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2007-CH-1016

TO: Robert E. Nelson, Director of Public Housing Hub, 5FPH

FROM:  Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The Plymouth Housing Commission, Plymouth, Michigan, Failed to Adequately Administer Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Plymouth Housing Commission's (Commission) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our annual audit plan. We selected the Commission based upon a risk analysis that identified it as having a high-risk program. Our objective was to determine whether the Commission administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the second of two audit reports on the programs administered by the Commission.

What We Found

The Commission's program administration regarding housing unit conditions, the effectiveness of its abatement process, rent reasonableness determinations, zero-income households, and procurement of consulting services was inadequate. Of the 61 housing units statistically selected for inspection, 42 did not meet HUD's housing quality standards, and 38 had 181 health and safety violations that existed at the time of the Commission's previous inspections. The 38 units had between 1 and 15 preexisting health and safety violations per unit. Based on our statistical sample, we estimate that over the next year, HUD will pay more than \$1.4 million in housing assistance on units with housing quality standards violations.

The Commission did not comply with its abatement process. Of the 40 statistically selected program units that failed an annual housing or quality housing standards inspection between October 2006 and April 2007, 13 units with emergency health and safety violations were not corrected in a timely manner. It also failed to abate the housing assistance for nine units and improperly abated the housing assistance payments for eight units.

The Commission did not properly determine the reasonableness of program rents before approving housing assistance contracts for all 66 household files reviewed. It also did not adequately determine income for 7 of 25 households that reported zero income. Further, the Commission did not follow its own procurement policy when it acquired the consulting services of The Schiff Group for the administration of its program.

We informed the Commission's executive director and the Director of HUD's Detroit Office of Public Housing of minor deficiencies through a memorandum, dated September 27, 2007.

What We Recommend

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to reimburse its program from nonfederal funds for the improper use of nearly \$61,000 in program funds and implement adequate procedures and controls to address the findings cited in this audit report. These procedures and controls should help ensure that more than \$1.4 million in program funds is spent on housing units that meet HUD's requirements. We also recommend that the Director restrict the Commission's ability to administer other HUD-funded programs until the Commission substantially improves its program administration to ensure compliance with applicable requirements.

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 issued because of the audit.

Auditee's Response

We provided our program review results and supporting schedules to the Director of HUD's Detroit Office of Public Housing and the Commission's executive director during the audit. We also provided our discussion draft audit report to the Commission's executive director, its board president, and HUD's staff during the audit. We held an exit conference with the Commission's executive director on August 27, 2007.

We asked the executive director to provide comments on our discussion draft audit report by August 27, 2007. The executive director provided written comments, dated August 21, 2007. The executive director neither agreed nor disagreed with the five findings. The complete text of the written comments,

along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The Plymouth Housing Commission (Commission) was established by the City of Plymouth, Michigan (City), in November 1963 under the laws of the State of Michigan to provide decent, safe, and sanitary housing for low-income families under the United States Housing Act of 1937. The Commission is governed by a five-member board of commissioners (board) appointed by the city manager to five-year staggered terms. The board's responsibilities include overseeing the Commission's operations, as well as the review and approval of its policies. The board appoints the Commission's executive director, who serves as the board's secretary. The executive director is responsible for fulfilling the goals and objectives established by the board.

The Commission administers its Section 8 Housing Choice Voucher, Public Housing, and Public Housing Capital Fund programs. As of July 2007, it also administers the Dearborn Heights and Ingham County Housing Commissions' Section 8 Housing Choice Voucher programs. The Commission ceased administering the South Lyon Housing Commission's Public Housing program effective July 1, 2007, and will cease to administer the Ingham County Housing Commission's Section 8 Housing Choice Voucher program effective October 1, 2007. It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of July 12, 2007, the Commission had 1,624 program units under contract with annual housing assistance payments totaling more than \$10.5 million in program funds. The Commission also received Housing Choice Voucher/Family Self-Sufficiency Program Coordinators (Coordinators) funds to pay the salaries and fringe benefits of its program staff that coordinate its Family Self-Sufficiency program.

Our objective was to determine whether the Commission administered the Section 8 Housing Choice Voucher programs (programs) in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. This included determining whether (1) the Commission's inspections were sufficient to detect housing quality standards violations and provide decent, safe, and sanitary housing to its residents; (2) the Commission complied with its abatement procedures; (3) the Commission's procedures ensured that program rents were reasonable; (4) the Commission appropriately verified whether reported zero-income households had income; and (5) the Commission followed its requirements regarding the procurement of consulting services. This is the second audit of the Commission's administered programs by HUD's Office of Inspector General (OIG). The first audit report (report number 2007-CH-1012, issued on August 3, 2007) included four findings. The four findings are not repeated in this audit report.

RESULTS OF AUDIT

Finding 1: Controls over Housing Quality Standards Need Improvement

The Commission did not adequately inspect program units in accordance with HUD's housing quality standards. Of the 61 program units statistically selected for inspection, 42 did not meet minimum housing quality standards, and 38 had material violations that existed before the Commission's previous inspections. The violations occurred because the Commission lacked adequate procedures and controls to ensure that housing units met HUD's housing quality standards. As a result, nearly \$36,000 in program funds was spent on units that were not decent, safe, and sanitary. We estimate that over the next year, the Commission will pay more than \$1.4 million in housing assistance on units with housing quality standards violations.

HUD's Housing Quality Standards Not Met

The Commission contracted with Shouldice Home Inspections and Parkside Property Management to perform housing quality standards inspections. Shouldice Home Inspections performed housing quality standards inspections for the Ingham County Housing Commission's program units, and Parkside Property Management performed inspections for the Commission's and the Dearborn Heights Housing Commission's program units. The Commission also contracted with Pieniak Housing Services to perform quality control inspections of it's and the Dearborn Heights Housing Commission's units. We determined that the Ingham County Housing Commission's program units generally met HUD's housing quality standards. Therefore, we limited our inspections to the Commission's and the Dearborn Heights Housing Commission's program units.

From the 429 program units that passed the inspections performed by Parkside Property Management between December 2006 and March 2007, we statistically selected 61 units for inspection by using the Defense Contract Audit Agency's EZ-Quant Statistical Sampling software. The 61 units were inspected to determine whether the Commission ensured that the programs' units met HUD's housing quality standards. Our appraiser inspected the 61 units between March 19 and March 30, 2007.

Of the 61 units inspected, 42 (69 percent) had a total of 360 housing quality standards violations. In addition, 38 units were considered to be in material noncompliance since they had health and safety violations that predated the Commission's previous inspections. Of the 360 violations, 14 units had 20 violations that were identified by the Commission during its previous inspections and were shown on the Commission's inspection reports. The following table categorizes the 360 housing quality standards violations in the 42 units.

Category of violations	Number of violations
Electrical	60
Windows	45
Interior walls	41
Smoke detectors	41
Exterior surfaces	26
Floor	24
Security	21
Lead-based paint	13
Stove	11
Stairs, rails, and porches	11
Ceiling	9
Water heater	9
Heating equipment	9
Tub/shower	8
Roofs/gutters	5
Fire exit	4
Sink or fixed wash basin	4
Foundation	3
Space for storage and preparation of food	3
Toilet	3
Sewer connection	2
Refrigerator	2
Interior air quality	2
Ventilation	1
Garbage and debris	1
Access to unit	1
Infestation	<u>1</u>
Total	<u>360</u>

We provided our inspection results to the Director of HUD's Detroit Office of Public Housing on June 29, 2007, and the Commission's executive director on June 8, 2007.

