



**Maine State Housing Authority,  
Augusta, ME**

**Housing Choice Voucher Program  
And  
Other Expenditures of HUD Funds**



Issue Date: September 28, 2012

Audit Report Number: 2012-BO-1005

TO: Marilyn B. O'Sullivan, Director, Office of Public Housing, Boston Hub, 1APH

Robert Shumeyko, Director, Office of Community Planning and Development, 1CPD

*Edgar Moore*

FROM: Edgar Moore, Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: Housing Choice Voucher Program Units Did Not Meet HUD's Housing Quality Standards, and Authority Officials Did Not Always Comply with HUD's or Their Own Procurement Policy

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final results of our review of the Maine State Housing Authority's Housing Choice Voucher Program and Other Expenditures of HUD Funds.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.



September 28, 2012

## **Housing Choice Voucher Program Units Did Not Meet HUD's Housing Quality Standards, and Authority Officials Did Not Always Comply with HUD's or Their Own Procurement Policy**

# **Highlights**

Audit Report 2012-BO-1005

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

We audited the Maine State Housing Authority's Housing Choice Voucher program pertaining to its housing quality standard inspections, and other expenditures and procurements using U.S. Department of Housing and Urban Development (HUD) funds. Our review was initiated based on a congressional request from Senator Susan Collins. The objectives of the audit were to determine whether (1) the Authority's Housing Choice Voucher program units selected for review met housing quality standards, and (2) the use of HUD funds for expenditures and procurements complied with HUD rules and regulations.

### **What We Recommend**

We recommend that the Director of HUD's Boston Office of Public Housing require Authority officials to (1) repay the Housing Choice Voucher program \$194,956 from non-Federal funds and (2) conduct an independent cost analysis for the \$111,742 charged to the Homeless Management Information Systems program to determine whether costs were eligible, reasonable, and supported.

### **What We Found**

Our inspection of Housing Choice Voucher program units found that 53 of 61 units inspected did not meet HUD's housing quality standards. Authority officials did not have adequate oversight of contracted program agents and had an ineffective quality control system for their own inspectors. There were units that should have failed inspection due to deficiencies but were instead passed, and Authority officials continued to make housing assistance payments for these inadequate units. As a result, some tenants lived in units that did not meet HUD's standards for decent, safe, and sanitary housing, and Authority officials made at least \$194,956 in housing assistance payments for units that did not meet housing quality standards.

In addition, although Authority officials generally charged expenses to HUD programs that were eligible, reasonable, and supported, they awarded a contract to an information technology consultant without following HUD's or their own procurement regulations or policies for noncompetitive proposals. From January 1, 2010, to December 31, 2011, the Authority paid the consultant \$848,096, of which \$111,742 was charged to the Homeless Management Information Systems program.

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## **BACKGROUND AND OBJECTIVES**

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The United States Housing Act of 1937 established the Federal framework for government-owned affordable housing and was amended by the Quality Housing and Work Responsibility Act of 1998 to create the Housing Choice Voucher tenant-based program. The program is funded by the U.S. Department of Housing and Urban Development (HUD) and allows public housing authorities to pay subsidies directly to housing owners on behalf of the assisted family.

The Maine State Housing Authority was created in 1969 by an act of the Maine Legislature and is a public corporation and government instrumentality of the State of Maine. The Authority is a component unit of the State of Maine, and its mission is to assist residents of Maine in obtaining and maintaining decent, safe, affordable housing and services suitable to their unique housing needs.

The Authority has assets in excess of \$1.9 billion, and its annual revenues and expenses are approximately \$270 million each. In calendar years 2010 and 2011, the Authority received more than \$24.8 and \$24.1 million in housing assistance payments and more than \$3.5 and \$3.6 million in administrative fees, respectively, from HUD related to the Housing Choice Voucher program. Other programs of the Authority include home-buyer assistance, home improvement assistance, housing development, rental assistance, homeless assistance, and energy assistance. The Authority received approximately \$115 million and \$109 million in HUD funds related to these programs in fiscal years 2010 and 2011, respectively. As of July 31, 2012, more than 99 percent of those funds had been expended.

