



Puerto Rico Department of Housing, San Juan, PR

Housing Choice Voucher Program Housing Quality Standards



To: Antonio Cordova, Director, Public and Indian Housing, San Juan Field Office,
4NPH

From: //signed//
Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: The Puerto Rico Department of Housing, San Juan, PR, Did Not Adequately
Enforce HUD's Housing Quality Standards

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Puerto Rico Department of Housing's Section 8 Housing Choice Voucher program's housing quality standards.

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 8M, 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 404-331-3369.



Audit Report Number: 2016-AT-1004

Date: March 14, 2016

The Puerto Rico Department of Housing, San Juan, PR, Did Not Adequately Enforce HUD's Housing Quality Standards

Highlights

What We Audited and Why

We audited the Puerto Rico Department of Housing's Section 8 Housing Choice Voucher program's housing quality standards as part of the activities in our fiscal year 2014 audit plan. We selected the Department because it had a large program receiving more than \$54 million in 2014. Our main audit objective was to determine whether the Department's inspection process adequately ensured that its units complied with the U.S. Department of Housing and Urban Development's (HUD) housing quality standards.

What We Found

The Department's inspections were not adequate for enforcing HUD's housing quality standards. Of 94 program units inspected, 64 failed to comply with HUD's minimum housing quality standards, and 35 of those were in material noncompliance with the standards. For the 35 units in material noncompliance, the Department's inspectors failed to observe or report 166 violations that existed when they conducted their last inspections. In addition, 44 inspections were not performed in a timely manner. As a result, some tenants lived in inadequately maintained units, and the Department disbursed \$101,152 in housing assistance payments and received \$11,063 in administrative fees for the 35 units in material noncompliance with HUD standards. Unless the Department improves its inspection program and ensures that all of its units materially meet minimum housing quality standards, we estimate that over the next year, HUD will pay about \$19.3 million in housing assistance for units in material noncompliance with the standards.

What We Recommend

We recommend that the Director of HUD's San Juan Office of Public and Indian Housing require the Department to (1) reimburse its program more than \$112,000 from non-Federal funds for the 35 units that materially failed to meet HUD's requirements, (2) ensure that all violations cited for the units failing to meet housing quality standards have been corrected and certify that the units meet the standards, and (3) improve its quality control inspection program to ensure that all units meet HUD's housing quality standards and prevent more than \$19.3 million in program funds from being spent on units that do not comply with HUD's requirements over the next year.

Table of Contents

Background and Objective.....	3
Results of Audit	4
Finding: The Department Did Not Always Ensure That Program Units Met HUD’s Housing Quality Standards	4
Scope and Methodology.....	11
Internal Controls.....	13
Appendixes.....	14
A. Schedule of Questioned Costs and Funds To Be Put to Better Use.....	14
B. Auditee Comments and OIG’s Evaluation.....	15
C. Schedule of Units in Material Noncompliance With Housing Quality Standards.....	18
D. Schedule of Late Inspections.....	19

Background and Objective

The Puerto Rico Department of Housing was created by Act No. 97 of June 10, 1972. Through a secretary appointed by the governor, the Department is engaged in implementing the government's policy related to public housing. This process includes, among other things, the acquisition, sale, lease, and operation of public housing projects and land development to provide housing for the benefit of low-income and moderate-income families. The primary source of funds to carry out the government's public housing program is Federal Government subsidies and grants.

The Department administers about 9,000 housing choice vouchers. It received more than \$54 million in program funding during 2014. The Department is the largest recipient of Section 8 funds in Puerto Rico and is divided into nine regional offices. The Department's central office is located at 606 Barbosa Avenue, San Juan, PR.

Our audit objective was to determine whether the Department's inspection process adequately ensured that its units complied with the U.S. Department of Housing and Urban Development's (HUD) housing quality standards.

