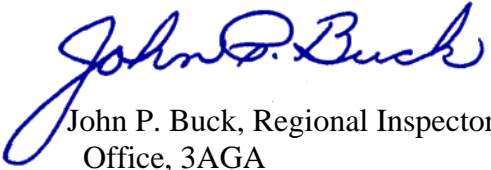




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| Issue Date November 5, 2007 |
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| Audit Report Number 2008-PH-1001 |
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TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub,
3BPH

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Regional
Office, 3AGA

SUBJECT: The District of Columbia Housing Authority, Washington, DC, Did Not Ensure
That Its Program Units Met Housing Quality Standards under Its
Moving to Work Program

HIGHLIGHTS

What We Audited and Why

We audited the District of Columbia Housing Authority's (Authority) administration of its leased housing under its Moving to Work Demonstration (Moving to Work) program based on our analysis of various risk factors relating to the housing authorities under the jurisdiction of the U.S. Department of Housing and Urban Development's (HUD) Baltimore field office. This is the second of three audit reports to be issued on the Authority's program. The audit objective addressed in this report was to determine whether the Authority ensured its program units met housing quality standards.

What We Found

The Authority failed to ensure that its program units met housing quality standards. We inspected 70 housing units and found that 67 units did not meet HUD's housing quality standards. Moreover, 48 of the 67 units had exigent health and safety violations that the Authority's inspectors neglected to report during their last inspection. The Authority spent \$192,821 in program and

administrative funds for these 48 units. We estimated that over the next year if the Authority does not implement adequate procedures and controls to ensure that its program units meet housing quality standards, HUD will pay more than \$21.7 million in housing assistance on units with material housing quality standards violations.

What We Recommend

We recommend that the director of HUD's Baltimore Public Housing Program Hub require the Authority to ensure that housing units inspected during the audit are repaired to meet HUD's housing quality standards, reimburse its program from nonfederal funds for the improper use of \$192,821 in program funds for units that materially failed to meet HUD's housing quality standards, and implement adequate procedures and controls to ensure that in the future program units meet housing quality standards to prevent an estimated \$21.7 million from being spent annually on units with material housing quality standards violations.

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

Auditee's Response

We provided our discussion draft audit report to the Authority's executive director and HUD officials on October 1, 2007. We discussed the report with the Authority and HUD officials throughout the audit and an exit conference on October 11, 2007. The Authority provided written comments to our draft report on October 17, 2007.

The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The District of Columbia Housing Authority (Authority) operates the city's public housing. The Authority was, by court order, placed in receivership on May 19, 1995. Receivership terminated on September 30, 2000. The Authority is governed by a nine-member board of commissioners consisting of four commissioners appointed by the mayor with the advice and consent of the city council, three commissioners elected by residents of the Authority's housing properties, one commissioner representing labor and designated by the central labor council, and the deputy mayor for planning and economic development serving ex officio. The board of commissioners grants authority to the executive director to develop policies, plans, and goals and to direct the day-to-day operation of the Authority.

In 1996, Congress authorized the Moving to Work Demonstration (Moving to Work) program as a U.S. Department of Housing and Urban Development (HUD) demonstration program. The Authority was accepted into the program on July 25, 2003, when HUD's Assistant Secretary for Public and Indian Housing signed the Authority's Moving to Work agreement. The signed agreement requires the Authority to abide by the statutory requirements in Section 8 of the United States Housing Act of 1937 until such time as the Authority proposes and HUD approves an alternative leased housing program with quantifiable benchmarks. At the time of this audit, the Authority had not proposed, and HUD had not approved, an alternative leased housing program with quantifiable benchmarks.

Under the Section 8 Housing Choice Voucher program, the Authority was authorized to provide leased housing assistance payments to more than 9,500 eligible households. HUD authorized the Authority the following financial assistance for housing choice vouchers:

| <u>Authority fiscal year</u> | <u>Annual budget authority</u> | <u>Disbursed</u> |
|------------------------------|--------------------------------|----------------------|
| 2005 | \$112,811,038 | \$119,631,086 |
| 2006 | \$115,848,213 | \$115,185,750 |
| Totals | \$228,659,251 | \$234,816,836 |

Our audit objective was to determine whether the Authority operated its Moving to Work program adequately by determining whether its program units met housing quality standards in accordance with HUD requirements.

RESULTS OF AUDIT

Finding: Controls over Housing Quality Standards Were Inadequate

The Authority did not adequately enforce HUD's housing quality standards. Of 70 program units selected for inspection, 67 failed to meet and 48 materially failed to meet housing quality standards. The Authority's inspectors neglected to report 662 violations which existed at the units when they did their inspections. The Authority overlooked these violations because it did not implement adequate procedures and controls to ensure that its program units met HUD's housing quality standards. As a result, the Authority spent \$192,821 in program and administrative funds for 48 units that materially failed to meet HUD's housing quality standards. We estimate that over the next year, HUD will pay more than \$21.7 million in housing assistance for units with material violations of housing quality standards.