Authority officials administer approximately 3,200 Housing Choice Voucher program units for HUD. Before January 2012, Authority officials administered some counties directly and used four program agents to cover other counties in the State as follows:

<b>Entity</b>	<b>Number of units administered</b>
Aroostook County Action Program	292
Avesta Housing Corporation	1,252
Maine Housing	870
Penquis	628
Washington-Hancock Community Agency	<u>157</u>
<b>Total</b>	<b>3,199</b>

On October 27, 2011, the Norway Advertiser Democrat published an article entitled “Slumlords, shoddy oversight, tax dollars...living on Section 8,” exposing inadequate living conditions in which fire escapes and other conditions did not meet HUD’s housing quality standards. The properties highlighted in the article were administered by the Avesta Housing Corporation, one of the Authority’s four program agents. As a result of the news articles and a congressional inquiry, Authority officials initiated their own review and confirmed the poor conditions in housing units. They inspected more than 125 units in Oxford County, and the majority of the units did not meet HUD’s housing quality standards. As a result, Authority officials decided to phase out the four program agents by September 30, 2012. They will begin to administer the

entire Housing Choice Voucher program from their main office in Augusta by October 1, 2012. Authority officials have increased staff in their Inspection Services department and anticipate that employees will conduct all housing quality standard inspections. In addition, HUD is conducting inspections of 100 percent of the units and is working with Authority officials to develop a corrective action plan, which if properly implemented, should improve the program's administration.

In a related story, the Maine Wire<sup>1</sup> reported that Authority officials may have made questionable disbursements involving gift cards, catering services, and travel. The Maine Wire identified nine specific vendors or businesses to which the Authority made disbursements that the Maine Wire considered questionable.

Our review was initiated in response to a Congressional request made to the Inspector General dated December 22, 2011. Specifically Senator Susan Collins was concerned with whether federal housing subsidies were supporting properties that did not meet Housing Quality Standards (HQS) and about the well-being and safety of tenants who are living in units that are not in compliance with HUD's HQS. In addition, the Senator expressed concerns about inappropriate expenditure of funds at the Authority. The audit objectives were to determine whether (1) the Authority's Housing Choice Voucher program units selected for review met HUD's housing quality standards, and (2) the use of HUD funds for expenditures and procurements complied with HUD rules and regulations. We performed a limited review of expenditures that primarily focused on specific disbursements identified in the news media for which HUD funds were used.

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<sup>1</sup> The Maine Wire is a project of the Maine Heritage Policy Center.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Ensure That Housing Choice Voucher Program Units Met HUD's Housing Quality Standards

Our inspection of Housing Choice Voucher program units found that 53 of 61 units inspected (87 percent) did not meet HUD's housing quality standards. This condition occurred because Authority officials did not have adequate oversight of contracted program agents, and had an ineffective quality control system for their own inspectors. Overall, Authority officials lacked commitment regarding the Housing Choice Voucher program inspection process. There were units that should have failed inspection due to deficiencies but were instead passed and continued to receive housing assistance payments. As a result, some tenants lived in units that did not meet HUD's standards for decent, safe, and sanitary housing, and Authority officials made at least \$194,956 in housing assistance payments for units that did not meet housing quality standards.

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#### **Program Units Did Not Meet HUD Standards**

Authority officials did not ensure that the Authority's Housing Choice Voucher program units meet HUD's housing quality standards. Of 61 units inspected, 53 (87 percent) did not meet the minimum standards. Our inspections included units distributed across Maine and covered the four program agents, as well as units administered directly by Authority officials.

Housing quality standards include the following 13 performance areas:

1. Sanitary facilities,
2. Food preparation and refuse disposal,
3. Space and security,
4. Thermal environment,
5. Illumination and electricity,
6. Structure and materials,
7. Interior air quality,
8. Water supply,
9. Lead-based paint,
10. Access,
11. Site and neighborhood,
12. Sanitary condition, and
13. Smoke detectors.

According to 24 CFR (Code of Federal Regulations) 982.401, all program housing must meet the housing quality standards performance requirements both at commencement of assisted occupancy and throughout the assisted tenancy. The areas in which we found the most concerns were related to illumination and electricity, structure and materials, space and security, and site and neighborhood conditions. For additional details, see appendix C, “Summary of Housing Quality Standards Inspection Results by Category.”