Results of Audit

Finding: The Department Did Not Always Ensure That Program Units Met HUD’s Housing Quality Standards

The Department’s inspections were not adequate for enforcing HUD’s housing quality standards. Of 94 program units inspected, 64 failed to comply with HUD’s minimum housing quality standards, and 35 of those were in material noncompliance with HUD standards. For the 35 units in material noncompliance, the Department’s inspectors failed to observe or report 166 violations that existed when they conducted their last inspections. In addition, 44 inspections were not performed in a timely manner. The excessive violations occurred because the Department’s quality control inspection program was not effective and the Department missed opportunities to improve inspectors’ performance. As a result, some tenants lived in inadequately maintained units, and the Department disbursed \$101,152 in housing assistance payments and received \$11,063 in administrative fees for the 35 units in material noncompliance with HUD standards. Unless the Department improves its inspection program and ensures that all of its units materially meet minimum housing quality standards, we estimate that over the next year, HUD will pay about \$19.3 million in housing assistance for units in material noncompliance with the standards.

HUD’s Housing Quality Standards Not Met

We performed housing quality standards inspections on 94¹ statistically selected units from a universe of 1,499 program units that had passed a Department housing quality standards inspection between October 31 and December 31, 2014. The 94 units were selected to determine whether the Department ensured that its program units met minimum housing quality standards. We inspected the units from February 2 to 6, 2015, and from April 21 to May 18, 2015.

Of the 94 program units inspected, 64 (about 68 percent) failed to meet minimum housing quality standards (with 264 individual failed items, 200 of which were preexisting conditions). The following table lists the five most frequently occurring violations for the 64 units.

Violation category	Number of violations	Number of units
Electrical	72	37
Water heater	27	19
Bathrooms, sinks, showers, toilets	27	18
Doors and locks	23	16
Smoke detector	22	20

¹ Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

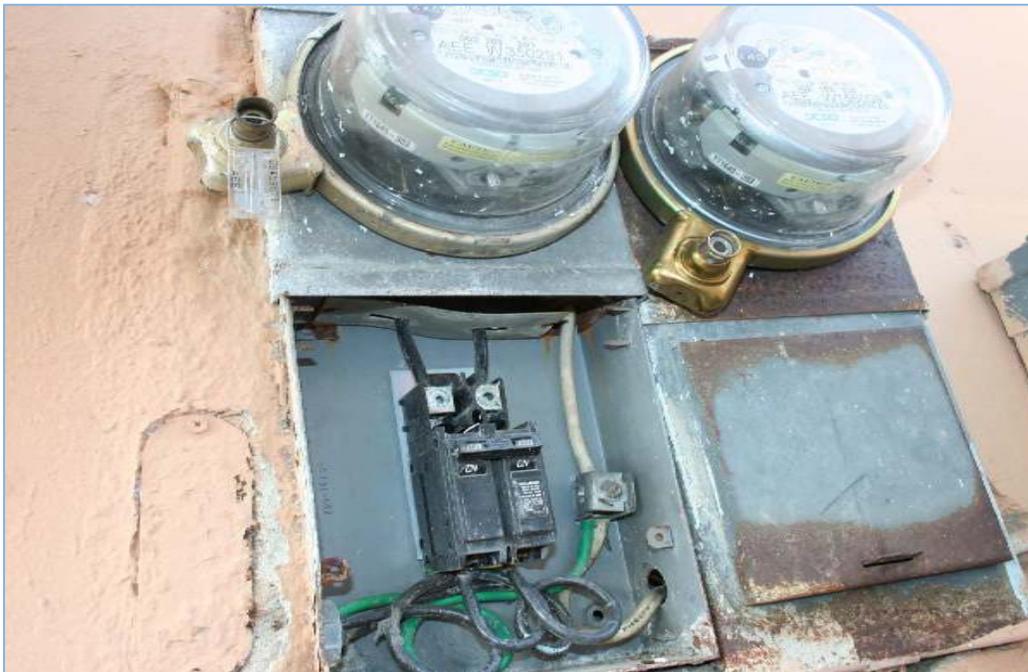
Additionally, 35 of the 64 units (about 55 percent) were in material noncompliance with housing quality standards. We considered these units to be in material noncompliance because they had at least five health and safety violations or at least one 24-hour violation that predated the Department's last inspection. The 35 units had a total of 198 individual failed items, and 166 of those predated the Department's last inspection. Of the 198 failed items, 126 were life-threatening violations. Appendix C provides the number of violations for the 35 units.

