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Audit Case Number 2005-AT-1010

TO: Karl H. Kucen, Director, Office of the Public and Indian Housing,
Memphis Hub, 4KPH

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

SUBJECT: The Chattanooga Housing Authority, Chattanooga, Tennessee
Did Not Ensure Section 8 Assisted Units Were Decent, Safe, and Sanitary

HIGHLIGHTS

What We Audited and Why

As part of the Department of Housing and Urban Development (HUD), Office of the Inspector General's (OIG) strategic plan, we conducted an audit of the Chattanooga Housing Authority's (Authority) Section 8 Housing Choice Voucher program. Our audit objectives were to determine whether the Authority made Section 8 subsidy payments only for units that were decent, safe, and sanitary and whether the Authority properly determined tenant program eligibility and subsidy payment amounts.

What We Found

Our statistical sample of 60 Section 8 units found that 40 units, 67 percent, did not meet minimum housing quality standards. Of the 40 units, 28 were in material noncompliance with housing quality standards. Projecting the results of the statistical sample to the population indicates at least 1,486 of the Authority's 2,778 units did not meet minimum housing quality standards. Further, 939 units were in material noncompliance with housing quality standards.

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The Authority did not consistently determine or verify family incomes, calculate utility allowances, perform timely recertifications, or correctly calculate Section 8 housing assistance payment amounts. The Knoxville, Tennessee, Office of Public and Indian Housing also found these conditions existed in September 2002 and continued to exist as late as December 2004.

What We Recommend

We recommend that the director of the Office of Public and Indian Housing require the Authority to correct the deficiencies identified in our unit inspections and inspect all of its Section 8 housing choice voucher-assisted units within the next 12 months to ensure those units also meet standards. If the units cannot be made decent, safe, and sanitary, the Authority should abate the rents or terminate the tenants' vouchers. The Director should also require the Authority to develop and implement an internal control plan to ensure units meet housing quality standards and inspections meet HUD requirements to prevent an estimated \$4,710,024 from being spent on units that are in material noncompliance with standards. The Authority should also repay \$9,201 for housing assistance payments it made for ineligible units. Further, since the Authority failed to correct deficiencies identified by HUD in September 2002, HUD should reduce the Authority's administrative fees by 10 percent retroactively to August 2004, or about \$125,000. HUD should continue to monitor the Authority and withhold 10 percent of the administrative fee until the Authority has complied with requirements.

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

Auditee's Response

We discussed the findings with the Authority during the audit and at an exit conference on May 4, 2005. The Authority provided its written comments to our draft report on May 20, 2005. In its response, the Authority generally disagreed with the findings. The Authority objected to our reporting its history of failing to properly maintain tenant files and ensuring units met housing quality standards. Further, the Authority claimed the report did not incorporate reform measures it had implemented during the past 6 to 10 months. The Authority also objected to our methodology of selecting units for inspection and the reported results.

The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report. The Authority also provided exhibits with its response that are available for review upon request.

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BACKGROUND AND OBJECTIVES

The Chattanooga Housing Authority (Authority) was chartered in 1938 pursuant to the Tennessee Housing Authorities Law. Its primary objective is to provide low-income housing to the citizens within Chattanooga, Tennessee, and the surrounding area in compliance with its annual contributions contract with the Department of Housing and Urban Development (HUD). The Authority administers approximately 3,000 housing choice vouchers in the city of Chattanooga and its vicinity. The annual housing assistance payments and administrative fees approach \$17 million.

A seven-member board of commissioners appointed by the mayor of Chattanooga governs the Authority. Anne Henniss is the board chairman and Matthew Powell is the executive director.

HUD's Knoxville, Tennessee, Office of Public and Indian Housing is responsible for overseeing the Authority. The office conducted several reviews during the past few years that continually identified weaknesses in the Authority's procedures. As a result of the reviews, the Authority made a number of changes to its Section 8 program in attempts to resolve the weaknesses. This included terminating several staff members, hiring new staff, and revising its procedures.

Our audit objectives were to determine whether the Authority made Section 8 subsidy payments only for units that were decent, safe, and sanitary and whether the Authority properly determined tenant program eligibility and subsidy payment amounts.

RESULTS OF AUDIT

Finding 1: Tenants Lived in Units That Were Not Decent, Safe, and Sanitary

Our inspection of 60 units showed that 40 (67 percent) did not meet minimum housing quality standards. Projecting the results of the statistical sample to the population indicates at least 1,486 of the Authority's 2,778 units did not meet standards. Of the 40 units not meeting standards, 28 were in material noncompliance with housing quality standards. This occurred because Authority management did not place sufficient emphasis on housing quality standards requirements and did not implement adequate internal controls. As a result, tenants lived in units that were not decent, safe, and sanitary, and HUD made housing assistance payments for units that did not meet standards. Also, the Authority paid \$8,286 for units for which it should have abated the housing assistance payments and \$915 for a unit that had been condemned for three months. Based on the sample, we estimate that over the next year, HUD will pay housing assistance payments of more than \$4.7 million for units that were in material noncompliance with housing quality standards.

Units Were in Material Noncompliance With Standards

We estimate that over the next year, HUD will pay housing assistance payments of more than \$4.7 million for units that are in material noncompliance with housing quality standards if the Authority does not institute better controls. We inspected a statistical sample of 60 units with a HUD facilities management public housing revitalization specialist and the Authority's inspection supervisor. At the end of each unit inspection, we generally agreed with the inspection supervisor regarding whether the unit met housing quality standards. We found a total of 161 standards violations in 40 of the 60 units we inspected. Additionally, 28 of the 40 units were in material noncompliance with housing quality standards. Appendix D provides details on the 28 units. The following table lists the most frequently occurring violations:

Type of deficiency	Number of deficiencies	Number of units	Percentage of units
Electrical hazards	47	26	43
Foundation	15	13	22
Exterior doors	12	10	17
Windows	14	11	18
Interior doors	13	8	13

Electrical Hazards Were Predominant

The most predominant deficiencies were electrical hazards, including inoperable ground fault interrupter outlets, exposed wiring, and improper wiring of water heaters. In one unit, a lamp cord wire was used as permanent wiring for a light fixture.



