



Issue Date	January 18, 2006
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Audit Case Number	2006-AT-1005
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TO: Michael A. Williams, Director, Office of Public Housing, 4FPIH

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

SUBJECT: The Housing Authority of the City of Winston-Salem,  
Winston-Salem, North Carolina,  
Did Not Ensure Section 8-Assisted Units Were Decent, Safe, and Sanitary

## **HIGHLIGHTS**

### **What We Audited and Why**

As part of the U.S. 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 Winston-Salem's (Authority) inspection of Section 8 units under the Section 8 Housing Choice Voucher program. Our audit objective was to determine whether Section 8 units met housing quality standards in accordance with HUD requirements.

### **What We Found**

Our inspection of 67 Section 8 units found that 51 units (76 percent) did not meet minimum housing quality standards. Of the 51 units, 26 were in material noncompliance with housing quality 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 standards. We estimate that over the next year,

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HUD will pay housing assistance payments of more than \$6.4 million for units in material noncompliance with housing quality standards.

### **What We Recommend**

We recommend that the director of the Office of Public Housing require the Authority to inspect all of the 51 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 were not taken, the Authority should abate the rents or terminate the tenants' vouchers. The director should also require the Authority to implement an internal control plan and incorporate it into the Authority's Section 8 administrative plan to ensure units meet housing quality standards and inspections meet HUD requirements to prevent an estimated \$6.4 million from being spent on units that are in material noncompliance with standards.

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

### **Auditee's Response**

We discussed the findings with the Authority and HUD officials during the audit. We provided a copy of the draft report to Authority officials on December 14, 2005, for their comments and discussed the report with the officials at the exit conference on December 21, 2005. The Authority provided its written comments to our draft report on January 5, 2006. The Authority generally concurred with the finding and has begun taking corrective actions.

The complete text of the Authority'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**

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The Housing Authority of the City of Winston-Salem (Authority) was formed in 1941 pursuant to the North Carolina Housing Authorities Law. Its primary objective is to provide safe and sanitary housing to low-income residents in the Winston-Salem, North Carolina, area in compliance with its annual contributions contract with the U.S. Department of Housing and Urban Development (HUD). The Authority administers more than 4,200 housing choice vouchers. The annual housing assistance payments and administrative fees for 2005 were \$21 million.

A nine-member board of commissioners appointed by the mayor of Winston-Salem governs the Authority. The Authority's executive director resigned during our audit; therefore, the board appointed an interim executive director.

HUD's Greensboro, North Carolina, Office of Public Housing is responsible for overseeing the Authority.

Our audit objective was to determine whether Section 8 units met housing quality standards in accordance with HUD requirements.

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## RESULTS OF AUDIT

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

Our inspection of 67 units showed that 51 units (76 percent) did not meet minimum housing quality standards. Of the 51 units, 26 were in material noncompliance with housing quality standards. Projecting the results of the statistical sample to the population indicates at least 2,813 of the Authority's 4,255 units did not meet minimum housing quality standards and 1,230 units were in material noncompliance with housing quality standards. This occurred because Authority management failed to implement an effective internal control plan that ensured units met minimum housing quality standards and inspections complied with requirements. As a result, tenants lived in units that were not decent, safe, and sanitary, and HUD made housing assistance payments for units that did not meet standards. Based on the sample, we estimate that over the next year, HUD will pay housing assistance payments of more than \$6.4 million for units in material noncompliance with housing quality standards.

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**HUD Will Pay More Than \$6.4 Million for Units in Material Noncompliance**

We estimate that over the next year, HUD will pay housing assistance payments of more than \$6.4 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 67 units with a HUD facilities management specialist, an engineering specialist, and the Authority's lead inspector. We found that 26 units with 132 deficiencies were in material noncompliance with housing quality standards. Authority inspectors did not identify 45 of the 132 deficiencies during their most recent inspections. Appendix D provides additional details of the deficiencies for the 26 units.