Electrical Violations

Sixty electrical violations were present in 28 of the Commission's units inspected. The following items are examples of electrical violations listed in the table: outlets with open grounds, no covers on junction boxes, missing breaker on electrical panel, ground fault circuit interrupters not tripping, electrical meters not secured to building exterior, and exposed electrical wires. The following pictures are examples of the electrical-related violations.

Unit #187: Missing breaker on electrical panel cover in basement.



Unit # 5535: Unsecured cover on electric meter box and exposed electrical contacts.



Window Violations

Forty-five window violations were present in 22 of the Commission's program units inspected. The following items are examples of window violations listed in the table: window locks not working properly, windows that do not stay up, drafty windows, and cracked windowpanes. The following picture is an example of the window-related violations identified.

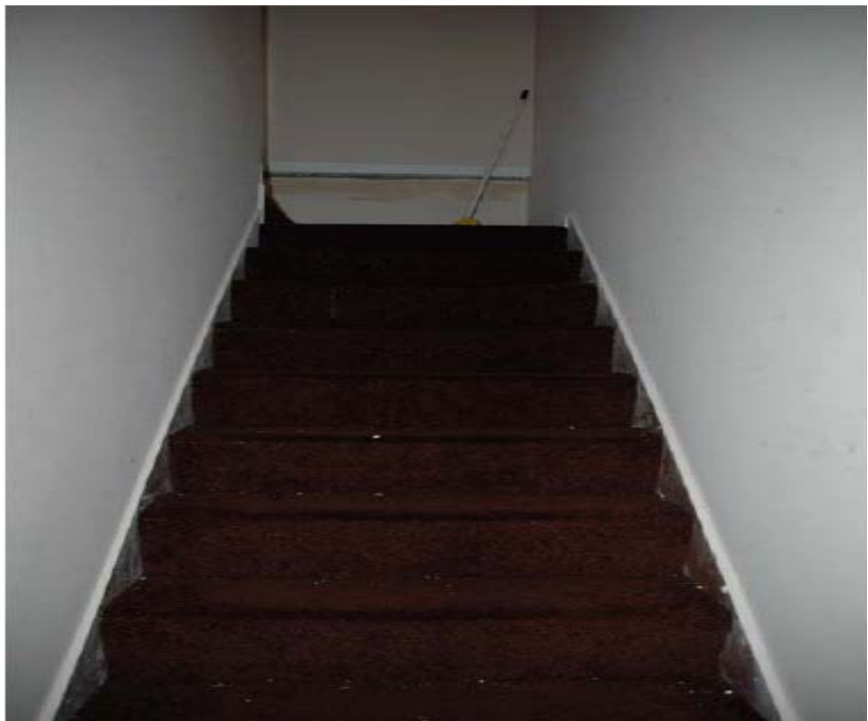
Unit #6857: Broken glass panes on rear porch window that posed a cutting hazard.



Interior Wall Violations

Forty-one interior wall-related violations were present in 24 of the Commission's program units inspected. The following items are examples of interior wall-related violations listed in the table: missing, inoperable, or unstable handrails or guardrails for stairways; peeling paint on walls; nails protruding from walls; and loose shower door frame. The following pictures are examples of interior wall-related violations identified.

Unit # 6857: Stairway to second floor had no handrail. Disabled household members resided in this unit.



Unit # 6827: Nails protruding through garage wall, posing a cutting hazard.



Adequate Procedures and Controls Lacking

The Commission lacked adequate procedures and controls to ensure that program units met HUD's requirements. It also failed to exercise proper supervision and oversight of its program unit and quality control inspections performed by its contractors, Parkside Property Management and Pieniak Housing Services, respectively. When we observed the quality control inspections performed by Pieniak Housing Services, it did not evaluate all electrical outlets to determine whether they were working properly or grounded to avoid an electrical hazard. Additionally, Pieniak Housing Services did not determine during its quality control inspections whether violations existed at the time of prior inspections, which would determine whether the previous inspectors failed to identify the violations.

Also, the Commission did not consistently communicate the results of the quality control inspections to Parkside Property Management. Both contractors stated that they were not aware of the Commission's program administrative plan; however, in their contracts, they were required to perform their housing quality standards inspections in accordance with HUD's requirements and the Commission's program administrative plan.

Conclusion

The Commission's and the Dearborn Heights Housing Commission's households were subjected to health and safety violations, and the Commission did not properly use program funds when it failed to ensure that units complied with HUD's housing quality standards. In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD is permitted to offset program administrative fees

paid to a housing authority if it fails to enforce HUD's housing quality standards. The Commission disbursed \$35,918 in housing assistance payments for the 38 units that materially failed to meet HUD's housing quality standards and received \$2,619 in program administrative fees.

If the Commission does not implement adequate procedures and controls over its unit inspections to ensure compliance with HUD's housing quality standards, we estimate that more than \$1.4 million in future housing assistance payments will be spent for units that are not decent, safe, and sanitary over the next year. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

- 1A. Certify, along with the owners of the 42 program units cited in this finding, that the applicable housing quality standards violations were repaired.
- 1B. Reimburse its program \$38,537 from nonfederal funds (\$35,918 for housing assistance payments and \$2,619 in associated administrative fees) for the 38 units that materially failed to meet HUD's housing quality standards.
- 1C. Implement adequate procedures and controls to ensure that all units meet HUD's housing quality standards to prevent \$1,467,192 in program funds from being spent on units that are not in compliance with the standards over the next year.
- 1D. Implement adequate procedures and controls to ensure that its quality control inspections are conducted and documented and that feedback is provided to inspectors regarding recurring inspection deficiencies.

We also recommend that the director of HUD's Detroit Office of Public Housing

- 1E. Restrict the Commission's ability to administer other HUD funded programs until the Commission substantially improves its program administration to ensure compliance with applicable requirements based upon the findings cited in this audit report and the first audit report (see OIG audit report #2007-CH-1012, issued August 3, 2007), absent sufficient documentation that may be provided by the Commission.

Finding 2: The Commission Did Not Follow Requirements Regarding The Enforcement of Housing Quality Standards

The Commission failed to comply with HUD's requirements and its program administrative plan regarding the enforcement of housing quality standards. Of the 40 program units that failed the Commission's housing quality standards inspections between October 2006 and April 2007, 13 housing units with emergency health and safety violations that needed to be corrected within 24 hours were not verified in a timely manner. It also failed to abate the housing assistance for nine program units and eight units were abated improperly. This noncompliance occurred because the Commission failed to adequately monitor and provide oversight of its contractor, Parkside Property Management. As a result, the Commission overpaid more than \$2,900 and underpaid more than \$1,400 in housing assistance for units that were inappropriately abated or not abated. Further, households were subjected to units that were not decent, safe, and sanitary.

Units with 24-Hour Violations Were Not Verified in a Timely Manner

We statistically selected 40 household files using the Defense Contract Audit Agency's EZ-Quant Statistical Sampling software from the 844 program units that failed the Commission's housing quality standards inspections between October 2006 and April 2007. The 40 household files were reviewed to determine whether the Commission properly enforced HUD's housing quality standards and its own program administrative plan after the units failed inspection. Our review was limited to the information maintained by the Commission in its households' files. The methodology for our statistical selection is explained in the Scope and Methodology section of this audit report.

