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Audit Report Number	2006-AT-1006
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TO: Olga I. Saez, Director, Public and Indian Housing, San Juan Field Office,
4NPH

James D. McKay

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

SUBJECT: The Municipality of San Juan Housing Authority, San Juan, Puerto Rico,
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 Municipality of San Juan Housing Authority's (Authority) Section 8 Housing Choice Voucher program. The review was initiated in response to a request from HUD's San Juan Office of Public and Indian Housing. The San Juan office advised that it was not satisfied with the Authority's overall performance in administering its Section 8 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 63 units (94 percent) did not meet minimum housing quality standards. Of the 63 units, 25 were in material noncompliance with housing quality standards. As a result, tenants lived in units

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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, HUD will pay housing assistance payments of more than \$5.8 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 63 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 \$5.8 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 January 24, 2006, for their comments and discussed the report with the officials at the exit conference on January 27, 2006. The Authority provided its written comments to our draft report on February 7, 2006. In its response, the Authority generally agreed with the findings.

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

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BACKGROUND AND OBJECTIVES

The Municipality of San Juan Housing Authority (Authority) administers approximately 4,000 housing choice vouchers in San Juan, Puerto Rico, and its vicinity. The annual assistance payments and administrative fees approach \$24 million. The Authority's Subsidized Housing Office was assigned the responsibility of administering the Section 8 program. The Authority's books and records for the Section 8 program are maintained at 1205 Ponce de Leon Avenue, San Juan, Puerto Rico.

We audited the Authority's Section 8 Housing Choice Voucher program in response to a request from the U.S. Department of Housing and Urban Development's (HUD) San Juan, Puerto Rico, Office of Public and Indian Housing. The San Juan office advised that it was not satisfied with the Authority's overall performance in administering its Section 8 program. The San Juan office conducted several reviews during the past few years that continually identified weaknesses in the Authority's procedures.

This is the second Office of Inspector General (OIG) audit of the Authority. Audit report 2005-AT-1015, issued September 29, 2005, pointed out that the Authority did not have adequate controls to ensure tenants received the proper voucher size, assistance payments were correct, files were properly documented, and participants were properly selected from the waiting list. HUD is working with the Authority to resolve the findings in that report.

The objective of our audit was to determine whether the Authority's Section 8 units met housing quality standards in accordance with HUD requirements.

RESULTS OF AUDIT

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

Our inspection of 67 units showed that 63 units (94 percent) did not meet minimum housing quality standards. Of the 63 units not meeting standards, 25 were in material noncompliance with housing quality standards. Projecting the results of the statistical sample to the population indicates at least 3,666 of the Authority's 4,105 units did not meet minimum housing quality standards and 1,136 units were in material noncompliance with housing quality standards. This occurred because the Authority's 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 \$5.8 million for units in material noncompliance with housing quality standards.

Health and Safety Hazards Were Predominant

We inspected a statistical sample of 67 units with a HUD public housing revitalization specialist, an OIG housing inspector, and the Authority's inspectors. We found that 25 units with 359 deficiencies were in material noncompliance with housing quality standards. Appendix D provides details on the 25 units.

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
Illumination and electrical	198	57	85%
Structure and materials	150	38	57%
Smoke detectors	70	49	73%
Access	56	33	49%
Water supply	41	32	48%
Sanitary facilities	17	17	25%
Food preparation and refuse disposal	15	13	19%
Other	29	25	37%

The most predominant deficiencies were electrical hazards, including exposed wiring, missing outlet covers, improper wiring of water heaters, inoperable outlets, and unshielded electrical wires.



Main electrical connection hanging from pole within reach, creating an electrical shock hazard. The deficiency was not reported by the Authority during its July 12, 2005 inspection.



Improper wiring of water heater. The tenant stated that this deficiency existed at the time of the last Authority inspection.



Unshielded electrical wire not reported by the Authority during its August 5, 2005, inspection.



Missing outlet cover, creating an electrical shock hazard. There were also signs of roach infestation in the unit.

We also found other health and safety hazards including water leaks, stairs or porches needing handrails or repairs, vermin or rodent infestation, rubbish accumulation, and missing or inoperable smoke detectors.



Hole in kitchen ceiling with signs of serious water leaks.



Second floor porch with missing handrails. The tenant stated that this deficiency had existed since move-in, around September 2004.



Tools, toys, and other rubbish accumulated throughout room. The tenant stated that this room is used by the owner as storage space.



Inoperable smoke detector.



