



Issue Date	April 18, 2005
Audit Report Number	2005-KC-1004

TO: Andrew L. Boeddeker, Director, Office of Public Housing, 7APH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Kansas City, Kansas, Housing Authority's Controls Over Its Section 8 Program Are Adequate, Except When Conducting Quality Control Reviews of Its Routine Housing Inspections

HIGHLIGHTS

What We Audited and Why

We reviewed the controls over the Section 8 program of the Kansas City, Kansas, Housing Authority (Authority) to determine whether the Authority is operating its Section 8 program in accordance with U.S. Department of Housing and Urban Development (HUD) requirements. We reviewed the Authority because we had not conducted a review of its Section 8 program for more than 10 years and the Authority is one of the larger housing authorities in the Kansas City and regional area.

What We Found

The Authority has adequate controls over its Section 8 program, except when conducting quality control reviews of its routine Housing Quality Standards inspections. The Authority has adequate controls to ensure that its staff properly assesses tenant eligibility, assigns appropriate unit size, and calculates Section 8 subsidy payments. The Authority also has adequate controls over the inspectors' daily practices of conducting timely and well-documented inspections and enforcing corrective action when the inspector identifies violations.

However, the Authority currently conducts its quality control inspections simultaneously with the routine inspections. This gives the inspector prior knowledge of the units that will be inspected for quality control purposes.

What We Recommend

We recommend that the Director, Office of Public Housing, verify that the Authority amends its quality control plan to require that the Authority select and conduct quality control inspections separately from routine inspections.

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

The Authority agreed with our conclusion and recommendation, and plans to seek approval from its Board of Commissioners to amend its quality control plan to comply with HUD requirements. We provided the draft report to the Authority on April 5, 2005, and the Authority provided its written response on April 15, 2005, as requested.

The complete text of the Authority's response can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVES

The Kansas City, Kansas, Housing Authority assists families and individuals with low and moderate incomes by providing safe, affordable, quality housing. The Authority presently administers more than 1,000 Section 8 vouchers and has a Section 8 budget of \$4,325,021 for fiscal year 2005. The State of Kansas chartered the Authority on August 6, 1957. A 12-member Board of Commissioners provides oversight to the agency and its staff, and an Executive Director manages the day-to-day operations.

One means of providing quality housing is through the U.S. Department of Housing and Urban Development's (HUD) Section 8 voucher program. The voucher program is the Federal Government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Housing choice vouchers are administered by public housing authorities that receive Federal funds from HUD to administer the program.

Section 8 housing assistance is provided on behalf of the family or individual, and participants are responsible for locating their own housing. Participants are free to choose any housing that meets the requirements of the program. Rental units must meet minimum standards of health and safety, as determined by the public housing authority. When the voucher holder finds a unit that he or she wishes to occupy and reaches an agreement with the landlord over the lease terms, the public housing authority must inspect the dwelling and determine that the rent requested is reasonable.

The public housing authority determines a payment standard that is the amount generally needed to rent a moderately priced dwelling unit in the local housing market, and that is used to calculate the amount of housing assistance (subsidy) a participant will receive. The public housing authority calculates the maximum subsidy allowable and pays the monthly subsidy directly to the landlord on behalf of the participant. The participant pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

Our overall objective was to determine whether the Authority is operating its Section 8 program in accordance with HUD requirements. We conducted our review to determine whether the Authority has adequate controls to ensure its compliance with HUD requirements when assessing tenant eligibility, assigning the appropriate unit size to avoid overhousing or underhousing of tenants, and calculating tenant rent subsidy payments. We also conducted our review to determine whether the Authority has proper controls in place to ensure compliance with HUD requirements when conducting Housing Quality Standards inspections and when enforcing action to correct violations.

RESULTS OF AUDIT

Finding: The Authority's Process for Conducting Quality Control Reviews of Routine Housing Inspections Is Inadequate

The Authority does not have a reliable quality control process in place to ensure that Housing Quality Standards inspections are conducted according to HUD requirements. The supervisor conducts quality control reviews of the inspector's work with the inspector as the inspector conducts routine inspections. Authority management does not consider it necessary to conduct quality control inspections separately from routine inspections. Without reliable controls to ensure proper inspections, HUD and the Authority cannot be assured that the inspector's evaluations of Section 8 units consistently meet HUD requirements and that tenants are living in decent, safe, and sanitary housing.

