



# Virgin Islands Housing Authority, St. Thomas, VI

## Housing Choice Voucher Program Housing Quality Standards



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

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

**Subject:** The Virgin Islands Housing Authority, St. Thomas, VI, Did Not Adequately Enforce HUD's Housing Quality Standards

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

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



**Audit Report Number: 2016-AT-1001**

**Date: December 8, 2015**

**The Virgin Islands Housing Authority, St. Thomas, VI, Did Not Adequately Enforce HUD's Housing Quality Standards**

## Highlights

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### What We Audited and Why

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We audited the Virgin Islands Housing Authority's Section 8 Housing Choice Voucher program's housing quality standards as part of the activities in our fiscal year 2015 audit plan. We selected the Authority because it had a large program receiving more than \$14 million in 2014. Our audit objective was to determine whether the Authority's inspection process adequately ensured that its units complied with housing quality standards.

### What We Found

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The Authority's inspections were not adequate for enforcing the U.S. Department of Housing and Urban Development's (HUD) housing quality standards. Of 65 program units inspected, 62 failed to comply with HUD's minimum housing quality standards, and 44 of those were in material noncompliance with the standards. For the 44 units in material noncompliance, the Authority's inspectors failed to observe or report 467 violations that existed when they conducted their last inspections. As a result, some tenants lived in inadequately maintained units, and the Authority disbursed \$139,747 in housing assistance payments and received \$12,737 in administrative fees for the 44 units in material noncompliance with HUD standards. Unless the Authority improves its inspection program and ensures that all of its units materially meet minimum housing quality standards, we estimate that over the next year, HUD will pay about \$6.2 million in housing assistance for units in material noncompliance with the standards.

### What We Recommend

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We recommend that the Director of HUD's San Juan Office of Public and Indian Housing require the Authority to (1) reimburse its program more than \$152,000 from non-Federal funds for the 44 units that materially failed to meet HUD's requirements; (2) ensure that all violations cited for the units failing to meet housing quality standards have been corrected and certify that the units meet the standards; and (3) implement adequate policies and procedures, including staff training, to ensure that all units meet HUD's housing quality standards to prevent more than \$6.2 million in program funds from being spent on units that do not comply with HUD's requirements over the next year.

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# Background and Objective

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The Virgin Islands Housing Authority is a governmental-public corporation created under Federal and State housing laws for the purpose of engaging in the development, acquisition, and administrative activities of the low-rent housing program and other programs with similar objectives for low- and moderate-income families residing on the islands of St. Thomas, St. John, and St. Croix. The Authority is responsible for operating certain low-rent housing programs approved by the U.S. Department of Housing and Urban Development (HUD). These programs provide housing for eligible families under the United States Housing Act of 1937.

The Authority is governed by a board of commissioners. The executive director is appointed by the board and has the responsibility of carrying out board's policies and the Authority's day-to-day operations.

The Authority administers about 1,200 housing choice vouchers. It received more than \$14 million in program funding for fiscal year 2014. The books and financial records are kept at the Authority's central office located at 4402 Estate Anna's Retreat, St. Thomas, VI.

Our audit objective was to determine whether the Authority's inspection process adequately ensured that its units complied with housing quality standards.

# Results of Audit

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

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The Authority’s inspections were not adequate for enforcing HUD’s housing quality standards. Of 65 program units inspected, 62 failed to comply with HUD’s minimum housing quality standards, and 44 of those were in material noncompliance with HUD standards. For the 44 units in material noncompliance, the Authority’s inspectors failed to observe or report 467 violations that existed when they conducted their last inspections. The excessive violations occurred because the Authority’s inspectors were not properly trained and lacked sufficient knowledge of HUD’s housing quality standards. As a result, some tenants lived in inadequately maintained units, and the Authority disbursed \$139,747 in housing assistance payments and received \$12,737 in administrative fees for the 44 units in material noncompliance with the standards. Unless the Authority improves its inspection program and ensures that all of its units materially meet minimum housing quality standards, we estimate that over the next year, HUD will pay about \$6.2 million in housing assistance for units in material noncompliance with the standards.