A lamp cord used as permanent wiring



Bare electrical wires at furnace connections

**Health Hazards
Also Existed**

We also found hazards such as rusted pipes, glass, sewage leaks, and roach infestation.



Rusted pipe and broken glass at one unit where two small children lived



Fecal material from sewage leak under property



Roach
infestation

Inspectors Did Not Report Deficiencies

Several deficiencies existed at the time of the Authority's most recent inspection, but the inspectors did not report them. Damage from water leaks around the windows of several units at one apartment complex had existed for some time and may have been due to a design flaw. We also found other conditions, such as missing or damaged foundation vents, unsecured/damaged basement access doors, broken door and window locks, and inoperable ground fault interrupter outlets. Additionally, we found instances, 6 of 60, in which inspectors identified deficiencies but improperly passed the units.



Damage from
water leak around
window



Deteriorated,
unsecured basement
access door

The Authority Paid \$9,201 for Ineligible Units

The Authority paid \$9,201 for units for which it should have abated the housing assistance payments. Landlords are required to repair failed items within 30 days, except for emergency items, which have to be repaired with 24 hours. If a landlord has not completed repairs at the time the Authority reinspects a failed unit, the Authority is required to abate the housing assistance payment. For our sample of 60 units, we found four instances in which the Authority did not abate the housing assistance payments as required. The Authority paid ineligible payments of \$8,286 for the four units. The Authority had not inspected one of the units since August 25, 2003, at which time the unit failed housing quality standards. As of March 1, 2005, the Authority had not abated the rent and had paid \$6,600 of ineligible housing assistance payments for the unit. Further, the Authority paid \$915 for a unit that had been condemned for three months.



Paid \$915 for condemned unit

The Authority Did Not Have Adequate Internal Controls

The Authority's management did not place sufficient emphasis on housing quality standard requirements. Management failed to implement an effective internal control plan that ensured units met minimum housing quality standards and inspections complied with requirements.

As a result, the Authority did not

- Perform required inspections,
- Perform the required quality control inspections; or,
- Provide proper guidance or feedback to its inspection staff.

The Authority's internal control plan should include written policies and procedures that provide detailed daily guidance and a quality control plan that ensures policies and procedures are followed. The plan must be sufficient to ensure the Authority complies with HUD regulations and other requirements.

The Authority did not have a written policy requiring it to perform an analysis to determine whether it employed adequate inspection staff to perform all required inspections. The Authority only employed two inspectors for eight months during 2003. For the remaining four months, the Authority employed only three inspectors. During 2004, the Authority employed only three inspectors for eight months and two inspectors for four months.

The inspection staff was responsible for all inspections, reinspections, emergency inspections, quality control inspections and complaint inspections for about 3,000 Section 8 units. According to the new inspection supervisor, because there were not enough inspectors to meet the workload requirements, he frequently helped conduct inspections. As a result, he was not always able to conduct all required supervisory quality assurance reviews.

We found that the Authority did not conduct all required inspections. The Authority did not inspect 11 of the 60 units in our sample, 18 percent, within the most recent 12 months. Two units were not inspected in 2003 or 2004. Another unit was inspected on June 30, 2000, and was not inspected again until May 3, 2004, almost four years later. The May 2004 inspection found a number of housing quality standards violations.

Inspectors informed us that prior supervisors provided conflicting guidance and little feedback. They also claimed that at times supervisors intimidated them into passing units and one supervisor threatened that if they did not stop writing up the landlords, they, themselves, would be written up.

The Authority recently began reorganizing its inspection processes. During our audit, the Authority replaced two current inspectors with three inexperienced inspectors, who have not had formal training. According to the current inspection supervisor and inspectors, the supervisor has begun performing some quality assurance reviews, provides face-to-face feedback to the inspectors, and holds weekly meetings to ensure the inspectors understand what items constitute violations warranting failure of a unit. Also, inspectors have recently been scheduled to conduct about six inspections daily, down from 12 to 15 inspections daily in 2003.

Conclusion

Because Authority management did not place sufficient emphasis on housing quality standards requirements, and did not implement adequate internal controls, HUD made housing assistance payments for units that were in material noncompliance with standards. While the Authority has made some improvements, additional improvements are needed. Management must emphasize the importance of housing quality standards and implement policies and procedures that ensures it complies with HUD requirements and gives tenants the opportunity to live in decent, safe, and sanitary conditions. By continuing to make necessary improvements, the Authority will ensure that at least \$4.7 million of Section 8 funds are put to better use.

Recommendations

We recommend that the director of Office of Public and Indian Housing require the Authority to

- 1A. Abate Section 8, or terminate tenant's vouchers, on the 40 units that do not meet housing quality standards if deficiencies are not corrected.
- 1B. Inspect all of its Section 8 housing choice voucher-assisted units in the next 12 months and ensure the units meet housing quality standards. If the units cannot be made decent, safe, and sanitary, the Authority should either abate the Section 8 or terminate the tenants' vouchers.
- 1C. Develop and implement an internal control plan to ensure units meet housing quality standards, and inspections meet HUD requirements to prevent an estimated \$4,710,024 from being spent on units that are in material noncompliance with standards.
- 1D. Repay \$9,201 from nonfederal funds for housing assistance payments it paid for ineligible units.

Finding 2: The Authority Cannot Ensure Subsidy Payments Were Appropriate

The Authority did not consistently determine or verify family incomes, calculate utility allowances, perform timely recertifications, or correctly calculate Section 8 housing assistance payment amounts. This occurred because the Authority did not have adequate policies and procedures or adequate internal controls. Thus, the Authority cannot assure it only paid subsidies for eligible families or in the appropriate amounts.

