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TO: John Perry, Director, Community Planning and Development
Division, 4AD
Harold Saether, Director, Public Housing Division, 4AP

FROM: Kathryn Kuhl-Inclan
District Inspector General for Audit-Southeast/
Caribbean, 4AGA

SUBJECT: Georgia Housing and Finance Authority
HOME and Section 8 Programs
Atlanta, Georgia

We completed an audit of the Georgia Housing and Finance Authority's (GHFA) HOME and Section 8 Programs. The report presents the focus of our review along with findings that detail opportunities to improve these programs. We have also included a section describing GHFA's reported accomplishments.

Within 60 days, please give us a status report for each recommendation made in the report on: (1) the corrective action taken; (2) the proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please furnish us with copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me or Nancy Cooper, Assistant District Inspector General for Audit, at (404) 331-3369. We are providing a copy of this report to GHFA's Interim Executive Director.

EXECUTIVE SUMMARY

Our audit objective was to determine if GHFA managed its HOME and Section 8 Programs effectively and in compliance with applicable regulations. Generally, GHFA's programs were operating effectively and in compliance with applicable regulations except as noted in this report.

OPPORTUNITIES FOR IMPROVEMENT

Although GHFA's accomplishments are noteworthy, further improvements can be made in the HOME and Section 8 Programs.

- **HOMES DID NOT MEET HQS**

We inspected 29 Section 8 units to determine if they met HQS and were eligible for the Section 8 Program. Eighty-three percent of the units we inspected did not meet minimum HQS. We attribute these conditions to inadequate inspections due to increased workload and insufficiently trained inspectors, and tenant related incidents. Consequently, the units did not meet HUD's criteria for decent, safe, and sanitary housing.

- **GHFA NEEDS TO IMPLEMENT ON-SITE MONITORING OF THE HOUSING REHABILITATION LOAN PROGRAM**

GHFA had not performed on-site inspections of the rehabilitation work by recipients administering its Housing Rehabilitation Loan Program. Instead, GHFA relied on documents submitted by its recipients, such as inspections and work write-ups to determine if its rehabilitation objectives were being met. Because GHFA did not go on-site to verify the accuracy of these documents, it was not aware that housing assisted with HOME funds was not meeting minimum HQS or being rehabilitated in accordance with the construction contract and in a workmanlike manner. Of nine houses inspected, seven did not meet HQS, six had incomplete contract work items, and six evidenced poor workmanship.

- **RECORD STORAGE COSTS COULD BE REDUCED**

GHFA was spending in excess of \$10,000 annually to store paper records for its Section 8 Program. The costs included office space within each of the district offices as well as off-site storage. GHFA stated they were told by HUD to maintain hard copies of records. As a result, GHFA is not using the most economical method for record storage.

- **GHFA'S MONITORING OF HOME MULTIFAMILY OPERATIONS IMPROVED**

GHFA was not conducting timely visits to its HOME multifamily developments to assure compliance with HOME requirements. GHFA had not anticipated the need for operational monitoring to begin when occupancy occurs. As a result, GHFA was not assuring HOME multifamily units met HQS and were occupied by qualified tenants upon initial occupancy. GHFA changed its procedures when we brought the matter to their attention.

GHFA'S ACCOMPLISHMENTS

GHFA management provided an impressive list of accomplishments in the HOME and Section 8 Programs. They included:

- coordinating layered financing arrangements that led to the development of more than 4,000 multifamily units for low income families,
- providing assistance for over 2,200 families to purchase their first home,
- administering over 10,000 Section 8 units covering 149 of Georgia's 159 counties, and
- designing detailed program manuals to govern both HOME and Section 8 activities.

AUDITEE COMMENTS

We discussed the findings during the audit and at an exit conference held on March 22, 1996 with GHFA officials. GHFA generally agreed with the findings and, in some cases, made corrections to their program before the audit was complete.

GHFA provided written responses to the draft findings on March 20, 1996. We have included the comments in Appendix A. We have also summarized them within each finding.

WE RECOMMEND

We recommend GHFA take appropriate action to make corrections and implement controls to improve HQS inspections, implement on-site monitoring of rehabilitation work, and use the most efficient form of record retention allowed by HUD.