The inspection results for units administered by the four program agents and Authority officials were as follows:

	<b>Administered by</b>	<b>Unit pass or fail housing quality inspection?</b>		<b>Totals</b>	<b>24-hour fail item</b>
		<b>Pass</b>	<b>Fail</b>		
1	Aroostook County Action Program	4	6	<b>10</b>	5
2	Avesta Housing Corporation	1	18	<b>19</b>	9
3	Maine Housing Direct	1	8	<b>9</b>	1
4	Penquis	1	10	<b>11</b>	4
5	Washington-Hancock Community Agency	1	11	<b>12</b>	9
	<b>Totals</b>	<b>8</b>	<b>53</b>	<b>61</b>	<b>28</b>

In addition, 28 of the 61 units (46 percent) had emergency or life-threatening violations requiring correction within 24 hours. There were 196 housing quality standards unit deficiencies within HUD’s 13 performance areas (see appendix C).

During our inspections, we observed many of the units had at least one material deficiency that was considered to be preexisting. A material deficiency is a violation that created an unsafe tenant living condition, a 24-hour emergency deficiency, and/or a deficiency that was a preexisting deficiency. Preexisting deficiencies are deficiencies that would have been present at prior inspections. For example, exposed electrical wiring probably existed at the last inspection and should have been identified and corrected before our inspection.

The items below represent examples of some of the units that did not meet HUD’s housing quality standards.



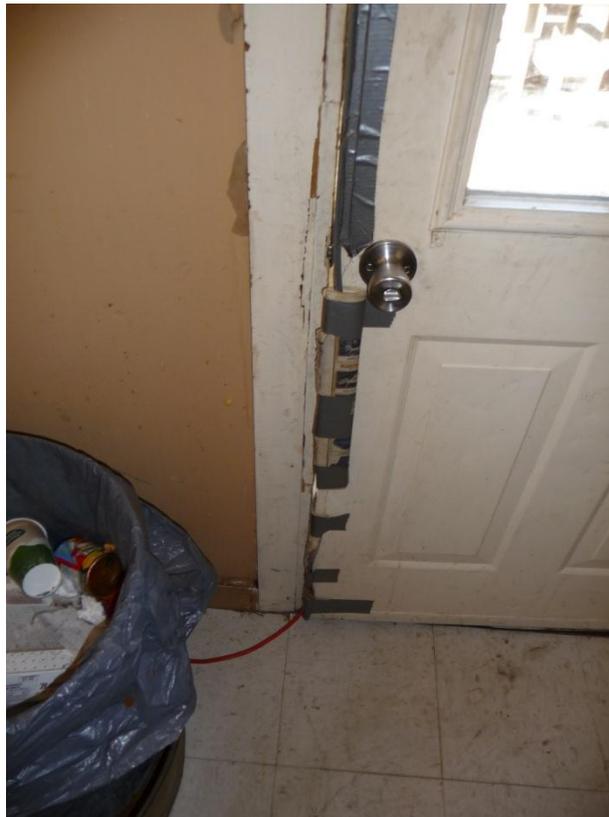
The picture above shows a 5-gallon portable propane tank located at the rear of the unit, which was connected to the kitchen stove. The propane tank was on top of a flat plastic container supported by four rubber vehicle tires near a gas can and an oil tank, which was a potential fire hazard.



The picture above shows that the toilet was missing a flush handle.



The picture above shows that the tub-shower was missing a control handle and a wrench was being used as a substitute.



The picture above shows that the main entry door frame was separated and the door did not close correctly, as duct tape was used to hold it in place.

The unit above did not pass our inspection for many reasons, such as the main entry screen door was not properly secured, the exterior windows were weatherworn, and the exterior paint was peeling. Also, there was garbage and debris in the yard, a possible fire hazard due to a 55-gallon oil drum with oil possibly inside, and a stove with an unsafe connection. In the kitchen, there was an electrical hazard, as the ground fault interrupter circuit had an open ground. In addition, the bathroom had an electrical hazard, as a ground fault interrupter circuit receptacle was loose and separated from the wall. The bathroom ceiling also showed indications of water moisture, and the linoleum flooring had separated around the shower due to water penetration.

The tenant in the unit had a 6-year-old child. The Authority and the Office of Inspector General (OIG) inspector recommended relocating the tenant and child due to health and safety issues pertaining to the propane tank installation. The unit above passed inspection in September 2011. We believe that some of the preexisting deficiencies were the unsafe propane connection to the kitchen stove and the main entry door that did not properly close. Therefore, Federal funds should not have been used to subsidize this unit following the September 2011 inspection.



