



Issue Date September 20, 2006

Audit Report Number 2006-NY-1010

TO: Edward De Paula, Director, Office of Public Housing, 2FPH

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: Orange City Housing Authority, Orange, New Jersey, Has Weaknesses in Its Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Orange City Housing Authority's (Authority) Housing Choice Voucher program because a regional risk assessment ranked the Authority fifth on our list of potential public housing authority audits in New Jersey.

Our audit objectives were to determine whether (1) the Authority's Housing Choice Voucher program units met housing quality standards; (2) costs charged to the Housing Choice Voucher program were eligible and properly supported; and (3) rental assistance payments were properly calculated, and application and recertification information was properly verified.

What We Found

Our inspection of 59 Section 8 units found that 55 units (93 percent) did not meet minimum housing quality standards. Of the 55 units, 37 were in material noncompliance with standards. 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 housing quality standards. We estimate that over the next year, HUD will make housing assistance payments of more than \$1.7 million for units in material noncompliance with standards.

The Authority did not always allocate expenses accurately to the Housing Choice Voucher program. As a result, costs were charged to the Housing Choice Voucher program that was not adequately supported.

In addition, the Authority did not always calculate its housing assistance payments correctly and obtain the necessary supporting documentation related to tenant recertifications. As a result, three landlords either received a housing assistance overpayment or underpayment, and tenant files contained deficiencies related to missing or incomplete forms and documents.

What We Recommend

We recommend that the director of the New Jersey Office of Public Housing instruct the Authority to (1) follow its administrative plan to ensure that units meet housing quality standards and ensure that corrective action has been taken on those units that failed to meet standards, (2) develop procedures and controls to include a cost allocation plan and personnel activity reports for allocating and charging costs to the Housing Choice Voucher program, (3) provide documentation for all unsupported cost and reimburse any cost determined to be ineligible, and (4) establish proper quality assurance procedures for housing choice voucher recertifications and ensure that all voucher information for tenants and landlords is adequately supported and documented.

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

Auditee Response

We discussed the findings with Authority and HUD officials during the audit. We provided a copy of the draft report to Authority officials and discussed the report with them at the exit conference held on September 6, 2006. The Authority provided its written comments to our draft report on September 7, 2006. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Orange City Housing Authority (Authority) is located at 340 Thomas Boulevard, Orange, New Jersey. The Authority is headed by an executive director and governed by a board of commissioners made up of seven members. As of July 2006, the Authority had issued 601 Section 8 vouchers; it received more than \$9.3 million in housing choice voucher assistance during fiscal years 2004 and 2005. The U.S. Department of Housing and Urban Development's (HUD) latest quality control monitoring review confirmed that the Authority's 2005 self-certified Section 8 Management Assessment Program score was 65.

The goal of the Housing Choice Voucher program is to provide decent, safe, and sanitary housing at an affordable cost to low-income families. Accordingly, program regulations set forth basic housing quality standards, which all units must meet before assistance can be paid on behalf of a family, and housing quality standards must be met annually and throughout the term of the tenancy. It is the responsibility of the public housing agency to conduct annual inspections of units to determine compliance with housing quality standards before the execution of the entire term of the assisted lease.

Our audit objectives were to determine whether (1) the Authority's Housing Choice Voucher program units met housing quality standards; (2) costs charged to the Housing Choice Voucher program were eligible and properly supported; and (3) rental assistance payments were properly calculated, and application and recertification information was properly verified.

RESULTS OF AUDIT

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

Our inspection of 59 units showed that 55 units (93 percent) did not meet minimum housing quality standards. Of the 55 units, 37 were in material noncompliance. Projecting the results of the statistical sample to the population indicates that at least 363 of the Authority's 412 non-ported-out units would not meet minimum housing quality standards and 218 units would be in material noncompliance. This noncompliance occurred because Authority management failed to follow its administrative plan to ensure that units met minimum housing quality standards and inspections complied with requirements. 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 housing quality standards. Based on the sample, we estimate that over the next year, HUD will pay housing assistance payments of more than \$1.7 million for units in material noncompliance with housing quality standards if our recommendations are not implemented.