Controls Were Inadequate

The Authority did not have adequate controls to ensure it complied with requirements. Although the Authority was in the process of implementing new procedures and controls when we performed our initial file review in November 2004, it had not completed implementation and staff had only reviewed and made its corrections to 230 of almost 3,000 files. Also, the 230 files had not been subjected to the Authority's revised quality control review process. Our review of 15 randomly selected tenant files from the 230 corrected files found:

- 14 (93 percent) had missing documents, coding errors, and/or incorrect family data (incorrect Social Security numbers, incorrect dates, etc.);
- 8 (53 percent) had incorrect utility allowance calculations or other problems;
- 7 (47 percent) had errors or other problems with respect to income calculation and/or third party verification of income;
- 4 (27 percent) had late reexaminations; and,
- 2 (13 percent) had rent/housing assistance payment calculation errors (for those that could be calculated). Because of the condition of the files, we could not perform a complete rent calculation for 13 of the 15 files.

After our review, the Authority performed its quality control review of the 15 files. In December 2004, we compared the deficiencies noted in the quality control review to determine whether the process identified the same problems we found. We determined that the quality control review did identify most of the problems and the Authority had either corrected, or was in the process of making needed corrections, to the files.

HUD Intended to Impose Sanctions Because of Continued Problems

In September 2002, the Knoxville, Tennessee, Office of Public and Indian Housing performed a rental integrity monitoring review of the Authority's Section 8 program. The review found

- Inadequate controls to assure tenant income, assets, and deductions were properly calculated and/or verified;
- Insufficient controls to assure tenant eligibility; and
- Incorrect calculations of utility allowances.

The Office of Public and Indian Housing demanded the Authority immediately develop and implement policies and procedures for improved quality control systems and train/retrain all Section 8 staff. A September 2003 followup review found the Authority had not made significant progress in addressing the deficiencies. Another follow-up review in June 2004, found the Authority still had not made significant progress. Subsequently, the director of Public and Indian Housing advised the Authority that beginning in August 2004, HUD would start withholding 10 percent of the Authority's monthly scheduled administrative fees until the Authority complied with requirements. As of March 31, 2005, HUD had not imposed the sanction.

Improvements Are Still Needed

Following HUD's June 2004 rental integrity monitoring review, Authority management terminated employment of several Section 8 employees, obtained the services of a consultant, and began reorganizing the Section 8 function. Management hired temporary employees to correct tenant file deficiencies and revised its Section 8 procedures to more effectively administer its program. It also implemented new quality control procedures to include supervisory quality assurance reviews of files.

In December 2004, the Office of Public and Indian Housing reviewed a random sample of 23 tenant files out of 458 the Authority indicated had been through its entire verification, rent determination, and quality control process. The review noted the Authority had made significant strides and that the quality control process had been put into place. However, the Authority had not completed the required 100 percent review of all files.

Recommendations

We recommend that the director, Office of Public and Indian Housing,

- 2A. Reduce the Authority's administrative fees by 10 percent retroactively to August 2004, about \$125,000.
- 2B. Continue to monitor the Authority and withhold 10 percent of administrative fees until the Authority has complied with requirements.

SCOPE AND METHODOLOGY

Our audit objectives were to determine whether the Authority made Section 8 subsidy payments only for units that were decent, safe, and sanitary and whether the Authority properly determined tenant program eligibility and subsidy payment amounts. To accomplish our audit objective, we reviewed the following:

- Applicable laws, regulations, and other HUD program requirements;
- Minutes from the board of commissioners meetings;
- A representative sample of Section 8 tenant files;
- The Authority's policies and procedures related to its Section 8 administration;
- HUD's most recent rental integrity monitoring review reports; and
- The Authority's latest independent public accountant reports.

We inspected 60 units with a facilities management public housing revitalization specialist from the Knoxville, Tennessee, Office of Public and Indian Housing and the Authority's inspection supervisor. We performed the inspections January 10-27, 2005.

We performed a detailed review of a representative sample of 15 Section 8 tenant files. We also obtained a general understanding of the Authority's information technology systems and performed limited tests of the accuracy of the Authority's electronic data.

We interviewed the Knoxville, Tennessee, Office of Public and Indian Housing program officials and Authority management and staff.

Statistical Sample Selection and Methodology

We obtained a download of all of the Authority's current units from the housing assistance payment register for December 2004. There were 2,778 units as of December 1, 2004. We used a statistical software program to select a random statistical sample of the 2,778 tenants. Based on a confidence level of 95 percent, a precision level of 10 percent, and an assumed error rate of 80 percent, the software returned a statistical sample of 60 units with a random selection start. We used the software to generate 60 additional sample units to be used as replacements if needed.

We inspected 11 of the replacement units because eight tenants were not home at the time of the scheduled inspection, one tenant had moved, one unit had been condemned by the City of Chattanooga, and we had previously inspected one of the units during our audit survey. We selected the next consecutive units (61

through 71) as replacement units; however, the tenants for three of the replacement units (numbers 65, 67, and 70) were not home. Thus, we inspected the next consecutive sample items (numbers 72, 73, and 74).

Projecting the results of the 40 failed units in our statistical sample to the population indicates:

The lower limit is 53.5 percent X 2,778 units = 1,486 units not meeting housing quality standards.

The point estimate is 66.7 percent X 2,778 units = 1,852 units not meeting housing quality standards.

The upper limit is 78.2 percent X 2,778 units = 2,172 units not meeting housing quality standards.

We evaluated the 40 units that did not meet housing quality standards to identify those that were in material noncompliance with housing quality standards. Based on our judgment, we determined 28 units were in material noncompliance with housing quality standards because they had: (1) deficiencies that existed for an extended period of time, (2) deficiencies we noted in a prior inspection and were not corrected, and/or (3) deferred maintenance that consistently fails a unit.

