



Issue Date	November 8, 2007
Audit Report Number	2008-AT-1001

TO: Olga I. Saez, Director, Public and Indian Housing, San Juan Field Office, 4NPH

James D. McKay

FROM: James D. McKay, Regional Inspector General for Audit, 4AGA

SUBJECT: The Municipality of Ponce, PR, Needs to Improve Controls over Its Section 8 Program

HIGHLIGHTS

What We Audited and Why

As part of the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General's (OIG) strategic plan, we audited the Municipality of Ponce (authority) Section 8 Housing Choice Voucher program. The authority was selected for review based on a risk assessment. Our audit objectives were to determine whether Section 8 units met housing quality standards in accordance with HUD requirements and whether the authority properly paid program landlords and properly determined housing assistance subsidies.

What We Found

Of the 54 units inspected, 39 (72 percent) did not meet minimum housing quality standards, and 12 of those were in material noncompliance. The authority also failed to ensure that annual housing quality inspections were performed in a timely manner. As a result, Section 8 program funds were not used to provide units that were decent, safe, and sanitary; and the authority made housing assistance payments for units that did not meet standards. We estimate that over the next year, the authority will disburse housing assistance payments of more than \$190,000 for units in material noncompliance with housing quality standards if it does not implement adequate controls.

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The authority did not pay program landlords in a timely manner. As a result, it owed landlords more than \$185,000 in rental payments. The authority also did not apply utility allowances for tenant-supplied appliances. We estimate that over the next year, the authority will underpay more than \$71,000 in housing assistance and/or utility allowance disbursements if it does not implement adequate procedures regarding its utility allowance policy.

We informed the authority's housing director and the Director of HUD's San Juan Office of Public Housing of other minor deficiencies through a separate memorandum.

What We Recommend

We recommend that the Director of the Office of Public Housing require the authority to inspect all of the 39 units that did not meet minimum housing quality standards to verify that the landlords took appropriate corrective actions to make the units decent, safe, and sanitary. If appropriate actions were not taken, the authority should abate the rents or terminate the tenants' vouchers. The Director should also require the authority to establish and implement adequate procedures and controls to prevent \$190,080 from being spent on units with material housing quality standards violations and for the timely disbursement of more than \$185,000 in back payments to landlords. We also recommend that the Director require the authority to develop a utility allowance schedule that complies with program requirements and appropriately recognizes the costs of tenant-supplied appliances to ensure that \$71,232 in program funds is used in accordance with HUD 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 or directives issued because of the audit.

Auditee's Response

We discussed the findings with the authority and HUD officials during the audit. We provided a copy of the draft report to authority officials on October 12, 2007, for their comments and discussed the report with the officials at the exit conference on October 18, 2007. The authority provided its written comments to our draft report on November 6, 2007. In its response, the authority generally agreed with the findings.

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 Municipality of Ponce (authority) was founded in 1692 and its government system consists of an executive and legislative body; a mayor and sixteen members of the municipal legislature elected for a four-year term. The municipal government provides a full range of services, including public health and safety, community development, education and other.

The authority administers approximately 1,400 housing choice vouchers in Ponce, Puerto Rico. The authority uses its Section 8 voucher funds to provide rental assistance to eligible families. From July 1, 2006, through June 30, 2007, the U.S. Department of Housing and Urban Development (HUD) authorized and disbursed \$15 million to the authority in Section 8 program voucher funds. The authority's housing department was assigned the responsibility of administering the Section 8 program. The authority's records for the Section 8 program are maintained at Concordia Avenue, Ponce, Puerto Rico.

The objectives of our audit were to determine whether the authority's Section 8 units met housing quality standards in accordance with HUD requirements and whether the authority properly paid program landlords and properly determined housing assistance subsidies.

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RESULTS OF AUDIT

Finding 1: Controls over Housing Quality Standards Were Inadequate

The authority did not adequately enforce HUD's housing quality standards. Of the 54 units inspected, 39 (72 percent) did not meet minimum housing quality standards, and 12 were in material noncompliance. This noncompliance occurred because the authority's management did not implement adequate internal controls over its inspection process to ensure that inspections complied with requirements. It also failed to ensure that annual housing quality inspections were performed in a timely manner. As a result, Section 8 program funds were not used to provide units that were decent, safe, and sanitary; and the authority made housing assistance payments for units that did not meet standards. Based on the sample, we estimate that over the next year, the authority will disburse housing assistance payments of more than \$190,000 for units in material noncompliance with housing quality standards if it does implement adequate controls.