HUD Will Pay More Than \$1.7 Million for Units in Material Noncompliance

We estimate that over the next year, HUD will pay housing assistance payments of more than \$1.7 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 59 units with a HUD Office of Inspector General (OIG) inspector and the Authority's Housing Choice Voucher program director and housing quality standards inspector. In addition, the Authority's executive director attended one unit inspection.

Thirty-seven units had 304 deficiencies that were significant enough to materially fail the units. Authority inspectors did not identify and/or have adequate follow up for these deficiencies during their most recent inspections. The noncompliances occurred because the Authority failed to follow its administrative plan to ensure that units met minimum housing quality standards and inspections complied with requirements. Appendix C provides additional details of the deficiencies for the 37 units.

When conducting housing quality standards inspections, the Authority did not always follow rules and regulations regarding HUD housing quality

standards. Regulations at 24 CFR [*Code of Federal Regulations*] 982.401 provide the performance and acceptability criteria that assisted units must meet to comply with HUD housing quality standards. In addition, Section 982.54 provides that the Authority must adopt a written administrative plan that establishes local policies for administration of the program in accordance with HUD requirements. The plan should include procedural guidelines and performance standards for conducting the required housing quality standards inspections.

The following table lists the most frequently occurring deficiencies for all 59 units inspected:

Type of deficiency	Number of deficiencies	Number of units	Percentage of units affected
Wall, ceiling, floor deficiencies	70	36	61
Electrical hazards	64	33	56
Plumbing leaks/water damage	56	30	51
Egress/fire hazards	55	32	54
Security	49	29	49

The deficiencies that occurred most concerned the units' walls, ceilings, and floors. Other deficiencies included electrical hazards, plumbing leaks and water damage, egress/fire hazards, and security issues. The following pictures provide examples of some of these deficiencies.



Large hole and nonconforming repair located in a kitchen

floor entrance way found during an inspection on May 08, 2006.



Exposed wiring on an electrical panel found during a May 5, 2006, inspection.



Many units contained egress deficiencies. This unit inspected on May 8, 2006 contained security bars, which could not be opened by those present at the inspection, for all windows located in this room.



An inspection on May 10, 2006, revealed a drainage leak and nonconforming repair under a kitchen sink.



Water damage located in one unit was observed during an inspection on May 10, 2006. The leak originated from the roof above.



An inspection on May 4, 2006, contained a security violation in which double french doors were used as a main entry door for the unit.

Other Deficiencies Were Noted During Inspections

Other deficiencies were noted regarding the Authority's housing choice voucher inspection process as follows:

- One unit (voucher #255) was inaccessible despite two inspection notices given to the tenant and landlord. As a result of our notification of this issue to the Authority, the Authority had initiated housing assistance payment termination procedures against the tenant in accordance with its administrative plan, section 10C.
- Four of the inspected units contained errors relating to missing or incorrect apartment numbers (vouchers #4, #83, #213, and #257). One of the errors resulted in an incorrect unit being inspected (voucher #5). The Authority stated that a new computer system was installed, which led to the incorrect apartment numbers being printed out.

The Authority Did Not Provide Adequate Training to Its Staff

Authority management stated that one reason for the deficiencies was that it needed to provide more housing quality standards training for its inspector. Before the completion of our inspections, the Authority inspector had attended one training class since his hiring as housing quality standards inspector in 1999. In addition, the Authority's quality control inspector had not attended a training course regarding housing quality standards since August 2001. While attending our inspections, Authority management stated that the inspector had improved his knowledge concerning housing quality standards. As a result, Authority management provided training to the Authority's housing choice voucher and quality control inspectors regarding housing quality standards after we completed our fieldwork.

Conclusion

While the Authority has made some improvements regarding the training of its inspection staff, additional improvements are needed. Management must place greater emphasis on the importance of housing quality standards and strengthen policies and procedures to ensure that it complies with HUD requirements, thus giving tenants the opportunity to live in decent, safe, and sanitary housing. The policies and procedures must be incorporated into the Authority's housing choice voucher administrative plan. By continuing to make necessary improvements, the Authority will ensure that an estimated \$1.7 million in housing choice voucher funds are put to better use.