Section 8 Tenant-Based Housing Units Not in Compliance with HUD's Housing Quality Standards

We statistically selected 70 units from unit inspections passed by the Authority's inspectors during the period July 17, 2006, to January 17, 2007. The 70 units were selected to determine whether the Authority ensured that the units in its program met housing quality standards. We inspected the selected units between February 27 and March 22, 2007.

Of the 70 units inspected, 67 (96 percent) had 870 housing quality standards violations. Additionally, 48 of the 70 units were considered to be in material noncompliance since they had exigent health and safety violations that predated the Authority's last inspection and were not identified by an Authority inspector. Four units had violations that were noted on the Authority's previous inspection report, and the Authority later passed the units, but during our inspection, it was determined that the violations were never corrected. Of the 67 units that failed, there were 662 violations that existed before the Authority's last inspection report. The following table categorizes the 870 housing quality standards violations in the 67 units that failed the housing quality standards inspections.

| Category of violations | Number of violations |
|--|-----------------------------|
| Heating, ventilation, and air conditioning | 104 |
| Window | 85 |
| Tub, shower, toilet, sink | 83 |
| Electrical | 82 |
| Security – exterior doors/windows | 75 |
| Stove/refrigerator/sink | 74 |
| Stairs, rails, porches | 58 |
| Site and neighborhood conditions | 57 |
| Floor | 45 |
| Fire exits | 45 |
| Roof/gutters | 42 |
| Interior doors | 31 |
| Other interior hazards | 18 |
| Exterior surface | 18 |
| Ceiling | 15 |
| Wall | 14 |
| Evidence of infestation | 11 |
| Foundation | 10 |
| Smoke detectors | 3 |
| Total | 870 |

We provided our inspection results to the director of HUD’s District of Columbia Office of Public Housing and the Authority’s executive director.

Examples of Housing Quality Standards Violations

The following are pictures of some of the violations we noted while conducting housing quality standards inspections at the Authority’s leased housing units:

Inspection #21: The heating system was corroded, missing a filter, and had exposed electrical wiring next to the gas line and control source.



Inspection #43: The heating system's metal casing was corroded, and metal was fatigued (pitted) due to long-term use.



Inspection #62: The cover was missing on the metal security box, the electrical wiring was exposed, and circuit breakers were unsecured. Eleven children lived in this unit, and the exposed wiring was found in a closet of one of the unit's bedrooms.



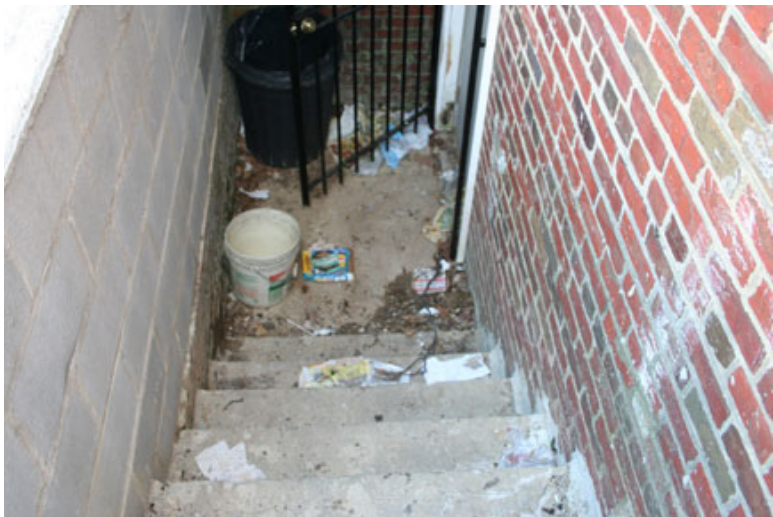
Inspection #24: The cover was missing on the metal security box, and the electrical wiring was exposed.



Inspection #10: The handrail was missing on stairs, and the safety rail was missing at an unprotected height.



Inspection #19: The required handrail was missing on the stairs.



The Authority Failed to Implement Procedures and Controls

Although the Authority's written procedures and controls required it to ensure its program units met housing quality standards it failed to implement these procedures. Rather, inspectors missed or overlooked numerous violations of housing quality standards because their supervisors did not allow them enough time to adequately complete the inspections. Six of the Authority's nine inspectors told us that they had to rush through the inspections in order to complete the required number of inspections and return to the office on time. The inspectors told us that they were verbally instructed by their supervisors to complete between 10 and 13 inspections per day. They explained that if they failed to complete their assigned inspections and return on time to the office, they faced possible disciplinary actions. As a result, inspectors stated that they rushed through inspections, sacrificing the quality of the inspection, to avoid the consequences of not meeting these requirements.

The Authority's Comments on Our Housing Quality Inspection Results

We presented the results of the housing quality standards inspections to the Authority's public housing director and to HUD's Washington, DC, director of public housing on July 17, 2007. The Authority provided a response to the finding on July 26, 2007. The Authority has taken action to develop a quality assurance housing inspection program that will aggressively examine 25 percent of all inspections conducted by members of the Authority's Housing Choice Voucher program division. Also, the Authority has taken steps to notify owners of the violations identified during our inspections.