Inspection Quality Control Process Is Not Adequate

The Authority's quality control process for inspections is inadequate and does not ensure that inspections are conducted according to HUD requirements. HUD requires housing authorities to complete quality control reviews of a sample of the routine (i.e., initial and periodic) inspections performed as part of the Authority's normal course of business. The Authority conducts required quality control reviews; however, the Section 8 Director or other qualified staff conducts these reviews with the inspector while the inspector is inspecting the same unit as a routine inspection. Therefore, the inspector has prior knowledge of the units that will be inspected for quality control purposes. Without an adequate quality control process, HUD and the Authority cannot be assured that the inspector's overall work is adequate and meets HUD requirements and that tenants are living in decent, safe, and sanitary housing.

HUD regulation 24 CFR [Code of Federal Regulations] 985.3 provides performance indicators that public housing authorities are required to use in preparing annual certifications regarding management of their Section 8 program. One indicator assesses whether an Authority supervisor or other qualified person has reinspected a sample of units for quality control and annual recertification purposes. The regulation requires the supervisor to reinspect units in which the regular inspector has completed a routine inspection in the past 3 months. The regulation does not allow for simultaneous inspections, but instead requires quality control inspections on recently completed, routine inspections.

The Authority told us that it performs the inspections simultaneously for the tenants' convenience and to ensure that violations did not occur in the time between the initial and the quality control inspections. The Authority also told us

that it relies on guidance provided by Nan McKay & Associates, a well-known trainer on HUD Section 8 program requirements.

The Nan McKay & Associates training manual says that one way to evaluate the performance of regular inspectors is to accompany each inspector on a sample of routine inspections and perform simultaneous quality control inspections of the unit. However, the manual points out that a weakness of this approach is that the inspector's performance may be affected by the presence of the supervisor and the results may not be an accurate view of the inspector's normal practices. The manual also says that a better approach is to select units that have been recently inspected (i.e., not simultaneous inspections). It should also be noted that HUD does not formally approve private training programs on Section 8 requirements, and HUD officials do not support simultaneous quality control inspections.

In summary, the Authority does not use a reliable quality control process to evaluate the performance of its inspector. The current process is unreliable because the supervisor conducts quality control reviews of the regulator inspector's work at the same time as the inspector is conducting routine inspections as part of the normal course of business. This process allows the inspector to have prior knowledge of the units that will be inspected for quality control purposes. Therefore, HUD and the Authority lack assurance that tenants are living in decent, safe, and sanitary housing and that HUD subsidies are provided only for acceptable housing.

Recommendation

We recommend that the Director, Office of Public Housing, verify that the Kansas City, Kansas, Public Housing Authority

- 1A. Amends its quality control plan for evaluating Housing Quality Standards inspections to require that the Authority select and conduct the quality control inspections separately from the routine inspections.

SCOPE AND METHODOLOGY

We conducted our review from November 2004 through February 2005 at the Authority's offices at 1124 N. 9th Street, Kansas City, Kansas. Our review generally covered the period from October 1, 2003, through December 31, 2004. We expanded our review to the period of a tenant's initial tenancy when necessary.

To achieve our objectives, we conducted interviews with the Authority's staff and staff of the local Public Housing office. We also reviewed the Authority's policies and procedures, its hardcopy and computer tenant files, records of payments to tenants and property owners, its Housing Quality Standards inspection files, and its audited financial statements. In addition, we reviewed Federal regulations, HUD's Rental Integrity Monitoring reports, and Section 8 Management Assessment Program reports. We also conducted inspections of tenant units.

To conduct our testing, we initially selected a sample of 10 tenants that received Section 8 assistance during our review period. In any area tested in which we identified deficiencies in the processing of the 10 initial tenant files, we expanded our sample to 15 tenant files. We also selected a separate sample of 10 units that had received inspections in December 2004 and conducted onsite inspections of these units to test for adequate inspections by Authority staff.

We conducted our review in accordance with generally accepted government auditing standards.

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:

- Controls over assessment of tenant admissions (eligibility)
- Controls over assignment of appropriate unit size to avoid overhousing or underhousing of tenants
- Controls over calculating tenant rent subsidy payments
- Controls over conducting Housing Quality Standards inspections and enforcing corrective action for violations

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 item is a significant weakness:

- The Authority's quality control process does not ensure that inspections are conducted according to HUD requirements.

Separate Communication of Minor Deficiencies

During the review, we identified minor compliance errors in three tenant files. We discussed the errors with Authority management, and the Authority agreed with our analyses and corrected the errors.