Recommendations

We recommend that the director, New Jersey Office of Public Housing, require the Authority to

- 1A. Inspect the 55 units that did not meet minimum housing quality standards to verify that the landlords took appropriate corrective actions to make the units decent, safe, and sanitary. If appropriate actions have not been taken, the Authority should abate the rents or terminate the tenants' vouchers.
- 1B. Follow its administrative plan to ensure that units meet housing quality standards and that inspections meet HUD requirements to prevent an estimated \$1,710,661 from being spent on units that are in material noncompliance with standards. In addition, the Authority

should continue to provide adequate training to its inspection staff and strengthen controls to ensure that unit numbers are correct.

- 1C. Terminate voucher #255 due to tenant violation of the Authority's administrative plan concerning tenant compliance with housing quality standards inspection notifications and access.
- 1D. Conduct an analysis of its newly implemented computer system to determine whether all apartment numbers are valid.

Finding 2: The Authority's Controls for Allocating Costs Were Deficient

The Authority did not always allocate expenses accurately to the Housing Choice Voucher program. As a result, costs were charged to the Housing Choice Voucher program that was not adequately supported. These deficiencies occurred because the Authority did not establish procedures to ensure that costs were allocated accurately to each benefiting program as stated in the Authority's annual contribution contract.

Costs Not Accurately Allocated to the Voucher Program

The Authority did not always accurately allocate certain expenses to the Housing Choice Voucher program. The program appears to have been overcharged for managerial services and legal and auditing costs. The allocation of these costs to the program was not consistent from year to year as the controls in place were inadequate to ensure that allocated amounts were accurate. The details are described below.

Managerial Service Costs

During the period from June to December 2005, the Authority had a contract for additional managerial services related to the responsibilities of the executive director that had a total cost of \$17,500. The Housing Choice Voucher program was charged \$8,750 or 50 percent of this cost. However, since the HUD-approved Authority budget had a salary allocation percentage for charging the executive director's costs of 15 percent, the Authority should have charged \$2,625 to the Housing Choice Voucher program. As a result, \$6,125 in managerial service costs is unsupported since the Authority did not provide supporting documentation to justify the allocation of a higher percentage of these costs than was in the approved budget.

Legal Costs

For fiscal year 2006, the total legal fees audited were \$49,692. These costs were paid by the low-rent housing program and then allocated to other programs including the Housing Choice Voucher program, which was charged \$12,794 or 26 percent. Only \$2,923 of the legal fees involved the Housing Choice Voucher program. Authority officials stated that if the legal fees were not identifiable to a specific program, an allocated percentage was applied as determined by management. Since Authority officials were unable to provide supporting documentation to justify legal fees charged in excess of those identifiable to the Housing

Choice Voucher program, the additional legal cost of \$9,871 is unsupported.

Auditing Costs

The HUD-approved budgets for fiscal years 2004, 2005, and 2006 had an allocation percentage for the Authority's annual financial audit of 20 percent that was supposed to be charged to the Housing Choice Voucher program. The program was charged 20 percent of the cost of these audits in fiscal year 2006 but was charged 55 and 63 percent of these costs in fiscal years 2005 and 2004. In fiscal year 2005, the Housing Choice Voucher program was charged \$5,499, while 20 percent of the cost of these audits was only \$1,999, thus resulting in an unsupported cost of \$3,500. In fiscal year 2004, the Housing Choice Voucher program was charged \$5,995, while 20 percent of the audit cost was \$1,899, resulting in an unsupported cost of \$4,096. Accordingly, a total of \$7,596 in audit costs for fiscal years 2004 and 2005 is unsupported.

Allocation Percentages Varied From Those On the Authority's Approved Budget

The above issues occurred because the Authority did not follow its annual contribution contract, which states that program receipts may only be used to pay program expenditures. In addition, the Authority must not make any program expenditures, except in accordance with the HUD-approved budget estimate and supporting data for the program.

Further, the consolidated annual contributions contract requires "the Authority to maintain records in such a manner as to allow HUD to determine that all funds have been expended in accordance with each specific program regulation and requirement." The contract also requires the Authority "to maintain complete and accurate books of account for the projects of the Authority in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit."

