



Issue Date	March 28, 2000
Audit Case Number	00-BO-101-0001

TO: Harold Lucas, Assistant Secretary, Office of Public and Indian Housing, P

FROM: William D. Hartnett, District Inspector General, Office of Audit, 1AGA

SUBJECT: Use of the Real Estate Assessment Center's Physical Inspection Assessments

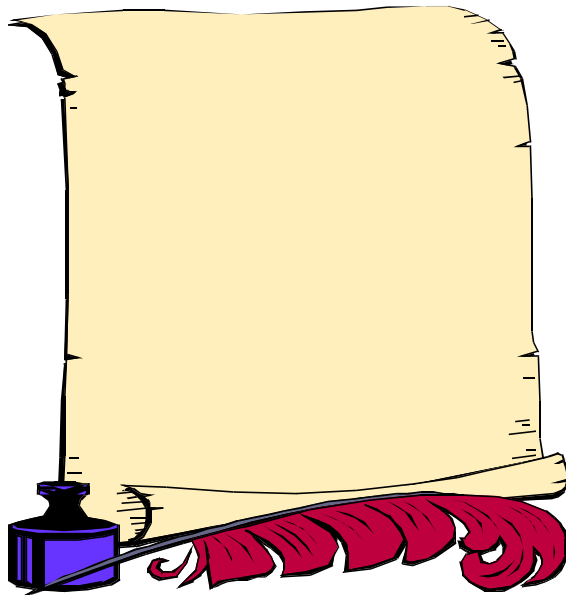
We conducted an audit of the Office of Public and Indian Housing's use of physical inspection assessments generated by HUD's Real Estate Assessment Center (REAC) on public housing properties. The purpose of our review was to evaluate actions taken to address and track corrections to deficiencies disclosed through the REAC physical inspections.

The report's finding indicates that: (1) the Office of Public and Indian Housing has not fully engaged the use of REAC physical inspection since the process was implemented in October 1998 and (2) the need to establish a system for tracking corrective action resulting from the REAC physical inspections..

Within 60 days, please provide us a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to this audit.

If you have any questions, please contact our office at (617) 565-5259.

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# Executive Summary

We conducted an audit of the Office of Public and Indian Housing's use of physical inspection assessments generated by HUD's Real Estate Assessment Center (REAC) on public housing properties. At December 27, 1999, there have been approximately 3,156 of 3,300 Public and Indian Housing properties that have been inspected since inception of REAC's physical inspection process in October 1998. At an average cost of \$661 per each physical inspection, the Department has expended over \$2 million dollars.

The primary purpose of our review was to evaluate actions taken to address and track corrections to deficiencies disclosed through the REAC physical inspections. As part of our assessment, we reviewed actions taken by the Massachusetts and Connecticut State Offices of Public and Indian Housing on physical inspections performed.

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## Audit Results

HUD's Office of Public and Indian Housing (PIH) has not made substantial use of physical inspections performed by the REAC, at which time the inspection scores are only advisory in nature. Furthermore, the Office of PIH currently does not have the means to track corrective action taken by Public Housing Authorities in respect to their REAC physical inspections.

Federal Register Notice dated December 31, 1998, provided that the REAC intends to issue advisory scores to public housing agencies under the new Public Housing Assessment System (PHAS), established by final rule published on September 1, 1998. The Office of PIH feels they are really limited as to what action can be taken with regard to the REAC physical inspections while the inspection scores are advisory. It is felt that while the scores are advisory, the Department cannot penalize the housing authorities and therefore cannot force them to make the corrections; with the general exception to life threatening health and safety violations. Although it might be true that the REAC inspection scores are advisory, the physical deficiencies found at the housing authority properties are real conditions that do exist. The Office of PIH should be taking action with these housing authorities to correct the physical deficiencies reported during the REAC inspection.

We were advised that the Office of PIH is trying to use the REAC physical inspections proactively even though the

scores are advisory; such as (1) offering assistance to substandard housing authorities so that when the scores become final they can improve, and (2) analyzing the results of the scoring and distribution process of the REAC physical inspection scores and reports, to establish an accurate system.

We reviewed actions taken by the Massachusetts and Connecticut State Offices of PIH on physical inspections performed, and found that no action, or very limited action was taken toward housing authorities on resolving the REAC physical inspections and life threatening health and safety violations. We concluded that the Connecticut State Office of PIH was not taking any action with regard to the REAC summary inspection reports; however some recent action was taken with regard to the life threatening health and safety issues. We further concluded, that the Massachusetts State Office of PIH was not taking any action with regard to the REAC summary inspection reports, nor the life threatening health and safety issues. These conditions were confirmed by discussions with representatives of housing authorities in New England.

We were advised by the Deputy Assistant Secretary for PIH's Troubled Agency Recovery Center that the action the field offices are taking throughout the country varies; in some instances it includes directly working with housing authorities to resolve issues with advisory scores. However, we were advised that we would likely see similar conditions at HUBs and Program Centers throughout the country, as we did at the Massachusetts and Connecticut State Offices.