Unsecured propane gas tank outside of kitchen wall, placed over loose and broken tiles.



Unauthorized and improperly installed shower heater, creating an electrical shock hazard. This deficiency was not reported by the Authority during its August 5, 2005 inspection.

The Authority Did Not Implement Effective Internal Controls

Authority management did not maintain adequate internal controls to ensure that its units met minimum housing quality standards and inspections complied with requirements. As a result, the Authority either did not identify the deficiencies found during our inspections or reported them as having been corrected when they were not. In addition, the Authority did not perform required inspections.

Several deficiencies existed at the time of the Authority's most recent inspection, but the inspectors did not report them. Damage from water leaks, damaged doors, inoperable electrical outlets, missing smoke detectors, and improper electrical installations were some of the deficiencies not reported by inspectors. Additionally, we found one instance in which inspectors reported deficiencies as having been corrected when they were not. Authority inspectors informed us that the deficient inspections were attributed to an excessive workload or a lack of familiarity with HUD requirements. This was not an acceptable explanation for not performing an integral component of its Section 8 Housing Choice Voucher program responsibilities.

We also found that the Authority did not conduct all required inspections. Federal regulations at CFR [*Code of Federal Regulations*] 932.405 require the Authority to inspect all leased units at least annually. It had not inspected 23 of the 67 units in our sample, 34 percent, within the most recent 12 months. Of the 23 units, the Authority had not inspected nine for more than three years.

File Number	Date of last Authority inspection	Days elapsed since last Authority inspection*
5042	Dec. 9, 2000	1,701
4064	Aug. 21, 2001	1,449
975	Sept. 27, 2001	1,413
2409	Sept. 27, 2001	1,413
7193	Oct. 16, 2001	1,394
2099	Oct. 17, 2001	1,393
6603	Dec. 17, 2001	1,333
9293	Feb. 22, 2002	1,268
9576	June 6, 2002	1,164
1946	Aug. 29, 2002	1,081
6637	Sept. 09, 2002	1,071
4006	Oct. 3, 2002	1,047
9587	Oct. 24, 2002	1,026
527	Oct. 29, 2003	661
2373	Jan. 21, 2004	579
9020	Feb. 3, 2004	567
853	May 28, 2004	452
9543	June 2, 2004	448
381	June 3, 2004	447
39	July 6, 2004	414
PI-033	July 15, 2004	405
4163	July 20, 2004	400
9148	Aug. 10, 2004	380

*Up to August 30, 2005

In March 2005, HUD contracted with a private consultant to provide technical assistance to the Authority. The consultant reported to HUD in June 2005 that the Authority was not conducting inspections within the prescribed time and that it had a backlog of more than 3,000 units. Authority officials informed us that the backlog was the result of inadequate supervision and that it had assigned additional resources to correct the condition. The Authority estimates that the backlog was reduced to 1,000 units as of November 2005.

Conclusion

Because Authority management failed to implement adequate internal controls, HUD made housing assistance payments for units that did not meet housing quality standards. The Authority did not maintain adequate controls to ensure that inspections met HUD requirements. The Authority needs to improve its inspection process. Management must emphasize the importance of housing quality standards and implement policies and procedures that ensure it complies with HUD requirements and gives tenants the opportunity to live in decent, safe, and sanitary conditions. By making the necessary improvements, the Authority

will ensure that at least \$5.8 million in Section 8 funds are put to better use.

Recommendations

We recommend that the director of the Office of Public Housing:

- 1A. Require the Authority to inspect the 63 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 \$5.8 million from being spent on units that are in material noncompliance with standards.

SCOPE AND METHODOLOGY

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 Administrative Plan's policies and procedures.
- 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 August 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 August 2005.
- Reviewed previous Authority inspection reports.
- Inspected 67 units with a HUD public housing revitalization specialist, an OIG housing inspector, and the Authority inspectors to determine whether the units met housing quality standards. We performed the inspections from August 29 to September 8, 2005.

The download of the Authority's Section 8 housing stock for the Housing Choice Voucher program resulted in 4,105 active units in Puerto Rico. We used a Microsoft Excel spreadsheet designed to calculate sample sizes. 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. We used the software to select a random sample from the 4,105 units and to generate 33 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 four of the replacement units because four tenants in the initial sample were not available at the time of our inspections. We selected the next consecutive units (68 through 71) as replacement units.

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

The lower limit is 89.31 percent x 4,105 units = 3,666 units not meeting housing quality standards.

The point estimate is 94.03 percent x 4,105 units = 3,860 units not meeting housing quality standards.