Health and Safety Hazards Were Predominant

From the authority's 261 program units that passed inspection between January and April 2007, we statistically selected 54 units for inspection. The 54 units were inspected to determine whether the authority ensured that its program units met housing quality standards. Of the 54 units, 39 (72 percent) had 200 housing quality standards violations. The following table lists the most frequently occurring violations for the 39 units.

Type of deficiency	Number of deficiencies	Number of units	Percentage of units
Illumination and electrical	128	37	69
Structure and materials	37	22	41
Water supply	12	11	20
Food preparation and refuse disposal	6	6	11
Smoke detector	4	4	7

Additionally, 12 of the 39 failed units were in material noncompliance with housing quality standards. Appendix D provides details on the 12 units.

The most predominant deficiencies were electrical hazards, including exposed wiring, missing outlet covers, improper wiring of water heaters, and unshielded electrical wires. The following pictures show some of these deficiencies.



Main electrical connection resting above metal roof and within reach, creating an electrical shock hazard. The deficiency was not reported by the authority during its January 11, 2007, inspection.

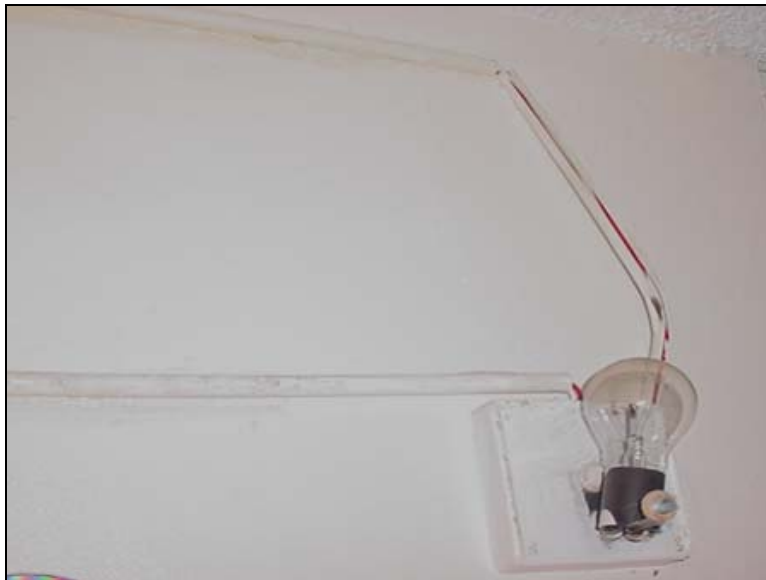


Breaker panel with no internal cover and with exposed electrical contacts, creating an electrical shock hazard. The deficiency was not reported by the authority during its February 26, 2007, inspection.

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Improper wiring of water heater with exposed wire connections, creating an electrical shock hazard. In addition, the pressure relief valve had no discharge pipe. The deficiencies were not reported by the authority during its April 10, 2007, inspection.



Bedroom light fixture improperly wired. This deficiency was not reported by the authority during its March 9, 2007, inspection.

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We found 92 deficiencies that existed at the time of the authority’s most recent inspection, but the inspectors did not identify or did not report them. Improper water heater and electrical installations were some of the deficiencies not reported by inspectors. Authority inspectors attributed some of the deficient inspections to oversight or their unfamiliarity with HUD requirements. As a result, authority inspectors improperly passed units that did not meet the required standards.

We provided our inspection results to the authority’s Section 8 director, who agreed to notify tenants and owners and ensure that violations were corrected.

Annual Inspections Not Performed in a Timely Manner

The authority is required by HUD and its administrative plan to inspect Section 8 units at least once a year to ensure that the properties meet minimum conditions for compliance with standards. HUD requirements and the authority’s administrative plan provide minimum conditions that must exist for a unit to be considered decent, safe, and sanitary. Each unit must meet minimum housing quality standards for the entire period of tenancy.

The authority did not conduct required inspections in a timely manner. Federal regulations require the authority to inspect all leased units at least annually. It had not inspected 10 of the 54 units in our sample, 19 percent, within the prescribed time. These units experienced overdue inspections of up to 613 days, with the average being 143 days.