Throughout the inspection process, we kept the Department's staff aware of the life-threatening health and safety violations. Regulations at 24 CFR (Code of Federal Regulations) 982.404 require that owners correct life-threatening defects within no more than 24 hours.

Types of Deficiencies

The following photographs illustrate some of the violations noted during housing quality standards inspections of the 64 units that failed to meet HUD's standards. The most prevalent deficiencies were electrical violations.

A total of 72 electrical violations were found in 37 units that failed to meet housing quality standards.



The picture above shows a missing breaker panel cover with exposed wiring, creating an electrical hazard.

We also found other health and safety hazards, including abandoned vehicles in yards, missing handrails, hot plates in lieu of stoves, unsafe bathrooms, unsound structural conditions, and unsafe water heater installations. The following photographs illustrate examples of these types of violations noted during our inspection of the units.



The picture above shows abandoned vehicles in the front yard of the unit. This situation does not promote safe and sanitary conditions.



The picture above shows exterior stairs without hand railings, creating a falling hazard. Handrails are required for stairs with more than three steps.



The picture above shows that a hot plate is used for cooking. Hot plates are not acceptable substitutes for stoves or ranges.



The picture above shows a damaged and rusted tub drain with a peeling and chipped finish. The rusted and sharp borders create a cutting hazard.



The pictures above show the improper use of metal sheets as improvised retaining walls at the rear of the unit. The inadequate structure provides no support, and the proximity of the hill creates a landslide hazard.



The picture above shows an unsecured water heater sitting on the ledge of the roof and missing a discharge line.

HUD regulations at 24 CFR 982.401(a)(3) require that all program housing meet housing quality standards performance requirements, both at commencement of assistance and throughout the assisted tenancy. In accordance with regulations at 24 CFR 982.152(d), HUD is permitted to reduce or offset program administrative fees paid to a public housing agency if it fails to correctly or adequately meet its administrative responsibilities, such as enforcing housing quality standards. The Department disbursed \$101,152 in housing assistance payments and received \$11,063 in program administrative fees for the 35 units that materially failed to meet HUD's

housing quality standards.² Based on the results of the 94 statistically selected units, we estimate that over the next year, HUD will pay about \$19.3 million in housing assistance for units in material noncompliance with the standards unless the Department takes action to improve its inspection process.³

Inspections Not Performed in a Timely Manner

The Department's inspections were not conducted in a timely manner. Of 94 program units inspected, 65 were reinspections, and 44 (67 percent) of those were not inspected within 12 months of the prior inspection. HUD regulations and the Department's administrative plan provide that the Department must inspect units at the time of initial lease-up and at least once every 12 months to ensure that the properties meet minimum conditions for compliance with standards. The 44 program units were inspected between 5 and 263 days late, and 12 of those inspections were more than 90 days late. Appendix D provides details on the late inspections.

The 2013 independent public accountant report included a similar deficiency. However, the deficiency continued to exist. This deficiency occurred because the Department did not adequately enforce its own policies and procedures.

Quality Control Inspections

The Department's quality control program was ineffective in improving inspector performance. HUD regulations at 24 CFR 982.405(b) require public housing agencies to perform supervisory quality control inspections. Although the Department performed its supervisory inspections, it did not provide documentation showing that the results were used to assess performance or training needs as we requested. For example, one of the Department's inspectors failed all 12 supervisory inspections performed during fiscal years 2013, 2014, and 2015, but it did not provide an assessment of the inspectors' work. In addition, some units that failed our inspections due to material violations had been passed by Department inspectors. Of the 198 total failed items for the 35 units that materially failed our inspections, 166 (83 percent) existed at the time of the Department's last inspection. Several of these preexisting failed items are shown in the photographs above.