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Abbreviations

CFR	Code of Federal Regulations
CPD	HUD's Division of Community Planning and Development
GFCI	Ground Fault Circuit Interrupter
GHFA	Georgia Housing and Finance Authority
HAP	Housing Assistance Payments
HCI	GHFA's Department of Housing and Community Improvement
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General

INTRODUCTION

BACKGROUND

The Georgia Housing and Finance Authority (GHFA) was created in 1974 as the Georgia Residential Finance Authority. Its purpose was to encourage private investment in the building and rehabilitation of low income housing. In 1991, the Authority was renamed Georgia Housing and Finance Authority, and its powers were expanded to provide financial assistance for economic development and for health care facilities or providers. Recent legislation shows the State of Georgia will merge all GHFA programs with the Department of Community Affairs. At the time of our review, the reorganization plan had not been finalized.

GHFA's 12 member board consists of a Governor's designee, the Director of the State's Office of Planning and Budget, and 10 public members appointed by the Governor. The Board is chaired by Mr. Millard Bowen. According to the legislation, the Boards of GHFA and Georgia's Department of Community Affairs will be abolished effective July 1, 1996, and a new 16 member Board appointed to govern both entities.

GHFA has administered Section 8 Housing Programs since September 1976 under an Annual Contributions Contract with the Department of Housing and Urban Development (HUD). GHFA's Section 8 Programs include certificates, vouchers, and moderate rehabilitation for 149 of Georgia's 159 counties. HUD provides up to \$42 million annually for GHFA to administer about 10,000 housing units under the Section 8 Programs. GHFA administers the units from five regional offices scattered across the State.

GHFA has been awarded HOME funds in excess of \$61 million since 1992. GHFA used these grants to increase the number of low income housing under its multifamily programs, provide down payment assistance for first time home buyers, and provide assistance for owner-occupied rehabilitation.

AUDIT OBJECTIVES

The primary objectives for the HOME portion of the audit were to determine whether GHFA:

- properly managed and expended funds for eligible activities,
- met matching requirements,
- adequately controlled and properly used funds set aside to cover administrative costs,
- adequately controlled and properly reported and used income generated from HOME activities,
- properly maintained the Cash and Management Information System and related documentation, and
- effectively monitored activities conducted by Community Housing Development Organizations and other subrecipients.

The primary objectives for the Section 8 portion of the audit were to determine whether GHFA:

- assured housing units met the applicable standards for eligible housing and abated housing assistance payments when necessary,
- properly selected participating families and determined the level of their assistance,
- effectively managed available contract authority, and
- earned contract administrative fees.

AUDIT SCOPE AND METHODOLOGY

Our audit covered the period from January 1, 1992 through July 31, 1995. Where appropriate, we expanded the review to include prior and subsequent periods.

We conducted a review of GHFA's internal controls and management practices in various operational areas including:

- monitoring physical conditions of housing units,
- fiscal management of HOME and Section 8 funds,
- administration of HOME programs including owner occupied rehabilitation, single family down payment assistance and multifamily activities, and
- administration over tenant eligibility and housing assistance payments (HAP).

We judgmentally selected and inspected 29 Section 8 units in 2 GHFA regional offices. Inspections were conducted to evaluate how well GHFA assures Section 8 housing units meet HQS. We also judgmentally selected and inspected nine units at two local municipalities, Lagrange and Richmond County, to evaluate the administration of the owner occupied rehabilitation HOME Program.

We performed the audit between September 1995 and February 1996 in accordance with generally accepted government auditing standards.

We have provided a copy of this report to GHFA officials.

HOMES DID NOT MEET HQS

We inspected 29 Section 8 units to determine if they met HQS and were eligible for the Section 8 Program. Eighty-three percent of the units we inspected did not meet minimum HQS. We attribute these conditions to inadequate inspections due to increased workload and insufficiently trained inspectors, and tenant related incidents. Consequently, the units did not meet HUD's criteria for decent, safe, and sanitary housing.

CRITERIA

Title 24 CFR 887.257 - Section 8 Housing Voucher states that a public housing authority is responsible for inspections at least annually and any other time as needed to assure that the units are maintained in decent, safe, and sanitary condition.

HUD Handbook 7420.7 CHANGE 3, Chapter 5-9b(2), states that deficiencies which could affect the health and safety of the occupants must be corrected within 30 days.

