



Issue Date	January 13, 2006
Audit Case Number	2006-AT-1004

TO: R. Edmond Sprayberry, Director, Office of Public Housing, 4CPH

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

SUBJECT: The Housing Authority of the City of Prichard, Alabama,
Did Not Ensure Section 8 Subsidy Payments Were for Eligible Units,
Eligible Tenants, and Eligible Landlords

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 audited the Housing Authority of the City of Prichard's (Authority) Section 8 Housing Choice Voucher program. We selected the Authority for review based on a Section 8 risk assessment we conducted. Our audit objectives were to determine whether the Authority made Section 8 subsidy payments only for units that were decent, safe, and sanitary; properly determined tenant program eligibility and subsidy payment amounts; and made Section 8 subsidy payments to eligible landlords.

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What We Found

The Authority failed to ensure that its Section 8 housing stock met housing quality standards. We determined that 97 percent, or 63 of 65 units, did not meet housing quality standards. Of the 63 units, 45 were in material noncompliance with housing quality standards. In addition, the Authority paid \$63,545 for ineligible units including \$8,512 for failed units requiring housing assistance payment abatements and \$55,033 for units that lacked annual inspections. The Authority also earned \$6,373 in administrative fees for ineligible units. As a result, HUD lacked assurance that more than \$14 million in Section 8 funds was effectively used to benefit the Authority's Section 8 tenants.

The Authority's internal controls over processing Section 8 tenant files were inadequate. As a result, HUD should reduce the Authority's administrative fees by \$232,974 for fiscal years 2003 and 2004.

The Authority violated federal and local conflict-of-interest provisions by allowing an Authority employee and board member to have interest in Section 8 properties resulting in \$22,482 of ineligible costs.

What We Recommend

We recommend that the director of the Office of Public Housing terminate the Authority's Section 8 Housing Choice Voucher program and transfer it to another Alabama housing authority to prevent \$14,625,468 from being spent on units that are in material noncompliance with housing quality standards; require the Authority to immediately abate the Section 8 housing assistance payments or terminate tenant vouchers on the 63 units that do not meet housing quality standards if deficiencies are not corrected; and repay \$69,918 from nonfederal funds for housing assistance payments it paid and administrative fees it earned for ineligible units.

Also, since the Authority had inadequate internal controls over processing tenant files, HUD should reduce the Authority's administrative fees by 10 percent for fiscal years 2003 and 2004, for a total of \$232,974. Finally, the director should require the Authority to repay ineligible costs of \$22,482 from non-federal funds for the conflict of interest violation.

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 Authority and HUD officials during the audit. We provided a copy of the draft report to Authority officials on December 6, 2005, for their comments and discussed the report with the officials at the exit conference on December 15, 2005. The Authority provided its written comments to our draft report on December 29, 2005.

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 Housing Authority of the City of Prichard (Authority) was chartered in 1940 pursuant to the Alabama Housing Authorities Law. Its primary objective is to provide decent, safe, and affordable housing for low- and moderate-income families, including the elderly, handicapped, and disabled in compliance with its annual contributions contract (contract) with the U.S. Department of Housing and Urban Development (HUD).

A five-member board of commissioners governs the Authority with members appointed by the mayor of Prichard, Alabama. Each member is appointed for a five-year term. Reverend Michael Howard is the board chairman, and Charles Pharr is the executive director.

The Authority administers 2,071 housing choice vouchers in the city of Prichard and its vicinity. The annual housing assistance payments and administrative fees approved for fiscal year 2004 were \$15 million. In addition, annual housing assistance payments and administrative fees pending for 2005 is \$14 million.

HUD's Alabama State Office of Public Housing in Birmingham, Alabama, is responsible for overseeing the Authority.

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

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RESULTS OF AUDIT

Finding 1: The Authority's Section 8 Units Did Not Meet Housing Quality Standards

The Authority's Section 8 housing stock did not meet minimum housing quality standards. Our inspection of 65 units identified that 63 units (97 percent) contained numerous housing quality standards violations. Of the 63 units not meeting housing quality standards, 45 were in material noncompliance with housing quality standards. These deficiencies have existed with the Authority's Section 8 housing program for more than four years. This occurred because the Authority failed to implement the corrective actions as required by independent public accountant audits and HUD Field Office reviews. Additionally, the Authority's management did not implement adequate internal controls over its inspection process and did not have adequate written procedures for conducting inspections. As a result, the Authority paid \$63,545 for ineligible units including \$8,512 for failed units requiring housing assistance payment abatements and \$55,033 for units that lacked annual inspections. The Authority also earned \$6,373 in administrative fees for ineligible units. In addition, HUD lacked assurance that more than \$14 million in Section 8 funds was effectively used to benefit the Authority's Section 8 tenants.

Prior Section 8 Reviews

Prior independent public accountant audits and HUD reviews conducted in 2003 and 2004 disclosed continuous significant weaknesses in the Authority's Section 8 program. Specifically, the Authority's independent public accountant report for fiscal year 2003 disclosed that the Authority failed to track housing quality standards inspections. HUD performed a rental integrity monitoring review of the Section 8 program in August 2003. The Authority failed to fully implement the required corrective action plan. A rental integrity monitoring re-review was completed in August 2004. The re-review determined that the Authority still needed to make major improvements to its Housing Choice Voucher program. The Authority did not report on the corrective action plan. HUD approved a contract for Section 8 technical assistance in February 2005. The Birmingham Office of Public Housing gave the Authority until October 8, 2005, but extended the date, due to circumstances beyond the Authority's control, until the end of December 2005 to comply with its corrective action plan.