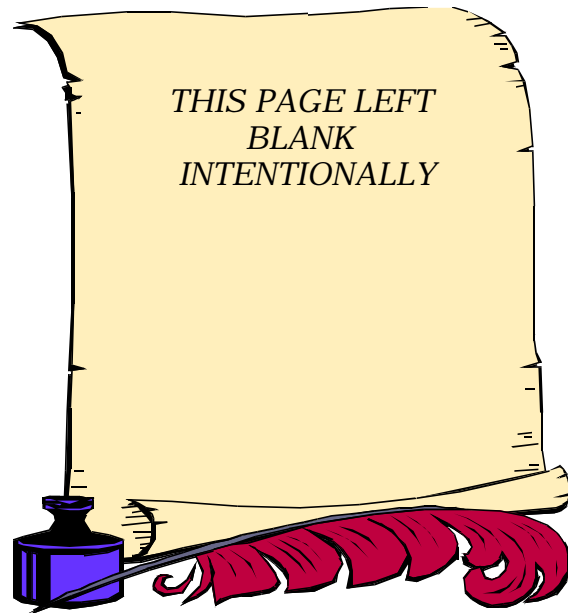
Recommendations

We are recommending the Office of PIH continue development of a risk monitoring protocol that will address all physical inspection deficiencies and develop a time table

for the protocol's completion and full implementation. In addition, we are recommending the Office of PIH ensure that the risk monitoring protocol and written guidance are not overly broad and consider including standardized structured methodology to resolve physical inspection deficiencies. Further, we are recommending the Office of PIH ensure that the fiscal year 2000 Compliance and Monitoring Training includes the review of the risk monitoring protocol and written guidance, and establish time tables for the completion of the training. Finally, we are recommending the Office of PIH to continue development of the computerized event tracking system, develop a time table for the system's completion and full implementation, and provide training to the staff on the adequate use of the system.

Finding and  
Recommendations  
Discussed

We discussed the finding with Department officials during the course of our audit. By letter dated March 6, 2000, the Assistant Secretary for Public and Indian Housing provided a detailed response to each condition and recommendation discussed in the draft report. We have included the Department's pertinent comments in the Finding section of this report. The Department's full response is included in Appendix C.



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Abbreviations

CFR	Code of Federal Regulations
HUD	Housing and Urban Development
PHA	Public Housing Authority
PHAS	Public Housing Assessment System
PHMAP	Public Housing Management Assessment Program
PIH	Public and Indian Housing
REAC	Real Estate Assessment System
TARC	Troubled Agency Recovery Center



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# Introduction

The Real Estate Assessment Center (REAC) is a new national management center within HUD, established to centralize and standardize the way the Department evaluates the condition of approximately 3,300 public housing authorities and over 30,000 properties insured by the Federal Housing Administration and/or receiving project-based subsidy under the Section 8 program. REAC is designed to give the Department a more comprehensive and consistent vehicle for portfolio oversight and for prioritizing and directing its resources to public housing authorities and multifamily properties.

According to the protocol agreement between the Office of Public and Indian Housing (PIH) and the REAC dated February 25, 1999, responsibility for overseeing the individual Public Housing Authorities continues to belong to the Office of PIH. The REAC only performs assessments and does not resolve any project issues arising from those assessments.

The Public Housing Assessment System (PHAS) was established by a final rule published on September 1, 1998. The PHAS replaces the existing Public Housing Management Assessment Program (PHMAP) and provides a more comprehensive monitoring system of public housing operations. The PHAS collectively uses four indicators to assess a housing authority's operations. They are: (1) physical condition; (2) financial condition; (3) management operations; and (4) resident services.

Federal Register Notice dated December 31, 1998, provides that the REAC intends to issue to every Public Housing Authority an advisory score before the housing authority receives its official PHAS score. The PHAS scores were scheduled to become official with housing authorities whose fiscal year end was September 30, 1999. However, Federal Register Notice dated October 15, 1999 provided a delayed implementation to housing authorities with fiscal years end after December 31, 1999; presumably beginning with fiscal years end March 31, 2000.

The delayed implementation is in part due to the proposed rule published June 22, 1999, which amended the PHAS regulation at 24 CFR part 902 (PHAS final rule published September 1, 1998). The rule, effective February 10, 2000, provides additional information and revises certain procedures and establishes others, for the assessment of physical condition, financial health, management operations and resident service and satisfaction in public housing, including the technical review of physical inspection results and appeals of PHAS scores. The rule also implements certain recently enacted statutory amendments

A protocol exists between the Departmental Enforcement Center and the Office of PIH dated March 11, 1998 and amended June 3, 1999, with the passage of the Public Housing Reform legislation. The Enforcement Center, established by the Department's 2020 Management Reform, works in a collaborative fashion with HUD's program areas by consolidating the bulk of HUD's enforcement efforts and by resolving the most difficult and most significant, outstanding non-compliance issues among recipients of HUD program resources in the areas of Housing, Public and Indian Housing, Community Planning and Development, and Fair Housing and Equal Opportunity.

The protocol provides that Public Housing Authorities receiving a "failing" score from the REAC will be referred to one of two PIH Troubled Agency Recovery Centers (TARC) which will

develop and implement an intervention strategy to bring the housing authority to passing scores. If after two years in the TARC, the housing authority has not achieved a passing score, the Assistant Secretary for the Office of PIH will refer the troubled housing authority to the Enforcement Center to petition the court for receivership or other enforcement activity.

According to Federal Register Notice dated May 13, 1999, the PHAS total point value (100) is comprised of 30 points for each indicator - physical condition, financial condition, and management operations, plus 10 points for resident service and satisfaction. In order to receive a passing score, a housing authority must receive a score of at least 60 percent (18 points) out of the 30 points available for the first three indicators.