Projecting the results of the 28 units that were in material noncompliance with housing quality standards to the population indicates:

The lower limit is 33.8 percent X 2,778 units = 939 units in material noncompliance with housing quality standards.

The point estimate is 46.7 percent X 2,778 units = 1,296 units in material noncompliance with housing quality standards.

The upper limit is 59.9 percent X 2,778 units = 1,644 units in material noncompliance with housing quality standards.

Using the lower limit and the average annual housing assistance payments for the population based on the Authority's December 2004 check register, we estimated the Authority spent at least \$4,710,024 for 939 units that were in material noncompliance with housing quality standards. The estimate is not a statistical projection and is used only for the purpose of determining funds that can be put to better use.

We conducted our fieldwork from October 2004 through March 2005 at the Authority's offices in Chattanooga, Tennessee. Our audit period was from October 1, 2003, through September 30, 2004. We expanded our audit period as needed to accomplish our objectives.

We conducted the audit in accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary under the circumstances.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Compliance with laws, regulations, policies, and procedures that management has implemented to reasonably assure that resource use is consistent with laws and regulations.
- Policies and procedures that management has implemented to reasonably assure 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 a system in place to ensure that housing assistance payments were being made for only eligible units (see finding 1), and
- The Authority did not have a system in place to ensure that appropriate housing subsidy payments were made on behalf of only eligible tenants (see finding 2).

APPENDIXES

Appendix A

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

<u>Recommendation</u>	<u>Ineligible^{1/}</u>	<u>Funds to be put to better use ^{2/}</u>
1C		\$ 4,710,024
1D	\$ 9,201	
2A		125,000
Total	<u>\$ 9,201</u>	<u>\$ 4,835,024</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 polices or regulations.

^{2/} “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

CHATTANOOGA HOUSING AUTHORITY

BOARD OF COMMISSIONERS

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May 19, 2005

Mr. Gerald Strickland, Supervisor
Office of Inspector General
U.S. Department of Housing & Urban Development
John J. Duncan Federal Building
710 Locust Street
Knoxville, TN 37902-2526

Re: HUD OIG Draft Findings for CHA Section 8 Program File Maintenance and HQS Compliance

The Chattanooga Housing Authority respectfully submits this letter in response to the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General's recent review (the "Review") and final findings report related to the Chattanooga Housing Authority's (CHA) Section 8 program tenant file maintenance and the Authority's record in meeting Housing Quality Standards (HQS). CHA strongly objects to your findings which noted a number of observations related to CHA's history in failing to meet file maintenance and Housing Quality standard. Your review failed to incorporate substantial reform measures CHA has implemented in both areas over the past six to ten months which have resulted in significant improvement. Moreover, several of your findings are based upon standards that are either non-existent or have not been made known to the Authority. Therefore, while the Review further highlights previous Section 8 program management deficiencies which have been known and corrected by CHA, it does not offer an assessment that is relevant to the Authority's current status and direction. We believe the following additional information should help elucidate the progress CHA has made over the past six to ten months and prove that many of your findings are now only partially applicable, if at all.

As you are aware, CHA was originally subject to a Rental Integrity Monitoring (RIM) review by the HUD Knoxville field office in September 2002. Subsequently, CHA was subject to RIM Re-Reviews in September 2003 and June 2004. It was only after the June 2004 Re-Review that the field office determined that sanctions would be imposed for CHA's "failures in complying with HUD regulations governing file maintenance and Housing Quality Standards (HQS)." Throughout that interval however, CHA was made well aware of the various pre-draft findings you made in these areas, including missing documents, incorrect calculations, late re-exams, HQS violations, etc. In late summer of 2004, CHA fired a number of Section 8 staff who were

ineffective in correcting deficiencies noted in 2002 and 2003, and began implementing a Corrective Action Plan (Exhibit A - CAP) that has already alleviated many of the findings identified by your Review. We hope in the spirit of collaboration that your office will take proper notice of the following responses and attachments and appropriately incorporate them into the final report that will be issued shortly. We welcome observations, comments and suggestions from the OIG that can help improve CHA's ultimate goal of efficiently providing safe, sanitary and affordable housing to low-income families. CHA only requests, however, that the OIG work with the Authority to improve current operations moving forward as opposed to continuing to focus on the past.

Comment 2

Finding 1: Tenants Lived in Units That Were Not Decent, Safe, and Sanitary

CHA objects to the OIG's statement that "units were not decent, safe and sanitary" since the vast majority of findings were not major health or safety hazards as the finding report alludes. **The finding as stated is inflammatory and not a fair representation of the actual situation.** Most of the deficiencies cited were minor in nature (see attached summary table of sample unit identified deficiencies, (Exhibit C) including such things as loose door knobs, cracking paint, damaged door seals, etc. CHA acknowledges its responsibility to make sure that landlords correct any health and safety deficiencies within 24 hours and any routine issues within 30 days. The Authority will continue efforts to maintain vigilance such that landlords participating in the HCV program are held to HUD standards. However, most of CHA's housing is not indecent, unsafe or unsanitary and the OIG statement provides a distorted view and infers that all CHA's housing is undesirable. Further, the language of this finding does not reflect either the Authority's efforts to make sure that all noted deficiencies have been corrected or that many of the deficiencies that were initially observed were routine and did not constitute health and safety violations.