The Authority has been designated troubled since fiscal year 2001. The 2003 Section 8 Management Assessment Program confirmatory review determined the

Authority's score was 31 percent, with 60 percent as a passing score. In fiscal year 2004, the Authority's score was 32 percent.

In response to the independent public accountant's audit report, the Authority hired a contractor in October 2003 to provide technical assistance in correcting tenant files. HUD approved a technical assistance contractor in February 2005 to assist the Authority with implementing its corrective action plan and providing other technical assistance needed to improve the overall performance of the Authority's Housing Choice Voucher program and Section 8 Management Assessment program score.

In March 2005, HUD placed the Authority on automatic review of all transactions and drawdown of funds from the line of credit control system partly due to long-standing problems with the Section 8 program.

Units Contained Numerous Health and Safety Violations

Our inspections showed the Authority's Section 8 units contained numerous health and safety violations. We identified 618 standards violations in 63 of the 65 units we inspected. The following table lists the most frequently occurring violations for the 65 units:

Type of deficiency	Number of deficiencies	Number of units	Percentage of units
Electrical hazards	163	54	83
Windows	89	40	62
Interior doors	56	34	52
Exterior doors	29	23	35

Additionally, 45 of the 63 failed units were in material noncompliance with housing quality standards. Appendix C provides details on the 45 units.

The most prevalent deficiencies were electrical hazards, including inoperable ground fault interrupter outlets and exposed wiring.

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Air conditioning unit's disconnect box had exposed wires and no fixed cover

In addition, we identified hazards such as inadequately installed furnace flues and water heaters, unsafe stairs, and roach infestation.



Furnace flue inadequately installed and touching wooden building components, causing a fire hazard



Pressure relief discharge pipe missing from electric water heater



Unstable makeshift stair on side of porch

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Evidence of roach infestation

Federal regulations at 24 CFR [*Code of Federal Regulations*] 982.401(a)(3) require that all program housing must meet housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the assisted tenancy.

Authority officials stated that the inspectors either overlooked the housing deficiencies or were unaware of housing quality standards requirements, which resulted in the inspectors passing units with housing quality standards violations.

Authority Inspectors Did Not Report Deficiencies

Several deficiencies existed at the time of the Authority's most recent unit inspection, but the inspectors did not report them. Damage from water leaks around the windows at one apartment complex and a house had existed for some time. We identified other conditions, such as missing or damaged foundation vents and broken door and window locks. Additionally, in 14 of 65 instances, inspectors identified deficiencies but improperly passed the units.

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Hole in foundation wall into crawl space



Rotted and moldy window frame

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The sewer vent pipe is normally on the inside of the house and extends through the roof. This is to ensure that noxious gases vent to the outside and do not enter the structure. In this case, the sewer vent pipe is barely above the ground and is below a window. Extending the pipe upward would ensure that the sewer gases would dissipate and not enter the living spaces.

The Authority Paid \$63,545 for Ineligible Units

The Authority paid \$63,545 for ineligible units including \$8,512 for 14 failed units requiring housing assistance payment abatements, and \$55,033 for eight units that lacked annual inspections. The Authority also earned 6,373 in administrative fees for ineligible units.

The Authority continued to pay rent on 10 units that failed inspections 3 to 27 days after the specified time the owners had to complete the repairs. The Authority also continued to pay rent on four units that failed inspections 1 to 10 months after the specified time the owners had to correct the deficiencies. The Authority did not abate the housing assistance payment as required.

For the eight units in which the Authority did not conduct inspections, one unit had not been inspected since 2001, three units had not been inspected since 2002, and the other four units had not been inspected since 2003. We identified a number of housing quality standards violations at the units during our July 2005 inspection.

Federal regulations at 24 CFR [*Code of Federal Regulations*] 982.404 (a) (2) state that if the owner fails to maintain the dwelling unit in accordance with housing quality standards, the public housing authority must take prompt and vigorous action

to enforce the owner obligations. The public housing authority remedies for such a breach of the housing quality standards include termination, suspension or reduction of housing assistance payments, and termination of the housing assistance contract.

Federal regulations at 24 CFR [*Code of Federal Regulations*] 982.404 (a) (3) state that the public housing authority must not make any housing assistance payments for a dwelling unit that fails to meet the housing quality standards unless the owner corrects the defect within the period specified by the authority and the authority verifies the correction.

In addition, 24 CFR [*Code of Federal Regulations*] 982.405(a) state that 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.

Authority officials stated that human error, an antiquated computer system (all work completed manually), and a breakdown in communication between the inspectors and leasing occupancy technicians led to the failed units not being abated as required. Authority officials also stated that human error and lack of knowledge attributed to some inspections not being performed as required.

The Inspection Process Was Inadequate

The Authority's management did not implement an effective internal control process that ensured units met minimum housing quality standards and inspections complied with requirements.

The Authority's internal control process did not include policies, procedures that provided guidance or a quality control plan that ensured policies, and procedures were followed. The process should be sufficient to ensure the Authority complies with HUD regulations and other requirements.