The final rule effective February 10, 2000, modifies the overall designation of “troubled performer” to provide a sub-designation or category that identifies the particular performance area in which a housing authority is troubled. The final rule provides that a housing authority that achieves less than 60 percent of the points under any of the three main PHAS indicators (physical, financial, or management) will be categorized as substandard physical, substandard financial, or substandard management performer.

Office of Inspector General Audit Related Memorandum 99-BO-199-0802, dated September 30, 1999, provided that the REAC’s physical inspection assessment subsystem has the potential to be a useful tool for informed decision making on a national basis. However, for that to be realized, the Office of PIH and the Office of Housing need to take the appropriate action to address the assessments performed by the REAC.

At December 27, 1999, approximately 3,156 of 3,300 public housing properties have been inspected since the inception of the REAC’s physical inspection process in October 1998. At an average cost of \$661 per each physical inspection, the Department has expended over \$2 million dollars. Approximately 423 (13.4 percent) of the 3,156 housing authorities inspected received a substandard physical designation; whereas the remaining 2,733 housing authorities (86.6 percent) received a standard or high physical designation.

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### Audit Objectives

The overall audit objective was to evaluate actions taken by the Office of Public and Indian Housing to address physical deficiencies disclosed through the REAC inspections. Specific audit objectives were to:

- Determine that the Department has assured the REAC physical inspections are given the proper attention and resolved in a timely manner; and
- Identify and analyze the process of: (1) transmitting public housing property inspection reports to the housing authorities, and (2) tracking corrective action.

We selected a sample of eleven properties of Public Housing Authorities serviced by the Massachusetts and Connecticut State Offices of PIH. Six of the eleven properties are located in Connecticut, and the remaining five are located in Massachusetts. (Appendix A). For the sample selected, determined what actions have been taken by the PIH staff with respect to physical inspection reports, by: (1) reviewing related protocols and/or internal procedures issued; (2) discussing with PIH staff, the actions taken with respect to these properties; and (3) comparing and evaluating the actions taken by the PIH staff with the protocols and/or internal procedures issued.

Held interviews with the appropriate PIH Headquarters and Massachusetts and Connecticut State Office staff to discuss and obtain information regarding: (1) conclusions to our review of the Massachusetts and Connecticut State Offices of PIH, specifically that the REAC inspections are not being used; (2) PHAS field guidance issued in August 1999; (3) transmitting completed inspection reports and life threatening health and safety violations; and (4) field office and housing authority staff training.

Reviewed and analyzed all Federal Register publications on PHAS, specifically related to the REAC physical inspections; and the August 10, 1999 PHAS field guidance issued by the General Deputy Assistant Secretary for PIH.

We selected an additional sample of eight Public Housing Authorities serviced by the Massachusetts and Connecticut State Offices of PIH. Four of the eight housing authorities are located in Connecticut, and the remaining four are located in Massachusetts. (Appendix B). For the sample selected, held discussions via telephone calls and onsite visits to determine how and when the REAC inspection reports and notification of life threatening health and safety violations are received and what actions are being taken by the housing authorities to address the inspection results.

Contacted the appropriate Office of Inspector General personnel to determine if similar work on the use of REAC physical inspections was performed during the HUD Fiscal Year 1999 Financial Statement Audit.

Audit work was performed from June 1999 through January 2000 and covered the period October 1, 1998 through June

30, 1999. Where appropriate, the review was extended to include other periods.

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

# No Substantial Use of REAC Physical Inspections

As of December 27, 1999, approximately 3,156 of 3,300 Public and Indian Housing properties were inspected since inception of the Real Estate Assessment Center's (REAC) physical inspection process in October 1998. At an average cost of \$661 per each physical inspection, the Department has expended over \$2 million dollars. Of the 3,156 public housing properties, approximately 423 (13.4 percent) received a substandard physical designation. HUD's Office of Public and Indian Housing (PIH) has not made substantial use of these physical inspections, whereas the housing authorities have been advised that the physical inspection scores are only advisory in nature. However, it might be true that the scores are advisory, but the physical deficiencies found on the properties are real conditions that do exist.

## REAC Intends to Issue Advisory Scores

Federal Register Notice dated December 31, 1998, provided that the REAC intends to issue advisory scores to public housing agencies under the new Public Housing Assessment System (PHAS), established by final rule published on September 1, 1998. PHAS was established to replace the existing Public Housing Management Assessment Program (PHMAP) and provide a more comprehensive monitoring system of public housing operations. PHAS collectively uses four indicators to assess a housing authority's operations. They are: (1) physical condition; (2) financial condition; (3) management operations; and (4) resident services.

The Federal Register publication provides that the advisory score will enable a housing authority to evaluate its standing in comparison to the present day PHMAP process and to prepare for full implementation of the new PHAS. The REAC intends to provide every housing authority with an advisory score before the housing authority receives its official PHAS score. PHAS scores were scheduled to become official with housing authorities whose fiscal year end was September 30, 1999. However, Federal Register Notice dated October 15, 1999 provided a delayed implementation to housing authorities with fiscal years end after December 31, 1999; presumably beginning with fiscal years end March 31, 2000.

## Housing Authorities Still to be Evaluated Under PHMAP

By memorandum dated July 7, 1999, in response to the Inspector General's Notification of Audit, the Office of PIH

Assistant Secretary provided that PHMAP will be the evaluation tool of a housing authority's performance, until PHAS becomes official. The Assistant Secretary provides:

“ . . .we note that this is the advisory year for the Public Housing Assessment System (PHAS) scoring. This means that a housing authority's PHAS score does not reflect the results of the official evaluation of the housing authority but rather is advisory in nature. Public Housing Authorities (PHA) are still assessed through the Public Housing Management Assessment Program (PHMAP) and PIH is still legally responsible for providing assistance to the PHA to improve in those areas identified by PHMAP.”