Comment 3

The CHA objects to the HQS findings based upon the methodology used to reach their conclusions. The OIG's process requires that units selected for inspection be based upon a "snapshot" date, in this case December of 2004. The 60 units selected for inspection varied as to previous annual inspection dates, ranging from three months to, in one case, over four years. The Authority recognizes its duty to inspect every HCV assisted unit at least once annually during the course of assisted occupancy as provided by 24 C.F.R. § 982.405(a). The Authority has integrated this obligation as a central component of its effort to improve and maintain its HQS policy. Moreover, the Authority's Section 8 policies provide that "regular annual inspections will be made of each unit prior to the anniversary date of the last passed initial or annual inspection." (See Exhibit B, Section 8 Inspection Procedures). CHA cannot conduct inspections to ensure that units are in 100 percent compliance with HQS on a daily basis, nor do HUD regulations require such constant vigilance. Ultimately, it is the responsibility of the tenant and/or landlord to inform the Authority of any needed repairs during the period between CHA inspections. Furthermore, CHA acknowledges its statutory obligation to conduct annual inspections and has incorporated this task in CHA's updated HQS operating policies and procedures.

Comment 4

The Authority requests that the finding itself be restated and that the OIG report reflect the controls and procedures that CHA has implemented to ensure that Housing Quality Standards are met for all HCV program units. The Authority first took action to make sure

all noted deficiencies were corrected and that units were re-inspected to ensure continued compliance. In addition, CHA is terminating landlord participation or relocating tenants for six units that failed to come into compliance even after re-inspection. CHA has also taken steps to reform its inspection policies and procedures by first adopting the 1989 Housing Inspection Manual (HIM) and conducting subsequent inspections in accordance with HIM and the OIG's observations. The CHA Field Service Manager has implemented Quality Control (QC) procedures to include an immediate callback of initial CHA Field Service Specialists to failed sites to review identified deficiencies. Finally, based upon the community's growing confidence in the HCV program, as exhibited by an ever increasing availability of quality units, the Authority is moving towards adopting the City of Chattanooga's housing codes by October of 2005, which will significantly raise standards in the HCV housing stock without jeopardizing housing availability.

In addition to revamping its own HQS procedures, CHA has also initiated educational outreach to participating tenants and landlords to encourage earlier and more accurate reporting of any deficiencies to ensure they are addressed immediately. The Authority has also issued literature providing tenants and landlords with information as to what happens when a unit fails an annual inspection (see "What Happens When My Unit Fails Annual Inspection?," Exhibit D). The Authority cannot conduct daily inspections of every unit on its own. Such a requirement is not a statutory obligation nor does the Authority have the resources to undertake such a massive responsibility, especially given the continued funding reduction. It is incumbent then for tenants and landlords to make the Authority aware of any deficiencies such that prompt action may be taken. Moreover, it is ultimately the landlord's responsibility, as outlined in the Housing Assistance Payments Contract Application, to ensure that the "contract unit and premises" are kept in accordance with HQS.

With regard to the claim that prior supervisors gave conflicting guidance, CHA took appropriate disciplinary action to ensure this does not reoccur. The Authority has initiated a number of measures to ensure that CHA inspectors are adequately trained for HQS inspections. CHA's Field Service Manager has instituted weekly training sessions and day-end inspection reviews in a team-building environment. Moreover, CHA has implemented a set of standard operating procedures for scheduling and follow-up protocols. As previously stated, CHA has provided a copy of the HUD 1989 Housing Inspection Manual (HIM) to every Field Service specialist as its inspection protocol guidebook to further ensure that proper procedures are being followed. The CHA Field Service Manager has also brought in outside specialists to conduct training sessions for the Specialists, including sessions led by the City of Chattanooga's Chief Electrical Inspector, Plumbing Inspector and Building Inspector. The Authority has taken great measures to reshape its inspection staff and operating procedures, with ongoing training becoming a vital component of the field staff's responsibilities. CHA is now in the process of implementing its individual performance measurement tracking process to establish monthly goals and objectives for everyone associated with the program, thus ensuring that accountability is as important as the policies and procedures themselves.

Finally, the Authority appreciates the OIG's acknowledgement that the continued implementation of CHA's quality control and internal control measures would in fact ensure that the identified program inefficiencies would be mitigated and any funding deficiencies would be put to better use. However, based upon the subjective manner in which the funding deficiency was

Comment 5

determined, **we must disagree with the OIG's estimate of \$4,710,024.** In reaching this figure the OIG performed a random selection and extrapolated the overall agency impact. It implies that over 40% or approximately 1,200 families receiving assistance under the Housing Choice Voucher Program is living in substandard and/or uninhabitable conditions. Based upon our current fail versus pass rate figures; 1,579 inspections completed since January of 2004, only 7% or 114 units had housing conditions serious enough to result in abatement. Extrapolating these figures using OIG's methodology, only 194 units agency wide could possibly have issues, therefore we feel the OIG's statement is misleading, and does not accurately represent the current state of the program. It assumes that program participants, families and landlords alike, are choosing to allow such conditions to exist regardless of their program rights and obligations. With regards to the \$9,201 paid for ineligible units, CHA has investigated these claims and has taken appropriate action to remedy where possible to recover the funds identified. In the case of the condemned property, CHA has already recovered the entire \$915 owed from the landlord for their failure to report to CHA that the unit is no longer habitable. We feel this further illustrates CHA's commitment to improving program compliance going forward.

Finding 2: The Authority Cannot Ensure Subsidy Payments were Appropriate

Comment 6

The Authority takes issue with this finding as worded. This is a generalization and infers that at no time did CHA correctly calculate subsidy payments when, in fact, a large portion of calculations were correct. CHA had already identified file errors and was in the process of correcting files at the time of the OIG audit. CHA had also implemented substantial improvements to improve program integrity and compliance and ensure that tenant subsidy payments are determined according to established HUD guidelines. In effect, CHA has revamped the method in which it conducts business to ensure higher program integrity and compliance. This was further acknowledged in the OIG Finding Report recognizing that "Improvements Were Made" and that quality control processes had been put in place.