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The following table lists the most frequently occurring deficiencies for all 67 units we inspected:

Type of deficiency	Number of deficiencies	Number of units	Percentage of units
Health and safety	49	29	43
Fire hazard	36	24	36
Electrical hazard	20	18	27
Security	11	10	15
Significant water leak	18	15	22
Infestation	9	9	13
Other	48	26	39

The Authority either did not identify the deficiencies or reported them as having been corrected when they were not.

**Health and Safety Hazards  
Predominant**

The most predominant deficiencies were health and safety hazards, including stairs or porches needing handrails or repairs to handrails, broken glass, and tripping hazards.



Cutting hazard on screen door that Authority did not report during June 24, 2005, inspection.



Clothes, toys, luggage, and other rubbish accumulated throughout the basement, causing poor interior air quality, mold, dust, and mildew-like odors. This deficiency existed for several years.

We also found a number of fire hazards, such as blocked exits and inoperable smoke detectors.



Blocked emergency exit in bedroom not reported by Authority during July 21, 2005, inspection.

We found electrical hazards, such as exposed wire and missing outlet covers.



Burned kitchen light fixture with exposed wiring. Tenant stated that this deficiency had existed for more than two years.



Missing outlet cover, creating an electrical shock hazard.



We found other deficiencies including rotted wood and holes in foundations.



Holes and rotting wood in floor where kitchen meets back porch.



Hole in foundation that Authority did not report as a deficiency during its May 10, 2005, inspection.

## The Authority Did Not Implement Effective Internal Controls

Authority management did not maintain adequate internal controls to assure that its units met minimum housing quality standards. Federal Regulations at 24 CFR [Code of Federal Regulations] 982.54 required the Authority to adopt a written administrative plan that established local policies for administration of the program in accordance with HUD requirements and administer its Section 8 program in accordance with its administrative plan. The Authority's administrative plan required inspectors to report 12 categories of deficiencies as emergency deficiencies that owners had to correct within 24 hours. The 24-hour emergency deficiencies included electrical problems that could result in shock or fire, obstacles that prevent tenants' entrance or exit, and inoperable smoke detectors.

The Authority's inspectors seldom reported deficiencies found during their inspections as 24-hour emergency deficiencies. We reviewed 120 of the Authority's inspection reports for the 67 Section 8 units in our sample. We found that inspectors only reported two 24-hour emergency deficiencies. Our review of the reports identified an additional 52 deficiencies that met the criteria in the administrative plan for 24-hour emergency deficiencies. While the inspectors reported the 52 deficiencies, they did not classify them as 24-hour emergency deficiencies. Thus, owners were allowed the standard 30 days for nonemergency deficiencies to make the necessary repairs.

The 52 misclassified deficiencies included 13 inoperable and/or missing smoke detectors. Authority management attempted to remove smoke detectors from its administrative plan's list of 12 categories of emergency deficiencies because it believed the requirement to reinspect the units within 24 hours would require additional personnel. However, HUD's North Carolina director of public housing disallowed the change to the administrative plan saying it created a life-threatening condition for tenants.

While the Authority's administrative plan required removal within 24 hours of an obstacle that prevents tenants' entrance or exit, Authority inspectors only required one alternate exit point per floor in addition to the entrance door. However, HUD's North Carolina Office of Public Housing required the Authority to follow North Carolina fire and residential building codes, which required that in addition to the entrance door, there be one alternate exit point to the exterior of the building per sleeping room and basement with habitable space. We found 16 units with obstacles preventing exit at alternate points.

## **The Authority Stated It Needs More Inspectors**

Authority management stated that one reason for the deficiencies was that it needed to hire more inspectors. In addition to a lead inspector who was responsible for performing quality control inspections, the Authority employed five inspectors who were responsible for inspecting more than 4,200 Section 8 units. The inspection staff was responsible for all inspections, reinspections, emergency and complaint inspections, and the delivery of violation notices to landlords. The inspectors were also responsible for inspecting 1,085 public housing units. Further, according to the lead inspector, because there were not enough inspectors to meet the workload requirements, he sometimes helped conduct inspections.

The Authority wants to increase the time allotted for each inspection from 30 to 45 minutes to allow adequate time to travel to and inspect each unit. However, the Authority believes it needs to hire two more inspectors before it can implement the 45-minute allotment for each inspection. While the Authority stated it needs to hire additional staff, it did not perform the required analysis to determine whether it employed adequate inspection staff to perform all necessary inspections.