File number	Number of days inspection was overdue
0387V-00	613
1012V-93	168
0517V-02	156
0701V-02	124
1334V-01	80
0691V-88	69
1088V-92	64
0749V-85	57
1003V-05	50
0304V-90	47

As of June 29, 2007, the authority had a backlog of more than 170 units. Authority officials attributed the backlog to a personnel shortage and stated that additional resources had been assigned to correct the condition.

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The authority's quality control inspection process was also inadequate. While its administrative plan required at least annual quality control inspections, they were not performed during 2006. The authority failed to reinspect a sample of units that represent a cross-section of neighborhoods and inspectors as required by HUD. The quality control inspections provide feedback on inspectors' work, which can be used to determine whether individual performance or housing standards training issues need to be addressed. The authority attributed this deficiency to a personnel shortage.

Conclusion

Because the authority did not implement adequate internal controls, it made housing assistance payments for units that did not meet housing quality standards. The authority did not maintain adequate controls to ensure that inspections met HUD requirements. Management must emphasize the importance of housing quality standards and implement policies and procedures, which ensure that it complies with HUD requirements and gives tenants the opportunity to live in decent, safe, and sanitary conditions. We estimate that by making the necessary improvements, the authority will prevent more than \$190,000 in Section 8 funds from being spent on units that are in material noncompliance with standards.

Recommendations

We recommend that the Director of the Office of Public Housing

- 1A. Require the authority to inspect the 39 units that did not meet minimum housing quality standards to verify that the owners took appropriate corrective actions to make the units decent, safe, and sanitary. If appropriate actions were not taken, the authority should abate the rents or terminate the housing assistance payments contracts.
- 1B. Require the authority to implement internal controls, which ensures that units are inspected in a timely manner and inspections meet HUD requirements, to prevent \$190,080 from being spent on units that are in material noncompliance with standards.
- 1C. Require the authority to perform quality control inspections in accordance with its administrative plan and HUD requirements, and document the inspections and feedback provided to inspectors to correct recurring inspection deficiencies noted.

- 1D. Monitor the authority's performance in the administration of its Section 8 Housing Choice Voucher program. If the authority fails to improve and fulfill its administrative responsibilities, consider imposing sanctions in accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d).

Finding 2: Controls over Housing Assistance Payments and Utility Allowances Were Inadequate

The authority did not pay program landlords in a timely manner and did not apply appropriate utility allowances for tenant-supplied appliances. These deficiencies occurred because the authority did not have adequate controls in place to ensure that it made timely rental payments and that its utility allowance schedule was in accordance with HUD requirements. As a result, it owed landlords more than \$185,000 in rental payments. In addition, we estimate that over the next year, the authority will underpay more than \$71,000 in housing assistance and/or utility allowance disbursements if it does not implement adequate controls and procedures regarding its utility allowance policy.

Late Payments to Landlords

The authority did not make rental payments to landlords in a timely manner and owed more than \$185,000 in back payments. It suspended rental payments associated with 177 Section 8 units, while tenants still lived in the housing unit, because it was unable to complete the annual housing quality standards inspection and execute a new housing assistance contract with the landlords. The authority attributed the delayed inspections to a personnel shortage.

As of June 2007, the authority owed more than \$185,000 in back payments to program landlords. It had not made rental payments for 12 of the 177 Section 8 units for at least six months.

File number	Number of months rental payment was overdue	Amount owed to landlord
1322V	10	\$2,670
F-194	8	\$2,728
1215V	7	\$3,710
055V	7	\$3,591
1487V	7	\$2,933
002V	7	\$2,625
647V	7	\$1,897
060V	6	\$3,480
500V	6	\$2,568
492V	6	\$2,418
097V	6	\$2,190
593V	6	\$1,764

The authority's inadequate management controls and inability to fulfill its administrative responsibility for its Section 8 program could create an unnecessary burden for the landlords and adversely affect program objectives.

Deficient Utility Allowance Schedule

HUD requires the authority to maintain a utility allowance schedule for all tenant-paid utilities, for the cost of tenant-supplied refrigerators and ranges, and for other tenant-paid housing services. The authority's utility allowance schedule was not in compliance with program requirements. The schedule did not offer a utility allowance for tenant-supplied refrigerators and ranges. The authority did not explain why the schedule did not include an allowance for tenant-supplied appliances.