The Authority hired independent consultants to review the results of our housing quality standards inspections. The Authority agreed with 284 and disagreed with 485 of the violations. The Authority contends that the inappropriate application of standards outside the housing quality standards resulted in an inflated number of inspections labeled as "failed." Also, the consultants concluded that it could not be determined whether the violations noted in the Office of Inspector General's (OIG) inspections existed at the time of the Authority's inspections. Accordingly, the Authority believed that the amount we cited as funds to be put to better use was too high. The following are examples of some of the discrepancies with which the Authority disagreed:

- Mildew located in bathroom,
- Security bars on bedroom windows that cannot be opened from the inside,

- Double-keyed locks on doors providing egress from the unit, and
- Cracks and holes on the walls and ceilings.

Our Response to the Authority

We have reviewed the Authority's response and are encouraged by the steps the Authority has taken to ensure that units will meet housing quality standards in the future. The Authority should receive approval from HUD before implementing the new quality assurance housing inspection program. Also, to ensure that tenants and landlords of units that failed inspection have been notified and violations have been corrected, the Authority needs to provide documentation that supports the actions that have been taken.

Although we are encouraged by the Authority's response, we do not agree with the Authority's consultants that the violations we identified were not housing quality standards violations. All violations were based on housing quality standards and were determined to be violations. Housing Choice Voucher Program Guidebook, 7420.10G, chapter 10, states that the goal of the Housing Choice Voucher program is to provide decent, safe, and sanitary housing at an affordable cost to low-income families. Also, the guidebook states that not all areas of housing quality standards are exactly defined. While acceptability criteria specifically state the minimum standards, inspector judgment or tenant preference may need to be considered in determining whether the unit meets minimum standards.

Inspections we conducted did not exceed housing quality standards. We reviewed the violations again based on the Authority's comments, and removed 143 violations from the report in an effort to be as conservative as possible. The removed violations did not change the number of units that were in noncompliance but reduced the total violations we reported to 870. Some examples of violations that have been removed are

- 50 violations citing mildew,
- 22 violations citing cracks and holes in walls and ceilings, and
- 7 violations citing food preparation areas being too small.

Examples of violations that the Authority did not believe were housing quality standards violations but which remained in the report are

- Double-keyed locks on doors providing egress from the unit – A double-keyed dead bolt is a dead bolt lock that requires a key to enter and exit the unit. Double-keyed locks present life threatening issues for the tenant, because they impede egress from the unit. Regulations at 24 CFR [*Code of Federal Regulations*] 982.404(a)(3) state that if a defect is life threatening the owner must correct the defect. The national fire code, Life

Safety Code Handbook, ninth edition, 24.2.4.7, states that all locking devices that impede or prohibit egress shall be prohibited.

- Security bars on bedroom windows that cannot be opened from the inside - HUD Form 52580-a, Inspection Checklist, section 8.2, Exits, states that “acceptable fire exit” means that the building must have an alternative means of exit that meets local or state regulations in case of fire. The District of Columbia Housing Residential Code, DCMR 12B R-310.1, states, “every sleeping room shall have at least one openable emergency escape and rescue window or exterior door opening for emergency escape and rescue.” Further, the District of Columbia Housing Fire Code, DCMR 12H F-1012.2 states, “Bars, grilles or screens placed over emergency escape windows shall be releasable or removable from the inside without the use of a key, tool or force greater than that which is required for normal operation of the window.”

The scope of our housing quality standards inspections was to determine whether the Authority identified all housing quality standards violations when it conducted housing quality inspections. Our universe consisted of the latest six months of housing quality inspections that the Authority determined contained no violations. We determined that six months would be adequate to determine the quality of the Authority’s housing quality standards inspections. To determine the quality of inspections, we made a professional determination of whether a violation predated the last inspection conducted by the Authority. We used our professional knowledge, tenant interviews, and the Authority’s latest inspection reports in determining whether a housing quality standards violation was in existence before the last passed inspection conducted by the Authority or was on the last passed inspection conducted by the Authority and was not corrected. We reported to the Authority and HUD all housing quality standards violations to ensure that tenants were residing in decent, safe, and sanitary housing. Although the Authority objected to how we determined some of the conditions we reported, we determined that the Authority’s program units, which HUD is funding, were in poor condition with an average of 12 violations per unit (70 units inspected with 870 violations), with some units having more than 40 housing quality standards violations. One housing quality standards violation fails a unit.

Conclusion

The Authority’s tenants were subjected to health- and safety-related violations, and the Authority did not properly use its program funds when it failed to ensure that units complied with HUD’s housing quality standards. The Authority disbursed \$178,668 in housing assisting payments to landlords for the 48 units that materially failed to meet HUD’s housing quality standards and received \$14,153 in program administrative fees.

If the Authority implements adequate procedures and controls over its unit inspections to ensure compliance with HUD's housing quality standards, we estimate that more than \$21.7 million in future housing assistance payments will be spent on units that are decent, safe, and sanitary.