The Department should use the quality control inspections to verify that each inspector conducts accurate and complete inspections to ensure consistency among inspectors in applying the housing quality standards and determine whether individual performance or training issues need to be addressed. Strengthening its quality control program to ensure that its inspection staff is aware of all HUD requirements with respect to the conditions that represent housing quality standards violations should effectively improve inspectors' performance and better ensure that units meet housing quality standards during the assisted occupancy.

Conclusion

The housing quality standards deficiencies described above occurred because the Department's quality control program was ineffective in improving inspector performance. As a result, some

² The housing assistance and administrative fees correspond to the period of October 2014 through May 2015.

³ The sampling methodology and calculations are shown in the Scope and Methodology section of this report.

of the Department's households lived in inadequately maintained units and were subjected to health- and safety-related violations, and the Department did not properly use its program funds when it failed to ensure that the units complied with HUD's housing quality standards. The Department disbursed \$101,152 in program housing assistance payments and received \$11,063 in program administration fees for the 35 units that materially failed to meet HUD's standards.

In accordance with 24 CFR 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing agency if it fails to enforce HUD's housing quality standards.

Unless the Department improves its unit inspection program to ensure compliance with HUD's housing quality standards, we estimate that over the next year, HUD will pay more than \$19.3 million in housing assistance on units in material noncompliance with the standards.

Recommendations

We recommend that the Director of the San Juan Office of Public and Indian Housing require the Department to

- 1A. Reimburse the program \$112,215 from non-Federal funds for housing assistance payments (\$101,152) and administrative fees received (\$11,063) for the 35 units that materially failed to meet HUD's housing quality standards.
- 1B. Ensure that the housing quality standards violations have been corrected for the 64 units cited in this finding and certify that the units meet the standards.
- 1C. Implement adequate procedures and controls to ensure that all program units meet HUD's housing quality standards to prevent \$19,344,376 in program funds from being spent on units that do not comply with HUD's requirements over the next year. The procedures should include but not be limited to ensuring that inspectors consistently conduct accurate, complete, and timely inspections.
- 1D. Implement adequate procedures and controls to ensure supervisory inspections are used to determine whether individual performance or training issues need to be addressed and ensure consistency among the Department's inspectors when applying the housing quality standards.

Scope and Methodology

We performed our onsite audit work between November 2014 and October 2015 at the Department's main office located at 606 Barbosa Avenue, San Juan, PR. The audit covered the period October 1 through December 31, 2014.

To accomplish our audit objective, we interviewed HUD program staff and the Department's employees. In addition, we obtained and reviewed the following:

- Applicable laws, HUD's regulations at 24 CFR Part 982, Office of Public and Indian Housing notices, HUD's Guidebook 7420.10G, and HUD's Housing Inspection Manual.
- The Department's program administrative plan, policies and procedures, tenant files, households' inspection reports, and housing assistance payment register.

We statistically selected a stratified systematic sample of 95 of the Department's program units to inspect from 1,499 units that passed the Department's inspections from October 1 through December 31, 2014.⁴ The use of substitutes decreased the originally selected sample by 1 record, resulting in a final sample of 94 units. The 94 units were inspected to determine whether the Department ensured that its program units met HUD's housing quality standards. We used statistical sampling because each sampling unit was selected without bias from the audit population, thereby allowing the results to be projected to the population. After our inspections, we determined whether each unit passed, failed, or materially failed. All units were ranked, and we used our materiality standards and auditors' judgment to determine the material cutoff point. Materially failed units were those that had one or more exigent (24-hour) health and safety violations that predated the Department's previous inspections, five or more health and safety violations that predated the Department's previous inspections, or a combination of both.

Based on our review of the 94 statistically selected units, we found that 35 of the units had material failures in housing quality standards, although they had recently passed a Department inspection. Using a confidence interval of 95 percent, we projected that 29.1 percent of the units had material violations. Extending this rate to the monthly count of 9,032 occupied units on the Department's program, we can say that at least 2,633 units would not have complied with housing quality standards, despite having passed the Department's inspection.