The upper limit is 98.75 percent x 4,105 units = 4,053 units not meeting housing quality standards.

Of the 63 failed units, we determined that 25 units were in material noncompliance with housing quality standards. We defined these units as being in extremely poor condition, resulting from (1) a deficiency that had existed for an extended period of time, (2) a deficiency noted in a prior inspection but not corrected, and/or (3) deferred maintenance that consistently failed the unit. 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.

Projecting the results of the 25 units that were in material noncompliance with housing quality standards to the population yields the following:

The lower limit is 27.67 percent x 4,105 units = 1,136 units in material noncompliance with housing quality standards.

The point estimate is 37.31 percent x 4,105 units = 1,532 units in material noncompliance with housing quality standards.

The upper limit is 46.95 percent x 4,105 units = 1,927 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 August 2005 housing assistance payments, we estimated the Authority will pay at least \$5,834,496 for 1,136 units that were in material noncompliance with housing quality standards.

We conducted our fieldwork from August through December 2005 at the Authority's offices in San Juan, Puerto Rico. Our audit period was from July 2003 through August 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

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 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	\$ 5,834,496
Total	<u>\$ 5,834,496</u>

1/ “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 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



February 7, 2006

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

Dear Mr. McKay:

Ref.: Draft HQS OIG Report-San Juan Housing Authority

As agreed during our meeting held at HUD's Caribbean Office with Mr. Michael A. Rivera, Assistant Regional Inspector General for Audit and Mrs. Olga I. Sáez, Director, Public and Indian Housing last January 26, 2006, we are hereby submitting our response to the above referenced Draft Report.

As we had expressed during said meeting, we must generally concur with the findings outlined in the Draft Report. Since July 2005 the Municipality has been undertaking a corrective action plan that addresses the HQS inspection.

At present, we are committed to accomplishing the following recommendations as indicated in the Draft:

1. Within the next 20 days we shall proceed to re-inspect all of the 63 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 will abate the rents or terminate the tenants' vouchers.
2. We will continue to implement the corrective action plan that will ensure the compliance with the HQS standards.

Additionally, we will pursue administrative action against responsible program staff to ensure that those employees that failed to comply with their duties and that did not apply the HQS standards as required.

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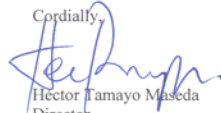
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Although we must earnestly acknowledge the findings, it is also our concern that the quality of the housing units is associated with low fair market rents established by HUD. Voucher holders may be able to find a limited selection of units in high poverty areas, where rents are lower than the average rent for the City, and the quality of the units is inferior. But, as experience tells us, these "cheaper" units do not comply with HUD's Housing Quality Standards. With both market rents and utilities increasing and lower FMR it is more difficult to find affordable housing units that comply with the HQS.

We trust the information stated above may serve to clarify the position of the Housing Authority of San Juan with regards to the initial actions we intend to pursue to correct the referenced deficiencies.

Please feel free to contact us should you require further information.

Cordially,



Hector Tamayo Maseda
Director

HT

c: Mr. Michael Rivera, CFE
Mrs. Olga I. Sáez 4NPH
Mr. Heriberto Sauri, MPH
Mr. Rafael Beltrán
Mr. Marcos Molina
Mr. Milton González

Appendix C

CRITERIA

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

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

File number	Types of violations**					
	Illumination and electrical	Structure and materials	Smoke detectors	Access	Water supply	Sanitary facilities
6603	1	0	1	0	0	0
364	3	10	1	1	4	0
9600	3	15	1	0	1	1
6583	12	2	2	1	1	0
9148	2	2	0	0	1	1
6988	5	2	0	1	0	1
6501	8	14	1	0	1	1
527	2	0	1	1	1	0
6461	1	2	1	0	0	1
6357	1	5	1	3	1	0
1534	4	2	2	0	1	0
2409	6	1	2	2	2	0
9293	1	1	1	0	0	0
5093	4	1	1	2	1	0
1946	1	6	1	3	2	0
2373	11	20	1	4	1	0
4163	9	4	2	2	1	0
PI033	8	7	2	1	1	1
6262	7	2	2	1	0	1
381	1	1	1	0	0	0
9049	3	4	0	0	2	0
9576	3	4	2	2	0	1
6435	12	1	1	1	1	0
MB137	6	9	2	2	0	1
1745	6	0	0	3	1	1

**The table does not indicate all violations we found in the unit. We only included the most frequently occurring and serious violations.