OIG INSPECTIONS

We inspected 29 Section 8 units in 2 of the 5 GHFA regional offices. We inspected properties in the Northeast and Northwest regional offices for HQS compliance using HUD's Housing Inspection Manual, Section 8 Existing Housing Program, as the inspection guide. We judgmentally selected 15 units recently inspected by GHFA from each of the 2 Regions. These units encompass inspections conducted by 8 of 12 area administrators within each region. A HUD inspector performed our inspections and a GHFA representative accompanied us during the inspections.

UNITS TESTED DID NOT MEET HQS

Twenty-four of the 29 units (83%) we inspected did not meet minimum HQS. Twenty-one units included violations that were not identified during GHFA's routine inspections and 3 units included violations caused by the residents. Two of the units were ineligible for the Section 8 Program because they did not have windows in the living rooms. All the units inspected by GHFA passed. These inspections were conducted by area administrators who are responsible for all aspects of each Section 8 case. The inadequate inspections are highlighted by conditions found in the following example.

Unit Example The condition of this unit reflected long-term neglect that existed prior to it being placed on the Section 8 Program. Our inspector said it was practically impossible to list all of the deficiencies. We noted 36 violations and estimated repairs at \$10,000 - \$15,000. The violations included an inoperable stove, floors with missing tiles (Figure 1), roof leaks (Figure 2), water and termite damage, rotted soffits and eaves, and numerous electrical hazards.

TYPES OF HQS VIOLATIONS FOUND

We found 127 violations in the units inspected. The violations included safety and security violations, weatherization deficiencies, electrical hazards, unsanitary conditions, and other damages. We also found thirteen items that are not clearly defined as HQS violations. We believe these items, however, represent safety hazards to the residents. Also, two of the units were ineligible. More specifically we identified the following:

Safety and security. We found 62 instances of safety and security violations. Missing or inadequate door and window locks were prevalent (Figure 3). The exterior door to one unit was off the hinges. The heating system did not provide enough heat to all rooms in two units. The heat had been cut off for several days prior to our inspections in another four units. Other deficiencies included broken window panes, inoperative smoke detectors, and inoperative gas appliances.

Weatherization. We identified 15 instances where doors and/or windows were not weather tight. In some instances the sashes were not weather tight and one unit had a 3/8 inch gap between the sash rails. Large gaps existing between the door and the door frame were evident in some units (Figure 4).

Electrical hazards. There were 27 electrical hazards identified during the inspections. Electrical hazards included missing electrical panel covers, electrical switch cover plates, exposed electrical wiring, and outlets that were not protected with Ground Fault Circuit Interrupters (GFCI) (Figure 5).

Unsanitary conditions. We found 9 instances of unsanitary conditions including insect infestations, clogged drains, and improper disposal systems. Drain lines for two units were not connected to a proper disposal system and emptied into the yard where children were playing.

Other damage. There were 12 instances of structural and other damage. These instances included holes in walls, damaged counter tops, rotting walls and ceilings, and missing stair railings.

Ineligible unit - ventilation. Two units were ineligible for the Section 8 Program because HQS requires at least one window in the living room for natural light. The living rooms in both units had no window for natural light and ventilation.

INADEQUATE INSPECTIONS

We believe GHFA's capacity to perform adequate inspections was hampered by a significant increase of units without a corresponding increase in personnel or efficiency. We also found that some of the inspectors were not adequately trained.

Increased Workload. There was a significant increase in the number of Section 8 units administered in 1995. The average number of units administered was about 8,300 units or 286 per administrator from 1991 through 1994. In 1995 the number of units administered increased to 10,141 units or 350 per administrator. GHFA did not hire additional staff to offset the increase (Figure 6).

The Section 8 Director recognized the effect the increasing workload was having on his staff. Rather than hiring additional staff, the Director elected to contract for laptop computers with specialized software that would allow his staff to work more efficiently. The software, used with fax modem technology, would increase efficiency by reducing paper work and saving travel time. The Director believes the software will allow a higher number of cases to be administered without increasing staffing levels. The software, however, was still being developed and the Director could not confirm its efficiency rate nor its delivery date.