## **The Authority Made Procedural Changes**

The Authority changed its inspection procedures during our audit. The Authority's lead inspector who accompanied us during our inspections realized his inspectors did not identify many deficiencies. As a result, the Authority implemented procedures that put more emphasis on following inspection procedures in the administrative plan. The lead inspector believes there is now a better feedback process through which inspectors more openly discuss the requirements and deficiencies they find. In addition, the Authority advised us it changed its procedures to adopt the North Carolina fire and residential building codes regarding exit points. The Authority also implemented a procedure whereby owners can self-certify that they have corrected 24-hour emergency deficiencies, such as inoperable smoke detectors.

## **Additional Improvements Needed**

While the Authority has made some improvements, additional improvements are needed. Management must emphasize the importance of housing quality standards and implement policies and procedures that ensure it complies with HUD requirements and give tenants the opportunity to live in decent, safe, and sanitary housing. The policies and procedures must be incorporated into the Authority's Section 8 administrative plan. By continuing to make necessary improvements, the Authority will ensure that at least \$6.4 million in Section 8 funds are put to better use.

## **Recommendations**

We recommend that the director of Office of Public Housing

- 1A. Require the Authority to inspect the 51 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 were not taken, the Authority should abate the rents or terminate the tenants' vouchers.
- 1B. Require the Authority to develop and implement an internal control plan and incorporate it into its Section 8 administrative plan to ensure units meet housing quality standards and inspections meet HUD requirements to prevent an estimated \$6,435,360 from being spent on units that are in material noncompliance with standards.

## SCOPE AND METHODOLOGY

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Our audit objective was to determine whether Section 8 units met housing quality standards in accordance with HUD requirements. To accomplish our objective, we did the following:

- Reviewed applicable laws, regulations, and other HUD program requirements.
- Reviewed the Authority's Section 8 policies and procedures and administrative plan.
- Interviewed HUD and Authority management and staff.
- Reviewed the Authority's latest independent public accountant report and HUD program monitoring reviews.
- Obtained a download of the Authority's Section 8 housing stock for the Housing Choice Voucher program as of July 2005. We then performed limited tests of the reliability of the data, such as the tenant information, housing assistance payments, and inspection results. Based on the tests, we assessed the data as sufficiently reliable, given our objective and intended use.
- Selected a statistical sample of units for inspection from the Authority's Section 8 housing stock for the Housing Choice Voucher program as of July 2005.
- Reviewed previous Authority inspection reports.
- Inspected 67 units with a facilities management specialist and an engineering specialist from the Greensboro, North Carolina, Office of Public Housing and the Authority's lead inspector to determine whether the units met housing quality standards. We performed the inspections from July 25 to September 12, 2005.

The download of the Authority's Section 8 housing stock for the Housing Choice Voucher program resulted in 4,255 active units. We used a statistical software program to select a random sample of the 4,255 units. 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 67 units with a random selection start. We used the software to generate 43 additional sample units to be used as replacements if needed.

We used statistical sampling because each sampling unit is selected without bias from the audit population, thereby allowing the results to be projected to the population.

We inspected seven of the replacement units because five units in the initial sample were vacant and two units were no longer being subsidized. We selected the next consecutive units (68 through 74) as replacement units; however, the tenant for one replacement unit (number 71) was

no longer in a subsidized unit. Thus, we inspected the next consecutive sample item (number 75).

Projecting the results of the 51 failed units in our statistical sample to the population indicates

The lower limit is 66.1 percent x 4,255 units = 2,813 units not meeting housing quality standards.

The point estimate is 76.1 percent x 4,255 units = 3,239 units not meeting housing quality standards.

The upper limit is 84.3 percent x 4,255 units = 3,587 units not meeting housing quality standards.

Of the 51 failed units, 26 were in material noncompliance with housing quality standards. We based our assessment on prior Authority inspection reports, tenant comments, and our observation and judgment of the condition of the unit during the inspection. Based on our judgment, we determined 26 units were in material noncompliance with housing quality standards because they had at least two deficiencies, one of which was a 24-hour emergency deficiency. In addition, at least one of the deficiencies had to have been overlooked by the Authority during its last inspection or found by the Authority but not corrected.