Based on the average housing assistance paid for the 94 units, less a deduction to account for a statistical margin of error, we can say with a confidence interval of 95 percent that the average amount of monthly housing assistance spent on inadequate units was \$178 per unit. Extending

⁴ Two units passed inspection in September 2014 and January 2015. However, the Department's records incorrectly reflected that these units passed the inspection during the period October 1 through December 31, 2014.

this amount to the 9,032 active units on the Department's program over 12 months yields at least \$19.3 million in housing assistance paid per year for substandard housing units.

The calculation of administrative fees was based on HUD's administrative fee per household month for the Department. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid for units that materially failed to meet HUD's minimum housing quality standards.

Of 94 program units in our sample, 65 were reinspections by the Department's inspectors. We reviewed the 65 tenant files to determine whether the Department inspected the units in a timely manner. The results of the review apply only to the units selected for review and cannot be projected to the portion of the population that was not tested.

We relied in part on data maintained by the Department. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes. We provided our review results and supporting inspection reports to the Department's officials during the audit.

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 objective.

Internal Controls

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.

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Department's inspection process was not adequate to ensure that program units complied with HUD's housing quality standards (finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$112,215	
1C		\$19,344,376
Totals	\$112,215	\$19,344,376

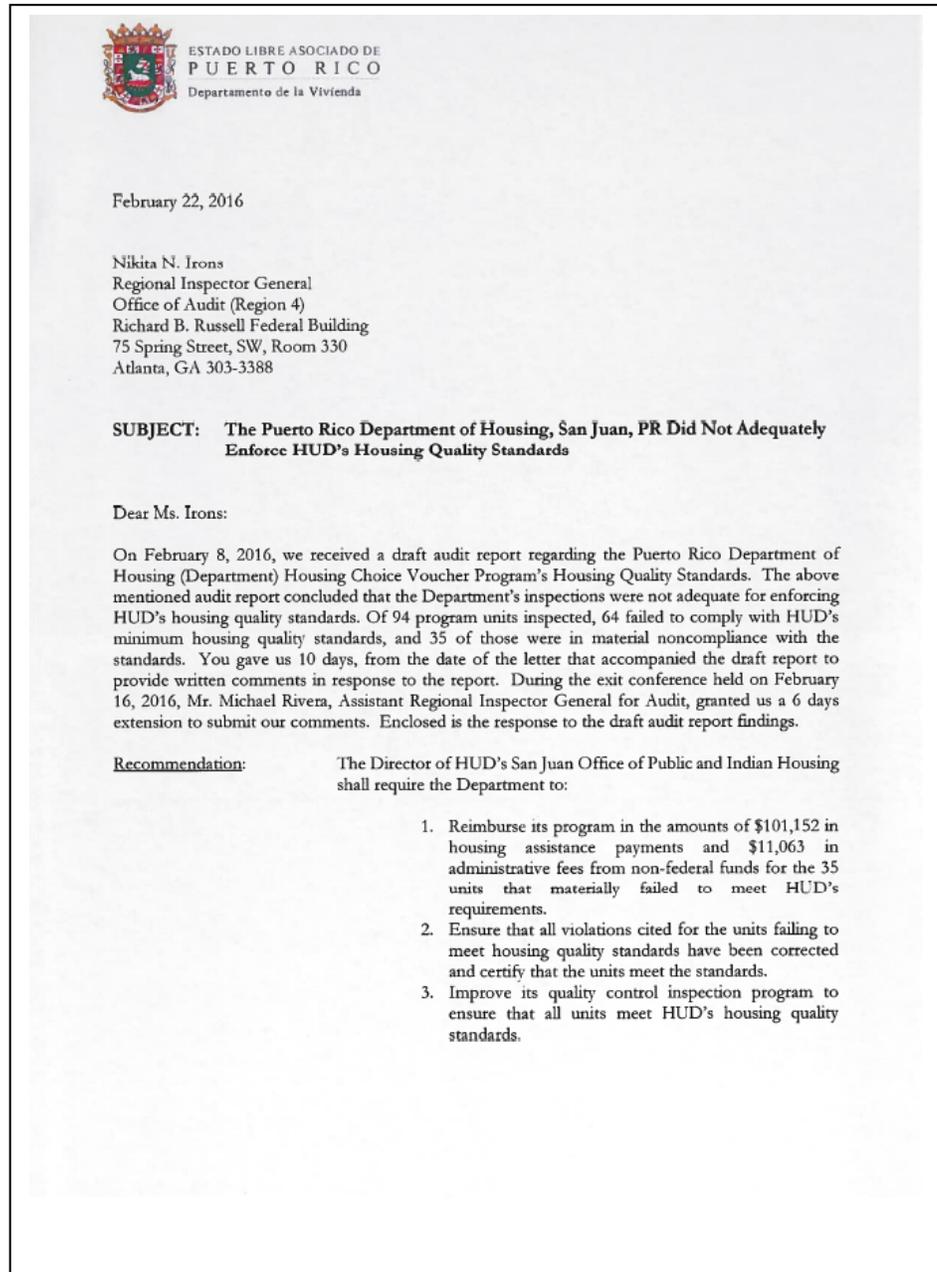
- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Department implements our recommendations, it will stop incurring program costs for units that are not decent, safe, and sanitary and, instead, will spend those funds in accordance with HUD's requirements and the Department's program administrative plan. Once the Department improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