More Training Needed. Based on the number of violations that the inspectors did not identify, we believe more training is needed. This is particularly true in the Northwest Region, where three of the 6 area administrators (inspectors) were new and 96 of the 127 violations (76 percent) were found. Their basic training has been formal classroom training and on-the-job training. We also noted that only 5 percent (2 of 34) of GHFA's field personnel had received HQS inspection certifications and 61 percent (21 of 34) had no prior experience in the construction or inspection area. The fact that inspectors passed units that did not have windows in the living rooms would indicate a need for more training.

TENANT ABUSE

Three of 24 units inspected did not meet minimum HQS due to situations caused by the residents. These include unsanitary conditions, broken glass, rodent and roach infestation, missing appliances, and utilities turned off because of non-payment. There were other units that did not meet minimum HQS because of tenant related situations, but there was also evidence of inadequate inspections. Of the 127 HQS deficiencies listed, 16 instances were tenant caused.

SECTION 8 OPERATING RESERVES WERE AVAILABLE

GHFA had \$1.1 million available in the Section 8 operating reserves that had accumulated from administrative fees earned in prior years. GHFA had not designated for what housing activity it planned to use the funds. These funds could be used to hire staff, buy software, and provide additional training.

ITEMS REQUIRING CONSIDERATION

During the inspections, we identified items that, although not clearly defined as HQS violations by the Section 8 Housing Inspection Manual (HQS manual), may adversely affect the safety of the residents. These items include the lack of enclosure of the electrical wiring for hot water heaters in conduit, the improper size of temperature-pressure relief valve discharge lines, and the precarious location of electrical switches.

Electrical Wiring. The HQS manual provides that any rubber or plastic coated wiring mounted on the surface of a wall or ceiling (not behind it) that allows it to be abused (broken, cut, or damaged in other ways) would be considered a violation. Plastic sheathed wire that is not mounted behind a wall must be securely attached to the wall or ceiling and out of the way of traffic. Wiring that is sheathed in metal (conduit) will pass inspection regardless of where it is located. Thus, if an inspector considers the wiring to be located where it could be abused or if the wire is not securely attached to the wall or ceiling, the inspector would fail the wiring and require it be sheathed in conduit (as our inspector requires), moved to another location or reinstalled. This standard is not limited to wiring of water heaters but to all wiring.

We reviewed GHFA's most recent inspections and determined there was no documented evidence that GHFA's inspectors passed the wiring based on this type of determination during their inspections. Our inspections showed in some cases the wiring was located where it could be abused or was not securely attached. In one case, the water heater was located in a kitchen next to the sink (a high traffic area). The wiring was not attached to the wall (Figure 7).

In another case, the water heater was located in an open area and the wiring was plugged into the wall like an appliance cord (Figure 8). We also noted the wiring of some hot water heaters located in closets (low traffic areas) was located where it could be abused and not securely attached to the wall.

GHFA agreed to reinspect the wiring for potential abuse and to establish a standard to assist its inspectors in deciding, in the future, if the location or installation of the wiring could represent a potential hazard.

Hot Water Heater Safety Relief Valve Lines. During our inspections we identified 4 cases where the discharge lines for the hot water heater safety valve were smaller in diameter than the relief valve outlet (Figure 9). This restriction could result in rupture of the lines and release of scalding water and steam into the unit. The HQS manual does not address the size of the discharge pipe. GHFA agreed to review the acceptability of this condition and to establish a standard to deal with this condition in the future.

In reviewing this condition, we suggest GHFA refer to Section 507.8.4 of The National Plumbing Code adopted in 1994 by the State of Georgia, and its successor agency, the Department of Community Affairs (DCA). This section provides that the discharge from a safety relief valve shall be piped full size of the relief valve to an acceptable location.

Location Of Electrical Switches. We noted one incident where an electrical switch was centered approximately 3 feet above a bath tub posing the potential for electrical shock (Figure 10). The HQS manual only addresses the location of electrical outlets in or near splash areas. GHFA has agreed to make a determination on the acceptability of the location of the switch and to establish standards that deal with this in the future.

GHFA spends approximately \$40 million annually on housing assistance payments to owners. By performing more thorough inspections and requiring the owners to bring the units into compliance with HQS, GHFA has an opportunity not only to improve its housing stock, but to improve the quality of life for the families it serves.

