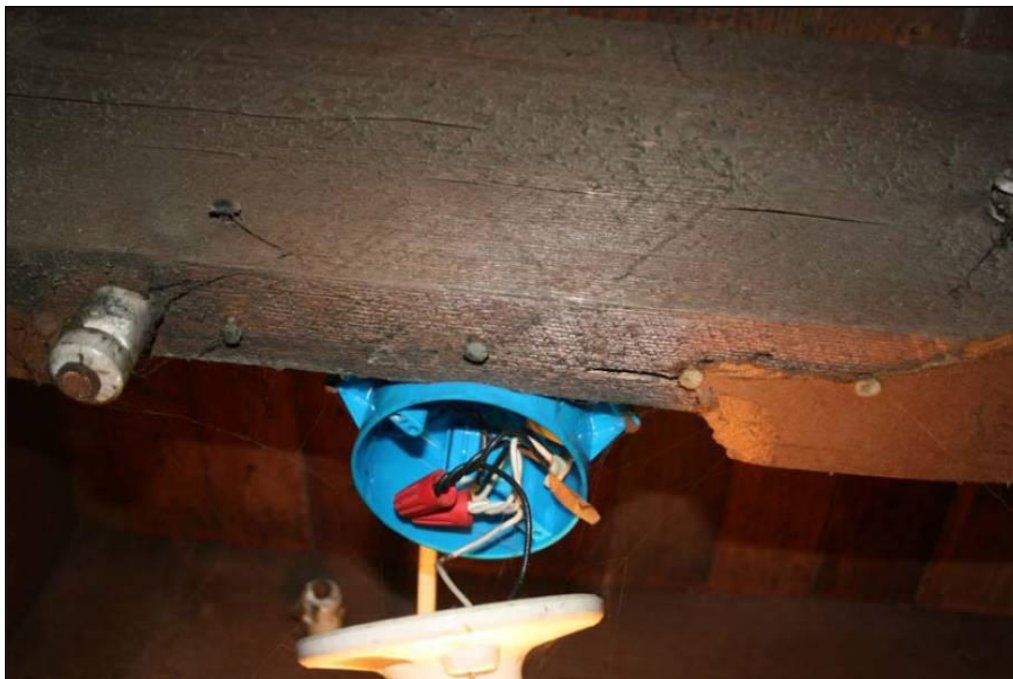
We presented our inspection results to the Authority and to the Director of HUD’s Pennsylvania State Office of Public Housing during the audit.

Housing Quality Standards Violations Were Identified

The following pictures illustrate some of the violations we noted while conducting housing quality standards inspections at the Authority’s leased housing units.



Inspection 7070001: Wire connections were made outside of a junction box. This violation was not identified during the Authority's September 8, 2008, inspection.



Inspection 7079008: Ceramic light fixture was not secured to ceiling light box exposing the wires. This violation was not identified during the Authority's December 5, 2008, inspection.



Inspection 7400022: There was an exposed “hot” wire. This violation was not identified during the Authority’s November 6, 2008, inspection.



Inspection 7280010: There were a missing handrail and missing railing along the stairs to the basement. These violations were not identified during the Authority’s January 29, 2009, inspection.



Inspection 3120118: The handrail does not extend the full length of the main stairs to the unit. This violation was not identified during the Authority's January 26, 2009, inspection.



Inspection 7200002: There were damaged cement steps leading to the front door that can cause a tripping hazard. This violation was not identified during the Authority's February 9, 2009, inspection.



Inspection 3120118: Stair treads leading to the second floor were damaged and can cause a tripping hazard. This violation was not identified during the Authority's January 26, 2009, inspection.

The Authority Did Not Have Adequate Procedures and Controls over Its Inspections

Although HUD regulations at 24 CFR 982.401 and the Authority's administrative plan required the Authority to ensure that its program units met housing quality standards, it failed to do so because the Authority's inspectors, including the quality control inspector, were unaware that some deficiencies were violations of housing quality standards and sometimes relied on statements made by owners to determine compliance with the standards. In addition, although the Authority has a quality control program for its inspections, it did not document that it used the results of the quality control inspections as a training tool to give feedback to its inspectors on the quality of their inspections.