Recommendations

We recommend that the director of HUD's Baltimore Public Housing Program Hub require the Authority to

- 1A. Certify, along with the owners of the 67 units cited in this finding, that the applicable housing quality standards violations have been repaired.
- 1B. Reimburse HUD's program \$192,821 from nonfederal funds (\$178,668 for housing assistance payments and \$14,153 in associated administrative fees) for the 48 units that materially failed to meet HUD's housing quality standards.
- 1C. Implement procedures and controls to ensure program units meet housing quality standards and inspectors are given adequate time to perform inspections, thereby ensuring \$21,743,120 in program funds are expended only on units that are decent, safe, and sanitary.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws, regulations, the Authority's administrative plan, HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Part 982, and HUD's Housing Choice Voucher Guidebook, 7420.10G.
- The Authority's accounting records; annual audited financial statements for 2004 and 2005; check register; tenant files; computerized databases including housing assistance payments and HUD-50058 (Family Report) data; board meeting minutes; organizational chart; correspondence; and Moving to Work program documents including the agreement, plans, and reports.
- HUD's monitoring reports for the Authority.

We also interviewed the Authority's employees, HUD staff, and program households.

To achieve our audit objective, we relied in part on computer-processed data in the Authority's database. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

We statistically selected 70 of the Authority's program units to inspect using the U.S. Army Audit Agency's statistical software from 3,182 unit inspections passed by the Authority's inspectors during the period July 17, 2006, to January 17, 2007. The 70 units were selected to determine whether the Authority's program units met housing quality standards. The sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus 10 percent. Originally 67 units were selected for inspection; however, an additional three inspections were performed in case any of the original 67 inspections were performed on units that were not part of the Authority's Housing Choice Voucher program.

Our sampling results determined that 48 of 70 units (68.57 percent) materially failed to meet HUD's housing quality standards. Materially failed units were those with exigent health and safety violations that predated the Authority's previous inspections; or were on the last inspection report, and the violation had not been corrected at the time of our inspection. All units were ranked, and we used auditor's judgment to determine the material cutoff line.

Based upon the sample size of 70 from a total population of 3,182, an estimate of 68.57 percent (48 units) of the population materially failed housing quality standards inspections. The sampling error is plus or minus 9.03 percent. There is a 90 percent confidence that the frequency of occurrence of program units' materially failing housing quality standards inspections lays between 59.55 and 77.60 percent of the population. This equates to an occurrence of between 1,894 and 2,469 units of the 3,182 units in the population. We are using the most conservative numbers, which is the lower limit or 1,894 units.

We analyzed the applicable Authority databases and estimated that the annual housing assistance payment per recipient in our sample universe was \$11,480. Using the lower limit of the estimate of the number of units and the estimated annual housing assistance payment, we estimate that the Authority will spend \$21,743,120 (1,894 units times \$11,480) annually for units that are in material noncompliance with HUD's housing quality standards. This estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use on decent, safe, and sanitary housing if the Authority implements our recommendations. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We performed our on-site audit work between September 2006 and July 2007 at the Authority's office located at 1133 North Capital Street, NE, Washington, DC. The audit covered the period October 1, 2004, through September 30, 2006, but was expanded when necessary to include other periods.

We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – 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 laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

Based on our audit, we believe the following item is a significant weakness:

- The Authority did not implement procedures and controls to ensure compliance with HUD's regulations regarding unit inspections and ensure that units met minimum housing quality standards (see 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/ |
|--------------------------|---------------|-------------------------------------|
| 1B | \$192,821 | |
| 1C | | \$21,743,120 |

- 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 OIG recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the Authority implements our recommendations, it will cease to incur program costs for units that are not decent, safe, and sanitary and, instead, will expend those funds for units that meet HUD's standards. Once the Authority successfully 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



District of Columbia Housing Authority

1133 North Capitol Street, N.E.
Washington, D.C. 20002-7599
(202) 535-1000

Michael Kelly, Executive Director

October 17, 2007

John P. Buck
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
Wanamaker Building Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Subject: Draft Audit of DCHA Housing Choice Voucher Program Phase II

Dear Mr. Buck:

This letter and the enclosed attachments shall serve as our response to the subject draft audit report. Our comments are a result of a comprehensive analysis of your findings and recommendations. DCHA has continued to use your comments and findings in our overall program and organizational assessment of the HCV Program.

We sincerely appreciate your willingness to discuss your findings and in your written response to the letter we sent voicing our concerns. We continue to applaud the professionalism of your audit staff. Your on-site team was responsive and considerate of our internal processes, and it is evident that they spent considerable time reviewing the findings of our independent auditing team and providing feedback.

Should you have any questions regarding this matter, please feel free to contact me or Benjamin C. Miller, Director of Audit and Compliance at (202) 535-1900.

Sincerely,



Michael P. Kelly
Executive Director

Enclosures

**DCHA RESPONSE TO HUD OIG DISCUSSION DRAFT REPORT
PHASE 2: INSPECTIONS**

OIG Finding:

Controls over Housing Quality Standards Were Inadequate

This constitutes the District of Columbia Housing Authority's (DCHA) response to the draft report covering the second phase or component of the HUD Office of Inspector General's audit of the administration of the leased housing program under the Moving to Work program. This is the first HUD OIG visit since DCHA became an independent agency in 2000 after emerging from receivership. During these past seven years, DCHA's Housing Choice Voucher (HCV) program more than doubled the number of households it serves, from 5,000 to almost 11,000.