The Commission did not reinspect program units or verify that units with emergency health and safety violations were corrected in a timely manner. According to section 12.2 of the Commission's program administrative plan, the Commission will not make any housing assistance payment for a dwelling unit that fails to meet HUD's housing quality standards unless the owner corrects the violation within the period specified by the Commission and the Commission verifies the correction. If the violation is an emergency health and safety violation, the owner must correct the violation within 24 hours. Of the 40 household files reviewed, 13 program units were identified as having emergency health and safety violations that needed to be corrected within 24 hours according to the Commission's program administrative plan. However, the Commission could not provide documentation to verify that corrections were made within the 24-hour timeframe. The following are examples of violations that needed to be corrected within 24 hours and verified by the Commission:

- Household 5003 had a basement that was flooded with sewage; however, the violation was not verified as having been corrected until five days after the 24-hour requirement, and was reinspected 21 days later.
- Household 5567 had multiple violations that needed to be corrected within 24 hours, such as no smoke detectors, nonfunctioning window locks, and no lock on a bedroom window. These violations were not verified as having been corrected by the Commission until 27 days after the 24-hour requirement.

Further, during the housing quality standards unit inspections performed by our appraiser, we identified 42 housing units that failed to meet HUD's housing quality standards (see finding 1). Of the 42 units, 26 had emergency health and safety violations that required correction within 24 hours. We notified the Commission of the units that had 24-hour emergency violations within one day of our appraiser's inspections. We informed the Commission that these emergency violations needed to be corrected within 24 hours and that it should notify the applicable owners. We asked the Commission to provide us and HUD with evidence that the violations were either corrected or that abatement action was taken. Of the 26 units, the Commission failed to reinspect or verify the corrections within the required 24-hour timeframe for 16. The Commission took an average of 32 days to verify that the necessary repairs were made after the owners were notified of the violations, with a maximum of 74 days elapsing between the owner's notifications and the Commission's verifications.

Abatement Procedures Were Not Followed

The Commission did not abate program units in accordance with its abatement procedures. According to section 12.2 of the Commission's program administrative plan, when a unit fails to meet housing quality standards and the owner has been given an opportunity to correct the deficiencies, but has failed to do so within the required timeframe, the rent for the dwelling unit will be abated as of the first day of the next month.

Of the 40 household files reviewed,

- The housing assistance payments for nine households were overpaid \$2,761 because the Commission failed to provide documentation that corrections were made within 24-hours when emergency violations were identified;
- The housing assistance payments for one household was overpaid \$165 because the Commission failed to abate the unit for the proper timeframe after the unit failed the reinspection; and
- The housing assistance payments for seven households were underpaid \$1,448 because the Commission failed to abate the units for the appropriate timeframe.

Weaknesses in Procedures and Controls

The weaknesses occurred because the Commission failed to adequately monitor and provide oversight of Parkside Property Management. The Commission did not ensure its contractor identified the violations that needed to be corrected within 24 hours until after our audit began although this requirement was clearly outlined in the Commission's contract with Parkside Property Management and the Commission's program administrative plan. Since the units with emergency health and safety violations were not identified, the Commission was unable to verify whether corrections were made within the required timeframe.

The Commission also did not follow its abatement procedures outlined in its program administrative plan. The plan requires the Commission to abate the unit the first day of the next month. However, it abated housing assistance payments immediately following the second failed inspection and until the unit was determined to be in compliance with HUD's housing quality standards. HUD identified this issue in its 2006 tier 1 confirmatory review. Also, HUD identified that the Commission did not track housing quality standards inspections according to failed item(s) or category. In performing our audit, we found that this issue still existed. Additionally, the Commission had not monitored whether inspections, extensions, or abatements were completed properly since the Section 8 program administrator stopped maintaining an inspection enforcement log in October 2006. Due to the Commission's failure to consistently maintain a tracking method for its housing quality standards unit inspections, it cannot efficiently and effectively perform quality control reviews to ensure that it is enforcing HUD's housing quality standards when a unit fails inspection.

Conclusion

The Commission improperly used its program funds when it failed to comply with HUD's regulations and its administrative plan. As a result, the Commission could not support \$2,761 and inappropriately disbursed \$165 in housing assistance payments for units that should have been abated. Further, it underpaid \$1,448 in housing assistance because it did not follow its administrative plan regarding the timeframe for abatements. Also, the households were subjected to units that were not decent, safe, and sanitary.

In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Commission received \$189 in program administrative fees for the 10 households cited in this finding whose housing assistance was overpaid due to the failure to abide by its abatement and inspection procedures.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

- 2A. Provide supporting documentation or reimburse its program \$2,939 (\$2,761 in housing assistance payments plus \$178 in related administrative fees) from nonfederal funds for the unsupported housing assistance payments and related administrative fees for the nine households cited in this finding.
- 2B. Reimburse its program \$176 (\$165 in housing assistance payments plus \$11 in related administrative fees) from nonfederal funds for the improper housing assistance payments and related administrative fees for the one household cited in this finding.
- 2C. Reimburse the owners of the seven units cited in this finding \$1,448 in housing assistance that was inappropriately abated.
- 2D. Implement adequate procedures and controls to accurately track unit inspection results so that housing quality standards enforcement action can be efficiently and effectively taken.
- 2E. Implement adequate procedures and controls to ensure that the Commission's practice of enforcing housing quality standards meets HUD's requirements and its program administrative plan.

Finding 3: The Commission's Rent Reasonableness Procedures Were Inadequate

The Commission did not determine the reasonableness of its program rents in accordance with its program administrative plan or HUD's requirements. It also did not consistently determine the reasonableness of program rents before housing assistance payment contracts were approved. This condition occurred because the Commission lacked adequate procedures and controls over its rent reasonableness process. As a result, HUD and the Commission lack assurance that contract rents were reasonable.

The Commission Did Not Adequately Determine Rent Reasonableness

From the Commission's 221 households that were either new admissions or transferred to a new unit between October 2006 and April 2007, we statistically selected 66 households' files to determine whether the Commission properly determined the reasonableness of program rents. Our review was limited to the information maintained by the Commission in its households' files. For the 66 household files reviewed, the Commission did not determine the reasonableness of program rents in accordance with its program administrative plan or HUD's requirements.

Of the 66 households' files reviewed,

- 47 had utility allowance calculations for comparable units that were incorrect or had no support for the calculations,
- 39 lacked HUD-required information on utilities to properly calculate the gross rent of comparable units,
- 24 had incorrect contract rents for comparable units due to differing amenities between the assisted units and the comparable units and/or clerical errors,
- 15 were completed after the housing assistance payments contract execution,
- 15 did not have rent reasonableness certifications, and
- Six units had a deficient methodology for determining rent reasonableness.

The Commission's Procedures and Controls Had Weaknesses

The weaknesses in determining the reasonableness of program rents occurred because the Commission lacked adequate procedures and controls over its rent reasonableness process. In September 2006, HUD performed a tier 1 section eight management assessment program confirmatory review of the Commission's

rent reasonableness procedures. The review indicated that there was no adjustment to reflect location, building type, or utility configuration, all of which could vary enormously across the four-county area served by the Commission. For example, the Commission's specialist would apply the same utility allowance configuration to the comparable units as was applicable to the proposed unit in determining comparability.