Authority records showed that the authority had 423 tenants who provided their own appliances, but it did not provide an allowance when it determined the housing assistance. We recalculated the housing assistance for these tenants to determine the possible effect on the Section 8 program if the authority had provided a utility allowance for tenant-supplied appliances. To recalculate the housing assistance, we used the utility allowance that applied based on the appliances provided by the tenants. We used the utility allowance schedule of another housing agency that also had Section 8 units within the same geographical location as the authority. Our analysis showed that 300 of the 423 tenants received underpaid subsidy payments. We estimate that the authority may underpay more than \$71,000 in subsidies over the next 12 months.

Conclusion

The authority did not make timely rental payments to landlords, owing more than \$185,000 in back payments and may underpay more than \$71,000 in housing assistance if it does not correct its utility allowance schedule. This noncompliance occurred because the authority did not have adequate controls in place to ensure that it made timely inspections and rental payments and because it did not develop a utility allowance schedule that complied with HUD requirements.

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Recommendations

We recommend that the Director of the Office of Public Housing

- 2A. Require the authority to implement internal controls including policies and procedures that comply with HUD requirements for the timely disbursement of \$185,988 in rental payments owed to landlords.
- 2B. Require the authority to develop a utility allowance schedule that complies with HUD requirements and appropriately recognizes the costs of tenant-supplied appliances to ensure that \$71,232 in program funds is properly used for future payments.

SCOPE AND METHODOLOGY

To accomplish our objectives, we did the following:

- Reviewed applicable laws, regulations, and other HUD program requirements.
- Reviewed the authority's Section 8 policies, procedures, and administrative plan.
- Interviewed HUD and authority management and staff.
- Reviewed the authority's latest independent public accountant report and HUD program monitoring reviews.
- Obtained a download of the authority's Section 8 units for the Housing Choice Voucher program as of April 18, 2007.¹

We statistically selected a sample of the authority's program units to inspect from the 261 units that passed its inspections conducted from January through April 2007. We used the U.S. Army Audit Agency's Statistical Sampling software to calculate the sample size. Based on a confidence level of 90 percent, a precision level of 10 percent, and an assumed error rate of 50 percent, the software returned a statistical sample of 54 units. We used Microsoft Excel software to select a random sample from the 261 units and to generate 46 additional sample units to be used as replacements if needed.

We used statistical sampling because each sampling unit is selected without bias from the audit population, thereby allowing the results to be projected to the population.

We inspected three of the replacement units because three of the primary units were no longer being subsidized or participants were not available when scheduled for inspection. We selected the replacement units in succession until the required 54 units were inspected.

Our sampling results indicated that 12 of the 39 failed units were in material noncompliance with housing quality standards. We based our assessment on prior authority inspection reports, tenants' comments, and our observation and judgment of the condition of the unit during the inspection. We judged units to be in material noncompliance with housing quality standards because the units had preexisting conditions that threatened the living conditions of the tenants.

The authority's April 2007 housing assistance payment register showed that the average monthly housing assistance payment was \$440. Projecting our sampling results of the 12 units that were in material noncompliance with housing quality standards to the population indicates that 36 units or 13.9 percent of the population contained the attributes tested (would materially fail to meet HUD's housing quality standards). We are 90 percent confident that the frequency of

¹ To achieve our audit objectives, we relied in part on computer-processed data contained 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.

occurrence of the attribute tested lies between 13.9 and 30.5 percent of the population. This equates to an occurrence of between 36 and 79 units of the 261 units in the population.

- The lower limit is 13.9 percent x 261 units = 36 units in material noncompliance with housing quality standards.
- The point estimate is 22.2 percent x 261 units = 58 units in material noncompliance with housing quality standards.
- The upper limit is 30.5 percent x 261 units = 79 units in material noncompliance with housing quality standards.

Using the lower limit of the estimate of the number of units and the average monthly housing assistance payment, we estimated that the authority will annually spend at least \$190,080 (36 units x \$440 average monthly payment x 12 months) for units that are in material noncompliance with housing quality standards. This estimate is presented solely to demonstrate the annual amount of Section 8 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.