During the same seven-year period, federal funding for housing programs has been reduced steadily, and HUD funding is down by 25 percent after adjusting for inflation according to the nonpartisan Center on Budget and Policy Priorities. For DCHA, this translates to a cut of about \$16 million over the last two years as compared to funding levels in 2000.

While dealing with this reduction in resources, the DCHA increased the workload of its IICVP inspectors through the aforementioned doubling the participate households. The HCV program inspects rental units annually. It is important to note almost 50 percent fail annual inspection, and DC landlords and landlord associations routinely complain we are too strict. We work with landlords who have substandard units to ensure they correct all deficiencies. DCHA's goal is to provide safe and habitable housing in this extremely high-cost housing market without having to force voucher families to move.

While the program units are inspected initially and annually, landlords are responsible for knowing the condition of their property throughout the year and whether it meets HUD's standards. Tenants are responsible for notifying landlords of any problems in their units. Clearly, no inspection system is flawless and unit conditions in any apartment are dynamic and change over time based upon maintenance performed and the actions of households residing in the units. Accordingly as discussed further below, DCHA has made additional program improvements to further insure that inspection standards are adhered to consistently and quality control processes used to monitor the correction of unit deficiencies are more effective.

Below please find a description of each of the OIG's recommendations contained in the draft report and the response of the DCHA. DCHA takes serious exception to the methodology, process and protocol used by the Office of the Inspector General during the "Inspections" phase of this audit. DCHA contends that the OIG's protocol in choosing units which were post-90 day annual inspection flawed the audit findings as did the practice of imposing a subjective, unwritten definition of "materiality" upon current unit conditions which were too dated to be relevant or applicable. Further, DCHA contends that the IG assessor used an inappropriate inspection tool and misapplied HUD's Housing Quality Standards.

Comment 1

OIG Recommendation 1A – Certify, along with the owners of the 67 units cited in this finding, that the applicable housing quality standards violations have been repaired.

Comment 2

DCHA Response to 1A

DCHA contracted for its own independent audit team to review those same inspections reports that were created by the OIG audit team. Following the HUD prescribed methods for HQS, DCHA has reached far different conclusions than the HUD OIG audit findings described above and believes that many of the items cited fall into the category of routine maintenance items versus HQS violations.

Comment 3

Nonetheless, HCVP notified the landlords and tenants of the 67 units of the violations and the routine maintenance items that the OIG inspectors found to exist, and informed them of the time in which necessary actions needed to take place to correct all of the items cited in the OIG report.

Comment 3

HCVP then performed follow-up inspections on all 67 units to ensure that deficiencies were corrected. All deficiencies were corrected or HCVP took appropriate action, such as payment abatement, on those that failed to meet HQS. HCVP has obtained certifications from the responsible parties indicating that the units were in compliance with HQS.

Comment 4

Our independent reviewers also concluded that it is not possible to determine if the deficiencies noted in the OIG staff inspections (or corroborated in subsequent independent inspections) pre-existed the annual HCVP HQS inspections, with the exception of the few instances where the violations were noted in the annual inspection report. Therefore, we believe that any findings which suggest that a significant or material number of deficiencies were present at the time of the regular HQS inspections are not supportable.

Comment 4

OIG Recommendation 1B – Reimburse HUD's program \$190,887 from nonfederal funds (\$176,876 for housing assistance payments and \$14,011 in associated administrative fees) for the 48 units that materially failed to meet HUD's housing quality standards.

DCHA Response to 1B

The DCHA disagrees with the extent and amount of HUD's Office of the Inspector General's (OIG) finding. DCHA has undertaken an extensive review of the inspected units and the OIG assessor's reports and finds considerable variance with the amount of the underpayment of housing assistance payments as described by the OIG. Following the HUD-prescribed methods for HQS, and based on recommendations of the independent auditor contracted by DCHA, we conclude that IG assessor used flawed methodology, an inappropriate inspection tool and misapplied housing quality standards. During the audit, DCHA addressed specific concerns to the OIG, and received a letter in response, which is quoted in part below. We continue to disagree with the OIG response on the following issues:

Comment 5

Stale Sample Selection

The IG indicates that “our universe consisted of the latest six months of housing quality inspections... we determined that six months would be adequate to determine the quality of the Authority’s housing quality inspections. To determine the quality of inspections, we made a professional determination of whether a violation predated the last inspection conducted by the Authority.”

Comment 6

HUD policy specifically states that for Quality Control inspections “the sample must be no older than three months at the time of the re-inspection” (Housing Choice Voucher Guidebook 7420.10G Chapter 10.9, page 10-32). The policy was created by HUD professionals based on their observations. In our estimation and in the estimation of HUD, an experienced inspector would not recommend that a quality assessment of inspections be conducted in a time period greater than three months as there is so much that can change in the unit during an extended period subject to the treatment by the resident. The common areas have an even greater potential for change in condition over the period based on the activities of other residents and the public.

Comment 6

Unfortunately, the HUD IG inspections took place well beyond the HUD recommended quality control timeframes and, as such, are not adequate measures of DCHA’s inspection protocols.