The picture above shows a sagging roof that was leaking water into the unit.



The picture above shows a hole in the bathroom wall.



The picture above shows a water-stained bedroom ceiling.



The picture above shows mold and mildew on the ceiling and a hole in the corner of the shower area that was taped and could lead to water damage.



The picture above shows the water damage to the bathroom floor that was caused by the leaking toilet.



The picture above shows the rear steps, which needed a protective railing on the right side, and the landing at ground level, which was sloped, causing a tripping hazard.

The unit did not pass OIG's inspection for several reasons. In the living room, there were water stains on the ceiling. The front door was drafty. Also, there was about a 3-inch gap between the storm door and the home. In the kitchen area, the exhaust fan did not work. The unit had passed inspection in December 2011. We believe that some of the preexisting deficiencies were the sagging roof, which was leaking water into the unit, and the mold and mildew on the ceiling in the shower area. Therefore, Federal funds should not have been used to subsidize this unit following the December 2011 inspection.



The picture above shows a preexisting electrical issue of wiring coming from a hole in the wall into a junction box that was not secured, exposing more wire in the foyer-entrance to a unit.



The picture above shows a rust-stained tub that was preexisting and should have been replaced or repaired. The tub is a health and safety issue.



The picture above shows a stove vent hood motor that did not work and was covered in grease, which was a preexisting condition as well as a fire hazard.

Although 53 Housing Choice Voucher program units did not pass OIG's unit inspections, Authority officials made housing assistance payments to landlords, which were ineligible. Landlords receive a monthly payment directly from the Authority on the tenant's behalf for a portion of the tenant's monthly rent and utilities; however, for a landlord to receive the payment, the unit must meet HUD's housing quality standards. Approximately \$194,956 in ineligible housing assistance payments were made for units that did not meet HUD's standards. In a statement regarding unit condition at the Authority, HUD officials stated that Federal funds should not have been used to subsidize the inadequate housing in Maine. The Authority should repay the Housing Choice Voucher program \$194,956 for the units that did not meet housing quality standards.

## **Authority Officials' Monitoring of Inspections Was Insufficient**

Authority officials determined through their monitoring reviews that the four program agents did not perform satisfactory inspections; however, they did not take sufficient corrective action to address the issues identified. In calendar year 2010, the Authority's quality control inspections of units administered by the four program agents found that 44 of 82 units (54 percent) did not pass inspection. In addition, 11 of 18 units (61 percent) administered by Authority officials also did not meet HUD's housing quality standards. Officials noted that some units passed inspection when there were fail conditions that would have been present at prior inspections, such as leaky roofs requiring shingling. Authority officials met with program agents, but the inspection process did not improve sufficiently to meet HUD standards as evidenced by our inspection results.

Further, when we conducted our inspections, several tenants stated that during inspections, agent inspectors only walked through the unit and pressed the smoke detector. The tenants stated that an inspector might spend 10 to 15 minutes performing an inspection; however, a typical inspection should take approximately 45 minutes. However, because of Authority officials' insufficient monitoring of agents and their inspectors, some tenants had to live in units that did not meet HUD's standards for decent, safe, and sanitary housing.

## **Authority and HUD Officials Were Working on a Corrective Action Plan**

During our audit, officials from HUD's Office of Public Housing became involved in monitoring and evaluating the Authority because of heightened interest from Congress and the public. We have been working with HUD Public Housing officials and they are aware of the conditions. Although HUD is proactively working with Authority officials we are issuing this finding in response to the congressional inquiry from Senator Collins. In an attempt to correct the poor inspections of the agent and Authority inspectors, HUD, in April 2012, decided to inspect the entire inventory of voucher units in Maine. The inspections were estimated to be completed in the fall or winter of 2012. The HUD field office has received monthly updates on the additional inspections being conducted and the Authority's steps in developing the corrective action plan, which if implemented, should improve the Authority's program administration.

