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Office of the Inspector General for Audit, Region 4  
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Memorandum No:  
2004-AT-1805

MEMORANDUM FOR: Olga Saez, Director, Public Housing Division, 4NPH

*James D. McKay*

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

SUBJECT: Audit Survey of Municipality of Humacao  
Section 8 Housing Choice Voucher Program  
Humacao, Puerto Rico

### **INTRODUCTION**

We completed a survey of the Municipality of Humacao Housing Authority's (Authority) Section 8 Housing Choice Voucher Program. The review was initiated in response to a request from the Department of Housing and Urban Development's (HUD) Caribbean Office of Public Housing. The Caribbean Office advised that it was not satisfied with the Authority's overall performance administering its Section 8 Program, despite technical assistance provided. This included HUD's concern over the Authority's payment standard being too low to attract owner participation in the Section 8 Program. Our objective was to obtain information on the Authority and assess whether the administration of the Section 8 Program was carried out in accordance with HUD requirements, and determine if a full audit was warranted.

### **METHODOLOGY AND SCOPE**

To accomplish our objective, we reviewed applicable HUD requirements and regulations, the Consolidated Annual Contributions Contract, and other requirements. We reviewed the Authority's procedures pertaining to: a) housing eligibility and rent abatement, b) participant selection and assistance determination, c) lease-up performance, d) rent reasonableness/payment standard, and d) accounting of program expenditures. In addition, we obtained an understanding of the Authority's management controls as it related to our objective. We reviewed the Authority's files and records including financial statements, general ledgers, check vouchers, and invoices. We examined the Authority's Section 8 client files to verify accuracy and completeness of the records. This included testing of the Authority's assistance level determinations for ten program participants. We also examined inspection records maintained by the Authority on ten housing units currently participating in the Section 8 Program. We interviewed responsible Authority and Caribbean Office Public Housing officials.

The review generally covered the period July 1, 2002, through September 30, 2003, and we extended the period as necessary. We performed our fieldwork at the Authority's Section 8 Program administrative offices. The review was performed during the period October 2003 to April 2004. We performed our review in accordance with generally accepted government auditing standards.

## **BACKGROUND**

The Municipality of Humacao, Puerto Rico, was founded in 1793. It operates as a governmental unit of the Commonwealth of Puerto Rico under the Law Number 81 of August 30, 1991. The government system of the Municipality of Humacao is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 elected members.

During our review, the Mayor was The Honorable Marcelo Trujillo Panisse. The Authority's Housing Assistance Program Office has been assigned the responsibility of administering the Section 8 Program under the direction of Gilberto Rivera, Coordinator. The Authority administers 237 Section 8 vouchers with an annual budget allocation of \$1.5 million for fiscal year 2004. The Authority's books and records for the Section 8 Program are maintained at Miguel Casillas Street, Humacao, Puerto Rico.

## **RESULTS OF SURVEY**

Our tests identified some minor deficiencies as follow:

- ❑ **Unit Inspections** - The Authority executed lease contracts without ensuring that units met housing quality standards. Authority inspections of three housing units were classified as inconclusive, but the Authority failed to conduct follow-up inspections prior to the execution of contracts.
- ❑ **Assistance Determination** - We found one case in which the participant's income was not properly determined resulting in an excessive assistance of \$19 per month. (Contract effective date: December 2003 - June 2004).

We also found five instances where the Authority approved contract rents that were above the amounts requested by owners. The Authority automatically gave owners the payment standard, which was higher. We recalculated the assistance using the amount originally requested by owners for all five cases. The recalculations resulted in two instances with possible excessive monthly assistance (Case A: \$97, Case B: \$19). For the other three cases, program participants possibly paid a higher share of the rent or were deprived from receiving utility allowances.

- ❑ **Financial Reporting** - The financial reports submitted by the Authority contained errors and were modified by HUD's Section 8 Financial management Center. This included adjustments to correct the Section 8 reserve balances included in the statements. However, the Authority did not record the HUD adjustments in its books.

- ❑ **Record Keeping of Client Files** - The Authority did not document rent reasonableness determination in all ten cases examined. In addition, three case files did not contain copy of Social Security cards of family members to evidence verification procedures.

We also reviewed information in HUD’s Section 8 Management Assessment Program (SEMAP) that HUD uses to evaluate the performance of housing authorities. The SEMAP is a gauging tool designed to:

- ❑ Determine whether the program is assisting eligible families to afford decent, safe, and sanitary housing (including correct assistance determination);
- ❑ Gauge the performance in crucial areas and ascertain program integrity and accountability;
- ❑ Identify management capabilities/deficiencies and target assistance where needed; and
- ❑ Assess whether the housing authority affirmatively promotes fair housing.

In fiscal year 2001, HUD’s evaluation of the Authority’s performance resulted in an overall SEMAP score of 32 percent. Therefore, the Authority was designated as a trouble performer. The Authority’s SEMAP score improved over the two subsequent fiscal years. It obtained scores of 68 percent in fiscal year 2002 and 74 percent in fiscal year 2003, resulting in an overall rating of standard performer. HUD’s assessments of the Authority’s performance during the last two fiscal years reflected improvements to various SEMAP indicators:

SEMAP Indicators	Indicator Score		
	2001	2002	2003
1. Selection From Waiting list	0	0	15
2. Rent Reasonableness	0	20	20
3. Determination of Adjusted Income	0	15	20
4. Utility Allowance	0	0	5
5. Housing Quality Standards-Quality Control Inspections	0	5	5
8. Fair Market Rent Limit and Payment Standards	0	5	5
15. Deconcentration Bonus	0	0	5

In addition, we also reviewed HUD’s risk assessment. HUD conducts periodic risk assessments to identify those housing authorities that need increased monitoring or technical assistance to prevent or resolve problems. A housing authority with a high-risk level will require closer monitoring and more technical assistance, than one with a lower risk level. HUD’s risk assessment for fiscal year 2003 resulted in a score of 44, with a low risk designation. During the first quarter of fiscal year 2004, the risk level continued to be low, with a score of 41 points.

Furthermore, we also reviewed the Authority’s lease-up performance. The Authority showed signs of improvement, increasing its utilization rate from 63 percent in July 2003 to 91 percent in March 2004.

## **CONCLUSION**

Based on the survey results, we determined that a detailed audit was not warranted. Therefore we will not expand the survey into the audit phase. We discussed our survey results with HUD and the Authority during our review, and both agreed to take corrective measures. The Caribbean Office of Public Housing concurred that the Authority's SEMAP scores and risk assessments had improved, and agreed that a full audit of the Authority was no longer needed.

Should you or your staff have any questions, please contact me or Michael A. Rivera, Assistant Regional Inspector General for Audit at (787) 766-5540 or e-mail [mrivera@hudoig.gov](mailto:mrivera@hudoig.gov).