As of July 2007, authority records showed that it had suspended rental payments associated with 193 Section 8 units. We examined this information to determine the reason for the suspension of the rental payments and its propriety. Our analyses indicated that in 177 of the 193 Section 8 units, the rental payments were suspended because the authority was unable to complete the annual housing quality standards inspection and execute a new housing assistance contract with the landlords. The authority owed these landlords more than \$185,000 in rental payments. For the remaining 16 Section 8 units, payments to landlords were suspended because the voucher was canceled or the tenant had not fulfilled recertification requirements.

Authority records identified 423 tenants from the 1,421 active vouchers as of June 2007, who provided their own appliances but did not receive an allowance for them.² We recalculated the housing assistance for the 423 tenants to determine the possible effect on the Section 8 program had the authority used a utility allowance for the tenant-provided appliances. To recalculate the housing assistance, we used the utility allowance schedule from another housing agency that had Section 8 units within the same geographical location as the authority. We used the utility allowance that applied based on the appliances provided by the tenants. The appliance allowance applied ranged between \$9 and \$15 based on the unit size. We accepted and did not reverify the authority's calculation for income and deductions for these tenants.

Our analyses indicated that 300 of the 423 tenants were underpaid monthly housing subsidies totaling \$5,936. Projecting the results, we estimate that the authority will underpay more than \$71,000 (\$5,936 X 12) in subsidies over the next 12 months. This estimate is presented solely to demonstrate the annual amount of Section 8 funds that could be put to better use if the authority uses a utility allowance for the tenant-provided appliances.

² An authority official informed us that the number of tenants that did not receive an allowance could be higher because not all of the housing counselors were making appropriate input to the system.

We conducted our fieldwork from January through July 2007 at the authority's offices in Ponce, Puerto Rico. Our audit period was from July 1, 2005, through March 31, 2007, but we expanded our audit period as needed to accomplish our objectives.

We conducted the audit in accordance with generally accepted government auditing standards.

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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 audit objectives:

- 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 of 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 Weaknesses

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

- The authority did not implement internal controls in place to ensure that Section 8 units met housing quality standards (see finding 1).

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- The authority did not have adequate internal controls in place to make timely payments to program landlords and ensure that its utility allowance schedule was in accordance with HUD requirements (see finding 2).

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APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

<u>Recommendation number</u>	<u>Funds to be put to better use 1/</u>
1B	\$190,080
2A	185,988
2B	<u>71,232</u>
Total	<u>\$447,300</u>

1/ 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 authority implements recommendations 1B and 2A, it will cease to incur program costs for units that are not decent, safe, and sanitary and to unnecessarily retain rental payment to landlords and, instead, will expend those funds in accordance with HUD's requirements. If the authority implements recommendation 2B, tenants will not make unnecessary payments, and assistance funds will be disbursed in accordance with program requirements. Once the authority successfully improves its controls, this will be a recurring benefit. Our estimates reflect only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS



Estado Libre Asociado De Puerto Rico
Gobierno Municipal Autónomo De Ponce
Departamento de Desarrollo Comunal
8229 Calle Concordia Suite 2 Ponce, Puerto Rico 00730-5800



Sr. Jorge L. Morales Ramos
Executive Director

November 2, 2007

Mr. James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
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75 Spring Street SW, Room 330
Atlanta, GA 30303-3388

Dear Mr. McKay:

RE: Autonomous Municipality of Ponce Housing Authority (AMPHA) Section 8 Housing Choice Voucher Program Audit Report Draft

The Autonomous Municipality of Ponce is grateful for the opportunity you have provided us to review and comment on the Audit Report draft for the audit conducted from January through July 2007 for the audit period from July 1, 2005 through March 31, 2007.

The AMPHA currently administers 1,574 authorized Housing Choice vouchers and uses Section 8 funds to provide rental assistance to eligible families. The U.S. Department of Housing and Urban Development (HUD) authorized and disbursed \$ 9 million for the audit period. The compliance with all required regulations and the efficient and effective use of all funds received by the AMPHA to assist the most-needed citizens are of paramount importance.

COMMENTS TO FINDINGS

Finding 1: Controls over Housing Quality Standards (HQS) were inadequate

A. Health and Safety Hazards

Among the factors that contributed to this finding were due to personnel issues. Prior to May 2006, the Occupancy staff performed a dual role function, as occupancy specialist and as HQS Inspector for their assigned cases. The AMPHA accepting a recommendation from our HUD Field Office restructured the functions of the Housing specialists on May 2006. The reassignment of functions consisted of separating the task of Occupancy Specialist and Hosing HQS Inspectors. Currently, these tasks are performed independently by different individuals

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The reassignment of tasks couple with the consecutively loss of various employees hampered the efforts to perform the required quality check inspections.