The Authority's policies and procedures did not identify which items were emergency and nonemergency repairs. In addition, it did not provide timeframes for correcting deficiencies found in units.

The Authority did not conduct supervisory quality control housing standards inspections, as required by 24 CFR [*Code of Federal Regulations*] 982.405(b). The inspectors did not identify all violations and passed units with housing quality violations.

The deficiencies in the Authority's inspection process are significant and do not assure HUD that its Section 8 units meet housing quality standards or that it

performed all required inspections. As a result, the Authority did not properly use the Section 8 funds when it failed to enforce compliance with HUD's housing quality standards. In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD is permitted to reduce or offset any Section 8 administrative fees paid to the Authority if it fails to enforce HUD's housing quality standards. The Authority made \$63,545 in housing assistance payments for units that did not meet housing quality standards, and earned \$6,373 in Section 8 administrative fees for the ineligible units. Therefore, we recommend that HUD terminate the Authority's Section 8 Housing Choice Voucher program and transfer the housing vouchers to another Alabama housing authority so that more than \$14 million in program funds can be used more efficiently and effectively.

Recommendations

We recommend that the director of the Office of Public Housing

- 1A. Terminate the Authority's Section 8 Housing Choice Voucher program, as permitted by Section 15 of the Section 8 annual contribution contract and transfer the Section 8 Housing Choice Voucher program to another Alabama housing authority, to prevent \$14,625,468 from being spent on units that are in material noncompliance with housing quality standards.
- 1B. Require the Authority or the acquiring authority to immediately abate the Section 8 housing assistance payments or terminate the tenant vouchers on the 63 units that do not meet housing quality standards if deficiencies are not corrected within the appropriate period.
- 1C. Require the Authority to repay its Section 8 program \$69,918 from nonfederal funds, which included \$63,545 for housing assistance payments made and \$6,373 for administrative fees earned for ineligible units.

Finding 2: The Authority's Internal Controls over Processing Section 8 Tenant Files Were Inadequate

The Authority's internal controls over processing Section 8 tenant files were inadequate. The Authority did not (1) perform recertifications in a timely manner or at all, (2) properly maintain tenant file documentation, (3) verify family income, and (4) properly calculate Section 8 housing assistance payments. These problems occurred because the Authority did not have adequate policies and procedures or adequate quality controls regarding Section 8 tenant file processing. HUD was not assured that the Authority only paid subsidies for eligible tenants or that the amounts paid were appropriate. As a result, HUD should reduce the Authority's administrative fees by \$232,974.

Controls Were Inadequate

The Authority did not have adequate controls to ensure it processed Section 8 tenant files in accordance with HUD requirements. Based on our review of 10 tenant files, eight files contained the following errors:

- Seven had either late or no recertifications performed,
- Four had missing documents,
- One had no income verification performed, and
- One had housing assistance payment calculation error.

Federal regulations at 24 CFR [*Code of Federal Regulations*] 982.516(a) require the public housing authority to 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.

Also, 24 CFR [*Code of Federal Regulations*] 982.158 require the public housing authority to maintain complete and accurate accounts and other records for the program in accordance with HUD requirements.

In addition, 24 CFR [*Code of Federal Regulations*] 982.451 (b)(1) state that the amount of the monthly housing assistance payment by the public housing authority to the owner is determined by the authority in accordance with HUD regulations and other requirements.

Finally, 24 CFR [*Code of Federal Regulations*] 5.240(c) require the responsible entity to 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.

Prior independent public accountant audits and HUD reviews disclosed the same deficiencies. The Authority's independent public accountant report for fiscal year 2003 disclosed that the Authority had compliance problems with its Section 8 participant files. Similar findings were also disclosed in the Authority's fiscal year 2004 audit.

The rental integrity monitoring review conducted by HUD in August 2003 disclosed that the Authority did not (1) consistently obtain written third-party verifications; (2) conduct and completely implement all recertifications within the required 12-month period; (3) ensure the landlord properly notified tenants of rent increases; (4) accurately and completely report data to the Public and Indian Housing Information Center and the Multifamily Tenant Characteristics System; (5) properly calculate and verify tenant income, deductions, and assets; and (6) properly calculate utility allowances.

The acting Section 8 program manager stated that inadequate policies, procedures, and controls attributed to the tenant file deficiencies. She stated the Authority is in the process of revising its policies and procedures.

The Authority still needs to make improvements in its procedures and controls for processing Section 8 tenant files. It has not corrected its processing of Section 8 tenant files since the last HUD rental integrity monitoring review. As a result, HUD lacked assurance the administrative fees were appropriately earned by the Authority. In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD is permitted to reduce or offset any Section 8 administrative fees paid to the Authority if it fails perform its administrative responsibilities adequately under the program. Therefore, we recommend that 10 percent of the Authority's administrative fee be withheld for fiscal years 2003 and 2004.

Recommendations

We recommend the director of the Office of Public Housing

- 2A. Reduce the Authority's administrative fees by 10 percent for fiscal years 2003 and 2004, for a total of \$232,974.