GHFA COMMENTS

GHFA generally agreed with the finding but disagreed on interpretation of the severity of some conditions we cited. GHFA also believed some of the conditions existed because of tenant abuse that occurred after GHFA's last inspection.

GHFA stated they have taken steps to contact the owners and Section 8 tenants to ensure all violations are corrected. GHFA have recently conducted an HQS refresher training course for all field and central office staff and will continue to provide training.

OIG EVALUATION

We revised the finding to: (1) discuss three areas where GHFA disagreed on the assessment of the HQS conditions, and (2) to recognize that some of the units did not meet HQS because of tenant related incidences. This revision, however, did not cause us to change our recommendations.

RECOMMENDATIONS

We recommend that you direct GHFA to:

- 1A. Correct all HQS violations found during the OIG inspections or remove the units from the Section 8 program.
- 1B. Provide its plans and time frames for reducing inspection workloads.
- 1C. Provide a plan for additional HQS training to needed inspection personnel.
- 1D. Remove the two ineligible units from the program or have the owners install windows in the living rooms.

- 1E. Provide for your review and acceptance, its determination and standards on electrical wiring, discharge lines, and electrical switches as discovered during our inspections and described in this finding.

GHFA NEEDS TO IMPLEMENT ON-SITE MONITORING OF THE HOUSING REHABILITATION LOAN PROGRAM

GHFA had not performed on-site inspections of the rehabilitation work by recipients administering its Housing Rehabilitation Loan Program. Instead, GHFA relied on documents submitted by its recipients, such as inspections and work write-ups to determine if its rehabilitation objectives were being met. Because GHFA did not go on-site to verify the accuracy of these documents, it was not aware that housing assisted with HOME funds was not meeting minimum HQS or being rehabilitated in accordance with the construction contract and in a workmanlike manner. Of nine houses we inspected, seven did not meet HQS, six had incomplete contract work items, and six evidenced poor workmanship.

HOMES MUST MEET HQS TO QUALIFY

Title 24 CFR 92.251 (a) provides that housing assisted with HOME funds, at a minimum, must meet the HUD housing quality standards. The participating jurisdiction must have written standards for rehabilitation.

In addition to HQS, GHFA requires that the housing comply with all local codes and its rehabilitation standards.

Title 24 CFR 92.504 (e)(2), Monitoring Responsibilities, provides that the participating jurisdiction is responsible for monitoring, at least annually, the performance of all entities receiving HOME funds to assure compliance with the HOME requirements.

\$6.9 MILLION PROGRAM

Through its Housing Rehabilitation Loan Program, GHFA provides HOME funds to state recipients to assist qualified homeowners to rehabilitate their homes. State recipients include local government, non-profit organizations, regional development centers, public housing authorities, or other housing agencies selected by GHFA to implement all aspects of its rehabilitation program.

To rehabilitate their homes, homeowners receive HOME loans, obtain loans from private lenders, and receive state energy grants. Although GHFA does not provide rehabilitation grants from HOME funds, it does provide 15 year deferred loans, which under certain circumstances may be forgiven. GHFA also provides loans to owners of multifamily developments of 11 or less units. GHFA uses HOME funds to reimburse the state recipients for their out of pocket costs associated with the rehabilitation. The funds for this reimbursement are identified as a program delivery costs grant. Recipients do not receive funds to administer the program.

At October 9, 1995, GHFA had awarded 34 state recipients over \$6.9 million to carry out this program. Loans totaling \$4,313,699 were made or pending to 242 homeowners. The rehabilitation of 38 single family homes had been completed.

GHFA PERFORMS ADMINISTRATIVE FUNCTION

GHFA's Department of Housing and Community Improvement (HCI) also provides administrative support to the state recipients. HCI reviews homeowner applications to determine their eligibility and the amount of available loan funds. HCI reviews contracting documents to assure contracts are awarded according to Federal procurement requirements and reviews and approves payments to contractors. HCI provides technical assistance and training to its recipients.

SITE MONITORING NOT DONE

HCI agreed that on-site construction monitoring had not been done. It said that when the program started, the emphasis was to help the recipients develop the skills needed to make loans and increase production because most of the recipients had no loan experience. HCI said that all the recipients, except Richmond County, had experience with the construction because they had been involved in other rehab programs. Because of this, they decided to rely on the recipients to provide them assurance through copies of the initial inspections, work write-ups, and final inspections that the objectives of the rehabilitation program were being met. HCI was in the process of turning the administrative work over to the recipients and, in doing so, freeing up the staff to concentrate on making on-site visits.