HUD Feels They Cannot  
Penalize During PHAS  
Advisory Phase

In speaking with the Deputy Assistant Secretary from the Office of PIH's Trouble Agency Recovery Center and the Director of the Office of PIH's Field Operation Division, we were advised that until the PHAS scores become final, PIH is really limited to what action can be taken with regard to the REAC physical inspections. The Office of PIH representatives stated that the Department feels they are not able to take any direct action against the housing authorities while the inspection scores are advisory in nature. It is felt that while the scores are advisory, the Department cannot penalize the housing authorities and therefore cannot force them to make the corrections; with the general exception to life threatening health and safety violations.

The Office of PIH representatives advised that they are trying to use the REAC physical inspections proactively even though the scores are advisory; such as (1) offering assistance to substandard housing authorities for improvements after scores are final, and (2) analyzing the results of the scoring and distribution process of the REAC physical inspection scores and reports, to put together an accurate system.

We were advised that the Office of PIH had discussed with the field offices and issued guidance in August 1999 on how to utilize the advisory scores, and resolve life threatening health and safety items. The field offices are reviewing the

REAC physical inspection reports for discrepancies between the inspection results, and their knowledge of the project and the latest PHMAP score. We were advised that the action the field offices are taking throughout the country varies; in some instances it includes directly working with housing authorities to resolve issues with advisory scores. However, we were advised that we would likely see similar conditions at the HUBs and Program Centers throughout the country, as we did at the Massachusetts and Connecticut State Offices of PIH where no action, or very limited action was taken toward housing authorities on resolving the REAC physical inspections. We were advised that it would remain like that until the PHAS advisory year is over.

New England Offices  
Taking Minimal Action

In review of the Massachusetts and Connecticut State Offices of PIH, we did determine that minimal action, if any at all, was taken against the REAC physical inspections.

For six of eleven sampled public housing properties, we determined that no action was taken with the housing authorities to resolve the physical deficiencies identified by the REAC inspections. The Public Housing Revitalization Specialists advised that they have not seen the physical inspection report, nor have they made any attempts to resolve the findings disclosed with the respective housing authority. One of the four Revitalization Specialists specifically stated that he was never given any direction to resolve these findings.

For five of the eleven sampled public housing properties, we determined that no action was taken with the housing authorities to resolve the physical deficiencies identified by the REAC inspections for each individual property. However, the Public Housing Revitalization Specialists did take action in regards to the overall score for each PHAS component; whereas the score is below the passing threshold of 60 percent.

For example, a specific Public Housing Authority scored substandard in the PHAS financial component, but scored above passing for the remaining three components including physical. The Revitalization Specialist addressed only the substandard score for the financial component with the housing authority. No action was taken to address the physical component, because the overall score is above passing, nor was any action taken against the individual

property inspection reports. Such action taken by the Revitalization Specialist included telephoning the housing authority, or issuance of a letter. The letter issued to the specific Public Housing Authority was not very descriptive of what to do. But rather, advising the housing authority that it needs to take appropriate action to rectify the issues before the PHAS scores become official.

Discussions With Housing  
Authorities Confirm  
Results

In discussions with representatives from eight Public Housing Authorities, serviced by the Massachusetts or Connecticut State Office of PIH, we confirmed our conclusions that no action, or very limited action was taken by these State Offices of PIH toward housing authorities on resolving the REAC physical inspections and life threatening health and safety items. Our discussions concluded that the Connecticut State Office of PIH was not taking any action with regard to the REAC summary inspection reports; however some recent action was taken with regard to the life threatening health and safety violations. Further we concluded, that the Massachusetts State Office of PIH was not taking any action with regard to the REAC summary inspection reports, nor the life threatening health and safety violations.

Although the Massachusetts and Connecticut State Offices of PIH were not initiating any action toward the housing authorities, the eight Public Housing Authorities we surveyed advised that they took action to correct deficiencies disclosed through their REAC property inspections, including life threatening health and safety violations, and similar physical problems throughout the property. However, it must be noted that we did not verify that corrective action was taken by these eight housing authorities, or any other housing authorities in our sample. We believe that it is essential that the Office of PIH initiate processes to verify that timely, appropriate corrective action was taken.

After discussions with the Acting Director of the Massachusetts State Offices of PIH, on conclusions reached during our review, we were issued a response memorandum dated October 18, 1999. The written response details future procedures to be followed by the Massachusetts and Connecticut State Offices of PIH in regard to life threatening health and safety violations and public housing property inspections.



Advisory scores or not, the physical inspections performed by the REAC indicate real problems. The Office of PIH needs to do more with these scores than merely compare the ratings with their knowledge of the property, and the housing authority's PHMAP score. After all, the mission of the REAC is to protect the public interest by identifying and assessing the risk of loss from physical deterioration of properties; and to assist HUD in focusing its resources most effectively to raise the quality of the HUD housing portfolio, thus, enhancing the quality of life for residents by helping ensure decent, safe and sanitary housing. Even further, the REAC has entered into six contracts which can be worth over \$110 million to perform the physical inspection component. Failure to take timely, appropriate action in addressing physical deficiencies identified during the REAC inspections, completely undermines the mission of the REAC and is an inefficient use of scarce federal funds.