Finding 3: The Authority Violated Conflict-of-Interest Provisions

The Authority violated federal and local conflict-of-interest provisions by allowing an Authority employee and board member to have interest in Section 8 properties. The Authority staff did not comply with regulations prohibiting the employee from having direct and indirect interest in the housing assistance program contract or in any benefits or payments under the contract. As a result, HUD was not assured that the Authority did not practice favoritism or operated within the confines of the law in its administration of the affected Section 8 units.

The Authority Was Doing Business with Related Individuals

The Authority approved five units for the spouse of an Authority employee. The employee's spouse received \$22,482 from June 2003 to June 2005 for three properties on the Authority's Section 8 program. The employee's spouse inherited the three properties on the Section 8 program before the Authority employee was hired. The tenants were living in the properties when the properties were deeded to the spouse. The spouse has inherited two other properties on the Section 8 program; however, no housing assistance payments had been made on the units as of August 11, 2005.

The employee oversees the HOPE VI program at the Authority. Under the HOPE VI program, Section 8 vouchers were used to relocate public housing residents who were displaced due to the demolition of the public housing project. The HOPE VI staff coordinates with the Section 8 staff in relocating the displaced residents. In addition, the employee serves on the HOPE VI Advisory Committee, working with the displaced residents and local social service providers to devise a community and supportive service plan geared toward providing opportunities for displaced residents to become self-sufficient and achieve homeownership. The employee is also a board member for the Authority's nonprofit corporation and a former Authority board member. The positions held by the employee afforded him the opportunity to influence decisions with respect to the programs of the Authority.

The Authority's Code of Professional Conduct for Employees, Officers, and Agents specifically prohibits any employee, officer, or agent of the Authority from participating in the selection, award, or administration of any contract supported by federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent; any member of his or her immediate family; his or her partner; or an organization which employs or is about to employ any of the parties indicated herein has a

financial interest in the firm selected for an award. Employees are further required to avoid even the appearance of impropriety or conflict of interest.

In addition, the housing assistance payment contract prohibits a covered individual as defined in 24 CFR [*Code of Federal Regulations*] 982.161 from having direct or indirect interest in the contract, including the interest of an immediate family member to include a spouse.

The Birmingham Office of Public Housing staff does not have any knowledge of waivers issued for the Authority employee.

The executive director stated that the Authority did not view the Section 8 properties as a conflict of interest because the HOPE VI director's wife inherited the properties. Therefore, the Authority did not seek waivers, as required.

Recommendations

We recommend that the director of the Office of Public Housing

- 3A. Require the Authority, if the Authority retains its Section 8 program, to follow the federal and local requirements regarding conflict of interest by disclosing financial interests of any board member, employee, public official, or family member of a board member or an employee and requesting waivers as required.
- 3B. Require the Authority to issue notices to the applicable landlord, if the Authority retains its Section 8 program, that the current tenants may stay until the next reexamination, thereafter terminate the housing assistance payments on all identified properties.
- 3C. Instruct the Authority, if the Authority retains its Section 8 program, not to process rent increases for families living in units identified as conflict of interest or otherwise ineligible units.
- 3D. Require the Authority to repay HUD \$22,482, or current amount paid to date, from nonfederal funds for ineligible housing assistance payments, and make all future housing assistance payments from nonfederal funds.

SCOPE AND METHODOLOGY

To accomplish our audit objectives, we reviewed the following:

- Applicable laws, regulations, and other HUD program requirements;
- Minutes from the board of commissioners meetings;
- The Authority's policies and procedures related to the administration of its Section 8 Housing Choice Voucher program;
- HUD's rental integrity monitoring review reports and files;
- Files and documents obtained from the Authority; and
- The Authority's latest independent public accountant reports.

We performed a detailed review of a representative sample of 10 tenant files from a universe of 439. We examined and reviewed the tenant files to determine whether the Authority (1) performed recertifications (annual or interim) in accordance with HUD requirements; (2) adequately supported the eligibility requirements of each family; and (3) accurately calculated the participant's annual income and expenses, deductions, unit utility allowances, housing assistance payments, and total tenant payments. We performed our tenant file testing at the Authority.

We inspected a sample of 65 units with a HUD Office of Inspector General (OIG) inspector and the Authority's acting inspection supervisor. We performed the inspections July 13 through July 22, 2005.

We obtained a listing of the Authority's current units from the housing assistance payment register for May 2005. There were 1,744 units as of May 1, 2005. We used a statistical software program to select a random statistical sample of the 1,744 tenants. Based on a confidence level of 90 percent, a precision level of 10 percent, and an assumed error rate of 50 percent, the software returned a statistical sample of 65 units with a random selection start. We used the software to generate 65 additional sample units to be used as replacements if needed. We performed our inspections testing at the Authority.

Projecting the results of the 63 failed units in our statistical sample to the population indicates

The lower limit is 93.47 percent x 1,744 units = 1,630 units not meeting housing quality standards.

The point estimate is 96.92 percent x 1,744 units = 1,690 units not meeting housing quality standards.

The upper limit is 99.89 percent x 1744 units = 1,742 units not meeting housing quality standards.

We evaluated the 63 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 45 units were in material noncompliance with housing quality standards because they had (1) deficiencies that had existed for an extended period, (2) deficiencies noted in a prior inspection that were not corrected, and/or (3) deferred maintenance that consistently fails a unit.