Projecting the results of the 26 units that were in material noncompliance with housing quality standards to the population yields the following:

The lower limit is 28.9 percent x 4,255 units = 1,230 units in material noncompliance with housing quality standards.

The point estimate is 38.8 percent x 4,255 units = 1,650 units in material noncompliance with housing quality standards.

The upper limit is 49.5 percent x 4,255 units = 2,106 units in material noncompliance with housing quality standards.

To be conservative, we used the lower limit to project to the population.

Using the lower limit and the average annual housing assistance payments for the population based on the Authority's October 2005 housing assistance payments, we estimated the Authority spent at least \$6,435,360 for 1,230 units that were in material noncompliance with housing quality standards. The estimate is not a statistical projection and is used only for the purpose of determining funds that can be put to better use.

We conducted our fieldwork from April through November 2005 at the Authority's offices in Winston-Salem, North Carolina. Our audit period was from October 1, 2003, through July 31, 2005. We expanded our audit period as needed to accomplish our objectives.

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

# INTERNAL CONTROLS

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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.

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## 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 ensure resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure 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 item is a significant weakness:

- The Authority did not have adequate internal controls to ensure that Section 8 units met housing quality standards (see finding 1).



## APPENDIXES

### Appendix A

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

<u>Recommendation</u>	<u>Funds to be put to better use 1/</u>
1B	\$ 6,435,360
Total	<u>\$ 6,435,360</u>

1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures later 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



Housing Authority of the City of Winston-Salem

January 5, 2006

Mr. James D. McKay  
Regional Inspector General for Audit  
U.S. Department of HUD  
Richard B. Russell Federal Building  
75 Spring Street, SW, Room 330  
Atlanta, GA 30303-3388

**RE: OIG AUDIT OF HQS FOR THE SECTION 8 VOUCHER PROGRAM**

Dear Mr. McKay:

We are in receipt of your letter dated December 14, 2005, and memorandum regarding the OIG Audit of the Housing Authority of the City of Winston-Salem's inspection of units under the Section 8 Housing Choice Voucher program. In response to the one audit finding, please be advised that the housing authority has taken the following actions:

1. We have consulted with the local HUD Field Office and based on their requirement have amended our Administrative Plan to include their recommendations for 24-hour emergency repair items. Furthermore, we are informing owners and participants of the additional emergency repair items by including the list on the inspection appointment letter.
2. We have implemented a new procedure that includes getting a written statement from owners that 24-hour repair items were corrected within the designated time. Inspectors continue to follow up and confirm repairs at the next inspection of the unit.
3. We have conducted training with the inspectors on how to better recognize and document repair items needed in units. In addition, we have trained inspectors on the new administrative plan procedures and encouraged inspectors to confer with the lead inspector when they encounter questionable deficiencies.

**Commissioners**

James Rousseau, *Chairman*  
Lida Hayes-Calvert, *Vice Chairman*  
DeWayne H. Anderson  
Doris Kimbrough  
Naomi W. Jones  
Simpson Brown, Jr.  
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A. Fulton Meachem, Jr., *Interim Executive Director*

Mr. James McKay  
January 5, 2006  
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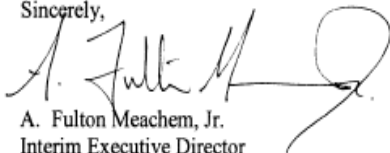
**Comment 1**