#### Development of New Computer System

The REAC is developing a new computer system to transmit public housing property inspection results. The new computer system, called the Integrated Assessment Subsystem, will not only transmit physical inspection results, but also results of the remaining three PHAS components.

Preceding the development of the new computer system, completed REAC property inspection reports are made available to the field offices in an electronic format, through the REAC Internet site. Housing authorities are able to gain electronic access to the reports, through the same REAC Internet site, with the use of a user identification and password provided by HUD. Notifications of life threatening health and safety violations are provided to the housing authority at completion of the property inspections, and to the HUBs and Program Centers by facsimile. At this time, the Office of PIH does not have the means to track corrective action taken by Revitalization Specialist and Public Housing Authorities in respect to their REAC physical inspections.

We believe that in developing a new computer system to transmit public housing property inspection reports, the Office of PIH should be working with the REAC to develop a system to track and monitor all corrective actions taken, with respect to the physical deficiencies depicted by the REAC property inspections.

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Auditee Comments

The Department indicates in its response to the draft report that “the PHAS program with Congressional support, was established with a one year advisory period, subsequently extended to one and one-half years, to allow our PHA partners adequate time to familiarize themselves with the new requirements of the PHAS and begin addressing cited deficiencies before actual scores and determinations of performance designations were made”. The Department responds that the Field and Trouble Agency Recovery Center (TARC) staff were instructed and did use the PHAS advisory information, including the physical inspection results to provide technical assistance to housing authorities to correct physical deficiencies. The Department responds that “comments attributed to my senior staff were misinterpreted” in regard that no action, or very limited action was taken nationwide on resolving the Real Estate Assessment Center (REAC) physical inspections and life threatening health and safety items.

In their response, the Department states that “PIH is taking an aggressive stand on life threatening health and safety issues nationwide, developing a risk monitoring protocol, and training all public trust officers in the critical aspects of risk analysis and monitoring. Additionally, senior PIH staff are working closely with REAC, industry groups, and PHA representatives to ensure the physical inspection protocols are of the highest quality. The results of physical inspections have been closely reviewed and analyzed. Substantial changes to the physical inspection protocols have been made in the last few months, based on this scrutiny and PIH, in conjunction with REAC, is currently testing the new protocols.” The Department states that housing authorities with physical deficiencies receive letters, phone calls, and/or on-site visits to ensure that violations are properly addressed and procedures are put in place to prevent further occurrences.

In addition, the Department responds that the New England offices have developed processes to act on the REAC physical inspection deficiencies including issuing a memorandum requesting documentation within 14 days to support correction of health and safety violations cited; and monitoring other identified deficiencies through the REAC website, telephone calls and on-site or remote monitoring.

The Department's response illustrates action that was taken on seven of the eleven housing authorities and/or public housing properties sampled during our audit. The type of action taken includes correspondence and phone calls made to the housing authorities requesting correction and supporting documentation; and subsequent documentation provided by the housing authorities.

In response to our recommendations made in the draft report, the Department responds that the TARC's currently have a process to ensure that the correction of all physical deficiencies are incorporated into the recovery process; whereas the HUB's currently address all health and safety violations immediately and are reviewing all processes and standardizing a risk monitoring protocol which will be used to address all deficiencies including physical deficiencies identified by the REAC inspections. The Department believes that in addition to the HUD Monitoring Desk Guide, the Field Operations guidance, issued on August 10, 1999, is appropriate to address the correction of deficiencies without becoming overly prescriptive or inappropriate for differing jurisdictions and situations. The Department states that they have undertaken a Compliance and Monitoring Training initiative for fiscal year 2000 and that this training will provide the necessary skills to PIH staff to address all types of PHA deficiencies, including physical deficiencies identified by the REAC. Finally, the Department responds that PIH is currently developing a computerized event tracking system which will consolidate monitoring activities by the HUB's, Program Centers, and TARC's including actions taken in association with physical deficiencies.

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## OIG Evaluation of Auditee Comments

It is clearly evident by the Department's response that PIH's use of the REAC physical inspections supports the continual development of processes such as a risk monitoring protocol and training. What is not evident however, is when the results of the REAC physical inspections were sufficiently used by PIH staff, and conscience efforts were made to resolve physical deficiencies identified with the respective housing authority.

The Department responds that staff were instructed and did use the PHAS advisory information, including the physical inspection results to provide technical assistance to housing authorities to correct physical deficiencies. The Department

states that housing authorities with physical deficiencies receive letters, phone calls, and/or on-site visits to ensure that violations are properly addressed and procedures are put in place to prevent further occurrences. The Department goes on to provide action that was taken on seven of the eleven housing authorities and/or public housing properties sampled during our audit. What is missing from the information provided in the Department's response is the time frames that all this action occurred.

Our review of the Massachusetts and Connecticut State Office was performed from June to October 1999, which was up to one year after the REAC physical inspection process was initiated. Through discussion with PIH staff and representatives from sampled housing authorities, we determined that during this time, minimal action if any at all, was taken on the REAC inspection results. The only information and/or documentation that was provided to us was (1) an August 23, 1999 memorandum issued by the Connecticut State Office, Program Center Coordinator, to all Connecticut Public Housing Authorities, requesting within fourteen days, the appropriate work orders for each life threatening health and safety violations; and (2) indications from the Massachusetts State Office staff that action was taken in regard to the overall score for each PHAS component, when the score was below the passing threshold of 60 percent, and not individual property inspection reports. We were never given any support that PIH staff was taking further action during the time of our review.