In some instances, Authority officials used the percentages that resulted from figures in the Authority's HUD-approved budget to allocate costs to various programs, and in some instances, they used an arbitrary percentage to allocate costs. Therefore, the Authority needs to develop a cost allocation plan and maintain personnel activity reports to accurately allocate costs that are different from the Authority's approved budget.

The Authority does not have adequate controls to ensure the accuracy and allowability of costs allocated to the Housing Choice Voucher program.

Therefore, it cannot ensure that costs charged are reasonable and necessary. Consequently, the Authority's ability to effectively allocate costs to the Housing Choice Voucher program is diminished. To alleviate this condition, Authority officials have stated that they are developing a cost allocation plan.

Recommendation

We recommend that the director, New Jersey Office of Public Housing, require the Authority to

- 2A. Establish procedures and controls for allocating and charging costs to the Housing Choice Voucher program. These controls should include implementing a cost allocation plan and maintaining personnel activity reports.
- 2B. Provide additional documentation for the \$23,592 in unsupported costs related to managerial services and legal and auditing costs so that HUD can determine the eligibility of these items. Any amounts determined to be ineligible should be repaid.

Finding 3: There Were Administrative Weaknesses in the Housing Choice Voucher Program

The Authority did not always calculate its housing assistance payments correctly and obtain the necessary supporting documentation related to tenant recertifications. Based on our sample of 16 tenant files, we determined that 3 of 16 tenants (19 percent) had landlords who received either a housing assistance overpayment or underpayment. In addition, 14 tenant files (88 percent) contained deficiencies related to missing or incomplete forms and incorrect incomes, utility allowances, and payment standards. We attributed these errors to the Authority's failure to effectively administer its quality assurance function and follow HUD Regulations and its administrative plan regarding tenant and landlord recertification procedures. We also noted administrative deficiencies during our inspection of housing units that require termination of two housing assistance payment contracts and recovery of ineligible payments.

Supporting Documents were Incorrect, Incomplete, and/or Missing

Our audit of a sample of 16 Housing Choice Voucher program tenant files disclosed 25 deficiencies, such as incorrect, incomplete, and/or missing documents. Three of the 25 deficiencies resulted in over or under payments of housing assistance. The files, which had over and underpayments of housing assistance, were the result of applying an incorrect payment standard, incorrect utility allowance and not including all family income in the recertification for housing assistance. Appendix D contains a listing of the 25 deficiencies.

According to 24 CFR 982.516 and chapter 12 the Authority's administrative plan, the PHA has to establish appropriate recertification procedures necessary to ensure that the income data provided by families is complete and accurate.

Tenant Housing Assistance Underpayment or Overpayment

The Authority incorrectly calculated incomes and applied incorrect utility allowances and payment standards when computing the housing assistance payments for some of its housing choice voucher tenants. There were two housing assistance overpayments totaling \$396 and one housing assistance underpayment of \$102.

HUD Handbook 7420.10g, chapter 6, describes the guidelines for calculating rent and subsidy. The Authority's calculations and documentation contained in the tenant files showed that the Authority's procedures were not always effective in ensuring that it correctly calculated housing assistance payments.

- In one file, the Authority applied an incorrect payment standard, resulting in a \$102 housing assistance underpayment.
- In another file, the Authority applied an incorrect utility allowance, resulting in a \$108 housing assistance overpayment.
- In a third file, the Authority did not include part of the daughter's income for recertification in 2004 and 2005, resulting in a \$288 housing assistance overpayment.

No Records for Quality Control Reviews

We attribute the above deficiencies to the Authority's failure to establish an adequate quality control review process. The Authority did not have records to substantiate its quality control reviews completed before August 2005. We could not determine to what extent quality control reviews were conducted. The Authority stated that before August 2005, the assistant executive director would sample files on a monthly basis, but that the quality control reviews are now being conducted by the program director for the Housing Choice Voucher program.