Projecting the results of the 45 units that were in material noncompliance with housing quality standards to the population indicates

The lower limit is 59.99 percent x 1,744 units = 1,046 units in noncompliance with minimum housing quality standards.

The point estimate is 69.23 percent x 1,744 units = 1,207 units in noncompliance with minimum housing quality standards.

The upper limit is 78.47 percent x 1,744 units = 1,369 units in noncompliance with minimum housing quality standards.

Using the lower limit and the average annual housing assistance payments for the population based on the Authority's May 2005 housing assistance payment register, we estimated the Authority spent at least \$5,372,256 for 1,046 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 interviewed the Birmingham, Alabama, Office of Public Housing program officials and the Authority management and staff.

Our audit generally covered the period July 1, 2003, through May 31, 2005. We expanded our audit period as necessary to accomplish our objectives. We performed our on-site work from March through August 2005 at the Authority's offices in Prichard, Alabama, and the Birmingham field office.

We performed 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:

- Compliance with laws and regulations - Policies, and procedures that management has implemented to reasonably assure that resource use is consistent with laws and regulations.
- Safeguarding of resources - 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 only for eligible units (see finding 1),

- The Authority did not have a system in place to ensure that housing subsidy payments were made only on behalf of eligible tenants (see finding 2), and
- The Authority did not have a system in place to ensure that housing subsidy payments were made only to eligible landlords (see finding 3).

FOLLOWUP ON PRIOR AUDITS

**OIG Report - Housing
Authority of the City of
Prichard - Audit Report No:
2006-AT-1002**

This most recent Office of Inspector General audit of the Authority's nonprofit activities contained findings that the Authority sale of affordable homes was inadequate, the Authority's public housing plan did not include proceeds from sale and estimated sale of affordable homes, and the Authority's control over the expenditure of low-income programs were inadequate. The findings have not been resolved.

Yeager and Boyd, LLC, Certified Public Accountants, completed the most recent independent auditor's audit report for the 12-month-period ending June 30, 2004. The report contained two findings, one of which pertains to the Authority's Section 8 program. The report included the following deficiencies, which are also discussed in the findings of this report:

- Reexaminations were not conducted within the required 12-month period.
- The Authority failed to obtain written third-party verification for tenants income and deductions or to properly document other verification methods used when third-party verifications were not available.

The recommendations remain open pending completion of corrective actions.

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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>
1A		\$14,625,468
1C	\$ 69,918	
2A	232,974	
3D	22,482	
Total	<u>\$325,374</u>	<u>\$14,625,468</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

	<p><i>Housing Authority</i> of THE CITY OF PRICHARD, ALABAMA P. O. Box 10307 -- Prichard, Alabama 36610 -- (251) 456-3324 Fax (251) 452-6149</p>	
<p>BOARD OF COMMISSIONERS Rev. Michael A. Howard - Chairman Darren L. Flott - Vice-Chairman John Langham, Jr. Minnie Livingston Rochelle D. Rankins</p>	<p>December 29, 2005</p>	<p>Charles Pharr, Executive Director Gregory L. Harris, Attorney</p>
<p>Mr. James D. McKay Regional Inspector General for Audit, 4AGA U. S. Department of Housing and Urban Development Region 4 Office of the Inspector General Office of Audit, Box 42 Richard B. Russell Federal Building 75 Spring Street, SW, Room 330 Atlanta, Georgia 30303-3388</p>		
<p>Re: Response of the Housing Authority of the City of Prichard, Alabama to the Draft Audit Report Covering the Housing Authority Did Not Ensure Section 8 Subsidy Payments Were For Eligible Units, Eligible Tenants and Eligible Landlords</p>		
<p>Dear Mr. McKay:</p>		
<p>The Authority has reviewed the audit report findings and recommendations. Our response includes, where appropriate, the position of the housing authority, alternative recommendations, and corrective action taken or planned to address the deficiencies identified in the report.</p>		
<p><u>SUMMARY OF FINDING 1</u></p>		
<p>Finding 1: The Authority's Section 8 Units did not meet Housing Quality Standards.</p>		
<p><u>POSITION OF HOUSING AUTHORITY</u></p>		
<p>The Authority does not agree with the conclusion of the findings. A 3% sampling does not adequately determine that 97 percent of the housing stock does not meet housing quality standards. We do agree that some deficiencies in HQS have been an issue for more than four years. In addition, adequate controls over the inspection process were not in place in 2003 and 2004. However, the Authority put processes and procedures in place</p>		

Comment 1

in 2005 to ensure that housing assistance payments are being made only for eligible units. The control processes now include policies and procedures that provide guidance. The policies and procedures identify which items are emergency and non-emergency repairs; and, provide timeframes for correcting deficiencies found in the units.

In addition, pursuant to applicable Prichard City codes, it is our understanding that the HCVP guidelines are non-applicable to the non-grounding type receptacles in older houses requirements. Notwithstanding, the Authority plans to exercise its best efforts to eradicate this matter. Please advise if our interpretation in this instance is accurate.

Comment 2

ALTERNATIVE RECOMMENDATION

The Authority requests reconsideration of the recommendation that the Authority repay HUD for housing assistance payments paid in the amount of \$69,918 for failed units and units that lacked annual inspections from nonfederal funds. We ask that you consider the corrective actions that have been put in place in 2005 to address the Authority's failure to meet Housing Quality Standards during the period covered by this audit report.