The Authority's Inspectors Did Not Have Sufficient Knowledge and Sometimes Relied on Statements Made by Owners

The Authority's housing inspectors did not have sufficient knowledge of housing quality standards. The Authority did not ensure that its three housing inspectors were equipped with the knowledge they needed to perform complete inspections to assess compliance with HUD's housing quality standards. As a result, the inspectors overlooked violations. The Authority's inspectors stated that they

simply overlooked some violations that we identified because they were unaware that the deficiencies were violations of the standards. For example, the inspectors stated that in some instances they examined electrical wiring to ensure that the connections were clean, but if the connections were made outside of a junction box they did not identify the deficiency as a violation. Also, the inspectors have relied on statements made by the owners to assess the safety of electrical wiring. The inspectors stated that they rely on the statements of the owners to determine whether or not a wiring system is “hot” because they do not have the tools to test the electrical system to verify the owners’ statements. As a result electrical violations were undetected. The Authority needs to provide its inspectors the knowledge and tools they need to perform adequate inspections.

The Authority’s Quality Control Program Was Ineffective

The Authority did not implement an effective quality control program to ensure that inspections were adequately performed to assess compliance with HUD’s housing quality standards. The Authority’s administrative plan sufficiently covered policies and procedural guidelines for conducting housing quality inspections as required by HUD regulations at 24 CFR 982.54(d). However, the Authority’s quality control inspector did not have sufficient knowledge to determine whether the Authority’s inspectors were conducting adequate housing quality inspections to assess compliance with HUD’s standards. The quality control inspector stated that she would not have identified some violations that we identified such as electrical connections made outside of a junction box because she was not aware it was a violation. Without this knowledge, the quality control inspector cannot ensure that inspected units meet HUD’s housing quality standards. To illustrate, the Authority performed 148 quality control inspections from October 1, 2007, through September 31, 2008. Of the 148 inspections, the quality control inspector passed 125 units and failed 23. Included in the 125 inspections were two units that failed our inspection. The quality control inspections did not identify violations such as a missing handrail, a broken junction box cover, and an unsecured fuse box cover.

Also, the Authority did not use the results of its quality control inspections to give inspectors feedback on their performance. The Authority’s administrative plan states that the purpose of quality control inspections is to determine that each inspector conducts accurate and complete inspections and to ensure that there is consistency among inspectors in the application of the housing quality standards. Also, HUD’s Housing Choice Voucher Guidebook 7420.10G states that the results of the quality control inspections should be provided as feedback on inspectors’ work, which can be used to determine whether individual performance or general housing quality standards training issues need to be addressed. The Authority stated that the results of the quality control inspections were discussed with the inspectors, however, the Authority did not provide any documentation to demonstrate that it used the results to improve its inspection program and identify

training issues that need to be addressed. The Authority needs to provide its quality control inspector the knowledge and tools needed to perform adequate inspections, and use the results of its quality control inspections to provide feedback to inspectors to improve the program.

Conclusion

The Authority's program participants were subjected to numerous housing quality standards violations which created unsafe living conditions, and the Authority did not properly use its program funds when it failed to ensure that its program units met HUD's housing quality standards as required. In accordance with HUD regulations at 24 CFR 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing authority if it fails to perform its administrative responsibilities correctly or adequately, such as not enforcing HUD's housing quality standards. The Authority disbursed \$21,407 in housing assistance payments to owners and received \$2,950 in program administrative fees for the 23 units that materially failed to meet HUD's housing quality standards. If the Authority provides its inspectors the knowledge and tools they need to perform adequate inspections, and implements an effective quality control program, we estimate that more than \$587,000 in future housing assistance payments will be spent for units that are decent, safe, and sanitary. Our methodology for this estimate is explained in the Scope and Methodology section of this report.

Recommendations

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

- 1A. Certify, along with the owners of the 44 units cited in this finding, that the applicable housing quality standards violations have been corrected.
- 1B. Reimburse its program \$24,357 from nonfederal funds (\$21,407 for housing assistance payments and \$2,950 in associated administrative fees) for the 23 units that materially failed to meet HUD's housing quality standards.
- 1C. Develop and implement controls to ensure that program units meet housing quality standards, inspectors are provided the knowledge and tools to perform adequate inspections, and the results of quality control inspections are used to provide feedback to inspectors to improve the

inspection program, thereby ensuring that \$587,496 in program funds is expended only for units that are decent, safe, and sanitary.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; regulations; the Authority's administrative plan; HUD's program requirements at 24 CFR Part 982; and HUD's Housing Choice Voucher Guidebook 7420.10G.
- The Authority's inspection reports, computerized databases including housing quality standards inspection data and housing assistance payment data, accounting records, annual audited financial statements for 2005 and 2006, tenant files, policies and procedures, board meeting minutes, and organizational chart.
- HUD's monitoring reports for the Authority.