Other Administrative Issues Were Noted During Inspections

During our inspection of 59 units, we noted other administrative deficiencies regarding the housing choice voucher program. Although these issues were not the result of the Authority's failure to establish an adequate quality control review process, the Authority needs take corrective action. Specifically, we noted the following:

- One inspected unit (voucher #86) had a tenant who died five months before our inspection. Authority officials stated that they would terminate the housing assistance payment contract and subtract the ineligible housing assistance payments of \$2,230 from future landlord payments.
- One inspected unit (voucher #57) was vacated by the tenant, who did not provide the Authority proper notice. Landlord

management stated that the tenant moved to a different unit in the same building the week before our inspection. Authority management should terminate the housing assistance payment contract and recover the housing assistance payment from the landlord for the time of the unapproved move-out. The amount of the housing assistance payment abatement should equal \$409.

According to the Authority's administrative plan, if the entire family is absent from the assisted unit for more than 90 consecutive days, the unit is considered vacant and assistance will be terminated. In addition, 24 CFR 982.551 requires that the family must notify the PHA and the owner before the family moves out of the unit.

Conclusion

Despite these deficiencies, we concluded that all tenants in our sample were eligible for housing assistance. In addition, the Authority has provided documentation to substantiate the correction of the housing assistance underpayment and overpayments discussed in this finding.

Recommendation

We recommend that the director, New Jersey Office of Public Housing, require the Authority to

- 3A. Establish and implement proper quality assurance procedures for housing choice voucher tenant recertifications.
- 3B. Follow HUD Regulations and its administrative plan to ensure that all voucher information regarding tenants and landlords is accurate, properly updated, and documented in its tenant files.
- 3C. Terminate the housing assistance payment contract for voucher #86 and recover the excess housing assistance payments made to the landlord for five months totaling \$2,230.
- 3D. Terminate the housing assistance payment contract for voucher #57 and recover one month's housing assistance payment totaling \$409 from the landlord for not providing the Authority proper notification to vacate the subsidized unit.

SCOPE AND METHODOLOGY

To accomplish our audit objectives, we reviewed applicable laws, regulations, and other HUD program requirements. We analyzed the Authority's administrative plan, cooperative agreements, tenant recertification files, procurement policies, and cash disbursements and corresponding journal vouchers. We also reviewed independent public accountant reports, monitoring reviews, board minutes, and resolutions and interviewed HUD and Authority management and staff.

With regard to the tenant listing obtained from the Authority for the Housing Choice Voucher program, we performed limited tests of the reliability of the data as of March 2006. We then selected a statistical sample of units and conducted inspections with a HUD-OIG inspector, the Authority's lead inspector, and the Housing Choice Voucher program director to determine whether the units met housing quality standards.

We used a statistical software program to select a random sample of 59 units based on the Authority's March 2006 tenant listing. Our sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus 10 percent. We performed the inspections from May 1 to May 10, 2006.

Our sampling results determined that 37 of the 59 units (63 percent) materially failed to meet HUD's housing quality standards.

We judged units to be in material noncompliance with housing quality standards because of the overall condition of the unit and because the unit had at least three material deficiencies. Three criteria taken into consideration when determining material deficiencies were that they (1) had existed for an extended period, (2) were not noted in a prior Authority inspection report, and (3) resulted from deferred maintenance that consistently failed the unit. Other factors considered were whether the Authority abated the rent due to the deficiencies noted and whether the tenant caused the deficiencies. We also considered whether children and tenants with disabilities resided in the units.

Projecting the results of the 37 units that were in material noncompliance with housing quality standards to the population yields the following:

The Authority's March 2006 total tenant count register showed that the average monthly housing assistance payment was \$654. Using the lower limit of the estimate of the number of units and the average monthly housing assistance payment, we estimate that the Authority will annually spend at least \$1,710,661 (218 units X \$654 average payment X 12 months) for units that are in material noncompliance with housing quality standards. This estimate is presented solely to demonstrate the annual amount of housing choice voucher 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 conducted our audit work from February through June 2006 at the Authority's offices in Orange, New Jersey. Our audit covered the period April 1, 2003, through March 31, 2006.

We performed our review in accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary.