Comment 2

CORRECTIVE ACTION TO ADDRESS DEFICIENCY

Prior to receiving the audit report, the Authority put policies and procedures in place in 2005 to address this deficiency. We created an inspection process flow map as well as developed improved forms. The housing inspectors inspected 5,086 units (Annuals, Re-inspections, Move-ins, Specials) during the period of January 3 to December 28, 2005. The HQS Inspection Supervisor conducted quality control inspections for 1.6% of the units inspected in 2005. This inspection was for a cross-section of neighborhoods of each individual inspector. The HQS inspections were randomly drawn from recently completed inspections (performed during the three preceding months). In 2006, the HQS Inspection Supervisor will conduct quality control inspections for 5% of the units under HAP contract. Quality Control processes are included as **Exhibit A**. The process flow map is provided as **Exhibit B**.

Comment 2

In addition, the Authority plans to hire a more qualified HQS Inspection Supervisor. The job description has been developed and the search for the new supervisor is planned for January 2006. This position is targeted to be filled by March 2006. The Board approved this action during the December 15, 2005 board meeting. One of the primary skill requirements is a background in electrical engineering or strong relevant experience to ensure that the Authority addresses the most prevalent electrical hazards deficiency including inoperable ground fault interrupter outlets and exposed wiring.

Comment 2

Also, the housing inspectors, with the exception of Mr. Taylor who had a family medical emergency, participated in HQS classroom and field training in September 2005. The Authority and Birmingham Field Office received test results and individual inspector

Comment 3

recommendations. Remedial training will be provided to the inspectors who require additional reinforcement of the housing quality standards requirements in 2006. This will insure that the inspectors report all deficiencies.

Greater emphasis will be placed on improving the capacity of the inspectors and the responsibility to be more vigilant in following federal regulations that require all housing stock to meet housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the assisted tenancy.

In November 2005, the housing authority proposed that we outsource the HQS inspection to Ozark Housing Development for one year to exceed the minimum 5% HQS quality control inspection requirement. The Ozark Housing Development will be responsible for the quality control inspection of 260 units in 2006. The Prichard Housing Authority Housing Inspectors will shadow this team to gain additional hands on experience. This effort will enhance our ability to more proactively and effectively conduct inspections. We are awaiting approval from the Birmingham Field Office to proceed with this action.

Please find a spreadsheet (**Exhibit C**) that details the actions taken to address the housing deficiencies identified in the audit report. The Authority re-inspected each of the 65 housing units and took action to correct the standards violations. The corrective action was either in the form of abating the unit or requiring the landlord to repair the unit.

SUMMARY OF FINDING 2

Finding 2: The Authority's internal controls over processing Section 8 tenant files were inadequate.

POSITION OF HOUSING AUTHORITY

The Authority agrees that adequate internal controls over processing the Section 8 tenant files were not in place in January 2003 through October 2004. However, the Authority has taken positive corrective action to address the internal controls deficiency.

File management processes and procedures were put in place in November 2004. Process maps were created in April 2005; revised draft file management policies and procedures were implemented in May 2005; and, the staff was trained on the finalized written policies and procedures in July 2005. It is our position, this cited weakness has been alleviated. Please review **Exhibit D** that details the policies, procedures and file QC checklist now in use.

Comment 4

ALTERNATIVE RECOMMENDATION

The Authority is requesting that the Office of Inspector General reconsider its preliminary recommendation to terminate the Authority's Section 8 Housing Choice Voucher program and transfer it to another Alabama housing authority. We request that you postpone that decision until the end of the 2006 fiscal year to enable the Authority the opportunity to submit the SEMAP self-certification in August 2006 and demonstrate that internal control over processing Section 8 tenant files is adequate. Significant progress in improving the operational procedures and processes was made in 2005. And, we are confident that we will achieve a rating of "standard performer for the July 2005 through June 2006 reporting period. Our current MTCS score is "97.31" as of November 30, 2005.

Comment 5

The Authority also requests reconsideration of the recommendation that HUD reduce the Authority's administrative fees by 10% for fiscal years 2003 and 2004, for a total of \$232,974. We have put processes and procedures in place to ensure that housing subsidy payments are made only on behalf of eligible tenants.

CORRECTIVE ACTION TO ADDRESS DEFICIENCY

The Authority has undertaken and achieved the objective of improving the File Management system. As a result of the increased oversight to eliminate tenant file deficiencies, 2156 tenant files were recertified in 2005. We implemented tracking and reporting tools and forms to assist management in monitoring the program. A Quality Control initiative has been put into practice to ensure that the Authority conducts timely recertifications within the required 12-month period; maintain complete and accurate documentation of tenant data; properly and accurately calculate the participant's annual income and expenses, deductions, utility allowances, housing assistance payments and total tenant payments; obtain third party income verification; and comply with HUD regulations when processing tenant file information.

In addition, the entire Section 8 staff participated in the following training in 2005 to reinforce and strengthen their individual skills and capacity to effectively perform their job functions and responsibilities:

- Income and Rent Determination (Income, exclusions, deduction)
- Interviewing Skills (Verification of Family Circumstances)
- Income, Rent and Subsidy Calculations
- Occupancy
- SEMAP

In conclusion, the Authority has executed a system to ensure that housing subsidy payments are made on behalf of eligible tenants only.