Comment 7

What remains as a point of contention is the definition of the term "100% Review" and the imposition of sanctions as stated in PIH Notice 2005-7 (HA). Based upon the "Follow-Up Rental Integrity Monitoring Review of the Chattanooga Housing Authority's Low-Rent Public Housing and Housing Choice Voucher Programs" Report ("2004 RIM Re-Review Report") issued by the Knoxville field office in June 2004, it was CHA's understanding that file "review" meant: "review 100% of all HCV files to identify errors relating to income, asset, deductions, utility allowance and required participant certifications and establish a protocol to bring files into compliance with HUD regulations.

Comment 8

The field office report (*See* 2004 RIM Re-Review Report, page 9 (Exhibit E)) states "on-going quality control measures must be established and conducted." CHA has done exactly that. This process was completed by the end of December 2004 which, according to HUD's original August 2004 sanction letter, should be the point at which sanctions should cease. The finding report outline notes that "the Authority did not consistently determine or verify family incomes, calculate utility allowances, perform timely recertifications, or correctly calculate Section 8 HAP amounts." The finding report indicated that of the fifteen (15) files randomly selected, CHA had in fact identified most of the issues and had either corrected or were in the process of correcting the identified discrepancies in accordance with the 2004 Corrective Action Plan (CAP) presented to the Knoxville Field Office in August of 2004.

The 2004 CAP, which was filed timely with the Knoxville field office, delineated a number of steps that the Authority has undertaken to accomplish all of the above recommended tasks. These steps included:

- Terminating all HCV staff responsible for CHA's failure to adhere to the 2003 CAP filed with HUD.
- Reassigning program supervision and restructuring responsibilities to Bob Dull and hiring Jamie Kinney to provide consulting services for program assessment.
- Developing the 2004 CAP in accordance with PIH 2003-34 (HA) and personally submitting the plan to the Knoxville field office on July 27, 2004, which was well within the 45 day reporting period.
- Hiring 30 additional temporary staff members to assist in file assessment and reconstruction.
- Reorganizing staff such that groups developed the appropriate knowledge base and expertise to properly complete each portion of the HCV file.
- Conducting re-interviews of all HCV residents, following two-week notices, that will conclude by the end of the first quarter 2005; Hiring and training thirty (30) temporary staff members to review and reconstruct each file.
- Implementing error and quality control tracking procedure to provide documentation of the file review process.
- Completing 100 percent file review of all 3000 files by December 2004 see HCV file status table, Exhibit G).

Comment 7

Following the June 2004 Re-Review, the Knoxville field office determined that sanctions would be imposed for "CHA's failure to comply with HUD regulations governing file maintenance under the RHIIP Initiative." The Authority was notified in writing in August 2004 of impending sanctions at which point CHA was told that sanctions would be imposed until the identified Section 8 program deficiencies were corrected - which in our opinion should not go beyond December 2004 based upon the timeline submitted to HUD in our Corrective Action Plan (CAP). **Despite the Knoxville field office's March 2005 letter stating that CHA had not completed 100 percent file review, the Authority had, in fact, completed such review in accordance with a definition of file "review" that was mutually understood by both CHA and HUD and included in the CAP. This is supported by Jamie Kinney Consultants who assisted CHA in preparation of the CAP and accompanied CHA to the Knoxville field office to submit the plan. (See Attachment G)**

CHA incurred significant expense and expended great effort to meet the CAP timetable under the assumption that sanctions would cease in December 2004. It was first brought to our attention by the Knoxville Field Office during the OIG exit conference on May 4, 2005 that the field office had operated under the assumption that it would take an entire year for CHA to address all files.

Response to OIG Findings
May 19, 2005
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The Authority never received anything in writing or otherwise to document or support this assumption. CHA has complied with its obligation to provide a corrective action plan, and provided updates through December as agreed. CHA would not have taken such aggressive action or expended such great effort and resources if the field office had communicated the assumed one-year timeline. CHA took the approach it did to complete the file review in six months and prevent sanctions over a one year period. Otherwise, sanctions would have been punitive and inflicted an unreasonable financial burden on the agency, limiting the Agency's ability to perform its mission.

Currently, there is no regulatory basis upon which sanctions may be imposed upon CHA. HUD's only authority to impose sanctions for Housing Choice Voucher (HCV) income and rent determination file deficiencies derives from PIH 2005-7 (HA), which provides two scenarios under which sanctions may be imposed: 1) failure to submit a Corrective Action Plan (CAP) as directed by the relevant HUD field office within delineated timeframes; 2) failure to implement corrective actions pursuant to the CAP approved by the HUD field office. These sanctions are only to apply where a "PHA fails to comply with the requirements" of the RIM review (See PIH 2005-7 (HA)). The claim by the Knoxville field office that they informed CHA in their November 2003 correspondence (see Exhibit F) that sanctions were pending, and that CHA would be assessed sanctions if its 2003 Corrective Action Plan was not implemented is simply not true. CHA has fully implemented its HUD-approved 2004 Corrective Action Plan, so there is no basis for the imposition of sanctions beyond December 2004.

In closing, CHA requests that this final finding report reword the title of the findings and reflect the points raised herein. As discussed above, the Authority has fully implemented improvements that will ensure quality control in the file maintenance process and HQS practices moving forward. CHA appreciates the cooperative and supportive spirit in which this audit was performed and its opportunity to respond in kind to the findings listed herein.

Sincerely,



L. Matthew Powell
Executive Director

cc: Sonya D. Lucas, Acting Regional Inspector General, Atlanta
Charles Pagano, OIG, Knoxville
Karl Kucen, HUB Director, Memphis



JAMIE KINNEY
Consulting

Bob Dull,

May 19, 2005

This is to confirm services that we provided for the Chattanooga Housing Authority in the year 2004. Jamie Kinney Consulting came to CHA at numerous times throughout the second half of 2004. During this period of time we provided consulting services to CHA which included but not limited to:

- assistance with the administrative plan
- case file reviews
- staff competency
- working with CHA in developing a corrective action plan based on HUD's requirements following the June 6, 2004 RIM review
 - 100% case files completed and reconstructed
 - Annual re-certifications completed
 - UIV and third party documentation completed

In addition we reorganized every single case file. During our last visit we left CHA with nearly 100% of the case files completed including annual re-certifications with the appropriate verifications. Of the remaining files third party verifications and data entry was the only remaining tasks with all interviews having been completed according to the corrective action plan.