INTERNAL CONTROLS

Internal controls are 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:

- 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.
- Safeguarding of assets – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The Authority did not have adequate policies and procedures in place to ensure that housing choice voucher units met housing quality standards (see finding 1).
- The Authority did not have adequate controls in place to ensure that cost charged to the Housing Choice Voucher program was reasonable, accurate, and properly supported (see finding 2).
- The Authority did not have adequate controls, including an adequate quality assurance process, to ensure that housing assistance payments were always calculated correctly and tenant and landlord recertification information was properly supported and documented (see finding 3).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1B			\$1,710,661
2B		\$23,592	
3C	\$2,230		
3D	409		
Total	\$2,639	\$23,592	\$1,710,661

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ “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. In this instance, if the Authority implements our recommendations, it will cease to incur Section 8 costs for units that are not decent, safe, and sanitary and will expend those funds for units that meet HUD’s housing quality standards. Once the Authority successfully implements its controls, this will be a recurring benefit. Our estimate reflects only the initial year of these recurring benefits.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

HOUSING AUTHORITY OF THE CITY OF ORANGE

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Executive Director
Walter D. McNeil, Jr.

General Counsel
Ernest R. Booker

September 6, 2006

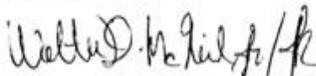
Mr. Edgar Moore, CPA, CFE
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, New York 10278 0068

Dear Mr. Moore:

As per our conversation, I am faxing and sending our responses for the two audit reports to you and Michael overnight. If you have any further questions, feel free to contact me.

Thank you for taking the time to meet with us for our exist interview.

Sincerely,



Walter D. McNeil, Jr., MPA, PHM
Executive Director

cc: Michael Zaccaria, Senior Auditor

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Housing Authority of the City of Orange

Response to the Inspector General's
Findings and Comments
Regarding the Section 8 Audit

Exit Conference
September 6, 2006

Walter D. McNeil, Jr.
Executive Director
Housing Authority of the City of Orange
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Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

September 5, 2006

The Orange Housing Authority

Response to the Inspector General's Findings

Finding Number 1: Our inspection of 59 Section 8 units found that 55 units (93 percent) did not meet minimum housing quality standards. Of the 55 units, 37 were in material noncompliance. Projecting the results of the statistical sample to the population indicates that 363 of the Authority's 412 non-ported out units would not meet minimum housing quality standards and 218 units would be in material noncompliance. The noncompliance occurred because the Authority management failed to follow its administrative plan to ensure that the units met minimum housing quality standards and inspections, complied with requirements. 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 housing quality standards. Based on the sample, we estimate that over the next year, HUD will pay housing assistance payments of more than 1.7 million for units in material noncompliance with housing quality standards if our recommendations are not implemented.

HOUSING AUTHORITY'S RESPONSE TO FINDING NUMBER 1:

Over all the Housing Authority is in agreement that additional training could be helpful for our HQS Inspector. The Authority even went as far as to provide for the training right after the IG inspection. We took our interview with the IG's office serious and we will continue working on improving our standards where needed. The Housing Authority does take exception with the wording that we failed to follow our follow our administrative plan to ensure that the units met minimum housing quality standards. The Housing Authority takes great pride in making sure that each unit is inspected and meets the established housing quality standards on an annual basis. We found that in many instances, based on a review of the statutes and discussion with trainers on HQS inspections, that the IG inspector went far beyond the scope of a normal HQS inspection. For example, the inspector sited units for having nonconforming stairs, unacceptable drop ceiling in bathrooms, non conforming entrance doors to apartments (not fire rate), loose toilets were sited as 24 hour violations (after he rocked the toilets out of their existing foundations as a normal means of his inspection), the space between faucets and tiles were deemed nonconforming. Many of the obvious tenant caused obstructions to secondary egresses and damages to unit were sited and statistically evaluated as problems that existed prior to our initial inspection causing it to appear that there were many more violations that the housing authority failed to recognize. We find this statistical analysis to be unfairly damaging to the Housing Authority's efforts.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Even though we agree with the recommendation to provide additional HQS training, we believe that our inspector is competent and we recognize that he took and passed a HQS inspection course in 1999. Not many of the standards have changed since that point, specifically nothing that would have a material impact on whether a unit should pass inspection or not based on some of the nonconforming areas that were mentioned in the IG report.