SUMMARY OF FINDING 3

Finding 3: The Authority violated conflict-of-interest provisions by allowing an Authority employee and board member to have interest in Section 8 properties.

POSITION OF HOUSING AUTHORITY

To avoid the appearance of “conflict of interest”, the Authority is terminating the identified units from the Section 8 program.

ALTERNATIVE RECOMMENDATION

The Authority agrees with the recommendations set forth in the audit report.

CORRECTIVE ACTION TO ADDRESS DEFICIENCY

The Authority will issue a notice on January 3, 2006 to the applicable landlord and the Authority employee stating that we will terminate the housing assistance payments on all identified properties within 60 days. We agree to not process rent increases for families living in units identified as “conflict of interest”.

In addition, we will issue a letter to the current tenants advising them to find other housing. We will provide a 60 days notice to provide adequate time for the tenants to find an eligible housing unit. The Authority will provide assistance in their search if required.

The Authority agrees to repay HUD \$22,382 from nonfederal funds. This recommendation will be presented at the next Board meeting scheduled for February 15, 2006 to gain Board concurrence on the proposed corrective action. To limit the amount of expenditure of nonfederal funds to address this issue, our plan is to terminate the ineligible units within the next 60 days rather than the reexamination date of the tenant. To minimize the impact upon the tenant, if required, the Authority will extend the time to find suitable eligible housing up to the time of the next reexamination. Since the Authority employee, spouse of the landlord, is a member of the nonfederal funds board, he will be recused from voting on any decision and will be excluded from any discussions pertaining to this matter. The Authority’s lawyer will attend meetings of the nonfederal funds board to ensure that this understanding is enforced.

Comment 6

CONCLUSION

The Authority has experienced numerous difficulties due to the use of an outdated information management system and the manual workflow processes in place today resulting in continuous duplication of effort. We issued an RFP in 2005 and selected an integrated housing and financial software solution to help increase the efficiency and effectiveness of the operations of the Authority. The system will be installed within the next 90 days. The workflow automation functionality will allow us to automate our business functions, thus, eliminating duplicate data and redundant data entry (referential data integrity); decreasing the number of errors submitted to PIC which will increase our MTCS score (built-in validation for every HUD action that allows the user to validate 50058s prior to generation and submission; if there is an error, the user is prompted to correct the error prior to submission); automatic scheduling of re-exams and inspections ensuring timely re-exams and inspections; automatic generation of re-exam and inspection notification letters; ensuring compliance with HUD regulation because rules are built-in the system; enabling inspectors to better capture the results of the inspection and take immediate action if inspections fail; increasing quality control; and, generating management reports to support monitoring, reporting, tracking and oversight function of supervisors.

In conclusion, the Authority has complied with the Corrective Action Plan (CAP) discussed in the audit report. We will meet the end of December 2005 due date. As a result of the actions taken to meet the requirements of the CAP, the Authority has achieved significant milestones and improvements in the operational efficiency of the program and skills capacity of the Section 8 HCVP staff. We have identified performance goals and objectives for 2006 that will further increase the effectiveness of the program. The Authority has overcome some great challenges, and is serving the needs of the Prichard underserved population. We ask that the Office of Inspector General review the progress achieved in 2005 prior to making a final recommendation.

We look forward to hearing from you at your earliest convenience.

Sincerely,



Charles Pharr
Executive Director

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Attachments

OIG Evaluation of Auditee Comments

Comment 1

The Authority disagreed with the conclusion of our finding. We do not agree with the Authority's comment that a 3 percent sampling was used to conclude that 97 percent of the housing stock does not meet housing quality standards. Due to limited audit resources and time, we could not inspect all of the units. We used a statistical software program to select a random statistical sample of the 1,744 tenants. Based on a confidence level of 90 percent, a precision level of 10 percent, and an assumed error rate of 50 percent, the software returned a statistical sample of 65 units with a random selection start. Our inspection of 65 units identified that 63 units (97 percent) contained numerous housing quality standards violations.

The Authority believed that pursuant to applicable Prichard City codes, the Housing Choice Voucher program guidelines pertaining to non-grounding type receptacles do not apply to older houses. However, the Housing Choice Voucher guidelines apply to all units. City codes have no effect on housing quality standards inspections unless the code requirements were added to the Authority's administrative plan and approved by the local HUD Office. The Authority's administrative plan did not include the Prichard City codes.

Guidelines used by the local HUD office state that non-grounding receptacles (2 prong) are acceptable, but replacing non-grounding with grounding (3 prong) receptacles is not unless the wiring is upgraded to include a ground.

The HUD OIG inspector found that the landlords had replaced 2-prong outlets with grounding type outlets (3-prong) that were not ground fault circuit interrupter protected and not grounded (open ground). In cases where the outlets were replaced with non-grounded ground fault circuit interrupters, there were no labels indicating the non-grounded status. Therefore, the HUD OIG inspector determined the receptacles did not meet housing quality standards. In many cases, the outlets were replaced with grounding type outlets that were not properly grounded.

Comment 2

The Authority requested reconsideration of our recommendation that the Authority repay HUD for housing assistance payments paid in the amount of \$69,918 for failed units and units that lacked annual inspections from nonfederal funds. The Authority identified and proposed corrective actions to address the deficiencies.