OUR INSPECTIONS REVEALED FLAWS

We selected nine cases for review and on-site inspection. For eight cases the rehabilitation of the homes had been completed. The other home was an historic structure and construction had just begun. The homes were located in LaGrange and Richmond County (Augusta), Georgia. We reviewed the case files and determined the homeowners were eligible and their loan amounts were properly computed. We also determined that the construction contracts were awarded according to applicable procurement requirements. We determined that the files included initial inspections and work write ups and that code and HQS violations identified during the inspections were included in the construction contracts to be corrected. None of the homes had been inspected by HCI.

HCI representatives and local inspectors accompanied us on inspections of all nine houses. We assessed whether the contract had been completed in a workmanlike manner and if there were any HQS violations that the local inspectors did not identify during their inspections and did not correct.

Seven houses included one or more HQS violations, six houses had items that were contracted but not done, and six houses evidenced poor quality construction. HOME loans totaling \$132,168 were made on the seven houses. Descriptions of some of the conditions are discussed below, and complete descriptions of the

conditions were provided to GHFA during the audit. HCI representative and local inspectors agreed with the results of our inspections.

Richmond County, Georgia

One of the homes we inspected in Richmond County was old and in poor condition. The cost for rehabilitation of \$14,499 covered roofing, heating, air conditioning and bath room repairs. The rehabilitation workmanship was unacceptable and not all work included in the contract was completed. Further there were substandard conditions that had not been identified in the contract that remained unrepaired.

The interior window sills were in poor condition and the sill in the front bedroom was missing (Figure 11). Air penetrated the house. The floor in the rear of the house was unfinished plywood and one of the doors was deteriorated (Figure 12). There was only one electrical receptacle in the master bedroom, and it was loose from the wall. There were several holes in the exterior walls that would allow moisture and pests to enter. None of these HQS violations were cited in the initial inspection or corrected. We noted items of poor workmanship. The roof drip edge was falling off the roof because it was improperly installed. The contractor had drilled a hole in the door jamb instead of installing a striker plate for the deadbolt. The contract called for the roof to be vented; it was not done.

Another house we inspected in Richmond County was generally in good condition. Most of the rehabilitation work was for a new roof, hot water heater, new furnace, and air conditioner. The homeowners were satisfied with the work. All items included in the initial inspection were included in the rehabilitation contract. We noted, however, that there were two electrical receptacles located above the kitchen sink that were not installed with GFCIs (Figure 13). One of the receptacles had a switch for either a light or a disposal. The electrical receptacles were not included in the initial inspection. We also noted that retexturing material was pulling away from the living room ceiling. This could indicate the contractor did not properly prime the ceiling before applying the retexturing material.

LaGrange, Georgia

We inspected four houses in LaGrange. Although over \$13,000 was spent to

rehabilitate one of the homes, the home was still in poor condition with 12 HQS violations that had not been corrected. The rehabilitation contract called for general overall rehabilitation, a new roof, structural work, painting, insulation, and new kitchen cabinets.

We noted such items as an unvented heater in the rear bedroom (Figure 14), a disconnected vent hanging from the ceiling in the same room (Figure 15), windows that did not open and windows that did not have locks, and electrical receptacles that were not grounded. We noted that boxing on the rear of the house needed nailing, window screens did not fit the windows, exterior holes were painted over but not repaired, and the windows were not weather stripped as called for in the contract. The contract called for the installation of 12 feet of base cabinet in the kitchen, but only 8 feet was installed. We noted that there were new overhead cabinets installed that were not called for in the contract. There was no change order to support the change. For the work completed, the workmanship was unacceptable.

At another house in LaGrange, a kitchen stove was positioned next to a wall creating a fire hazard. The rehabilitation contract had called for a small cabinet to be placed between the stove and the wall. The house also had two entrance doors that were over 50 percent glass. No dead bolt locks were installed on the doors (Figure 16).

We revisited LaGrange a week later and noted that corrections were being made to some of the items we had identified. A worker was making repairs at the first house and the cabinets were being reinstalled at the second house (Figure 17).