Comment 7

Misapplication of Housing Quality Standards

The IG assessment fails to make the vital distinction between the Housing Choice Voucher Program and HUD standards for other programs including Public Housing and Multi-Family programs. The properties in the latter two other programs are directly under the control of a Housing Authority or HUD and, therefore, are subject to the more rigorous Uniform Physical Conditions Standards (UPCS) as measured by the HUD Real Estate Assessment Center (REAC). These standards do not apply to the Housing Choice Voucher Program.

Comment 7

The Inspector General’s assessor, however, used the more stringent Uniform Physical Conditions Standards as well as local codes to assess the DCHA HQS program. For instance, a damaged refrigerator seal is not an HQS violation but rather a UPCS REAC “level one” deficiency. Operable doors with cosmetic damage are treated as a “pass with comment” by HQS. In HQS the stove must be operable – cosmetic deficiencies are not relevant. The OIG assessor’s written comments regarding cosmetically damaged oven doors and orange flames are taken directly from REAC standards.

Comment 8

The HCVP Guidebook 7420.10G states clearly on page 10-2: “in order to keep assisted units from having to meet higher standard than units in the unassisted market, PHAs should be cautious and thoughtful when requesting HUD approval of a standard higher than HQS. Though adopted into local law, local codes, are often not consistently enforced among all units, or are enforced only when complaints are made. Sometimes

Comment 8

aspects of a local code are not enforced at all. If the PHA adopts local code requirements, housing choice may be restricted in these instances.”

In the current audit, the assessor often issued findings which have no basis in HQS but refer to UPCS or local building code. This is not only inappropriate, but a misreading of the intent of the Housing Choice Voucher Program to afford families the greatest opportunity to find units in the private market. DCHA has limited control over private units, especially common areas which are utilized by all tenants – HCVP and non-HCVP alike. For this reason the HUD guidebook, and CFR 5.701 on which it is based, limit the scope for the assessment of public space and building structure and systems. Short of a life-threatening condition, HQS standards are generally applicable to the specific HCVP unit.

Comment 9

One other example of the HUD IG utilizing standards beyond HQS is the use of the Life Safety Code Handbook, ninth edition, 24.2.4.7. This document states that “all locking devices that impede or prohibit egress shall be prohibited” and the OIG inspector has determined that, based on this document, double-keyed door locks are HQS violations.

Comment 9

But HUD Chapter 10-7 states under the heading, *tenant preference*, that “the family may determine the adequacy of room sizes and room locations. The family is also responsible for deciding the acceptability of the type of *door and window locks*.” DCHA considers the health and safety of our HCVP clients to be of paramount concern and takes fire safety most seriously. While we will continue to engage our clients and our landlords to ensure this safety, it must be noted again that we will do so within the parameters identified by HUD’s HQS regulations.

Comment 10

Use of Inappropriate Inspection Device

The HUD inspector did not utilize the HUD-approved Housing Quality Standards (HQS) Inspection Form. The informal document which the IG inspector used is entitled “HCV Inspection Checklist - Special HQS” and dated 2/15/07. Our consultant’s analysis of the assessor’s findings was further complicated by the assessor’s handwritten notes on items not included in the IG-created form. For example, the assessor added the comment “water ponding” which was not a checklist component in either the standard HQS form or the instrument developed by the IG, but is language taken directly from REAC. In another instance (Inspection #15), original language on the field inspection report refers to peeling paint on decorative trim, which was not an item on the checklist but added by the inspector. Neither of these items are HQS findings – both are REAC level one deficiencies.

Comment 10

Our review indicates that many of the findings have no basis in HQS standards and cannot be found on the approved HUD form – Housing Quality Standards (HQS) Inspection Form. This is the only form which the DCHA can use in order to be in compliance. DCHA cannot use the inspection tool utilized by the IG as it is not a

Comment 11

published HUD approved instrument. To state that units are in poor condition based on a different standard and instrument is inaccurate.

Lastly, the HUD IG inspection device entitled HCV Inspection Checklist -Special HQS contained unique assessments by the IG staff of tenant issues. This did not include items which may have been damaged by residents – as may be appropriate in an HQS inspection – but rather a detailed listing of tenant amenities. It included such items as exceptional personal toiletries, wall decorations, high quality TVs and computers. It is unclear if and how the IG applied these non-HQS standards. The checklist was not attached to all field inspection reports, which leads us to believe that the standards were applied to only some of the units inspected. A listing of tenant-owned items is not appropriate in an HQS inspection.

Comment 2

Inaccurate Conclusions

While we appreciate the HUD IG’s response to our initial letter listing the above concerns, this draft report does not address the 485 specific instances where we provided a detailed refutation of the findings. The letter does not address 55% of our total contested items – certainly not a complete review of the DCHA response. The HUD IG response states that they removed 143 violations from the report in “an effort to be as conservative as possible.” In our estimation, the violations should have been removed because they were not based on HQS standards.

Comment 12

It appears that the assessor also included violations for housing units not participating in the HCVP program. In Inspection #75, the assessor identified a missing discharge line on two hot water heaters. One hot water heater served an HCVP unit, the other heater served a unit not in the program. While we acknowledge that this constitutes a violation for one unit’s water heater, two violations should not have been attributed to the HCVP unit in question.