### **Housing Units Did Not Meet HUD’s Housing Quality Standards**

We statistically selected 65<sup>1</sup> units from a universe of 273 program units that had passed an Authority housing quality standards inspection between January 1 and March 31, 2015. The 65 units were selected to determine whether the Authority ensured that its program units met minimum housing quality standards. We inspected the units from May 26 to June 16, 2015. The Authority’s supervisory inspector accompanied us during our inspections and was made aware of the results of each inspection.

Of the 65 program units inspected, 62 (about 95 percent) failed to meet minimum housing quality standards (there were 645 individual fail items, and 499 of those were preexisting conditions). The following table lists the 10 most frequently occurring violations for the 62 units.

**Table 1**

Violation category	Number of violations	Number of units
Doors and locks	107	46
Smoke detector	107	29
Electrical	102	40
Site-neighborhood	72	38
Stair-rail-porch	54	26

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

Window	35	19
Water heater	31	23
Range-refrigerator	30	26
Bathrooms, sinks, showers, tubs, and toilets	29	18
Floor	16	14

Additionally, 44 of the 65 units (about 68 percent) were in material noncompliance with housing quality standards. We considered these units to be in material noncompliance because they had at least five health and safety violations or at least one 24-hour violation that predated the Authority’s last inspection. The 44 units had a total of 584 individual fail items, and 467 of those predated the Authority’s last inspection. Appendix C provides the number of violations for the 44 units.

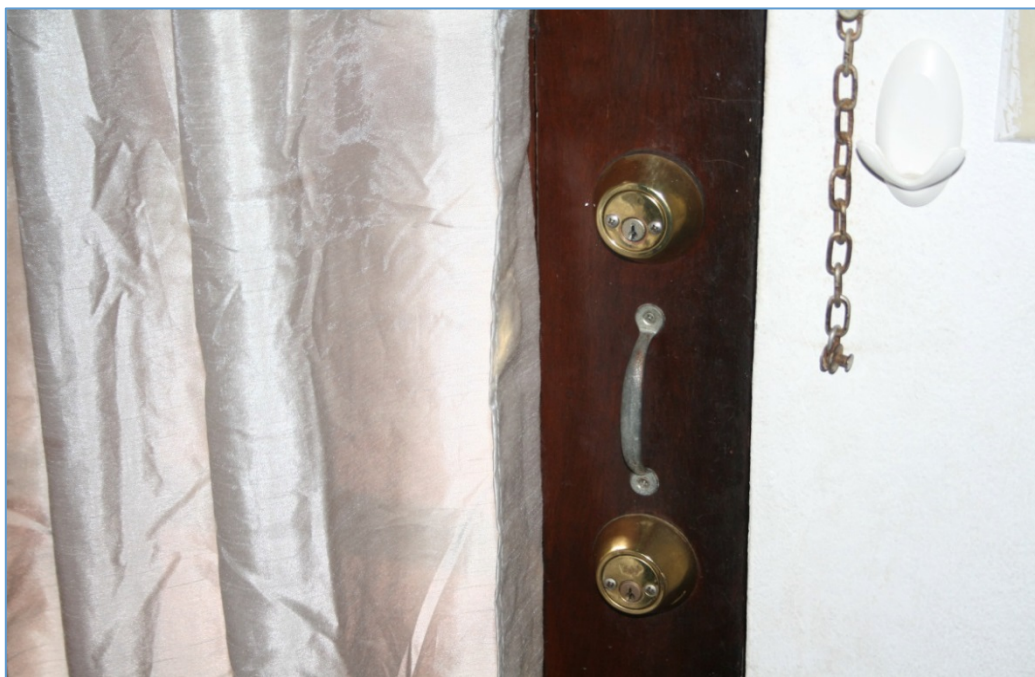
Throughout the inspection process, we kept the Authority’s staff aware of the life-threatening health and safety violations. Regulations at 24 CFR (Code of Federal Regulations) 982.404 require that owners correct life-threatening defects within no more than 24 hours.

**Types of Deficiencies**

The following photographs illustrate some of the violations noted during housing quality standards inspections of the 62 units that failed to meet HUD’s standards. The most prevalent deficiencies were doors and locks, and smoke detectors violations.

Doors and Door Locks

A total of 107 doors and door locks violations were found in 46 units that failed to meet housing quality standards.