We discussed the results of the inspections with HCI. HCI told us they would send two of their representatives to personally see that the HQS violations were corrected, all contract work was completed, and the workmanship was acceptable.

GHFA COMMENTS

GHFA agreed with the finding and stated that work has already been started to correct the HQS violations at the HOME units. GHFA has established goals for the inspection of units where the rehabilitation work has been completed. GHFA has also established other monitoring measures to insure all contracts for units rehabilitated in the future will include HQS compliance in the scope of the work and that final inspections have evidence that all HQS violations have been corrected. GHFA requested minor wording changes to the finding.

RECOMMENDATIONS

We recommend that you direct GHFA to:

- 2A. Develop and provide a written plan to perform on-site inspections of the rehabilitation work.
- 2B. Provide assurance that all units identified in this report meet minimum HQS.
- 2C. Replace, using other funds, any of the \$132,168 in HOME funds provided to units that are not brought in compliance with HQS.

RECORD STORAGE COSTS COULD BE REDUCED

GHFA was spending in excess of \$10,000 annually to store paper records for its Section 8 Program. The costs included office space within each of the district offices as well as off-site storage. GHFA stated they were previously told by HUD to maintain hard copies of records. However, HUD now accepts other methods of record storage. As a result, GHFA may not be using the most economical method for record storage.

CRITERIA

The *Federal Register*, dated July 3, 1995, Section 982.158 (a), states the housing authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements. The records must be in the form required by HUD including requirements governing computerized or electronic forms of record-keeping.

HUD's written requirements on record retention are contained in HUD Handbook 7420.7 dated March 1985. The requirements do not address the acceptability of microfiche and electronic records.

EXCESS STORAGE COSTS PAID

GHFA pays storage costs in excess of \$10,000 per year for floor space to store records in paper format. This does not include costs for the paper supplies. For example, GHFA spends time printing information such as the HAP register strictly for paper storage purposes. The HAP register is so large it takes over 2 days to print and consumes up to 13,000 pages of computer paper. GHFA could use microfiche and computerized electronic storage media.

INSTRUCTIONS ON RECORD RETENTION

GHFA officials stated they received earlier oral instructions to store records in the paper format and that HUD has not provided any written guidance on the allowability of record retention media. Based on interviews with HUD personnel, it is acceptable to maintain records in microfiche and electronic formats.

GHFA COMMENTS

GHFA agreed with the finding.

RECOMMENDATIONS

We recommend that you:

- 3A. Provide written instructions to GHFA on acceptable storage media format including the use of computerized electronic storage and microfiche.
- 3B. Encourage GHFA to use the most cost beneficial form of record-keeping media allowed under HUD requirements.

GHFA's MONITORING OF HOME MULTIFAMILY OPERATIONS IMPROVED

GHFA was not conducting timely visits to its newly constructed multifamily developments to assure compliance with HOME requirements. GHFA had not anticipated the need to begin operational monitoring when occupancy occurred. As a result, GHFA was not assuring HOME multifamily units met HQS and were initially occupied by qualified tenants. GHFA changed its procedures to implement earlier monitoring when we brought the matter to their attention.

CRITERIA

HUD's requirements are contained in the *HOME Investment Partnerships Program Consolidated Interim Rule, dated July 2, 1995*. Section 92.504 paragraph (e)(1) states the participating jurisdiction must conduct annual reviews of owner activities of rental housing to assess compliance with HOME requirements including HQS and tenant eligibility.

MONITORING OF MULTIFAMILY DEVELOPMENTS

GHFA makes construction loans to owners of multifamily developments for a 2 year period. Occupancy usually begins during the 2 year construction period. Upon completion of the development, GHFA converts the construction loan to a permanent loan. GHFA's policy was to start compliance monitoring 1 year after the conversion. Therefore, developments could be occupied long before monitoring began.

GHFA could have addressed operating weaknesses had they conducted monitoring earlier. We reviewed operations at three developments where the construction loans had been converted but had not been reviewed by GHFA. We found operating weaknesses in two of the three developments. Owners of Harmony Terrace and Harmony Grove Apartments were not conducting inspections to assure the units continually meet HQS. In addition, owners of Harmony Terrace were not

using the HOME addendum in leases and were not independently verifying tenants' income. Instead, tenants were allowed to hand deliver employment verification forms. As a result, GHFA had no assurance that units met HQS and were occupied by qualified tenants.