Comment 13

OIG Recommendation 1C – Implement procedures and controls to ensure program units meet housing quality standards and inspectors are given adequate time to perform inspections, thereby ensuring \$21,743,120 in program funds are expended only on units that are decent, safe, and sanitary.

DCHA Response to 1C

DCHA has reviewed its internal protocols and as your audit report stated, we have moved to improve the efficiency, quality and responsiveness of the HCV program.

DCHA has established a new comprehensive Quality Assurance initiative separate from the quality control conducted within the HCVP department. The Office of Audit and Compliance is responsible for this Quality Assurance initiative and will aggressively examine 25 percent of all inspections conducted by members of the HCVP division. An analysis of the results is prepared and a report is forwarded to the Director of HCVP

identifying potential issues and the inspector responsible. DCHA is confident that this robust system of quality control will enhance program oversight and serve to improve the overall quality of the available housing stock. Further, DCHA has increased staffing in the HCVP inspection unit and has made appropriate revisions to procedures to allow inspectors adequate time to conduct high quality inspections.

DCHA is confident that the actions we have taken will ensure that our HCVP units are decent, safe, and sanitary, and that HUD funds will be used in accordance with program requirements.

OIG Evaluation of Auditee Comments

- Comment 1** The Authority’s objections to our audit methodology, process, and protocol are without merit as we performed the audit in accordance with generally accepted government auditing standards. To obtain an accurate determination of whether the Authority properly inspected units, we selected a sample from a six-month period or approximately one-third (3,182 passed inspections of 9,575 assisted units) of the total tenant units participating in the leased housing program. We understand that housing quality standards violations can occur after the last annual inspection conducted by the Authority, but federal regulations require that all program housing must meet housing quality standards performance requirements at commencement of assisted occupancy and throughout the assisted tenancy. Therefore, we reported all violations identified at the time of our inspection so that the Authority could ensure they were corrected. We used our professional knowledge, tenant interviews, and the Authority’s latest inspection reports in determining whether a housing quality standards violation existed prior to the last passed inspection conducted by the Authority or if it was on the last passed inspection conducted by the Authority and was not corrected. We defined materiality in the report and used it to quantify deficiencies that we conclusively determined to exist at the time of the Authority’s inspection. The form we used to perform our inspections accurately and appropriately applied HUD’s housing quality standards.
- Comment 2** Although the Authority’s paid consultants agreed with some of our conclusions, they did in fact disagree with many of the conclusions. While the consultants considered some of the violations to be “routine maintenance” they did not describe their usage and /or definition of this phrase or why they considered the repairs to be routine maintenance. Many needed repairs the consultants classified as routine maintenance were in fact violations of housing quality standards. We reviewed the consultants’ evaluation in its entirety and we are confident that this final audit report accurately and fairly depicts the conditions we found in the Authority’s units when we conducted our audit. We further scrutinized and reviewed conditions at the units where the consultants questioned our interpretation of housing quality standards in an effort to be as fair and conservative as possible in our estimates. After further consulting with HUD, we eliminated some violations from this final audit report if we determined a more lenient interpretation of the housing quality standards could be reasonably accepted. We described the consultants’ comments and our evaluation of them in the audit report.
- Comment 3** We commend the Authority for completing the follow-up actions for the 67 units that the audit determined were not in compliance with housing quality standards.
- Comment 4** We disagree with many of the conclusions of the consultants the Authority hired for the purpose of contesting our audit findings. We are confident that this report accurately and fairly depicts the conditions we found in the units when we did our inspections. In consultation with our certified HUD inspector, we used our

professional knowledge, tenant interviews, and the Authority's latest inspection reports to determine whether a violation existed prior to the last passed inspection conducted by the Authority or was on the last passed inspection conducted by the Authority and was not corrected. In the event we could not reasonably make that determination, we did not include the violation in our assessment of questioned costs and funds to be put to better use.

Comment 5 The Authority incorrectly quotes the letter we sent it in response to concerns raised by its outside legal counsel. Our letter to the Authority actually states: "Our audit was performed in accordance with generally accepted government auditing standards and has been designed to determine whether HUD requirements have been followed with respect to housing quality standards as stated at 24 CFR 982 and was not intended to follow the Section 8 Management Assessment Program process. To obtain an accurate determination of whether the inspections of units that passed were appropriately conducted by the Authority, we selected a sample from a six-month period or approximately one-third (3,182 passed inspections of 9,575 assisted units) of the total tenant units participating in the leased housing program."

Comment 6 We agree that the Section 8 Management Assessment program requires the Authority's sample to be no older than three months. Although this is a requirement for the Authority's self assessment, our audit was not intended to follow the Authority's self-assessment process. We performed our audit in accordance with generally accepted government auditing standards in much greater detail and broader scope than the Authority's staff does in its self-assessment. For example, in conjunction with our inspections we took numerous photographs of units, performed tenant interviews, and reviewed the Authority's latest inspection reports to help us to determine whether a housing quality standards violation existed prior to the last passed inspection conducted by the Authority or was on the last passed inspection conducted by the Authority and was not corrected. As indicated by the pictures in the report, some deficiencies were easily determined to have existed at the time of the Authority's inspection as they could not have deteriorated to such an extent within six months or less. We were very conservative in our determination of pre-existing conditions.