## **Conclusion**

Of 61 Housing Choice Voucher program units inspected, 53 (87 percent) did not meet HUD's housing quality standards. This condition occurred because

Authority officials did not have adequate oversight of contracted program agents and had an ineffective quality control system for their own inspectors. As a result, some tenants lived in inadequately maintained apartment units, and Authority officials made \$194,956 in housing assistance payments to landlords for units that did not meet HUD's housing quality standards. In addition, since HUD pays the Authority an administrative fee to manage the Housing Choice Voucher program, we believe that a portion of the Authority's administrative fee should be recouped, since officials did not administer the program in compliance with HUD standards.

## Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require Authority officials to

- 1A. Ensure that the unit deficiencies identified in the OIG inspections have been corrected so the units meet housing quality standards.
- 1B. Improve the quality control inspection process to better address gaining compliance from inspectors when deficiencies are identified, and ensure that all Housing Choice Voucher program units meet housing quality standards.
- 1C. Repay the Housing Choice Voucher program \$194,956 from non-Federal funds, representing the housing assistance payments for the units that did not meet housing quality standards.

In addition, we recommend that the Director of HUD's Boston Office of Public Housing

- 1D. Determine the amount of administrative fees to be recovered from the Authority for the units that did not meet housing quality standards.

## Finding 2: Authority Officials Did Not Always Comply with HUD’s or Their Own Procurement Policy

Authority officials generally charged expenses to HUD programs that were eligible, reasonable, and supported. However, they awarded a contract by noncompetitive proposal to an information technology consultant without providing proper written justification and without performing the required cost analysis. This condition occurred because Authority officials did not follow HUD’s procurement regulations or their own procurement policy regarding procedures for handling noncompetitive proposals. As a result, they could not assure HUD that \$848,096 paid for these services represented the most favorable price. Of the \$848,096 spent, \$111,742 was charged to the Homeless Management Information Systems program from January 1, 2010, to December 31, 2011.

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### Payment to an Information Technology Consultant Was Unsupported

Authority officials did not maintain records that would justify awarding a contract by noncompetitive proposal to an information technology consultant. HUD’s procurement regulations provide that procurement by noncompetitive proposals may be conducted only if a written justification is made as to the necessity of using this method and a cost analysis is performed.<sup>2</sup> Authority officials hired the consultant after they unexpectedly lost a key employee who managed their Homeless Management Information Systems (HMIS) program. The Authority was at risk of losing HUD funds if it did not meet certain HMIS timing and reporting requirements. Therefore, Authority officials executed a contract with the consultant on January 1, 2010, to implement HMIS and the Homeless Initiatives Database. This was a cost-reimbursement contract with the option for two additional terms of 1 year each. For the period January 1, 2010, through December 31, 2011, the Authority paid the consultant \$848,096, \$111,742 of which was charged to the HMIS program.

Authority officials stated that the staff responsible for procuring the consultant was no longer employed at the Authority. Although the Authority’s staff searched for documentation, it was not able to provide the required information for this procurement.

### Officials Failed To Comply With Their Procurement Policy

The Authority’s procurement policy establishes that procurements by noncompetitive proposals will be justified in writing and approved in writing by

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<sup>2</sup> HUD Handbook 7460.8, chapter 8, sections 4 and 5

the director. The policy further states that the Authority will perform a price or cost analysis (such as verifying the proposed price or cost data), projections of the data, and evaluations of the specific elements of costs and profit or comparison of prices as applicable. However, Authority officials did not provide adequate evidence that they followed HUD's or their own procurement policies.

## Conclusion

Authority officials failed to follow HUD's procurement regulations or their own procurement policy when procuring an information technology consultant by the noncompetitive proposal process. They awarded the contract without providing proper written justification and without performing the required cost analysis. This condition occurred because Authority officials did not follow HUD's or their own procurement policy for handling noncompetitive proposals. Therefore, the Authority could not assure HUD that \$848,096 paid for the consultant's services represented the most favorable price. Of the \$848,096 spent, \$111,742 was charged to HMIS program from January 1, 2010, to December 31, 2011.

## Recommendations

We recommend that the Director of HUD's Boston Office of Community Planning and Development require Authority officials to

- 2A. Obtain retroactive approval from HUD for this procurement or find documentation to show that their request for a non-competitive bid was approved.
- 2B. If the Authority officials cannot obtain HUD approval or find documentation to show that their request for a non-competitive bid was approved, conduct an independent cost analysis for the \$111,742 charged to the HMIS program to determine whether costs were reasonable. For any amounts not reasonable, HUD should require Authority officials to reimburse the program from non-Federal funds.
- 2C. Implement controls to ensure that HUD's procurement rules and regulations and the Authority's own procurement policy are always followed.