On 7/27/04 you and I went to the Knoxville HUD Field office to meet with your field office representatives and we presented the Corrective Action Plan (CAP) to them. We received favorable reception from Knoxville HUD and were told CHA was on there way to meeting goals and objectives as stated in your RIM review. Furthermore, I am in agreement that the corrective action plan addressed HUD's expectation for file review. To the best of my knowledge, based on this visit, that HUD acknowledged and approved our review strategy outlined within our corrective action plan.

Should you have any questions feel free to contact me at (866) 546-6392 or send me an email to jamie@jamiekinney.com

Sincerely,

Jamie Kinney
(866) 546-6392

OIG Evaluation of Auditee Comments

Comment 1

As we discussed with the Authority during the audit, our audit period was generally from October 1, 2003, to September 30, 2004. Thus, the report generally discusses conditions that existed during that period. We did not audit the procedures that were implemented after September 30, 2004. However, because we were aware that the Authority was implementing changes, we took those into consideration by reviewing revised policies and procedures, conducting a follow-up review of the 15 tenant files, interviewing staff and management, and reviewing HUD's February 7, 2005, letter to the Authority that communicated the results of HUD's December 2004 review. Both Findings 1 and 2 recognize that the Authority made improvements, but that additional improvements are needed.

Comment 2

The Authority is incorrect in its statement that the "...vast majority of findings were not major health or safety hazards as the finding report alludes." In arriving at the 28 units that were in material noncompliance with housing quality standards, we evaluated the inspection results for all 40 units that did not meet minimum housing quality standards. The 28 units included units that had fail items that existed at the time of the Authority's last inspection (if the inspection had been performed at least 30 days prior to our inspection), deficiencies that existed for an extended period of time, and deferred maintenance that consistently fails a unit. As shown in the finding, this included units that had health and safety violations, such as exposed electrical wiring, human fecal material in the yard, severe roach infestation, and other similar deficiencies. So, while 40 units were in noncompliance with requirements based on housing quality standards, we primarily only addressed the more serious violations. We believe this method is conservative based on HUD requirements that all units must meet standards at all times.

None of the 28 units included in the finding failed because of minor deficiencies. The Authority cites Exhibit C as its support for this statement. However, Exhibit C of the Authority's response is inaccurate and misleading. For example, of the 60 "Disputed IG Fail Items" detailed on the Exhibit, 39 were not even fail items as designated by the HUD inspector. They were "Pass with Comments" items as explained on the inspection summaries provided to the Authority during the audit. Of the remaining 21 disputed fail items, 12 were listed as "Fail Item Follow-Up Items" by the Authority, meaning the Authority planned to ensure the items were corrected. They include such items as bathroom ground fault interrupter outlets not working properly, water leaks around windows (a picture is used in the report), and roach infestation. The items clearly are fail items in accordance with HUD's minimum housing quality standards.

One of the 12 disputed items was even specified as a 24 hour health and safety violation by the Authority's inspection staff. We do not understand why the Authority disputes this item if it identified it as an emergency fail item.

Of the remaining nine disputed fail items, eight were based on the HUD inspector's judgment of deficiencies noted. One such judgment pertained to bare electrical wires just above the kitchen sink, and well within reach of the resident. The wires were exposed due to a missing light globe. Although having a missing light globe it is not a failure in and of itself, the globe is needed in this case due to the electrical hazard.

The last disputed fail item was blocked bedroom egress due to keyed burglar bars in the bedroom window. Although the HUD inspector did not identify this as a fail item, we subsequently classified it as a fail item because the Authority's Section 8 Administrative Plan prohibits the use of such burglar bars.

In addition to the above, we met with the Authority's inspection supervisor at the conclusion of the review and discussed the items on the spreadsheet. We provided similar explanations to him.

Comment 3

As the report details, to ensure the results of the inspections were unbiased and representative of the Authority's current Section 8 housing stock, we selected a *statistical* sample of 60 units (emphasis added). In order to select a statistical sample of units to inspect, it is necessary to determine a universe of units from which to select the sample. We selected our sample in December 2004 from the Authority's December 1, 2004, Housing Assistance Payment register, which was the most current information available. It should also be noted that the units in the universe as of December 2004 would be subjected to revised procedures the Authority had implemented, thus giving some indication of the success of the revised procedures, at least for any units the Authority had recently inspected. While it is true that such a sample would reflect conditions based on a snapshot in time, this is irrelevant because HUD requires that units meet housing quality standards at all times.

To ensure that every unit had an equal opportunity to be selected for inspection (an unbiased sample), the last inspection date was not considered. Doing so would bias the sample. The Authority does not believe the results of the statistical sample are representative of its Section 8 housing stock. We disagree, since an underlying premise of a statistical sampling is that the results of the sample can be projected to the universe.

Comment 4

The finding accurately reports the conditions that existed at the time of our review. We acknowledge that the Authority had made some improvements and was continuing to make changes. Since some of those occurred after our review period, we have not audited those procedures and cannot attest to whether they are effective. We are encouraged by the Authority's efforts to take corrective actions and encourage it to continue to do so in order to both resolve the conditions that existed during our review period, and to provide better quality housing to its tenants.

Comment 5

We did not perform a random selection and extrapolate the overall agency impact. As is explained in the report, we performed a statistical sample. We then projected the results of the 28 units that were in material noncompliance with housing quality standards to the population. Using the lower limit and the average annual housing assistance payments for the population based on the Authority's December 2004 check register, we estimated the Authority spent at least \$4,710,024 for 939 units that were in material noncompliance with housing quality standards. The estimate is not a statistical projection and is used only for the purpose of determining the annual amount of funds that could be put to better use if the Authority implements the suggested recommendations. This is a conservative estimate based on the lower limit of the possible range.