GHFA had not anticipated the need for operational monitoring to start earlier when they first developed their HOME policy and procedures manual. During our audit, GHFA changed its policy and procedures to assure monitoring visits are conducted during initial occupancy of HOME developments. We confirmed that GHFA implemented the revised policies. We commend GHFA for taking such prompt action to correct this weakness.

GHFA ACCOMPLISHMENTS

HOME PROGRAM

GHFA administers an array of housing programs with funds received under HOME grants. The HOME Programs include multifamily development and rehabilitation, single family down payment assistance, and owner occupied rehabilitation.

- GHFA's multifamily programs include rehabilitation and new construction loans to Community Housing Development Organizations (CHDO) and profit motivated entities. Under these programs, GHFA coordinates layered financing arrangements with private lending institutions and other Federal assistance programs. Reports obtained from HUD Headquarters Office of CPD shows GHFA is the second largest and most efficient producer of rental units among the largest 36 HOME grantees.

	Cost per Unit	Units Produced	Funds Committed
Most Efficient Producer (GHFA)	\$7,422	3,665	\$27,201,351
Largest and Least Efficient Producer	\$43,442	4,929	\$214,126,469

According to GHFA's records, their multifamily program has led to commitments to develop over 4,000 multifamily units for low to moderate income families (Figure 18).

- GHFA administers a first time home buyers program by providing down payment assistance through Veterans Administration and Federal Housing Administration approved lenders. GHFA has provided about \$7.1 million to assist 2,209 families to purchase their first home. Reports obtained from HUD Headquarters Office of CPD shows GHFA is the second largest and

most efficient producer under the first time home buyers program among the largest 36 HOME grantees.

	Cost per Unit	Units Produced	Funds Committed
Most Efficient Producer (GHFA)	\$3,227	2,209	\$7,127,579
Least Efficient Producer	\$69,230	207	\$14,330,706
Largest Producer	\$5,375	2,292	\$12,318,970

- GHFA administers an owner occupied rehabilitation program through 34 local municipalities. As of February 1996, this program has helped or committed to help 220 families rehabilitate their homes.
- GHFA designed detailed program manuals to train personnel and govern the HOME Programs.

SECTION 8 PROGRAM

GHFA administers over 10,000 Section 8 units under the certificate, voucher and moderate rehabilitation programs. The units are scattered across 149 of Georgia's 159 counties.

GHFA has developed extensive program instructions for the various Section 8 activities. These instructions are compiled into manuals for use by GHFA personnel in ensuring the program operates smoothly.

INTERNAL CONTROLS

In planning and performing our audit, we considered GHFA's internal controls in order to determine auditing procedures and not to provide assurance on internal controls. Internal control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Internal controls consist of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

We determined that the following internal control categories were relevant to our audit objectives:

- Maintenance of Section 8 and HOME units
- Fiscal management of Section 8 and HOME funds
- HOME - Single Family Down payment Assistance
- HOME - Multifamily Rehabilitation and New Construction
- HOME - Owner Occupied Rehabilitation
- Tenant Eligibility and Housing Assistance Payments (HAP)

We evaluated all of the relevant control categories identified above by determining the risk exposure and assessing control design and implementation.

A significant weakness exists if internal controls do not give reasonable assurance that the entity's goals and objectives are met; resource use is consistent with the laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, weaknesses existed in operating procedures to ensure housing complied with HQS. The weaknesses are discussed in Findings 1 and 2.

FOLLOW-UP ON PRIOR AUDITS

The Georgia Department of Audits, Performance Audit Division, issued a report in January 1996 detailing eight operational findings related to GHFA's portfolio of bonds issues, mortgages, and investments. None of the findings related to HUD programs.

The current independent audit report completed by KPMG Peat Marwick LLP for the fiscal year ending June 30, 1995 did not cite any findings.

The OIG has not conducted an audit of GHFA in the 5 years preceding this audit.



SCHEDULE OF UNSUPPORTED COSTS

<u>Recommendation</u>	<u>Unsupported Costs</u> ¹
2C	\$132,168

¹ Costs not clearly eligible or ineligible but warrant being contested.

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