During the course of HUD's review, the Commission indicated that it had developed a new rent reasonableness system. HUD's review indicated that the Commission needed to continue to work, through its corrective action plan, to determine whether the new system met HUD's regulations. Although the Commission implemented a new database and procedures after HUD's review, its staff immediately discontinued using the database and started using another method to determine rent reasonableness. We determined that the Commission's rent reasonableness system did not provide a gross rent to gross rent comparison to determine a comparable unassisted unit rent and the Commission never sought approval from HUD to determine whether either methodology complied with HUD's requirements. Therefore, the Commission failed to make adequate improvements to its rent reasonableness procedures to address HUD's findings.

In May 2007, the Commission hired a contractor, The Nelrod Company, to implement a new rent reasonableness system.

Conclusion

The Commission failed to comply with HUD's regulations and its program administrative plan when determining the rent reasonableness for program units. As a result, HUD and the Commission lack assurance that the contract rents were reasonable.

In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Commission received \$12,875 in program administrative fees related to the 66 households for which contract rents were inadequately determined to be reasonable.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

- 3A. Reimburse its program \$12,875 from nonfederal funds for the administrative fees related to the 66 households cited in this finding.

- 3B. Ensure that the rent reasonableness system follows HUD regulations and the Commission's program administrative plan for verifying the reasonableness of contract rents.
- 3C. Implement adequate procedures and controls over its rent reasonableness process to include but not limited to verifying the reasonableness of rents before executing housing assistance payments contracts with owners and maintaining complete and accurate documentation.

Finding 4: The Commission's Zero-Income Households Had Unreported Income

The Commission did not effectively use HUD's Enterprise Income Verification system (system) or other third-party verification methods to determine that reported zero-income households had unreported income. Of the 25 households reviewed, seven had unreported income that affected their housing assistance payments. This condition occurred because the Commission lacked adequate procedures and controls to perform appropriate income verification. As a result, it unnecessarily paid housing assistance and utility allowance payments totaling more than \$9,000 for households that were required to meet their rental obligations.

Households Had Unreported Income

We reviewed all 25 households that reported zero income as of October 2006 to determine whether they had income for the period January 1, 2005, through December 31, 2006. Of the 25 households reviewed, seven had income not reported to the Commission but income information was available in the household files. Therefore, the Commission provided excessive housing assistance and utility allowance payments for households. Our review was limited to the information maintained in the household files and HUD's system.

The following are examples of households with unreported income:

- Household 6237 had income, according to HUD's system, totaling \$23,148. Since the household had income, the Commission overpaid \$1,976 in housing assistance and \$90 in utility allowance. The total overpayment for this household was \$2,066 (\$1,976 plus \$90) from September to December 2006. The household file contained information obtained from HUD's system during August 2006 that indicated a member of the household was hired in July 2006. However, the Commission failed to perform proper third-party verification of this potential income source.
- Household 3432 had income, according the HUD's system, totaling \$34,184. Since the household had income, the Commission overpaid \$3,212 in housing assistance and \$204 in utility allowance. The overpayment for the household was \$3,416 (\$3,212 plus \$204) from August to November 2005. The household file included an employment verification form dated January 2006. However, this third-party verification indicated that the tenant began employment in June 2005.

According to HUD's Public and Indian Housing Notice 2005-9, as a possible way to reduce costs, program households can be required to report all increases in income between reexaminations, and public housing authorities can conduct more frequent interim income reviews for families reporting no income. According to

the Commission's recertification policy and its administrative policy, households claiming zero income will have their income status verified every 30 days.

The Commission Lacked Adequate Procedures and Controls

The overpayment of \$8,594 in housing assistance and \$669 in utility allowances to households that reported zero income but had income occurred because the Commission lacked adequate procedures and controls for performing appropriate income verification. The Commission needs to make full use of HUD's system or perform other third-party income verification for all households at the time of examinations.

Further, the Commission did not ensure that its staff took appropriate steps to determine whether households reporting zero income had unreported income. Periodic quality control reviews are an important step in ensuring that the Commission's housing assistance and utility allowance payments are accurate.

As a result of the Commission's failure to properly verify household income for its zero-income households, HUD paid \$9,263 (\$8,594 plus \$669) in housing assistance and utility allowances for households that were required to meet their rental obligations.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

- 4A. Pursue collection from the applicable households or reimburse its program \$9,263 (\$8,594 in housing assistance plus \$669 in utility allowances) from nonfederal funds for the overpayment of housing assistance and utility allowances cited in this finding.
- 4B. Implement adequate controls and procedures to ensure that its households that report zero income do not have income that would result in an overpayment of housing and utility assistance.

Finding 5: The Commission Failed to Follow Its Procurement Policy Regarding Consulting Services

The Commission did not follow its procurement policy when it obtained The Schiff Group to provide consulting services for its program. This noncompliance occurred because the Commission lacked adequate procedures and controls to ensure that its procurement policy was followed and did not have an adequate contract administration system. As a result, the Commission risked expending program funds on unreasonably priced consulting services and may have limited the number of contractors and cost options from which to choose.

The Commission Did Not Follow Its Procurement Policy

In September 2006, the Commission obtained the services of The Schiff Group to provide consulting services regarding the administration of its program. The consulting services included a report on:

- Findings of the household files reviewed and any recommendations.
- Status of the section eight management assessment program review and any recommendations.
- Any recommendations regarding program management.
- Recommendations on the organizational structure of the Commission's program staff, to include recommended caseload size and management functions.
- Findings of the Family Self Sufficiency Program review and recommendations.
- Recommendations on a quality assurance program.
- Recommendations on training needs.

We reviewed the Commission's procurement procedures for obtaining the services of The Schiff Group to determine whether the Commission followed its procurement procedures. The Commission lacked documentation to show that

- An independent cost estimate was performed before issuing a request for proposal.
- A mechanism for fairly and thoroughly evaluating the technical and price proposals was in place before the solicitation was issued.
- The bidders solicited were on the Commission's prequalified bidders list.
- A cost analysis was performed to evaluate the reasonableness of bid proposals submitted.
- The Schiff Group performed the services as stated in the bid proposal, except for a review of the Family Self-Sufficiency Program.

Additionally, the Commission did not ensure that it consistently complied with its procurement policy when it did not: (1) give public notice of the procurement; (2) require The Schiff Group to provide a cost breakdown showing projected costs for the contract consulting services; and (3) execute a contract with The Schiff Group that contained the necessary information and provisions as detailed in its procurement policy.

The Commission indicated that the services under contract with The Schiff Group have been ongoing since the contract execution in September 2006. The Commission further indicated that the contract will be amended to include additional services.

Conclusion

The noncompliance occurred because the Commission failed to adhere to the procedures outlined in its procurement policy. The Commission's executive director did not assume the responsibilities for managing the procurement process, and the Commission did not maintain a contract administration system designed to ensure that The Schiff Group performed in accordance with its contract as required by the Commission's procurement policy.