The Authority's internal failure rate is irrelevant. It is not based on an unbiased statistical sample. Further, as stated in the finding, the Authority's inspection procedures were inadequate.

Comment 6

The finding does not infer the Authority *at no time* correctly calculated subsidy payments. The finding only discusses the results of the HUD RIM reviews and the results of our review of 15 files. We did not project those results to any other files, and clearly stated that the Authority *did not consistently* calculate subsidy payments. The phrases "*at no time*" and "*did not consistently*" have much different meanings. However, given that the Authority terminated its staff and completely revamped its procedures, the extent of the problems must have been extreme.

Comment 7

The Authority believes that it has completed corrective actions based on its interpretation of what HUD required it to do. In our discussions with HUD staff and management, they have consistently stated that the Authority has yet to comply with requirements. The director of the Office of Public and Indian Housing, Knoxville communicated this to the Authority's executive director again at the exit conference. Clearly there are conflicting opinions as to what expectations were pertaining to the corrective actions to be taken.

However, it is also clear that the Authority has had a long history of failing to properly administer its Section 8 program as it pertains to management of tenant data. While our report gives credit to the Authority for having made significant improvements, it also recognizes that at the time of our review in November and December 2004, the Authority still had not completed correcting all files. As such, we believe the sanctions are appropriate.

We do believe the Authority and HUD need to meet and ensure that a mutual agreement is reached as to exactly what needs to be accomplished in order to avoid additional sanctions. At the exit conference, the director of Public and Indian Housing, Knoxville advised the Authority that since the Authority is now claiming to have all files corrected, a followup review will be performed. The results of that review could be used to determine whether sanctions should continue.

Comment 8

The finding does give credit to the Authority for implementing a new quality control review process that identified the majority of the deficiencies we found during our review of 15 files. However, the finding did not state the corrections were in accordance with the corrective action plan. Similarly, the December 2004 followup HUD review noted improvements, but also noted that the Authority still was not in compliance with program requirements. This is the same month the Authority claims it was in 100 percent compliance.

We did not make any changes to the report based on the Authority's comments.

APPENDIX C

CRITERIA

24 CFR [Code of Federal Regulations] 5.240(c)

The responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment as appropriate, based on such information.

24 CFR [Code of Federal Regulations] 982.516(a)

The Authority must conduct a reexamination of family income and composition at least annually and document in the tenant file third party verification or why third party verification was not available.

Notice PIH [Public and Indian Housing] 2004-01 (HA), Verification Guidance

The notice provides instructions on HUD-established verification guidance and requires public housing authorities to implement procedures to ensure compliance with the verification policies. It also outlines the verification procedures a public housing authority must use when verifying income and deductions to calculate rent.

Notice PIH [Public and Indian Housing] 2003-34 (HA), Rental Integrity Monitoring Disallowed Costs and Sanctions under the Rental Housing Integrity Improvement Project Initiative

The notice highlights the importance of timely and accurate income and rent determinations by public housing authorities and the consequences for failure to identify and correct income and rent determination deficiencies. Public housing authorities must identify and implement corrective actions or rectify errors in meeting program requirements uncovered during rental integrity monitoring reviews. In the event that a public housing authority fails to comply with the requirements of the rental integrity monitoring review, HUD will impose sanctions on the public housing authority pursuant to section 6(j)(4)(A)(v) of the U.S. Housing Act of 1937 and 24 CFR [Code of Federal Regulations] 982.152(d) regarding voucher programs.

If, as a result of a rental integrity monitoring review, a public housing authority does not implement its corrective actions within the timeframes approved by the field office, 10 percent of its monthly scheduled administrative fee advance will be withheld beginning the month the field office makes the sanction effective and lasting until the public housing authority has complied with the program requirements.

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.

24 [Code of Federal Regulations] 982.405(a)

The public housing authority must inspect the unit leased to a family before the initial term of the lease, at least annually during assisted occupancy, and at other times as needed to determine whether the unit meets housing quality standards.

24 [Code of Federal Regulations] 982.405(b)

The public housing authority must conduct supervisory quality control housing quality standards inspections.

HUD Handbook 7420.10g, chapter 10, section 10.6

The Handbook provides guidance the public housing authority should consider to determine how many total inspections will need to be scheduled and completed each year. After estimating the number of required unit inspections, the public housing authority should determine the number of staff needed to complete required inspections. The public housing authority should take into account the following factors:

- Number of days employees actually conduct inspections each year (exclude time in office, training days, vacation, sick days, and approximate number of days lost to weather conditions for the area) and
- Number of inspections each employee completes per day.

This analysis will indicate the number of inspections each inspector must have scheduled and completed each day. The public housing authority should determine the amount of time required for an inspector to complete thorough inspections, taking into account the type of unit and the number of bedrooms. The public housing authority should also consider travel time.

Appendix D

TABLE OF UNITS IN MATERIAL NONCOMPLIANCE WITH HOUSING QUALITY STANDARDS

Item number	Corresponding sample item number	Deferred maintenance	Deficiencies existed for extended period of time or at the time of the Authority's last inspection
1	2,555	X	X
2	1,332	X	X
3	1,350		X
4	772	X	
5	85	X	X
6	2,665		X
7	1,587	X	X
8	1,768	X	X
9	2,772		X
10	916	X	
11	985	X	
12	166	X	X
13	1,386	X	X
14	364	X	X
15	2,224	X	X
16	2,462	X	X
17	1,521	X	X
18	2,256	X	X
19	730		X
20	1,486	X	X
21	1,821		X
22	599	X	X
23	2,494	X	X
24	2,252	X	X
25	804	X	
26	1,014	X	X
27	517	X	X
28	1,536	X	X