Comment 7 We performed our inspections accurately and appropriately applied HUD's housing quality standards. In no instance did we apply a higher standard than is required by HUD's housing quality standards. For example, we disagree with the Authority's claim that the severely damaged refrigerator seals we found were not housing quality standards violations. We disagree because HUD's Housing Choice Voucher Guidebook, 7420.10G, chapter 10.3 states that proper food temperatures are difficult to maintain if the refrigerator door seals are removed or severely damaged like the ones we found in our inspections. The Authority also incorrectly implies that we reported oven doors which were only cosmetically damaged as violations. This was not the case as we reported only those violations where the equipment was not in proper operating condition. A damaged stove door can certainly be more than a cosmetic violation if it exposes

residents to risk of fire and/or severe burns which can become life threatening. These violations are considered housing quality standards violations even though they are also Uniformed Physical Condition Standard deficiencies.

Comment 8 We appropriately applied HUD’s housing quality standards in the same manner as we have done in audits throughout the country. In no instances did we apply a higher standard than is required by HUD’s housing quality standards. Our inspector has many years of experience conducting numerous housing quality inspections across the country. With respect to the Authority’s concerns regarding public space, building structure, and building systems, we did not exceed the housing quality standards. Housing quality standards require that the building the unit is in must be structurally sound, must protect the occupants from the environment, and must not present any threat to the health and safety of the occupants. Also, the site and neighborhood must be reasonably free from disturbing noises and reverberations and other dangers to the health, safety, and general welfare of the occupants. We cited two code violations related to potential problems exiting the unit during a fire or other emergency that would cause life threatening conditions. One violation resulted from a double-keyed lock which blocked the fire or other emergency exit through an exterior door. The other violation resulted from bars on the first floor windows which could not be detached and which blocked an alternate fire or other emergency exit from the building.

Comment 9 Housing quality standards regulations at CFR 24.982.401(k) require that a building must provide an alternate means of exit in case of fire (such as fire stairs or egress through windows). HUD Form 52580-A, Inspection Checklist, section 8.2, states that “acceptable fire exit” means that the building must have an alternative means of exit that meets local or state regulations in case of fire. Double-keyed locks are housing quality standards violations because regulations at 24 CFR 982.404(a)(3) require that if a defect is life-threatening the owner must correct the defect. Double-keyed locks present life-threatening issues for the tenant because they impede egress from the unit and building.

Comment 10 We appropriately applied HUD’s housing quality standards in the same manner as we have done in audits throughout the country. In no instances did we apply a higher standard than is required by HUD’s housing quality standards. The form we used to perform our inspections accurately and appropriately applied HUD’s housing quality standards.

Comment 11 The section of the inspection form the Authority mentions was not used in determining housing quality standards violations. By identifying special amenities we were able to evaluate the number of people residing in the unit and determine if the tenant may have under-reported income. We use this information to evaluate if further review in other areas of our audit could be needed.

Comment 12 Both hot water heaters mentioned in the Authority's response were in very close proximity in the same room and both could cause scalding. Thus, both were considered housing quality standards violations.

Comment 13 We are encouraged by the Authority's statements that it has planned corrective actions to ensure program units meet housing quality standards by initiating quality controls and addressing staffing issues.

Appendix C

CRITERIA

HUD regulations at 24 CFR [*Code of Federal Regulations*] 982.152(d) state that HUD may reduce or offset any administrative fee to a public housing authority, in the amount determined by HUD, if the authority fails to perform its administrative responsibilities correctly or adequately under the program, such as not enforcing HUD's housing quality standards.

HUD regulations at 24 CFR 982.305(a) state that the public housing authority may not give approval for the family of the assisted tenancy or execute a housing assistance contract until the authority has determined that the unit has been inspected by the authority and meets HUD's housing quality standards.

HUD regulations at 24 CFR 982.401 require that all program housing meet HUD's housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the tenancy.

HUD regulations at 24 CFR 982.404(a) state that the owner must maintain the unit in accordance with HUD's housing quality standards. If the owner fails to maintain the dwelling unit in accordance with HUD's housing quality standards, the Authority must take prompt and vigorous action to enforce the owner obligations. The Authority must not make any housing assistance payments for a dwelling unit that fails to meet the housing quality standards unless the owner corrects the defect within the period specified by the authority and the authority verifies the correction.

HUD regulations at 24 CFR 982.405(a) require public housing authorities to perform unit inspections before the initial move-in and at least annually. The authority must inspect the unit leased to a family before the term of the lease, at least annually during assisted occupancy, and at other times as needed to determine whether the unit meets housing quality standards.

The Authority's Moving to Work program agreement states that during the term of the agreement, the Authority shall continue to abide by Section 8 of the United States Housing Act of 1937 until such time as the Authority proposes and HUD approves an alternative leased housing program with quantifiable benchmarks. The Authority and HUD will work together to develop more streamlined approaches to demonstrating compliance with the statutory requirements.