As a result, the Commission may have expended program funds on unreasonably priced consulting services. Also, it potentially limited the number of contractors and cost options from which to choose for the consulting services.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

- 5A. Implement adequate procedures and controls to ensure that it complies with its procurement policy when contracting for consulting services.
- 5B. Implement a contract administration system to ensure that contractors perform in accordance with their contracts as required by the Commission's procurement policy.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws and regulations; the Commission's program administrative plan, effective March 2006; HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Parts 5 and 982; and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Commission's accounting records, annual audited financial statements for 2006, general ledgers, bank statements and cancelled checks, program household files, computerized databases, board meeting minutes for 2005 and 2006, organizational chart, service agreements, and program annual contributions contract.
- HUD's reports and files for the Commission.

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

Finding 1

We statistically selected 61 of the Commission's program units to inspect using the Defense Contract Audit Agency's EZ-Quant Statistical Sampling software from the 429 units that passed inspection by the Commission from December 2006 through March 2007. The 61 units were selected to determine whether the Commission's program units met HUD's housing quality standards. Our sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus 10 percent.

Our sampling results determined that 38 of 61 units (62.3 percent) materially failed to meet HUD's housing quality standards. Materially failed units were those units with emergency health and safety violations that preceded the Commission's previous inspections.

The Commission's July 2007 household listing showed that the average monthly housing assistance payment was \$541. Projecting our sampling results of the 38 units that materially failed to meet HUD's housing quality standards to the population indicates that 226 units or 52.84 percent of the population contains the attributes tested (would materially fail to meet HUD's housing quality standards). The sampling error was plus or minus 9.45 percent. In other words, we are 90 percent confident that the frequency of occurrence of the attributes tested lies between 52.84 and 71.75 percent of the population. This equates to an occurrence of between 226 and 307 units of the 429 units in the population.

- The lower limit is 52.84 percent times 429 units = 226 units that materially failed to meet HUD's housing quality standards.
- The point estimate is 62.30 percent times 429 units = 268 units that materially failed to meet HUD's housing quality standards.
- The upper limit is 71.75 percent times 429 units = 307 units that materially failed to meet HUD's housing quality standards.

Using the lower limit of the estimate of the number of units and the average housing assistance payment, we estimate that the Commission will annually spend \$1,467,192 (226 units times \$541 average payment times 12) for units that materially fail to meet HUD's housing quality standards. This estimate is presented solely to demonstrate the annual amount of program funds that will be correctly paid over the next year on decent, safe, and sanitary housing if the Commission implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate. We also considered that the Commission's contractor did not identify many of the preexisting violations during its most recent inspections.

Finding 2

We statistically selected 48 of the program households' files using the Defense Contract Audit Agency's EZ-Quant Statistical Sampling software from the 844 program units that failed the Commission's housing quality standards unit inspection between October 2006 and April 2007. The 48 household files were reviewed to determine whether the Commission properly enforced HUD's housing quality standards and its own program administrative plan after the units failed inspection. Our sampling criteria used a 90 percent confidence level, 25 percent estimated error rate, and precision of plus or minus 10 percent. Our sample was reduced to 40 household files because the initial inspection for eight of the households in our sample was performed before October 2006.

Finding 3

We statistically selected 66 of the program households' files using ACL Services Limited software from the 221 households that were either new admissions or transferred to a new unit within the Commission's program between October 1, 2006, and April 30, 2007. The 66 households were selected to determine whether the Commission properly determined the rent reasonableness of the unit in accordance with HUD's and the Commission's requirements before executing a housing assistance payments contract. Our sampling criteria used a 90 percent confidence level.

We performed our onsite audit work from March through July 2007 at the Commission's administrative offices, located at 1160 Sheridan, Plymouth, Michigan. The audit covered the period January 1, 2005, through September 30, 2006, and was expanded as determined necessary.

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,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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 management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

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

- The Commission lacked adequate procedures and controls to ensure compliance with HUD's requirements and/or its program administrative plan regarding unit inspections, enforcement of housing quality standards, rent reasonableness, and reported zero-income households that had income (see findings 1, 2, 3, and 4).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1B	\$38,537		
1C			\$1,467,192
2A		<u>\$2,939</u>	
2B	176		
2C			<u>1,448</u>
3A	12,875		
4A	<u>9,263</u>		
Totals	<u>\$60,851</u>	<u>\$2,939</u>	<u>\$1,468,640</u>

- 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 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.
- 3/ 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 these instances, if the Commission implements our recommendation, it will cease to incur program costs for units that are not decent, safe, and sanitary and, instead, will expend those funds in accordance with HUD's requirements. Once the Commission 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



Sharon Lee Thomas
Director

Plymouth Housing Commission

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PLYMOUTH, MICHIGAN 48170
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August 21, 2007

Mr. Heath Wolfe
Regional Inspector General for Audit, Region V
U.S. Department of HUD
77 West Jackson Blvd, Suite 2646
Chicago, Illinois 60604

2007 AUG 22 AM 11:52
RECEIVED
OFFICE OF THE
REGIONAL INSPECTOR
GENERAL FOR AUDIT
REGION V
CHICAGO, ILLINOIS

Dear Mr. Wolfe:

Below please find Plymouth Housing Commission's response to the findings indicated under the Discussion Draft Audit Report on OIG's Phase 2 Audit of the Section 8 Housing Choice Voucher Program.

Please do not respond in the completed version that "The Executive Director generally agreed with our findings". I stated that all findings would be reviewed, investigated and corrected, if needed, by December 31, 2007. That in no way implies that we agree with all of the findings. Please correct this in the Phase 2 letter.

FINDING 1: Controls Over HQS Need Improvements

Plymouth Housing Commission has retained the services of an outside inspection company to investigate the findings as listed. The results of this report will be forwarded to you no later than December 31, 2007.

FINDING 2: The Commission Did Not Follow Requirements Regarding The Enforcement of Housing Quality Standards

This finding will be investigated and the results of our investigation and change of policy, if necessary, will be forwarded to you no later than December 31, 2007.

TONQUISH CREEK MANOR

Comment 1

Comment 1

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

Mr. Heath Wolfe
August 21, 2007
Page Two

FINDING 3: The Commission's Rent Reasonableness Procedures Were Inadequate.

Plymouth Housing Commission has signed a contract with The Nelrod Group for assistance with the Rent Reasonableness portion of the administration of the Section 8 program. All areas of concern on this finding will be investigated and reported to you no later than December 31, 2007.

Comment 1

FINDING 4: The Commission's Zero-Income Households Had Unreported Income

This finding will be investigated and the results of our investigation and change of policy, if necessary, will be forwarded to you no later than December 31, 2007.

Comment 1

FINDING 5: PROCUREMENT POLICY

This finding will be investigated and the results of our investigation and change of policy, if necessary, will be forwarded to you no later than December 31, 2007.

Comment 2

On page 2 of the Audit Report, under "What We Recommend", you state "We also recommend that the director restrict the Commission's ability to administer other HUD-funded programs until the Commission substantially improves its program administration to ensure compliance with applicable requirements." We are aware of where this recommendation came from and we do not feel that any such statement should be published until after our responses have been evaluated by the Department of HUD.

Sincerely,



Sharon Lee Thomas
Director

OIG's Evaluation of Auditee Comments

- Comment 1** The Commission should provide its review results to HUD's Detroit Office of Public Housing, not OIG.
- Comment 2** The recommendation was based solely on the findings identified in this audit report and the first audit report (see OIG audit report #2007-CH-1012, issued August 3, 2007).