The picture above shows keyed deadbolt locks on a living room door. If the tenant cannot find the key, exit is blocked in case of emergency.

### Smoke Detectors

A total of 107 smoke detector violations were found in 29 units that failed to meet housing quality standards. These violations included improperly mounted smoke detectors. HUD regulations at 24 CFR 982.402(n)(1) require that smoke detectors be installed in accordance with the requirements of National Fire Protection Association (NFPA) standard 74. NFPA 74 requires a maximum distance of 12 inches from flat ceilings and walls.



The picture above shows that the smoke detector was not installed in accordance with NFPA 74. It is located above the door, 53 inches from the ceiling.

We also found other health and safety hazards, including exposed electrical wiring, abandoned vehicles and debris in yards, missing handrails, hot plates in lieu of stoves, unsafe bathrooms, and water leak damaged ceilings. The following photographs illustrate examples of these types of violations noted during our inspection of the units.





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



The picture above shows abandoned vehicles, concrete blocks, and construction debris piled up in the yard of unit. This clutter does not promote safe and sanitary conditions.



The picture above shows a retaining wall that does not have railings, creating a falling hazard. The fall distance ranges from 31 to 79 inches. A fall distance of 30 inches or more requires a railing.



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



The picture above shows a missing soap dish in the shower. The rusted and sharp corners create a cutting hazard.



The picture above shows a water-damaged ceiling with loose plaster.

HUD regulations at 24 CFR 982.401(a)(3) require that all program housing meet housing quality standards performance requirements both at commencement of assistance and throughout the assisted tenancy. In accordance with regulations at 24 CFR 982.152(d), HUD is permitted to reduce or offset program administrative fees paid to a public housing agency if it fails to correctly or adequately meet its administrative responsibilities, such as enforcing housing quality

standards. The Authority disbursed \$139,747 in housing assistance payments and received \$12,737 in program administrative fees for the 44 units that materially failed to meet HUD's housing quality standards. Based on the results of the statistical sample of 65 units, we estimate that over the next year, HUD will pay about \$6.2 million in housing assistance for units in material noncompliance with the standards unless the Authority takes action to improve its inspection process.<sup>2</sup>

### **Lack of Proper Training**

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 housing quality standards. HUD requires and the Authority's administrative plan provides 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.

We found 499 deficiencies that existed at the time of the Authority's most recent inspections, but the inspectors did not identify or did not report them. Damage from water leaks, missing guardrails, improper smoke detector installations, and improper electrical installations were some of the deficiencies not reported by inspectors. An Authority inspector attributed some of the deficient inspections to her unfamiliarity with HUD requirements. In addition, two of the Authority's inspectors had not received formal training on housing quality standards. As a result, Authority inspectors incorrectly passed units that did not meet the required standards.

### **Conclusion**

The housing deficiencies described above occurred because the Authority did not ensure that its housing inspectors were trained on HUD's housing quality standards requirements. As a result, some of the Authority's households lived in inadequately maintained units and were subjected to health- and safety-related violations, and the Authority did not properly use its program funds when it failed to ensure that the units complied with HUD's housing quality standards. The Authority disbursed \$139,747 in program housing assistance payments and received \$12,737 in program administration fees for the 44 units that materially failed to meet HUD's standards.

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

Unless the Authority improves its unit inspection program to ensure compliance with HUD's housing quality standards, we estimate that over the next year, HUD will pay more than \$6.2 million in housing assistance on units in material noncompliance with the standards.

### **Recommendations**

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

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<sup>2</sup> The sampling methodology and calculations are shown in the Scope and Methodology section of this report.

- 1A. Reimburse the program \$152,484 from non-Federal funds for housing assistance payments (\$139,747) and administrative fees received (\$12,737) for the 44 units that materially failed to meet HUD's housing quality standards.
- 1B. Ensure that the housing quality standards violations have been corrected for the 62 units cited in this finding and certify that the units meet the standards.
- 1C. Implement adequate procedures and controls to ensure that all program units meet HUD's housing quality standards to prevent \$6,217,059 in program funds from being spent on units that do not comply with HUD's requirements over the next year. The procedures should include but not be limited to ensuring that inspectors are properly trained and familiar with HUD's requirements and that they consistently conduct accurate and complete inspections and reinspections.