**Ref to OIG
Evaluation**

Auditee Comments

Comment 1

Comment 1

Comment 1

February 22, 2016

Nikita N. Irons
Regional Inspector General
Office of Audit (Region 4)

SUBJECT: The Puerto Rico Department of Housing, San Juan, PR Did Not Adequately Enforce HUD's Housing Quality Standards

Page 2

Response:

1. PRDH will comply in the event that HUD's San Juan Office of Public and Indian Housing requires the reimbursement in the amounts of \$101,152 in housing assistance payments and \$11,063 in administrative fees for the 35 units that materially failed to meet HUD's requirements. This reimbursement will proceed from non-federal funds.
2. All violations cited for the units failing to meet housing quality standards were corrected. PRDH certifies that the units meet the standards.
3. Puerto Rico Department of Housing will design and implement a uniform Work Flow and Standards Procedures that will go into the details to assure compliance with requirements. We have strengthen inspections procedures and tracking results. Control Log for HQS deficiencies will be enforced to comply with tracking of re-inspections. Follow-up and evaluation of inspections will be measure in a monthly basis at each regional office and every three (3) months by our Quality Control Unit. The inspectors were trained by independent companies in 2007 and 2010, and an In-house training will take place before March 31, 2016. Staff will be trained on new software that will facilitate all coordination's on HUD HQS due date's requirements.
Copy of a written notification sent to all Section 8 Supervisors and Inspectors is included.

Should you need additional information please contact, Mrs. Zuleika Hernández Miranda, Assistant Secretary, Housing Subsidy and Community Development at 787-274-2527 extension 2419.

Sincerely,

Alberto Lastra-Power, AIA
Secretary
Puerto Rico Department of Housing

OIG Evaluation of Auditee Comments

Comment 1 The Department's management agreed with the OIG finding and recommendations. The Department stated that it will reimburse from non-Federal funds the ineligible housing assistance and administrative fees related to recommendation 1A, and certified that all cited violations were corrected. In addition, the Department stated that it will design and implement procedures to ensure compliance with program requirements and that its inspectors will receive in-house training by March 31, 2016. We commend the Department for its proposed actions to address the findings cited in this report. The Department should work with HUD to ensure violations were corrected and properly certified, and that its procedures and controls are fully implemented.