## SCOPE AND METHODOLOGY

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We performed the audit fieldwork from January through June 2012 at the Authority's offices at 353 Water Street, Augusta, ME. The audit covered the period January 2010 through December 2011. To accomplish the audit objectives, we performed the following steps:

- Reviewed applicable HUD handbooks and guidebooks, the Code of Federal Regulations, annual contributions contracts, HUD public housing notices, and the Authority's administrative plan.
- Conducted discussions with Authority officials to gain an understanding of the Authority's financial structure, monitoring policies, inspection practices, expense procedures, and procurement practices.
- Reviewed the Authority's organizational charts and job descriptions to determine each staff member's involvement with the Housing Choice Voucher program.
- Reviewed program agent agreements and contracts.
- Selected and inspected Housing Choice Voucher program units. The sampling frame consisted of 3,046 Housing Choice Voucher program units that passed inspection or were granted an extension after February 2011. These units were distributed across Maine and covered areas not managed by a municipal housing authority. The universe was grouped into clusters so that the audit team could minimize travel time. In addition, the audit team selected units to ensure coverage of the four program agents and units administered directly by the Authority. Thus, we inspected 61 units as follows: 10 units administered by the Aroostook County Action Program, 19 units administered by the Avesta Housing Corporation, 9 units administered by the Authority, 11 units administered by Penquis, and 12 units administered by Washington-Hancock Community Agency.
- Calculated that the Authority should repay the Housing Choice Voucher program \$194,956 for the units that did not meet HUD's housing quality standards. For each unit, we determined the amount of housing assistance payments made to landlords for the period between the date of OIG's inspection and the prior inspection.
- Reviewed the Authority's procurement policies and procedures to ensure that they were consistent with HUD requirements and evaluated the internal controls and conducted sufficient tests to determine whether controls functioned as intended.
- Reviewed the Authority's two most current audited independent public accounting reports to determine whether reviews contained specific findings or internal control weaknesses that either required follow-up or were pertinent to our review.

- Reviewed disbursements for nine vendors or businesses that were questioned in the media. Using the Authority’s vendor history report (which included HUD and non-HUD charges) covering the audit period, we selected a nonrepresentative sample of 23 disbursements totaling \$208,119 from a universe of 105 disbursements totaling \$292,394 for these nine vendors. The sample selection was based on the three largest disbursements selected from each of seven vendors and the only disbursement for each of the remaining two vendors. We determined whether disbursements were eligible and reasonable and reviewed supporting documentation, including invoices, copies of checks, purchase orders (if applicable), and itineraries related to the meetings or training.
- Selected a sample of 30 disbursements totaling \$414,259 from a universe of 1,093 HUD disbursements totaling more than \$5.8 million. In selecting the sample of 30 disbursements, we considered items with the largest dollar value in the universe, the frequency of these disbursements, unusual or unfamiliar items, expenses incurred by individual staff members, and other instances in which the nature of the vendor may have raised questions as to eligibility and reasonableness in relation to the Authority’s programs. We determined whether the disbursements were eligible and reasonable and reviewed supporting documentation, including invoices, copies of checks, purchase orders (if applicable), and itineraries related to meetings or training.
- Using the universe of 1,093 HUD disbursements, we selected 11, or 100 percent, of the charges totaling \$3,585 for the catering vendor that the Authority used most often. We decided to review catering services amid media and public concerns that the Authority spent excessive funds catering lunches and refreshments for employee gatherings held at the Authority. We used the 100 percent selection sampling method based on the limited number of HUD charges for the vendor in question. We determined whether disbursements were eligible and reasonable and reviewed supporting documentation, including invoices, copies of checks, purchase orders (if applicable), and itineraries related to the meetings or training.
- Identified the sources and uses of HUD funds disbursed and reconciled any differences identified.
- Evaluated the Authority’s procurement practices by reviewing a procurement related to an information technology consultant. We followed up on this one procurement due to the dollar amount of funding expended.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# INTERNAL CONTROLS