In order to ensure the knowledge of the HQS of newly designated HQS Inspectors, they were sent to a HQS Seminar/Workshop on September 2006. Additional personnel also attended a HQS training session as recently as October 2007. All HQS Inspectors, as of today, have received in-house training and external formal training of the HQS. We must point out, that all the HQS inspectors had the opportunity to accompany the OIG inspectors, and this experienced on itself was an educational one. As such, all the inspectors are more vigilant and strict on the enforcement of the HQS.

In regard to the 35 units with HQS violations, the AMPHA immediately took the corrective action required. The owners were properly notified of the found deficiencies and a re-inspection was scheduled to verify compliance. See table below for results of re-inspections.

Results of HQS Re-Inspections

File Number	Inspection Date	FAIL	RE-INSP. DATE	PASS
1448V	5/15/07	X	5/18/07	X
387V	5/15/07	X	5/18/07	X
557V	5/10/07	X	5/14/07	X
1432V	5/10/07	X	5/15/07	X
1060V	5/10/07	X	5/14/07	X
1366V	5/14/07	X	5/18/07	X
1550V	5/14/07	X	5/18/07	X
294V	5/14/07	X	5/17/07	X
062V	5/14/07	X	5/17/07	X
1420V	5/15/07	X	5/18/07	X
002V	5/15/07	X	5/18/07	X
288V	5/15/07	X	5/18/07	X
1328V	5/14/07	X	5/18/07	X
1333V	4/24/07	X	5/22/07	X
330V	5/16/07	X	5/17/07	X
032V	5/17/07	X	5/21/07	X
673V	4/25/07	X	5/22/07	X
928V	5/17/07	X	5/21/07	X
101V	5/16/07	X	5/21/07	X
1088V	5/16/07	X	5/17/07	X
274V	5/11/07	X	5/14/07	X
1126V	5/11/07	X	5/14/07	X
304V	5/17/07	X	6/12/07	X
1033V	5/9/07	X	6/7/07	X
1012V	5/9/07	X	5/30/07	X
896V	5/8/07	X	6/14/07	X
0701V	5/8/07	X	5/15/07	X
838V	5/8/07	X	5/29/07	X
901P	5/7/2007	X	5/15/07	X
1160V	5/7/07	X	6/18/07	X
9016P	5/7/07	X	5/15/07	X
749V	5/9/07	X	5/15/07	X
691V	5/9/07	X	5/30/07	X

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File Number	Inspection Date	FAIL	RE-INSP. DATE	PASS
1250V	5/9/07	X	5/30/07	X

B. Annual Inspections Not Performed in a Timely Manner

As stated on (A.) above this situation was caused due to personnel shortage and re-structuring of tasks of the Occupancy Specialist. This situation has been corrected, the current Section 8 Occupancy area staff consists of five Occupancy Specialist and four HQS Inspectors. The AMPHA is monitoring this area closely and is considering other alternatives to overcome the backlog created. Notwithstanding that fact, the AMPHA has implemented Internal Controls to monitor this area. As documented by a Memorandum to the Section 8 staff, dated June 20, 2006, for the implementation of HQS Internal Controls.

The following files were verified to insure they were inspected, and their status is as follows:

File Number	Inspection Date	Status
0387V-00	4/10/07	Current
1012V-93	2/1/07	Current
0517V-02	1/18/07	Current
0701V-02	1/23/07	Current
1334V-01	11/06/06	Current
0691V-88	11/10/06	Current
1088V-92	11/9/06	Current
0749V-85	10/18/06	Scheduled
1003V-05	11/1/06	Current
0304V-90	2/12/07	Current

The AMPHA has complied with the first recommendation(1A) to re-inspect all units that failed during the OIG inspection and the units are currently in compliance. The second recommendation (1B) to implement the appropriate controls was previously implemented and is being evaluated for its effectiveness (See Annex). The third recommendation (1C) has been implemented; a supervisory staff has been designated to perform the quality check inspection (See Annex as an example of the data that is collected)

Finding 2: Controls over Housing Assistance Payments and Utility Allowance were Inadequate

A. Housing Assistance Payments

As stated in the report, the rental payment were suspended due to the backlog of the annual inspections. However, this situation was corrected and currently all landlords that have signed an addendum and the tenant have complied with the re-certification requirements are receiving their payments. An Addendum to the HAP contract was implemented to allow the required payments (See Annex). As November 1, 2007, 1,374 contracts were paid and \$855,754 was disbursed.