Further, we believe the Department's actions to develop a risk monitoring protocol, provide training, and develop a computerized event tracking system will help strengthen the control and resolution of the REAC physical inspection results. However, the Department should use caution in its protocol development and the use of the HUD Monitoring Desk Guide and Field Operations guidance when it pertains to resolving physical deficiencies. The Department makes reference to not becoming overly prescriptive or inappropriate for differing jurisdictions and situations when developing and issuing guidance. However, terms such as "technical assistance" is broad and can be opened to a variety of different interpretations when applied by PIH staff. We believe that the Department should create some standard structure to methods for resolving physical deficiencies identified by the REAC.

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**Recommendations**

We recommend that you:

- 1A. Continue development of a risk monitoring protocol to be used to address all physical inspection deficiencies and develop a time table for the protocol's completion and full implementation.
- 1B. Ensure that the risk monitoring protocol and written guidance are not overly broad and consider including some standardized structured methodology to resolve physical inspection deficiencies.
- 1C. Ensure that the Compliance and Monitoring Training includes the review of the risk monitoring protocol and written guidance, and establish time tables for the completion of the training.
- 1D. Continue development of the computerized event tracking system and develop a time table for the system's completion and full implementation. Provide training to the staff on the adequate use of the system.



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# Management Controls

In planning and performing our audit, we considered the management controls of the Office of Public and Indian Housing, specifically as related to the Physical component of the Public Housing Assessment System, in order to determine our audit procedures and not to provide assurances on internal controls.

Management controls consist of a plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

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## Relevant Management Controls

We determined that administrative and accounting controls on the following areas were relevant to our audit objectives:

- Physical Inspections
- Tracking Corrective Action

We assessed all of the relevant controls identified above.

## Assessment Results

A significant weakness exists if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

## Significant Weaknesses

Our review identified significant weaknesses over the Department's ability to effectively use physical inspections performed by the Real Estate Assessment Center, and to track corrective action. Specific weaknesses were identified in all the management control areas disclosed above. These weaknesses are described in the finding section of this report.





# Public Housing Property Inspection Reports Reviewed

Property Name	Inspection Score	Housing Authority	Field Office	PHAS Advisory Score	Physical Score	PHAS Designation
John J Stevens Apts.	46a	Ansonia Housing Authority	CT State Office	65.7	16.7	Troubled/ Substandard
Westhill Gardens	76c*	Manchester Housing Authority	CT State Office	91.1	23.3	High
Heritage Gardens	31c*	East Hartford Housing Authority	CT State Office	77.5	15.4	Troubled/ Substandard
Laurel Gardens	27c*	Danbury Housing Authority	CT State Office	68.9	12.6	Troubled/ Substandard
Essex Townhouses	58b*	New Haven Housing Authority	CT State Office	39.9	18.9	Troubled/ Substandard
Charter Oak Terrace	73c*	Hartford Housing Authority	CT State Office	81.2	14.0	Troubled/ Substandard
Fairfax Gardens	84c*	Taunton Housing Authority	MA State Office	81.5	27.1	Troubled/ Substandard
Saltonstall Sr. Citizen Center	53c	Medford Housing Authority	MA State Office	83.7	19.5	Standard
Arthur J Clark Apt.	59b	Waltham Housing Authority	MA State Office	89.8	20.8	Standard
Hartwell Project	61b	Lowell Housing Authority	MA State Office	92.6	24.2	High
Brickenwood	49c*	New Bedford Housing Authority	MA State Office	87.7	17.7	Troubled/ Substandard

Note 1: The Inspection score represents the score for the individual property, whereas the Physical score is based on the weighted average of all the properties owned by the respective housing authority.

Note 2: The asterisk (\*) designates that the property has at least one smoke detector deficiency.



# Public Housing Authorities Contacted

Housing Authority	Field Office	PHAS Advisory Score	Physical Score	PHAS Designation
Putnam Housing Authority	CT State Office	88.5	22.1	Standard
Stratford Housing Authority	CT State Office	85.8	18.2	Standard
Middletown Housing Authority	CT State Office	75.2	20.8	Troubled/ Substandard
Bristol Housing Authority	CT State Office	77.7	13.2	Troubled/ Substandard
Lawrence Housing Authority	MA State Office	92.6	24.8	High
Chicopee Housing Authority	MA State Office	90.4	22.2	High
Northampton Housing Authority	MA State Office	80.0	15.1	Troubled/ Substandard
Springfield Housing Authority	MA State Office	91.6	21.6	High



# Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-5000

MAR 6 2000

OFFICE OF THE ASSISTANT SECRETARY  
FOR PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: William D. Hartnett, District Inspector General,  
Office of Audit, 1AGA

FROM: Harold Lucas, Assistant Secretary for Public and Indian  
Housing

SUBJECT: Comments in Response to Draft IG Report, "Use of Real  
Estate Assessment Center's Physical Inspection  
Assessments"

I am providing the following comments in response to the subject  
draft IG report:

**Finding 1: "No Substantial use of REAC Physical Inspections."**

**"REAC intends to issue advisory scores."**

PIH Response: REAC has and will continue to issue advisory scores for PHAs with fiscal years ending December 31, 1998 through December 31, 1999. Full implementation of PHAS will begin with the March 31, 2000 PHAs. REAC will perform a physical inspection beginning as early as three months preceding the fiscal year end, completing all inspections by fiscal year end. The PHA will provide certified submissions of financial and management operation data sixty days after fiscal year end. REAC will compute the score for each indicator and provide the information to the appropriate HUB/PC/TARC office for a seven day review. The score is officially posted on the web site and available to the PHA ninety days after the fiscal year end. The HUB/PC/TARC office and the PHA are able to download the list of physical deficiencies once all physical inspections are completed for a PHA.