In any event, all 55 units that were sited were contacted to make repairs. 100 % of those landlords have made the necessary repairs to the units and/or have been abated or terminated.

Finding Number 2: The Authorities controls for allocating Costs were deficient

The Authority did not always allocate expenses accurately to the Housing Choice Voucher Program. As a result, costs were charged to the Housing Choice Voucher programs that were not adequately supported. **These deficiencies occurred because the Authority did not establish procedures to ensure that costs were allocated accurately to each benefiting program** as stated in the Authority annual contribution contract.

City of Orange Housing Authority's Responses to Finding Number 2

The Authority did establish a cost allocation for the year in question. However, due to changes in the program funding and the administration, the Authority had to make adjustments during the year. These adjustments made it appear that the Authority was not following the established allocation plan. This specifically was evident by costs related to service provided for managerial, auditing, accounting and legal work. For example, the Authority initially used 15 % allocation for the cost for the executive director. However, when the management consultant who is now the existing executive director came in, we decided to allocate the costs based on the number of units for his services as opposed to the percentages. This was a more reasonable allocation for his service. Additionally, the actual cost for the executive directors services were lower by close to 40 % for the year overall. The question of allocating accounting, legal and auditing services were also re evaluated to include a 50/ 50 split between Section 8 and Public Housing. This was done based on the units involved.

The Authority agrees that more attention is needed to address this area. With the increasing standard regarding the public housing asset based management these changes are assured to take place. We do not agree with disallowing cost for any of the services that are mention above. Obviously there was an expense that needed to be paid by Section 8 or public housing. It is understood that the changing allocation s does appear to be confusing. Future allocations will be more simple with the new asset based management requirements.

Comment 2

Comment 3

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Finding 3: There were administrative Weaknesses in the Housing Choice Voucher Program

The Authority did not always calculate its housing assistance payments correctly and obtain the necessary supporting documentation related to tenant re-certifications. Based on our sample of 16 tenant files, we determined that 3 of the 16 tenants had landlords who received either a housing assistance overpayment or underpayment. In addition, 14 tenant files (88 percent) contained deficiencies related to missing or incomplete forms and incorrect incomes, utility allowances and payment standards. **We attributed these errors to the Authority's failure to effectively administer its quality assurance function and follow HUD regulations and its administrative deficiencies during our inspection of housing units that require termination of two housing assistance payment contracts and recovery of ineligible payments.**

City of Orange Housing Authority's Response to Finding # 3

First and foremost, the Authority has a process in which it provides quality control samples for its work. The director of the program or the housing tech reviews each file for accuracy and completeness prior to certification or recertification. The staff at the Authority (2 employees) is small and very active. It is difficult to establish a quality control regime that does not involve the people who provide the service on a daily basis. However, the Authority now has an additional staff member for the department and we have decided to utilize the staff leadership in the public housing division to provide some of the quality control inspections when possible. It should be noted that the issue sited regarding the application of an incorrect payment standard on one tenant and the incorrect utility allowance on the other will be easily resolved with the addition of the new staff member and the use of the other department. We will also establish a folder check list to ensure that each required item goes into a file prior to recertification or certification. In addition we believe that the new software might have been responsible for some of the miscalculations. We are working with our software company to insure that all calculations are correct.

As far as ineligible costs sited for two tenants are concerned, both resided in a large senior complex that failed to report certain changes to the housing authority after the unit had been inspected. Specifically, one resident died and the complex management failed to inform the Authority of the death until the day of the IG inspection. The other resident was transferred by the management company without the Authority's knowledge.

In both cases, the Authority has already recouped the ineligible funds. We do not believe the examples sited above is due to the authority's failure to affectively administer quality assurance functions.

Comment 4

OIG Evaluation of Auditee Comments

Comment 1 Authority officials concur with our determinations related to providing additional training to its housing quality inspector. Authority officials also stated that they would continue to work on improving their housing quality standards where needed.