# Scope and Methodology

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We performed our onsite audit work between April and June 2015 at the Authority's main office located at 4402 Estate Anna's Retreat, St. Thomas, VI, and 5 Estate Bethlehem, St. Croix, VI. The audit covered the period January 1 through March 31, 2015.

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

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

We statistically selected a stratified systematic sample of 65 of the Authority's program units to inspect from the 273 units that passed the Authority's inspections from January 1 through March 31, 2015. The 65 units were inspected to determine whether the Authority ensured that its program units met HUD's housing quality standards. We used statistical sampling because each sampling unit was selected without bias from the audit population, thereby allowing the results to be projected to the population. After our inspections, we determined whether each unit passed, failed, or materially failed. All units were ranked, and we used our materiality standards and auditors' judgment to determine the material cutoff point. Materially failed units were those that had one or more exigent (24-hour) health and safety violations that predated the Authority's previous inspections, five or more health and safety violations that predated the Authority's previous inspections, or a combination of both.

Based on our review of the 65 statistically selected units, we found that 44 of the units had material failures in housing quality standards, although they had recently passed an Authority inspection. Using a confidence interval of 95 percent, we projected that at least 57.9 percent of the units had material violations. Extending this rate to the monthly count of 1,230 occupied units on the Authority's program, we can say that at least 712 units would not have complied with housing quality standards, despite having passed the Authority's inspection.

Based on the average housing assistance paid for the 65 units, less a deduction to account for a statistical margin of error, we can say with a confidence interval of 95 percent that the average amount of monthly housing assistance spent on inadequate units was \$421 per unit. Extending this amount to the 1,230 active units on the Authority's program over 12 months yields at least \$6.2 million in housing assistance paid per year for substandard units.

The calculation of administrative fees was based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month in

which the housing assistance was incorrectly paid for units that materially failed to meet HUD's minimum housing quality standards.

We relied in part on data maintained by the Authority. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes. We provided our review results and supporting schedules to the Director of HUD's San Juan Office of Public Housing and the Authority's executive director during the audit.

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

# Internal Controls

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

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

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

## **Relevant Internal Controls**

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

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

We assessed the relevant controls identified above.

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

## **Significant Deficiency**

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

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



# Appendixes

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## Appendix A

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

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Funds to be put to better use 2/</b>
1A	\$152,484	
1C		\$6,217,059
<b>Totals</b>	<b>\$152,484</b>	<b>\$6,217,059</b>

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

### Virgin Islands Housing Authority

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Email: [gxcc@vihousing.org](mailto:gxcc@vihousing.org)  
*Office of the Executive Director*

November 5, 2015

Ms. Nikita N. Irons  
Regional Inspector General for Audit, 4AGA  
Office of Audit (Region IV)  
75 Spring Street SW Room 330  
Atlanta GA 30303

Dear Ms. Nikita N. Irons


Re: HUD Office of Inspector General, Region 4: Draft Audit Report  
Virgin Islands Housing Authority  
FY 2014 Housing Choice Voucher Program -- Housing Quality Standards

The Virgin Islands Housing Authority (VIHA) has received your Draft Audit Report as captioned above and we thank you for the opportunity to review and comment on the report. VIHA concurs with the report's one finding and three recommendations. Accordingly, VIHA's has already begun to implement specific recommendations to improve upon the Housing Quality Standards process. Below we delineate our management decision with regards to specific action items to address each recommendation.

**OIG Recommendation 1:** Reimburse HUD's Housing Choice Voucher Program \$152,484 from non-Federal funds for housing assistance payments (\$139,747) and administrative fees received (\$12,737) for the 44 units that materially failed to meet HUD's housing quality standards.

**VIHA Response:** VIHA will reimburse the program in the amount of \$152,484 from non-Federal funds. The agency will collaborate with the HUD San Juan Field Office to verify the appropriate source of funds to reimburse the program.

**OIG Recommendation 2:** Ensure that the housing quality standards violations have been corrected for the 62 units cited in this finding and certify that the units meet the standards.