**"Housing Authorities still to be evaluated under PHMAP."**

PIH Response: Your report is correct in stating that until PHAS is fully implemented, the HUB/PC/TARC offices have the legal responsibility to assist the PHA in improving areas found deficient under PHMAP. An agency that receives a score of less than 60 under PHMAP is officially transferred to the appropriate TARC for intervention and technical assistance. The TARC accomplishes an independent assessment of agency operations and physical well-being. The TARC looks at the quality of the maintenance and modernization programs, to include procedures and classifications of work orders, the requirement and results of the 100 percent inspection of annual units, preventive maintenance policies, coordination of maintenance with Capital

Fund programs, tracking systems, and the needs and viability assessment used for the Five-Year Plan. All maintenance and modernization discrepancies are identified and incorporated into the Memorandum of Agreement (MOA). The PHA provides monthly reports which are augmented by TARC on-site monitoring of all MOA requirements. This tracking process is standardized for PHMAP and the template for use of this tracking process under PHAS is being finalized.

As published in the Federal Register and subsequent notices, the PHAS program with Congressional support, was established with a one year advisory period, subsequently extended to one and one-half years, to allow our PHA partners adequate time to familiarize themselves with the new requirements of the PHAS and begin addressing cited deficiencies before actual scores and determinations of performance designations were made. Field and TARC staff were instructed and did use the PHAS advisory information, including the physical inspection results to provide technical assistance to PHAs to correct physical indicator deficiencies. Field staff used the annual risk assessment process and TARC staff included the physical deficiencies in the PHA plan for recovery as noted above.

**"HUD feels they cannot penalize during PHAS advisory phase."**

PIH Response: Rather than penalizing PHAs for physical deficiencies, HUBs and TARCs routinely provide technical assistance and expertise to assist the PHA in their efforts to improve physical components. PIH has highlighted smoke alarms as a major health and safety concern in the BOP goals. PIH field staff will be trained on the new physical inspection standards including items related to fire safety so that they may ensure that properties assisted under HUD programs comply with applicable standards and the National Fire Safety Act. REAC will provide baseline data from the advisory score inspections. HUBs and TARCs will then target assistance, including on-site technical assistance, to those PHAs with high failure rates. The REAC will provide updated reports as requested and a year-end status. BOP reporting for these goals will be conducted at the Headquarters level.

New England field offices, in particular, use a newsletter in addition to follow-up letters, to emphasize the criticality of smoke detectors. The newsletter can be provided to your office upon request.

**"Limited Action Taken Nationwide."**

PIH Response: Your report is correct in stating that the field offices are reviewing the REAC physical inspection reports and providing technical assistance, when warranted, to resolve physical deficiency issues. Unfortunately, comments attributed to my senior staff were misinterpreted. PIH is taking an aggressive stand on life threatening health and safety issues nationwide, developing a risk monitoring protocol, and training all public trust officers in the critical aspects of risk analysis and monitoring. Additionally, senior PIH staff is working closely with REAC, industry groups, and PHA representatives to ensure the physical inspection protocols are of the highest quality. The results of physical inspections have been closely reviewed and analyzed. Substantial changes to the physical inspection protocols have been made in the last few months, based on this scrutiny and PIH, in conjunction with REAC, is currently testing the new protocols.

Field presence in PIH consists of 27 HUB Offices and 16 Program Centers which report to a HUB. With the two Troubled Agency Recovery Centers, the field staff geographically service PHAs throughout the nation. The IG audit consisted of a review of procedures in one HUB and one PC, which accounts for less than four percent of the field presence. As demonstrated during the IG visit, PIH uses PHAS information to follow up on deficiencies and work with the PHA to correct the deficiencies, reprogram capital and operating funds to address underlying causes, and establish procedures to prevent deficiencies from occurring in the future. PIH considers the REAC physical inspection deficiency information as a valuable tool in our arsenal of information to monitor and assist PHA performance and ensure the provision of decent, safe, and sanitary housing. PHAS deficiencies are used as a source of data for trend analysis as well as the identifying information needed for written and verbal contact to begin the technical assistance and training process. PHAs with physical deficiencies receive letters, phone calls, and/or on-site visits to ensure that violations are properly addressed and procedures are put in place to prevent further occurrences. As a result of this intense intervention, inspection failure rates for 9/30 PHAs dropped considerably between the 9/30/98 and 9/30/99 cycles. A survey of field office actions is once again, offered to your office.

**"New England Offices Taking Minimal Action. Discussions with Housing Authorities confirmed results. New England Offices to start taking action."**

In addition to the newsletters, the New England offices have developed the following process to act on REAC physical inspection deficiencies. The field office receives notification from REAC of inspection deficiencies. When Health and Safety violations are present, a memorandum is issued to the respective PHA, asking them to submit documentation within 14 days of the memo to ensure the PHA has addressed all health and safety issues. Other identified deficiencies are monitored through the REAC website, telephone calls and on-site or remote monitoring. If a response is not received within 14 days, the PHA is again contacted and monitored until all deficiencies are satisfactorily addressed.

For the PHAs identified in the report, the following occurred:

**Hartford Program Center:**

**Danbury HA - Laurel Gardens**

PHA sent response in 15 days certifying that all work had been completed to correct the deficiencies with copies of the work orders to evidence it. PHA stated that reinspections were done on the same day and the following day after the REAC inspectors issued their notifications.