B. Deficient Utility Allowance Schedule

When the AMPHA designed the Utility Allowance Schedule took in consideration the consumption costs to provide the family the allowance. Once this item was point out by the OIG, the AMPHA immediately prepared a correct allowance schedule to include the tenant supplied appliances and implemented it on July 6, 2007 (See Anex). The schedule has been updated to reflect the change in the Payment Standard effective October 1, 2007 (See Anex)

The AMPHA has implemented recommendation 2A. to insure the timely disbursement of rental payments to landlords and recommendation 2B. to correct and implement an Utility Allowance Schedule to include the tenant-supplied appliances.

The AMPHA is fully committed to provide decent, safe and sanitary housing for our citizens, complying with all requirements to insure the effectiveness of all funds provided. We will not hesitate to implement and to improve the internal controls needed to fulfill our responsibility under the Housing Choice Voucher Program. This audit has provided us the opportunity to direct our efforts to strengthen the weak areas which will result in a strong performance by our Housing Authority.

We appreciate the professionalism, understanding, cordiality and specially the outstanding communication the auditors showed and shared with our staff during this audit.

Sincerely,



Jorge L. Morales
Executive Director
Autonomous Municipality of Ponce
Housing Authority

CC: Francisco Zayas Seijo, Mayor
Autonomous Municipality of Ponce

Mr. Michael A. Rivera CFE
Assitant Regional Inspector General For Audit
U.S. Department of Housing And Urban Development
Office of Inspector General

Mrs. Olga Saez
Director
U.S. Department of Housing And Urban Development
San Juan Field Office, Office of Public Housing

Appendix C

CRITERIA

Federal Regulations at 24 [Code of Federal Regulations] 982.54(c)

The authority must administer the program in accordance with the authority's administrative plan.

Federal Regulations at 24 [Code of Federal Regulations] 982.401(a)(3)

All program housing must meet housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the assisted tenancy.

Federal Regulations at 24 [Code of Federal Regulations] 982.517

The authority must maintain a utility allowance schedule for all tenant-paid utilities (except phone) and for the cost of tenant-supplied refrigerators and ranges. The utility allowance schedule and the utility allowance for an individual family must include the utilities and services that are necessary in the locality to provide housing that complies with the housing quality standards.

Federal Regulations at 24 [Code of Federal Regulations] 985.3(e)

The sample for quality control inspections is to be drawn to represent a cross-section of neighborhoods and the work of a cross-section of inspectors.

Authority's Administrative Plan, Chapter 20

In order to maintain the appropriate quality standards for the section 8 program, the authority will regularly (at least annually) review files and records to determine if the work documented in the files or records conform to program requirements. Among the areas that shall have quality control reviews are the following:

- A. The proper people were selected from the waiting list and their selection criteria were actually met by the applicants.
- B. The determination of rent reasonableness.
- C. Participants are paying the appropriate rent and their income and expenses were properly verified both upon admission and re-certification.
- D. Housing Quality Standard inspections were properly made.
- E. Housing Quality Standard deficiencies were properly followed up on and appropriate repairs were made in a timely manner.

Appendix D

SCHEDULE OF UNITS IN MATERIAL NONCOMPLIANCE WITH HOUSING QUALITY STANDARDS

File number	Types of violations**			
	Sanitary facilities	Food preparation and refuse disposal	Illumination and electrical	Structure and materials
9001P-07	3	1	3	1
0896V-00	0	0	6	2
0838V-02	0	0	3	0
1012V-03	0	0	4	0
1328V-03	2	0	3	4
1148v-07	0	1	7	1
0288v-07	0	1	4	0
0002V-05	1	1	9	2
0885V-06	0	0	8	2
0304V-90	0	0	4	2
1191V-01	1	0	2	4
0579V-04	0	0	8	1

**The table does not indicate all violations found in the unit. We only included the most frequently occurring and serious violations.