Comment 1

## Auditee Comments

### Ref to OIG Evaluation

### Comment 1

### Comment 1

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November 5, 2015  
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**VIHA Response:** VIHA will ensure that all violations cited have been corrected and will certify to the correction of all deficiencies cited with the Field Office.

**OIG Recommendation 3:** Implement adequate procedures and controls to ensure that all program units meet HUD's housing quality standards to prevent \$6,217,059 in program funds from being spent on units that do not comply with HUD's requirements over the next year. The procedures should include but not be limited to ensuring that inspectors are properly trained and familiar with HUD's requirements and that they consistently conduct accurate and complete inspections and reinspections.

**VIHA Response:** Based on and subsequent to the audit, VIHA has incorporated the auditor's inspection methodologies in our inspection process. Consequently, we have experienced similar failure rates on initial HQS inspections. As a result, VIHA has a higher rate of second inspections, but the deficiencies are being corrected by the landlords.

Training for staff responsible for conducting HQS inspections was not provided prior to the OIG audit. However, in response to the audit, staff has received formal HQS training and certifications. In fiscal year 2015, VIHA will implement an ongoing series of landlord workshops to educate our landlords on HQS requirements and compliance standards. VIHA will share that information with the Field Office.

In summary, VIHA views all audits and management reviews as an opportunity to improve upon its internal controls and effectiveness. As such, VIHA will implement all recommendations and continue its progress towards providing housing assistance for families.

If you have any questions, please contact me at 340-715-7326 or email at [rgraham@vihousing.org](mailto:rgraham@vihousing.org).

Sincerely,

  
Robert Graham, CPM  
Executive Director

Cc: Antonio Cordova, Director, PIH, San Juan Field Office



## OIG Evaluation of Auditee Comments

Comment 1 The Authority's management agreed with the OIG finding and recommendations. The Authority stated that it will reimburse from non-Federal funds the ineligible housing assistance and administrative fees related to recommendation 1A, and will ensure that all cited violations are corrected and certify the corrections. In addition, the Authority stated that its inspectors received formal training and will conduct landlord workshops on housing quality standard requirements. We commend the Authority for its proposed actions to address the findings cited in this report. The Authority should work with HUD to ensure its procedures and controls are fully implemented.

## Appendix C

### Schedule of Units in Material Noncompliance With Housing Quality Standards

Identification number	Type of violation			Total violations	Total of preexisting violations
	24 hour	Health and safety	Other		
VT0535	1	2	0	3	3
VT01035	1	13	2	16	14
VT0044	0	9	2	11	11
VX01388	1	12	2	15	15
VX01701	3	8	2	13	8
VX1064	2	13	3	18	15
VXQH0133	4	3	2	9	8
VX20130027	6	4	2	12	8
VX40396	1	11	2	14	9
VX404608	3	7	0	10	5
VXQH047	0	5	1	6	6
VX040272	1	9	1	11	11
VX404736	2	0	0	2	1
VX008	1	7	1	9	7
VX31022	2	7	0	9	8
VX00033	2	9	0	11	8
VX404704	7	8	6	21	13
VX03643	4	8	0	12	10
VT0010	3	12	0	15	15
VX03105	4	12	2	18	13
VX551	7	9	12	28	18
VT20130022	3	6	0	9	7
VT03124	4	7	7	18	14
VT404577	6	17	6	29	23
VX40228	3	8	1	12	9
VX404670	3	6	2	11	8
VT5064	3	22	0	25	18
VT-0669	5	19	6	30	22
VT-0615	0	18	3	21	18
VT16022	1	4	4	9	7
VT1066	1	5	3	9	7
VT15095	1	14	0	15	13
VT1020	2	2	1	5	3
VT5046	0	8	5	13	11
VT02022	0	9	0	9	9
VT03804	3	11	1	15	15
VT40264	1	11	0	12	12
VT-0568	3	5	5	13	10
VT1009	7	10	0	17	16
VT15090	4	3	1	8	7
VT0582	1	9	0	10	7
VX40208	5	4	8	17	11
VT1065	1	5	0	6	6
VT21002	2	6	0	8	8
<b>Totals</b>	<b>114</b>	<b>377</b>	<b>93</b>	<b>584</b>	<b>467</b>