Appendix C

FEDERAL REQUIREMENTS AND THE COMMISSION'S POLICIES

Finding 1

HUD's 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's regulations at 24 CFR [*Code of Federal Regulations*] 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 following meet program requirements: (1) the unit is eligible, and (2) the unit has been inspected by the authority and passes HUD's housing quality standards.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 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's regulations at 24 CFR [*Code of Federal Regulations*] 982.404 require owners of program units to maintain the units 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's obligations. The authority's remedies for such breach of the housing quality standards include termination, suspension, or reduction in housing assistance payments and termination of the housing assistance payments contract. 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. If a defect is life threatening, the owner must correct the defect within 24 hours. For other defects, the owner must correct them within 30 calendar days.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 24.982.405(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.

HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 10, pages 32 through 33, states that quality control reinspections should be conducted by staff trained in the public housing agency's inspection standards, and staff should receive the same guidance as other public housing agency inspectors on inspection policies and procedures. In addition to monitoring section eight management assessment program compliance, quality control inspections provide feedback on inspectors' work, which can be used to determine whether

individual performance or general housing quality standards training issues need to be addressed. For section eight management assessment program purposes, a housing quality standards deficiency found at the time of the quality control reinspection represents a failed quality control inspection. When rating an individual inspector's performance, the quality control inspector should take into account whether the failed item occurred since the previous inspector was on site. Often the tenant can describe when the deficiency occurred and will be helpful in making this determination. Deficiencies that occurred after the original inspection should not be held against the inspector's performance record. The public housing agency should maintain a quality control tracking system for each program year, which indicates the address of the units; date of original inspection and inspector; date of the quality control inspection; and location of the unit by neighborhood, zip code, and census tract.

Section 12 of the Commission's program administrative plan states that the Commission will inspect all units to ensure that they meet housing quality standards. No unit will be initially placed on the Section 8 existing program unless housing quality standards are met. Units will be inspected at least annually, and at other times as needed, to determine whether the units meet housing quality standards. Section 12.5 includes the Commission's HUD-approved exceptions to housing quality standards.

Finding 2

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.54 require authorities to adopt a written administrative plan that establishes local policies for the administration of the program in accordance with HUD requirements. The administrative plan states the authorities' policies on matters for which authorities have discretion to establish local policies. The authorities must administer the program in accordance with their administrative plan.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.404 require owners of program units to maintain the units 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's obligations. The authority's remedies for such breach of the housing quality standards include termination, suspension, or reduction in housing assistance payments and termination of the housing assistance payments contract. 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. If a defect is life threatening, the owner must correct the defect within 24 hours. For other defects, the owner must correct them within 30 calendar days.

HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 10, section 10.6, pages 27 through 28, states that the public housing agency must abate housing assistance payments to the owner for failure to correct a housing quality standards violation under the following circumstances: an emergency (life-threatening) violation is not corrected within 24 hours of inspection, and the public housing agency did not extend the time for compliance or a routine violation is not corrected within 30 days of the inspection and the public housing agency did not extend the time for compliance. Abatements must begin on the first of the month following the failure to comply.

The public housing agency must terminate the housing assistance payments contract if repairs are not made. The public housing agency must decide how long abatement will continue before contract termination. The public housing agency should not terminate the contract until the family finds another unit provided the family does so in a reasonable time. The public housing agency must terminate program assistance to families who fail to correct housing quality standards deficiencies that they caused. The public housing agency should notify the owner of its intent to terminate the family's program assistance so the owner can begin eviction procedures. The public housing agency should continue to pay the owner until the eviction is completed.

The inspector conducts the unit inspection. Each item on the inspection checklist must receive a rating of pass, fail, or inconclusive. The inspector should make clear notes about the nature of all failed and inconclusive items. For the unit to receive a pass rating, no failed or inconclusive items can be noted on the inspection checklist. Written notification to the owner and/or household is required for all failed or inconclusive items. The notice must include a list of housing quality standards deficiencies and the correcting deadline. Reinspection or public housing agency verification that failed and/or inconclusive items are corrected is required. Any time an inspector is present in an assisted unit, the inspector has the right to conduct a full inspection. If new housing quality standards items are discovered during a reinspection, the new items must be noted, and the owner and/or household must be notified to correct the deficiencies. Owners are responsible to the public housing agency for compliance with all housing quality standards items except those specifically assigned to households.

Section 10.9, pages 33 through 34, further states that for housing quality standards deficiencies that are the owner's responsibility and are not corrected within the prescribed timeframes, the public housing agency must abate housing assistance payments beginning no later than the first of the month following expiration of the public housing agency violation notice. Violation notices should contain language regarding abatement of payment for owner failure to make corrections. For housing quality standards deficiencies that are the responsibility of the tenant and are not corrected within the prescribed timeframes, the public housing agency must take prompt and vigorous action to enforce family obligations following program requirements.

The public housing agency should establish the definition of deficiencies that will be considered emergency fail items and should put a procedure in place to record, track, and close violations within 24 hours of inspection or take abatement action.

Promptly following inspection, public housing agencies should issue violations letters for emergency failures to the responsible party. This may be done by fax, courier, overnight mail, or regular mail and should be followed by personal contact. Public housing agencies should have a system to cover these circumstances on weekends and holidays when staff is not readily available to conduct reinspections. Potential approaches include phone calls to the household or owner within the 24-hour period to verbally determine compliance, followed by a site reinspection the next business day; rotation of inspectors to cover holiday and Saturday reinspections; receipt by fax of owner/household certifications that corrections are made within the required timeframe; or telephone confirmation to a voice mail system followed by a reinspection on the next business day. Promptly following inspection, notices to correct routine violations should be issued and should state a date for compliance that allows time for corrections to be made and a reinspection to be conducted within the 30-day timeframe. Letters

of violation should clearly state that failure to gain entry to the unit or failure to comply will result in abatement of assistance payments on the first of the month following the correction period.

Inspectors must identify the party responsible for each housing quality standards violation listed on the inspection instrument so that proper notice can be sent to the owner and/or household for the appropriate items. This precludes abatement of owner rent when the violation(s) is the responsibility of the household. Housing assistance payments are never abated for household deficiencies.

The public housing agency must have a system to promptly identify units for which deficiencies have not been corrected within the required timeframe in order to indicate abatement of rent and/or termination of assistance to the family. Termination of assistance procedures should be stated in the public housing agency administrative plan. To meet the section eight management assessment program requirement to “take prompt and vigorous action” for household violations the public housing agency should strictly follow these procedures when the family fails to correct housing quality standards violations.

Public housing agencies should monitor housing quality standards enforcement on a regular basis (daily, weekly, or monthly) to guarantee that reinspections occur within the proper timeframes. Public housing agencies may not penalize owners for public housing agency failure to conduct the reinspections on time. However, if owners fail to comply or allow entry into the unit, the public housing agency should notify the owner that it will begin abatement in 30 days. For fairness and consistency, public housing agencies should have an established policy and procedure for receiving and processing requests for housing quality standards compliance, including the conditions under which extensions will be granted. It is not advisable to grant extensions without just cause or to grant verbal extensions; this can be construed as circumvention of the section eight management assessment program requirement.