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations.
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Controls over housing quality standards,
- Controls over the Housing Choice Voucher program,
- Controls over disbursements, and
- Controls over procurements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## Significant Deficiencies

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

- Authority officials had inadequate controls over housing quality standards inspections, specifically the monitoring of program agents and their own inspection practices (see finding 1).
- Authority officials did not comply with HUD procurement regulations and the Authority's procurement policy (see finding 2).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>
1C	\$194,956	
2B		\$111,742

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



TO: Edgar Moore, Regional Inspector General for Audit, Boston Region, 1 AGA  
FROM: Peter Merrill, Acting Director of Maine State Housing Authority (MaineHousing)  
DATE: September 21, 2012  
RE: Maine State Housing Authority Response to the Draft OIG Audit Report regarding Housing Quality Standards Inspections and Procurement

This memorandum is MaineHousing's response to the draft Audit Report provided on September 14, 2012 and to our discussions at the exit conference on September 19, 2012.

Maine State Housing Authority substantially agrees with the OIG draft report.

#### **Introduction**

October 27, 2011 was a day that stunned, surprised, and embarrassed MaineHousing. The Norway *Advertiser Democrat* published an article highlighting substandard living conditions experienced by tenants receiving Section 8 Vouchers administered by MaineHousing and our agent, Avesta. The pictures that accompanied the article were shocking. MaineHousing and Avesta immediately launched an investigation and re-inspected all of the subsidized apartments operated by the landlords exposed in the article. Unfortunately, the pictures and the article proved to be accurate.

Once MaineHousing became aware of the situation, we took immediate actions to address the Norway situation and created an Action Plan to address the long-term issues.

#### *Immediate action*

- As soon as the *Advertiser Democrat* exposed substandard conditions in Section 8 housing units, MaineHousing immediately assisted affected tenants in locating suitable housing. We hosted a Housing Fair that brought tenants, property owners, and municipal officials together to identify available housing resources. We took action against the three property owners who were in violation of their contracts, ultimately removing two of them from the program. We joined with our agent, Avesta, to reinspect 114 units in the Norway area to determine whether they met Housing Quality Standards.
- At the same time, MaineHousing management requested that our Internal Auditor investigate the facts and circumstances outlined in the article. The focus of this review was to understand existing weaknesses with regard to the HQS inspection process and to make the necessary improvements so that a situation like this could never happen again.

The findings in our Internal Auditor's report, issued January 2012, identified systemic deficiencies in the administration and delivery of the Housing Choice Voucher (HCV) program. This prompted an overhaul of the HCV program and the development of a Corrective Action Plan.

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### Comment 1

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

*Long-term Plan*

- In its Corrective Action Plan, MaineHousing decided to change its business model. We will no longer delegate the responsibility for administering the HCV program to agents; MaineHousing will administer the program directly. We took over the units administered by Avesta on April 1, 2012 and phased in the balance of the units over the summer. The entire portfolio will be administered in-house by October 1, 2012.

MaineHousing expedited implementation of the new delivery model. Twenty-one people were hired to administer the HCV program and the inspections of our rental units. We have since hired an additional two inspectors to ensure adequate staffing for inspections and re-inspections.

- MaineHousing developed policies and procedures to improve the quality control of inspections (including taking pictures at each inspection), to initiate better relationships with local code enforcement officers, to provide tenant education, and to improve the education of inspectors.
- All MaineHousing inspectors are HQS certified and hold certifications in other related areas (indoor air quality, lead abatement, asbestos abatement). Consistent and thorough inspections are a central focus for the inspections unit, and we have instituted a schedule of weekly inspector meetings and educational forums to ensure that standard.
- MaineHousing's Inspection Services unit has initiated a campaign to work more closely with landlords. To date, they have distributed two newsletters and two letters which focus on the common reasons for failing HQS inspections. One provided specific information about common electrical deficiencies.
- MaineHousing's Corrective Action Plan has been provided to HUD, and the HCV department provides monthly updates on our progress in its implementation.