4. All 51 units that failed inspection have been re-inspected. Of the 51 units, 49 units have passed inspection with the owner and/or tenant taking the appropriate required action, 1 unit was abated and the tenant subsequently transferred to another unit, and 1 participant was terminated from the program for failure to have the utilities reconnected.
5. We are reviewing the caseloads of the inspectors, analyzing other pertinent factors, and polling similar-sized housing authorities in order to determine if additional staff is required. We are confident that additional training of inspectors will add to their efficiency to conduct inspections.
6. We have discussed with Ritchie Brooks, the Director of the City of Winston-Salem's Housing Services Department, to conduct training for our inspectors on city code requirements. In addition, they are agreeable to randomly inspect, on an on-going basis, a percentage of our units for quality control purposes. These city inspections will be in addition to our required in-house quality control inspections for SEMAP purposes.
7. We are resuming annual group owner briefings which will include HQS guidelines and procedures. We have scheduled the next group briefing for the spring of 2006. In addition, we continue to conduct individual owner briefings/orientations on an as-needed basis.
8. Based on local HUD Field Office recommendations, we are researching the possibility of charging owners for second and subsequent re-inspections, as well as using abated funds to assist participants in moving expenses where owners fail to make required corrections to their units. We are in agreement with HUD that these measures should significantly reduce the number of units that continue to fail.

**Comment 2**

The two recommendations made by the OIG have been completed and appropriate action has been taken by the housing authority. If you should have any questions or have additional comments, please do not hesitate to contact me at 336-727-8500, extension 104, or by e-mail at [dwithers@haws.org](mailto:dwithers@haws.org). Thank you for your continued support of our housing programs.

Sincerely,



A. Fulton Meachem, Jr.  
Interim Executive Director

cc: Michael Williams, Director, Office of Public Housing, 4FPIH  
James Rousseau, Chairman, Board of Commissioners, HAWS

**OIG Evaluation of Auditee Comments**

**Comment 1**

We revised the number of failed units from 52 in the draft to 51 because a minor deficiency that caused one unit to fail was corrected at the time of the inspection. We also revised our statistical sample results as appropriate to reflect 51 failed units. Further, based on concerns expressed by the Authority at the exit conference, we revised the caption under the picture of a missing outlet cover. The draft report stated the Authority reported this deficiency and passed the unit on reinspection July 7, 2005. The Authority was concerned that perhaps a tenant removed the cover between the time of its inspection and our inspection on August 2, 2005.

**Comment 2**

While we recognize the Authority has taken some actions, the director of HUD's Greensboro, North Carolina, Office of Public Housing in consultation with the Authority and the OIG will determine if the actions are appropriate. The director will also determine when appropriate actions have been completed.

## Appendix C

### CRITERIA

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#### **Federal Regulations at 24 [Code of Federal Regulations] 982.54(a)(c)**

Housing authorities must adopt a written administrative plan that establishes local policies for administration of the program in accordance with HUD requirements. The housing authorities must administer the program in accordance with their administrative plan.

#### **Federal Regulations at 24 [Code of Federal Regulations] 982.401(a)(3)**

All program housing must meet housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the assisted tenancy.

#### **Federal Regulations at 24 [Code of Federal Regulations] 982.405(a)**

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

#### **HUD Handbook 7420.10g, Chapter 10, Section 10.6**

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

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

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

## Appendix D

### SCHEDULE OF UNITS IN MATERIAL NONCOMPLIANCE WITH HOUSING QUALITY STANDARDS

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Sample item number	Total deficiencies	24-hour emergency deficiencies	Number of deficiencies missed by Authority	Number of deficiencies found by Authority but not corrected
3298	7	4	3	
1009	4	3	2	
184	3	2	2	
2867	2	1	1	1
2794	5	2	1	
903	3	2	2	
103	6	1	5	
2132	2	1	1	
3199	8	2	1	
3663	8	4	5	
209	4	1		2
2257	2	1	1	1
1557	3	1	1	
108	5	4	2	
1638	3	3		1
1284	5	1	1	
1054	4	3	2	
3203	2	1	1	
1819	6	1	1	
2527	10	3	1	1
458	11	4	1	2

<b>Sample item number</b>	<b>Total deficiencies</b>	<b>24-hour emergency deficiencies</b>	<b>Number of deficiencies missed by Authority</b>	<b>Number of deficiencies found by Authority but not corrected</b>
1022	6	1	4	
1481	3	2	1	
4175	7	3	1	
1736	5	4	2	
1132	8	3	3	1
<b>Total</b>	<b>132</b>	<b>58</b>	<b>45</b>	<b>9</b>