The public housing agency must have a system to record the results of section eight management assessment program quality control reviews of inspections. At a minimum, the system should provide the address of the unit, date of the original failed inspection, responsibility for the deficiency (household or owner), date of the reinspection, result(s) of the reinspection, date the owner was notified of abatement, actual date of the abatement, any extensions to that date, and initiation and status of the termination of tenancy. The public housing agency should regularly monitor the tracking system to assure compliance.

Chapter 12 of the Commission’s program administrative plan, dated March 2006, states that if the family misses the scheduled inspection and fails to reschedule the inspection, the Commission will only schedule one more inspection. If the family misses two inspections, the Commission will consider the family to have violated a family obligation and its assistance will be terminated.

Section 12.2, paragraph A, part 2, states that if the owner fails to maintain the dwelling unit in accordance with housing quality standards, the Commission will take prompt and vigorous action to enforce the owner obligations. The Commission’s remedies for such breach of the housing quality standards include termination, suspension or reduction of housing assistance payments and termination of the housing assistance payments contract. Part 3 states that the

Commission will not make any housing assistance payments for a dwelling unit that fails to meet housing quality standards, unless the owner corrects the defect within the period specified by the Commission and the Commission verifies the correction. If a defect is life threatening, the owner must correct the defect within 24 hours. For other defects the owner must correct the defect within 30 calendar days (or any Commission-approved extension). If the required repair is not made in a timely manner, the rent shall be abated beginning with the next rent check. If two consecutive checks are abated, the assistance shall be cancelled. Part 4 states that the owner is not responsible for a breach of the housing quality standards that is not caused by the owner, and for which the family is responsible. Further, the Commission may terminate assistance to a family because of the housing quality standards breach caused by the family.

Section 12.5 of the Commission's program administrative plan indicates the Commission-imposed timeframes for correcting housing quality standards failed items. Emergency repair items must be corrected within 24 hours. Repair of refrigerators, range and oven, or a major plumbing fixture supplied by the owner must be abated within 72 hours. Section 12.7 lists examples of emergency items that need to be abated within 24 hours.

Section 12.8 states that when a unit fails to meet housing quality standards and the owner has been given an opportunity to correct the deficiencies but has failed to do so within in the required timeframe, the rent for the dwelling unit will be abated as of the first day of the next month. If the corrections of deficiencies are not made, the abatement will continue until the housing assistance payments contract is terminated. When the deficiencies are corrected (within the 30-day timeframe), the Commission will end the abatement the day the unit passes inspection. Rent will resume the day the unit passes inspection and be paid the first day of the next month. For participant-caused housing quality standards deficiencies, the owner will not be held accountable, and the rent will not be abated. The participant is held to the same standard and timeframes for correction of deficiencies as owners. If repairs are not completed by the deadline, the Commission will send a notice of termination to both the participant and the owner. The participant will be given the opportunity to request an informal hearing. Housing assistance payments contracts will be terminated after giving the owner 30 calendar days' notice from the first day of a month. The termination notice will be sent with the notice of abatement. Termination will end any abatement action.

Finding 3

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.507(a) and (b) state that the housing authority may not approve a lease until the authority determines that the initial rent to owner is a reasonable rent. The housing authority must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units. To make this determination, the public housing agency must consider the location, quality, size, unit type, and age of the contract unit and any amenities, housing services, maintenance, and utilities to be provided by the owner in accordance with the lease.

HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 9, section 9.2, states, "In each case where the public housing agency is required to determine rent reasonableness, it must document its decision and the basis for it (i.e., information on the unassisted units compared) in the household's file. This documentation should identify who conducted the rent reasonableness determination and when."

HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 9, section 9.4, states, "In order to compare program units to market units, it is necessary to collect comparable information on the program units."

Section 6.5 of the Commission's program administrative plan, dated March 2006, states that the Commission will approve a lease if the rent to owner is reasonable.

Section 11.3 of the Commission's program administrative plan, dated March 2006, states that in making a rent reasonableness determination, the Commission will compare the rent for the unit to the rent of comparable units in the same or comparable neighborhoods. The Commission will consider the location, type, quality, size, number of bedrooms, age, amenities, housing services, maintenance and utilities of the unit and the comparable units. The results of this determination shall be documented in the participant's file.

Finding 4

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.240(c) state that public housing agencies must verify the accuracy of the income information received from a household and change the amount of the total tenant payment, tenant rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

Section 5.3 of HUD's Housing Choice Voucher Program Guidebook 7420.10 requires authorities to recalculate households' annual income at least annually. Section 12.3 states that it is important that the public housing agency has tracking and monitoring procedures and systems in place to ensure that the required reexaminations for each assisted family are initiated and completed on time. Section 12.6 states that public housing agencies must develop their own interim reporting requirements, which must be stated in the administrative plan and the briefing materials. The policy must include clear guidance on when (how soon after the change occurs) and under what circumstances the family must report a change in family income. Agencies must apply interim reporting rules uniformly to all families. Verification rules are the same as those used for annual reexaminations, except only those factors that changed will need to be verified at an interim reexamination. A family's failure to abide by an agency's interim reporting requirements is cause for termination of assistance.

As of June 2005, section 10.1 of the Commission's program administrative plan states that the Commission will use five verification methods in the following order: (1) up-front income verifications, (2) third-party written verifications, (3) third-party oral verifications, (4) household documentation reviews, and (5) self-certifications and self-declarations. The Commission allows three weeks for the return of third-party written verifications before obtaining third-party oral verifications and five business days to obtain third-party oral verifications before requesting household documentation. The Commission will maintain income documentation in the household files.

Section 14.2 states that families will be required to report any increase of \$50 or more per week in income or decreases in allowable expenses between annual reexaminations. As of June 2005, section 14.3 states that if the Commission makes a mistake in calculating a household's rent contribution and overcharges the household, the household shall receive a refund for the amount of the mistake going back a maximum of 12 months. The Commission shall refund the

household as soon as practical. However, if the household owes the Commission money, it will first offset the debt as much as possible.

Finding 5

The Commission's procurement policy obtained from its 2000 agency plan indicated the following:

Section 1.4 – Executive Director's Responsibilities

The contracting officer shall administer all procurement transactions. The contracting officer shall be the executive director or any other individual so designated by the executive director. Any delegations of contracting authority must be documented in writing. Contract award is made to the offeror whose proposal offers the greatest value to the Commission, considering price, technical, and other factors as specified in the solicitation (for contracts awarded based on competitive proposals); unsuccessful firms are notified within 10 days (or other period required by state or local law) after contract award.

Paragraph B states that contracts and modifications are in writing and clearly specify the desired supplies, services, or construction, and are supported by sufficient documentation regarding the history of the procurement, including as a minimum the method of procurement chosen, the selection of the contract type, the rationale for selecting or rejecting offers, and the basis for the contract price and that contracts and modifications are awarded only by the Commission's employees designated in writing as having such authority.

Paragraph C states that for procurements other than small purchases, public notice is given of each upcoming procurement, an adequate period is provided for preparation and submission of bids or proposals and notice of contract awards is made available to the public.

Paragraph E states that an independent cost estimate is prepared before solicitation is issued and is appropriately safeguarded for each procurement above the small purchase limitation, and a cost or price analysis is conducted of the responses received for all procurements.