*Inspection of units*

- In addition to the 114 units immediately inspected in the Norway area, MaineHousing contracted for an independent inspection of 500 units statewide to ensure that they were meeting HQS. These inspections occurred in March of 2012.
- MaineHousing cooperated fully with the OIG and HUD staff as they conducted their sample inspections in the spring of 2012.
- In June of 2012, HUD decided to inspect all HCV units. MaineHousing has assisted HUD by scheduling the inspection of over 1,600 units in the past four months, informing landlords and tenants of the scheduled inspections, coordinating the schedules of the contracted inspectors, and responding to an avalanche of emails and phone calls from landlords and tenants. In addition, we have hired two temporary employees to support the HUD inspections.

MaineHousing has taken strong, far-reaching steps to ensure that its HCV program provides quality service to tenants living in apartments subsidized by Section 8 vouchers.

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 2**

**Finding 1: The Authority Did Not Ensure That Housing Choice Voucher Program Units Met HUD's Housing Quality Standards**

Though we agree that several units failed HQS inspections, we disagree with the calculation of the repayment requested.

We reviewed recent OIG audit reports that include findings of rental units not meeting HQS, and in all cases, the repayment of ineligible Housing Assistance Payments (HAP) recommended in these reports is applied only to units with material deficiencies. We cannot identify an OIG report that recommends repayment of HAP for all failed units in the audit sample. Although the actual number of units with material deficiencies that the OIG found is not quantified, when we asked at the exit conference, we were told it was the units with 24 hour fail items, or 28 of the 61 units sampled, "but may include more." Basing a repayment of HAP on units with material deficiencies, consistent with OIG practice, we calculate the repayment to be \$109,601.30.

**Comment 3**

**Finding 2: Authority Officials Did Not Always Comply With HUD's or Their Own Procurement Policy**

We agree that MaineHousing is unable to demonstrate compliance with HUD's procurement policy for \$111,742.

As we anticipated, the OIG found that MaineHousing officials "generally charged expenses to HUD programs that were eligible, reasonable, and supported." However, the OIG also found that MaineHousing was unable to substantiate compliance with HUD's procurement regulations in connection with a contract awarded to an information technology consultant. The consultant was paid \$111,742 from HUD program funds subject to HUD's procurement requirements. MaineHousing will demonstrate to HUD through an independent audit that the \$111,742 paid to the consultant from HUD program funds was reasonable.

On September 18, 2012, MaineHousing's Commissioners adopted a new procurement policy with more stringent procurement requirements. MaineHousing has begun training its department directors on the new policy.

**Ref to OIG Evaluation**

**Auditee Comments**

**Conclusion**

Sub-standard housing in the HCV program is unacceptable. MaineHousing's staff is dedicated to providing decent, safe, and affordable housing, and we have redoubled our efforts to fulfill that mission. We apologize to the affected tenants, to HUD, to our elected leaders in Washington and Augusta, and to the citizens of Maine for what happened in Norway. We are working hard to create a model delivery system that will ensure quality housing and excellent service for Maine's voucher holders.

One way to measure a person or an organization is by how they react in adversity. We hope we have passed that test. We were pleased to read a recent interview with Matt Hongoltz-Hetling, the reporter for the *Advertiser Democrat*, in which he was asked what surprised him about the Norway situation. His answer was how quickly MaineHousing reacted once they became aware of the situation. That does not in any way excuse our mistakes, but it speaks to our commitment to recognize them and correct them.

We want to thank the HUD OIG staff, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, for their professionalism during this review.

If you have any questions or need any further information, please contact me at 207-626-4600 or at [pmerrill@mainehousing.org](mailto:pmerrill@mainehousing.org).

Sincerely,



Peter Merrill  
Acting Director

### **OIG Evaluation of Auditee Comments**

- Comment 1** The actions taken by Authority officials as described in the Introduction Section of their letter is responsive to our recommendations.
- Comment 2** Authority officials were concerned with our computation of administrative fees requested to be repaid and they believe that only amounts applicable to units with material deficiencies should be repaid. We adjusted the report to clarify what constitutes a material deficiency and a preexisting condition. It should also be noted that the majority of the units in our computation contained 24 hour violations and those that did not contain 24 hour violations contained several deficiencies that when aggregated could be considered material; nevertheless, the exact amount to be repaid will have to be resolved with HUD officials during the audit resolution process.
- Comment 3** The actions taken by Authority officials are responsive to our recommendations.

## Appendix C

### SUMMARY OF HOUSING QUALITY STANDARDS INSPECTION RESULTS BY CATEGORY