Authority officials took exception with the wording that it did not follow its administrative plan to ensure that units met minimum housing quality standards. Specifically, the Authority stated that the HUD IG inspector went beyond the scope of a housing quality inspection by citing deficiencies such as those not explicitly required by HUD regulations and either tenant caused or non material (e.g. unacceptable drop ceiling in bathroom, space between faucets and tiles, loose toilets, etc.). However at the exit conference, we informed Authority officials that our inspections resulted in over 500 deficiencies, all of which violate HUD regulations. We considered 37 units to be in such a condition as to materially fail the units based on the severity of the 304 deficiencies cited in those units. It is these 37 units that we used to project our results for determining the effect of not making changes to the control structure surrounding the inspection process.

Comment 2 Authority officials stated that they did have a cost allocation plan, however, adjustments had to be made due to changes in program funding and administration that made it appear that the Authority was not following its established allocation plan. These changes required costs to be allocated with a 50 percent split between the Housing Choice Voucher and Public Housing programs. However, as stated in the finding, some costs were allocated inconsistently from year to year. Specifically, costs for legal and auditing were never allocated following a 50 percent split during our scope period. In addition, legal costs allocated to the Housing Choice Voucher program were not always program related. The Annual Contributions Contract states that program receipts may only be used to pay program expenditures and that the Authority must not make any program expenditures, except in accordance with the HUD-approved budget estimate and supporting data for the program. Further, HUD must approve changes to the approved budget estimates.

Comment 3 Authority officials disagree with disallowing costs for any of the services mentioned in the finding since the costs paid were for actual Public Housing or Housing Choice Voucher expenses. However, since costs need to be allocated according to the HUD approved estimates, the

Authority will have to reimburse the Housing Choice Voucher program for costs not properly allocated.

Comment 4 The report was adjusted to reflect that these items were not the result of a quality control issue.

Appendix C

SCHEDULE OF MATERIAL NONCOMPLIANCE WITH HOUSING QUALITY STANDARDS

Sample item	Total material deficiencies	24-hour deficiencies	Latest housing authority inspection grade	Preexisting deficiencies & inadequate follow-up by the Authority
1	13	3	Fail	13
4	2	1	Pass	2
5	19	3	Pass	19
8	7	1	Pass	7
9	7	2	Pass	7
12	8	1	Pass	8
13	7	2	Fail	7
14	8	3	Pass	8
15	4	1	Pass	4
16	4	1	Pass	4
20	5	2	Pass	5
21	4	1	Pass	4
24	7	1	Pass	7
25	15	5	Pass	15
26	3	0	Pass	3
28	4	2	Pass	4
30	13	6	Pass	13
32	7	3	Fail	7
33	10	3	Pass	10
35	14	11	Pass	14
36	5	8	Fail	5
37	6	4	Pass	6
38	10	6	Pass	10
39	3	2	Pass	3
41	10	8	Pass	10
43	12	6	Fail	12
45	9	2	Pass	9
46	6	4	Pass	6
50	9	3	Pass	9
51	16	10	Fail	16
52	6	1	Pass	6
54	11	3	Pass	11
55	6	3	Pass	6
56	14	4	Pass	14
57	12	7	Pass	12
58	4	2	Fail	4
59	4	4	Fail	4
Totals	304	129		304

Appendix D

SCHEDULE OF FILE REVIEW DEFICIENCIES

No.	Tenant identification number	Housing assistance overpayment	Housing assistance underpayment	Incorrect utility allowance	Incorrect payment standard	Incorrect income	Missing or incomplete forms			Total
							Rent reas.	HUD-9886	Cont. occup	
1	Voucher # 526			X						1
2	Voucher # 559		\$102	X	X					2
3	Voucher # 475			X						1
4	Voucher # 434									0
5	Voucher # 151			X						1
6	Voucher # 361						X			1
7	Voucher # 507			X				X		2
8	Voucher # 313	\$108		X						1
9	Voucher # 462			X		X				2
10	Voucher # 480			X						1
11	Voucher # 017	\$288		X		X	X	X		4
12	Voucher # 087						X	X		2
13	Voucher # 210			X						1
14	Voucher # 124									0
15	Voucher # 307			X			X			2
16	Voucher # 240			X			X	X	X	4
		2 - \$396	1 - \$102	12	1	2	5	4	1	25