APPENDIX

Appendix A

AUDITEE COMMENTS



Kansas City, Kansas Housing Authority
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Kansas City, Kansas 66101-2197
(913) 281-3300 FAX (913) 279-3428
www.kckha.org

April 14, 2005

APR 15 2005

Mr. Ronald J. Hoskins
Regional Inspector General for Audit
U. S. Dept. of HUD
Office of Inspector General
Region Seven
Gateway Tower II-5th Floor
400 State Avenue
Kansas City, KS 66101

Attention: Kim Randall

Subject: KCKHA Section 8 Inspector General Report

Dear Mr. Hoskins:

The Housing Authority of the City of Kansas City, Kansas, believes that the statement of the manner in which it conducts its quality control inspections contained in the report is accurate. We believe that the only way for an inspector and a quality control supervisor to be sure the unit is in the same condition is to inspect that unit at the same time or immediately thereafter. However after review of the specific language of the regulations we agree with the recommendation of the Inspector General's Report. Therefore we are recommending a change to our administrative plan so that the reinspections take place at least one day later than the initial inspection, but no more than 90 days following the initial inspection. We are also incorporating language that will require that the Section 8 inspector will not be advised of the units that are subject to the quality control process.

This policy amendment will be presented to our board at the April 21, 2005 meeting of the board, and will receive a staff recommendation of adoption. It will be implemented following board action.

Kindest Regards,



Thomas W. Stibal
Executive Director

Attachments

RESOLUTION NO. 2751

**APPROVAL TO AMEND THE SECTION 8
ADMINISTRATIVE PLAN REGARDING
QUALITY CONTROL INSPECTIONS**

WHEREAS, the U.S. Department of Housing and Urban Development, Office of Inspector General, has been conducting an audit of the Kansas City, Kansas Housing Authority Housing Choice Voucher Program;

WHEREAS, the Office of Inspector General has completed the audit and issued the final audit report;

WHEREAS, the report contained a finding regarding the procedures used to conduct the HQS Quality Control inspections;

WHEREAS, the Housing Authority agrees with the Office of the Inspector General, in that the Quality Control inspections should be conducted at least one day after the initial inspection but no more than 3 months, and without the prior knowledge of the inspector; and

WHEREAS, the Housing Authority is willing to change its Administrative Plan to conform to the recommendation of the Office of the Inspector General.

THEREFORE BE IT RESOLVED by the Board of Commissioners of the Housing Authority of the City of Kansas City, Kansas that the Section 8 Administrative Plan for HQS Quality Control procedures shall be amended.



**Kansas City, Kansas
Housing Authority**

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MEMORANDUM

To: Board of Commissioners

From: Paula Draves

Date: April 11, 2005

Re: Amending the Administrative Plan- HQS Quality Control inspections

On November 9, 2004 the U.S. Department of Housing and Urban Development, Office of Inspector General, began their audit of the Kansas City, Kansas Housing Authority Housing Choice Voucher Program.

Approximately, five months later, on April 5, 2005, the Inspector General's Office issued their draft report. Contained in the report was a finding regarding the procedures the Section 8 department uses to conduct Quality Control inspections.

Currently, the Section 8 department conducts the inspections simultaneously with the inspector. The Quality Control inspector begins in a different part of the unit than the inspector; but the two inspections are conducted simultaneously.

In the HUD guidelines under SEMAP, HQS Quality Control inspections it state's "the PHA supervisor's reinspected sample is to be drawn from **recently completed** HQS inspections (i.e. performed during the 3 months preceding reinspection) ".

Therefore, to comply with the recommendation of the Office of Inspector General, we will amend our Administrative Plan to:

E. QUALITY CONTROL INSPECTIONS (24 CFR 982.405(b))

Quality Control inspections will be performed on the number of files required by SEMAP. The Director of Section 8 or other persons that are HQS certified will perform the inspections. The inspections will be conducted independent of the original inspection. The inspections will be conducted at least one day after the original inspection but no longer than 3 months from the original inspection. No notice of the units to be inspected for Quality Control purposes will be given to the inspector.

The purpose of Quality Control inspections is to ascertain that each inspector is conducting accurate and complete inspections, and to ensure that there is consistency among inspectors in application of the HQS.

The sampling of files will include recently completed inspections (within the prior 3 months), a cross-section of neighborhoods, and a cross-section of inspectors.