We do not agree with the Authority's alternative recommendation. We maintain that the Authority failed to adequately perform its duties in ensuring Section 8 subsidy payments were only made for units that were decent, safe, and sanitary. The Authority continued to pay rent for failed units and units that lacked annual inspections. The Authority failed to fulfill its contractual obligations of performing its inspections responsibilities correctly and adequately. Therefore, we are requesting the repayment of the funds.

The Authority stated it had put processes and procedures in place in 2005 to ensure that housing assistance payments are being made only for eligible units. We maintain that the Authority did not have adequate controls over the inspection process and did not have adequate written procedures for conducting inspections during our review. The inspections we conducted in July 2005 showed the Authority still did not have adequate controls in place and that the deficiencies continued to exist in 2005. We found the inspectors improperly passed units with housing quality standards violations.

We also found that several deficiencies existed at the time of the Authority's most recent unit inspection, but the inspectors did not report them. In addition, the Authority did not conduct supervisory quality control housing standards inspections, as required. The Authority stated that quality control inspections were conducted for only 1.6 percent of the units inspected in 2005. The Authority is required to conduct quality control inspections for 5 percent of the units under the housing assistance contract.

We also do not agree that the Authority's new policies and procedures are adequate for us to reconsider our recommendation. The inspections we conducted in July 2005 showed the Authority still did not have adequate controls in place and that the deficiencies continued to exist in 2005. The Authority stated it needs to hire a more qualified housing quality standards inspection supervisor, provide remedial training to the inspectors requiring additional guidance, and outsource its housing quality inspections for one year. Based on the Authority's comments, its current staff is unable to ensure that the units are properly inspected and appropriate actions are taken on failed units. The Authority hired and trained staff, and hired contractors to assist in improving its Section 8 program, but we still found problems with its Section 8 program. The Authority has not provided adequate assurances that its Section 8 program would improve within a year. Based on HUD's past experience with the Authority and the significant number of deficiencies we noted during our audit, there is no certainty that the Authority will improve the operations of its Section 8 program.

Comment 3

The Authority stated staff had re-inspected each of the 65 housing units and took action to correct the standards violations. Based on our review of the Authority's spreadsheet, all of the violations were not identified and corrected. We provided the Authority our inspection reports to use in identifying all of the violations.

Comment 4

The Authority provided an alternative recommendation to reconsider our preliminary recommendation to terminate the Authority's Section 8 Housing Choice Voucher program and transfer it to another Alabama housing authority. We do not agree with the Authority's alternative recommendations. The Authority's Section 8 program has been designated troubled since fiscal year 2001 and it has had a long history of failing to administer its Section 8 program. The longstanding problems were disclosed in the independent public accountant audits, HUD Field Office reviews, and the OIG audit; therefore, we recommended the termination and transfer of the Authority's Section 8 program to another Alabama housing authority to prevent \$14,625,468 from being spent on units that did not meet housing quality standards. The Authority had failed to implement the corrective actions required by the independent public accountant audits and HUD Field Office reviews and did not have adequate policies and procedures or adequate quality controls over its Section 8 inspection and tenant file processing. The Authority did not implement the initial corrective action plan in the timeframe allotted. HUD's subsequent review of the plan showed minimal progress had been made. Items that were designated as closed by the Authority were confirmed still open in the August 2004 RIM re-review. HUD granted the Authority a new corrective action plan completion date of October 8, 2005, but extended it to December 31, 2005, giving the Authority additional time to comply with its corrective action plan.

HUD has given the Authority more than one opportunity to fully implement its corrective action plan, but the Authority has not been diligent in ensuring that the plan was implemented. Although the Authority stated it now has controls and procedures in place to prevent future deficiencies, the Authority's past poor performance dictates that our recommendation remains to provide further assurance that HUD's interests are protected.

Comment 5

The Authority requested reconsideration of the recommendation to reduce the Authority's administrative fees by 10 percent. According to 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to the Authority if it fails to perform its administrative responsibilities correctly or adequately under the program. We maintain that the Authority failed to adequately perform its administrative duties in not ensuring Section 8 tenant files were properly processed. Our recommendation to reduce the administrative fees by 10 percent for fiscal years 2003 and 2004, for a total of \$232,974 addresses the deficiencies found during our audit period.

Comment 6

The Authority concurred with recommendations 3A through 3D and plans to implement corrective action in January 2006.

Appendix C

SCHEDULE OF UNITS IN MATERIAL NONCOMPLIANCE WITH HOUSING QUALITY STANDARDS

Item Number	Deferred maintenance	Deficiencies existed for extended period or at the time of the Authority's last inspection
1	X	X
2		X
3		X
4	X	X
5		X
6		X
7	X	X
8	X	X
9		X
10	X	X
11		X
12		X
13		X
14		X
15		X
16		X
17		X
18	X	X
19		X
20		X
21		X
22		X
23		X
24		X
25	X	X
26		X
27		X

Item Number	Deferred maintenance	Deficiencies existed for extended period or at the time of the Authority's last inspection
28		X
29		X
30		X
31		X
32		X
33		X
34		X
35	X	X
36		X
37		X
38		X
39		X
40		X
41		X
42		X
43		X
44		X
45		X

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