Appendix C

Schedule of Units in Material Noncompliance With Housing Quality Standards

Identification number	Type of violation			Total violations	Total preexisting violations
	24 hour	Health and safety	Other		
1611	1	0	0	1	1
79645	10	4	3	17	15
153259	5	2	1	8	5
24225	2	0	0	2	2
36092	2	0	1	3	2
87129	2	0	0	2	2
34153	9	11	0	20	16
AG203261	2	0	0	2	2
90455	3	2	0	5	3
26034	1	0	0	1	1
86048	1	1	2	4	4
89287	1	3	0	4	4
66264	5	2	1	8	6
AG208662	4	0	0	4	4
39972	1	1	0	2	2
154862	3	3	0	6	4
90286	1	0	0	1	1
155450	1	1	0	2	2
152191	5	5	0	10	9
38499	5	2	0	7	7
27343	2	0	0	2	1
90268	2	1	0	3	2
82269	3	1	0	4	3
149863	9	6	1	16	14
33807	5	0	0	5	5
88255	5	1	0	6	3
26447	3	0	0	3	3
AG203938	1	1	0	2	2
23995	3	3	0	6	6
30652	6	2	1	9	7
76124	1	4	1	6	6
24372	7	3	0	10	10
77829	5	0	0	5	2
89029	4	1	0	5	4
88148	6	1	0	7	6
Totals	126	61	11	198	166

Appendix D

Schedule of Late Inspections

Identification number	Department inspection date		Days late
	Initial	Succeeding	
24225	Apr. 4, 2013	Dec. 23, 2014	263
33923	Mar. 21, 2013	Oct. 09, 2014	202
89336	May 29, 2013	Dec. 10, 2014	195
12780	May 9, 2013	Nov. 17, 2014	192
90119	June 11, 2013	Nov. 25, 2014	167
88148	June 21, 2013	Dec. 5, 2014	167
86248	June 8, 2013	Nov. 12, 2014	157
34153	May 18, 2013	Oct. 09, 2014	144
39972	May 24, 2013	Oct. 09, 2014	138
67749	July 29, 2013	Nov. 25, 2014	119
77399	June 20, 2013	Oct. 01, 2014	103
79049	Aug. 7, 2013	Nov. 13, 2014	98
43156	Aug. 19, 2013	Nov. 5, 2014	78
68179	Aug. 8, 2013	Oct. 22, 2014	75
7918	Sept. 25, 2013	Dec. 4, 2014	70
86048	Sept. 11, 2013	Nov. 20, 2014	70
89287	Oct. 10, 2013	Dec. 18, 2014	69
155273	Aug. 21, 2013	Oct. 29, 2014	69
146568	Aug. 22, 2013	Oct. 28, 2014	67
76534	Sept. 23, 2013	Nov. 25, 2014	63
77626	Sept. 17, 2013	Nov. 18, 2014	62
80602	Sept. 24, 2013	Nov. 24, 2014	61
64043	Nov. 6, 2013	Dec. 22, 2014	46
37269	Aug. 29, 2013	Oct. 8, 2014	40
145729	Oct. 15, 2013	Nov. 24, 2014	40
88255	Nov. 5, 2013	Dec. 15, 2014	40
87164	Nov. 4, 2013	Dec. 11, 2014	37
88669	Nov. 4, 2013	Dec. 11, 2014	37
27343	Nov. 26, 2013	Dec. 22, 2014	26
41160	Oct. 30, 2013	Nov. 25, 2014	26
75120	Nov. 4, 2013	Nov. 24, 2014	20
23995	Nov. 14, 2013	Dec. 1, 2014	17
152375	Sept. 23, 2013	Oct. 9, 2014	16
79332	Dec. 3, 2013	Dec. 19, 2014	16
78036	Dec. 23, 2013	Jan. 8, 2015	16
76124	Nov. 20, 2013	Dec. 4, 2014	14
146907	Oct. 16, 2013	Oct. 29, 2014	13
149863	Sept. 26, 2013	Oct. 8, 2014	12
90268	Oct. 3, 2013	Oct. 14, 2014	11
82269	Oct. 10, 2013	Oct. 20, 2014	10
30652	Dec. 3, 2013	Dec. 12, 2014	9
87129	Nov. 25, 2013	Dec. 2, 2014	7
153259	Dec. 3, 2013	Dec. 8, 2014	5
26447	Oct. 16, 2013	Oct. 21, 2014	5