Section 1.6 – Qualified Bidders List

Interested businesses shall be given an opportunity to be included on a qualified bidder's list. Any prequalified lists of persons, firms, or products, which are used in the procurement of supplies and services, shall be kept current and shall include enough qualified sources to ensure competition. Solicitation mailing lists of potential contractors shall include but not be limited to such prequalified suppliers.

Section 2.3 – Competitive Proposals

Paragraph A, Conditions for Use states that competitive proposals may be used if there is an adequate method of evaluating technical proposals. An adequate number of qualified sources shall be solicited (normally, at least three).

Paragraph B, Solicitation states that the request for proposals shall clearly identify the relative importance of price and other evaluation factors and subfactors, including the weight given to each technical factor and subfactor. A mechanism for fairly and thoroughly evaluating the

technical and price proposals shall be established before the solicitation is issued. The proposals shall be evaluated only on the criteria stated in the request for proposals.

Section 2.5 – Cost and Price Analysis

Paragraph A states that some form of cost or price analysis shall be performed for all procurement actions, including contract modifications, using the procedures described in HUD Handbook 2210.18. The degree of analysis shall depend on the facts surrounding each procurement.

Paragraph B, Submission of Cost or Pricing Information, states that if the procurement is deemed necessary by the Commission (e.g., when contracting for professional, consulting, or architect/engineer services) the offeror shall be required to submit

- A cost breakdown showing projected costs and profit,
- Commercial pricing and sales information, sufficient to enable the Commission to verify the reasonableness of the proposed price as a catalog or market price of a commercial product sold in substantial quantities to the general public, or
- Documentation showing that the offered price is set by law or regulation.

Paragraph C, Cost Analysis states that cost analysis shall be performed if an offeror/contract is required to submit a cost breakdown as part of its proposal.

Section 3.1 - Contract Types

A time and material contract may be used only if a written determination is made that no other contract type is suitable and the contract includes a ceiling price that the contractor exceeds at its own risk. A cost reimbursement contract shall not be used unless it is likely to be less costly or it is impracticable to satisfy the Commission's needs; otherwise, the proposed contractor's accounting system is adequate to allocate costs in accordance with applicable cost principles (for commercial firms, see HUD Handbook 2210.18), and the contract is paid only allowable costs.

Section 3.3 – Contract Clauses

In addition to containing a clause identifying the contract type, all contracts shall include any clauses required by federal statutes, executive orders, and their implementing regulations as provided in 24 CFR [*Code of Federal Regulations*] 85.36(i). The section included 15 clauses in the procurement policy.

Section 3.4 – Contract Administration

A contract administration system designed to ensure that contractors perform in accordance with their contracts shall be maintained. The system shall include procedures for inspection of supplies, services, or construction, as well as monitoring contractor performance, status reporting on construction contracts, and similar matters.

Appendix D

UNITS WITH PREEXISTING HEALTH AND SAFETY VIOLATIONS

Household number	Housing assistance payment	Last unit inspection	From	To	Improper housing assistance payment	Improper administrative fee
187 ¹	\$791	Jan. 8, 2007	Feb. 1, 2007	Mar. 20, 2007	\$1,301	\$73
228	895	Dec. 19, 2006	Feb. 1, 2007	Mar. 21, 2007	1,501	75
247 ¹	590	Feb. 1, 2007	Mar. 1, 2007	Mar. 20, 2007	381	29
800 ¹	816	Feb. 27, 2007	Mar. 1, 2007	Mar. 21, 2007	553	30
1348	502	Dec. 18, 2006	Feb. 1, 2007	Mar. 27, 2007	939	87
1452	472	Jan. 8, 2007	Mar. 1, 2007	Mar. 22, 2007	335	33
2488	449	Dec. 4, 2006	Feb. 1, 2007	Mar. 27, 2007	840	84
2601 ¹	255	Jan. 26, 2007	Feb. 1, 2007	Mar. 23, 2007	444	78
3348 ¹	575	Jan. 23, 2007	Feb. 1, 2007	Mar. 21, 2007	965	75
3382 ¹	747	Jan. 2, 2007	Feb. 1, 2007	Mar. 21, 2007	1,253	78
4761	759	Dec. 6, 2006	Feb. 1, 2007	Mar. 19, 2007	1,224	72
4768	637	Dec. 4, 2006	Feb. 1, 2007	Mar. 27, 2007	1,192	84
4782 ¹	664	Jan. 2, 2007	Feb. 1, 2007	Mar. 27, 2007	1,242	84
4823 ¹	758	Jan. 4, 2007	Feb. 1, 2007	Mar. 27, 2007	1,418	87
5413	769	Dec. 8, 2006	Feb. 1, 2007	Mar. 23, 2007	1,340	78
5480	871	Jan. 2, 2007	Mar. 1, 2007	Mar. 21, 2007	590	31
5484 ¹	561	Jan. 11, 2007	Feb. 1, 2007	Mar. 20, 2007	923	74
5486	351	Feb. 1, 2007	--	--	--	--
5509 ¹	566	Jan. 2, 2007	Feb. 1, 2007	Mar. 21, 2007	949	78
5522 ¹	530	Feb. 7, 2007	Mar. 1, 2007	Mar. 29, 2007	496	42
5535	681	Mar. 1, 2007	--	--	--	--
5702 ¹	683	Feb. 13, 2007	Mar. 1, 2007	Mar. 21, 2007	463	30
6821 ²	697	Feb. 1, 2007	Feb. 1, 2007	Mar. 20, 2007	1,147	74
6433 ¹	749	Dec. 7, 2006	Jan. 1, 2007	Mar. 27, 2007	2,150	128
6441 ¹	617	Dec. 13, 2006	Jan. 1, 2007	Mar. 19, 2007	1,612	117
6461	650	Jan. 11, 2007	Mar. 1, 2007	Mar. 22, 2007	461	32
6476	470	Jan. 5, 2007	Mar. 1, 2007	Mar. 23, 2007	349	33
6492 ¹	682	Feb. 6, 2007	Mar. 1, 2007	Mar. 29, 2007	638	42
6524	173	Feb. 2, 2007	--	--	--	--
6724 ²	678	Dec. 4, 2006	Dec. 8, 2006	Mar. 22, 2007	2,379	163
6753 ²	401	Dec. 18, 2006	Dec. 19, 2006	Mar. 22, 2007	1,261	140
6769 ²	689	Jan. 4, 2007	Jan 4, 2007	Mar. 22, 2007	1,821	118
6784 ¹	614	Jan. 11, 2007	Feb. 1, 2007	Mar. 20, 2007	1,010	74
6799 ²	620	Dec. 21, 2006	Dec. 21, 2006	Mar. 22, 2007	1,907	137
6819 ²	576	Jan. 29, 2007	Jan. 30, 2007	Mar. 29, 2007	1,153	93
6827 ²	353	Feb. 8, 2007	Feb. 9, 2007	Mar. 20, 2007	463	61
6831 ²	557	Feb. 2, 2007	Feb. 2, 2007	Mar. 19, 2007	575	48
6857 ²	506	Feb. 15, 2007	Feb. 17, 2007	Mar. 27, 2007	643	57
Totals					\$35,918	\$2,619

¹ The unit contained emergency health and safety violations requiring correction within 24 hours; therefore, the housing assistance payment is considered eligible the first of the month following the failure to comply.

² The last unit inspection was an initial inspection; therefore, the housing assistance payment should not have been paid until the unit met HUD's housing quality standards.