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

To achieve our audit objective, we relied in part on computer-processed data 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.

We statistically selected 61 of the Authority's program units to inspect from a universe of 558 units that passed the Authority's housing quality standards inspections between September 1, 2008, and March 6, 2009. We selected the sample using the U.S. Army Audit Agency Statistical Sampling System software. We selected 61 units to determine whether the Authority's program units met housing quality standards. The sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus 10 percent.

Our sampling results determined that 23 of 61 units (38 percent) materially failed to meet HUD's housing quality standards. We determined that the 23 units were in material noncompliance because they had 326 violations that existed before the Authority's last inspection creating unsafe living conditions. All units were ranked, and we used auditors' judgment to determine the material cutoff line.

Based upon a sample size of 61 from a total population of 558 units, an estimate of 38 percent (23 units) of the sample population materially failed housing quality standards inspections. The sampling error is plus or minus 9.63 percent. There is a 90 percent confidence that the frequency of occurrence of program units materially failing housing quality standards inspections lays between 28.07 and 47.34 percent of the population. This equates to an occurrence of between 156 and 264 units of the 558 units in the population. We used the most conservative number, which is the lower limit or 156 units.

We analyzed the Authority's automated housing assistance payment register for the period October 1, 2006, through September 30, 2008, and estimated that the average annual housing

assistance payment per household was \$3,766. Using the lower limit of the estimate of the number of units and the estimated average annual housing assistance payment, we estimate that the Authority will spend \$587,496 (156 units times \$3,766 – the estimated average annual housing assistance payment) annually for units that are in material noncompliance with 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 recommendations. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We performed our on-site audit work from December 2008 through July 2009 at the Authority's main administrative office located at 31 South Broad Street, York, Pennsylvania. The audit covered the period October 2006 through March 2009 but was expanded when necessary to include other periods.

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

INTERNAL CONTROLS

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

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 sufficient procedures and controls to ensure that unit inspections complied with HUD regulations and that program units met minimum housing quality standards.

Separate Communication of Minor Deficiencies

Minor internal control and compliance issues were reported to the Authority by a separate letter dated July 23, 2009.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1B	\$24,357	
1C		\$587,496

- 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. 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 this instance, if the Authority implements our recommendations, it will cease to incur program costs for units that are not decent, safe, and sanitary and, instead, will expend those funds for units that meet HUD's standards, thereby putting approximately \$587,000 in program funds to better use. 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

HOUSING AUTHORITY OF THE CITY OF YORK

31 South Broad Street, P.O. Box 1963, York, PA 17405

Debbie J. Loucks
Executive Director

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Section 8 Program Office (717) 854-7846
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July 27, 2009

Mr. John P. Buck
Regional Inspector General for Audit,
Philadelphia Region, 3AGA
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Wanamaker Building, Suite 1005
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Philadelphia PA 19107-3380

RE: Audit of the Housing Authority of the City of York's Housing Choice Voucher Program

Dear Mr. Buck,

This letter is in response to the OIG Audit Report shared with us in draft form this week. We appreciate the opportunity we had to review with Chad Gagon the information that went into the draft.

Overall, we agree with the audit report. We will consider your recommendations and wait to hear from Dennis Bellingtier, Director, Office of Public Housing and his staff before implementation.

We recognize many of the violations observed in the 23 units found to have pre-existing HQS violations are valid; however, we believe some (not most) are due to the aging structures in York County and border between pass and fail. We also understand that some OIG inspections were completed well after 90 days following the Authority's inspection in order to obtain representation of York City and York County units.

Lastly, we encourage HUD to consider our administrative costs when assessing reimbursement.

If you have any questions regarding this response, you may contact me at (717) 845-2601, ext. 1127 or dloucks@yorkhousing.org.

Sincerely,



Debbie J. Loucks
Fri Jul 24 16:40:28 2009

Debbie J. Loucks
Executive Director

Cc: Dennis G. Bellingtier, Director, Office of Public Housing
Kathleen Wolf, Section 8 Coordinator
HUD Correspondence file

***"THE YORK HOUSING AUTHORITY AIMS TO PROVIDE SAFE, DECENT, AFFORDABLE HOUSING OPPORTUNITIES
FOR PEOPLE WHO ARE ELIGIBLE, IN A MANNER THAT ENCOURAGES SELF-SUFFICIENCY."***