**East Hartford HA - Heritage Gardens/The Highlands**

PHA sent response in 4 days certifying that all work had been completed to correct the deficiencies with copies of the work orders to evidence it. Work orders show that the corrections were started on the same day of REAC inspection and completed within 3 days.

**Hartford HA - Charter Oak**

PHA sent response in 15 days certifying that all work had been completed to correct the deficiencies with copies of the work orders to evidence it. Three of the cited units were vacant and ready for demolition. The HHA construction contractor addressed the deficiencies in all units.

**Manchester HA - Westhill Gardens**

PHA sent response in 10 days certifying that all work had been completed to correct the deficiencies with copies of the work orders to evidence it. The MHA responded back to us with copies of work orders showing the work done and completed within 1 to 8 days after the REAC inspection.



Boston Hub:

New Bedford HA -

Discussions of physical inspection findings occurred during an on-site pre-scheduled visit. Health and safety (H&S) issues were followed-up by phone. The response letter from NBHA stated most physical inspection findings were site conditions resulting from city sidewalks and streets (which PHA had no control over), normal wear and tear in units; H&S violations were mostly electrical consisting of missing outlet covers, ie. exposed wires. All H&S deficiencies were corrected.

Lowell HA -

Phone calls were made to the Lowell HA immediately after H & S notices were received. Form letters were developed giving PHAs a 15 day response time to H & S issues and mailed. The LHA responded within the 15 day time frame stating "work orders were created and completed within 24 hours for all H & S issues found during the inspection. All other deficiencies were addressed through routine maintenance schedules".

Medford HA -

Phone calls were made to the Medford HA immediately after H & S notices were received and form letters were sent out. Responses to the form letters were received within 15 days. In each case the MHA responded that H&S violations were repaired or corrected while the REAC inspector was still on-site (missing breaker covers were due to electrical improvements and addition of ground fault protection as part of a major bathroom modernization project in process at the time of the inspection). An inoperable smoke detector was replaced while the inspector was on-site.

**"Development of new computer system."**

Your report is correct in stating that REAC is building additional capacity into their computer system which will allow the transmission of physical inspection results to the PHA. This improved transmission will also provide the HUBs/PCs/TARCs with physical inspection results quicker, allowing the offices to incorporate any reported deficiencies into their monitoring systems. Currently, the TARCs have an excellent tracking system for all deficiencies identified during the independent assessment and the HUBs are currently updating their tracking systems to embody the new risk monitoring protocols.

RECOMMENDATIONS :

**1A. "Develop a process to specifically assure physical deficiencies identified by REAC inspections on individual public housing properties, are corrected in a timely, appropriate manner."**

PIH Response: REAC, in conjunction with PIH, is routinely improving the process of transmitting public housing property inspection reports to the HUBs/PCs/TARCs and identifying health and safety violations. The latest improvement will allow actual inspection results and health and safety violations to be posted on the REAC website within 48 hours after completion of the inspection. Field and TARC management staff will be notified electronically of the new inspection information which they will use to contact the PHAs. Written guidance regarding this procedure will be incorporated into the protocol agreement between REAC and PIH.

The TARCs currently have a process to ensure that the correction of all physical deficiencies identified by REAC inspections are incorporated into the recovery process. The HUBs currently address all health and safety violations immediately and are reviewing all processes and standardizing a risk monitoring protocol which will be used to address all deficiencies including physical deficiencies identified by REAC inspections.

**1B. "Develop written guidance specific to use and resolution of REAC property inspections, and provide training to PIH staff on how to implement the guidance."**

PIH Response: The published HUD Monitoring Desk Guide provides tools and techniques for conducting a risk analysis of any function in the monitoring process. It explains the mechanics behind compliance and monitoring and details programmatic expectations. The Desk Guide covers risk assessment methodology and implementation, data gathering and validation, remote and on-site monitoring procedures, evaluation of review information, communication including follow-up and documentation of the entire monitoring strategy and its results. Using this method, field office monitoring strategies will be consistently applied throughout PIH and the Department. Additionally, Field Operations guidance, issued on August 10, 1999, requires field offices, on a risk management basis, to identify PHAs that need direct follow-up or intervention based on results of physical inspections, and provide technical assistance to them in a manner that achieves deficiency correction. This guidance is appropriate to address the correction of deficiencies without becoming overly prescriptive or inappropriate for differing jurisdictions and situations. The guidance will be revised to incorporate changes made to the program by the final PHAS rule, effective February 10, 2000, which made major changes to the physical inspection standard and the PHA appeal process.

The Department has undertaken a Compliance and Monitoring Training initiative for FY2000. During this initiative, all Public Trust Officer staff will receive the "HUD Monitoring Desk Guide" and most HUD staff will receive formal training on program specific compliance and monitoring efforts. For those staff not in attendance at the actual training sessions, a train-the-trainer system has been set up whereby the training will be communicated to the remaining staff by their peers. The first round of training has begun and it is anticipated that of the 1,000 staff trained during this first round, 382 training participants will be from PIH. This training will provide the necessary skills to PIH staff to address all types of PHA deficiencies, including the physical deficiencies identified by the REAC physical inspections.

**1C. "Develop the means to track corrective action and resolution to the REAC property inspections."**

PIH Response: PIH is currently developing a computerized event tracking system which will consolidate monitoring activities performed by the HUBs/PCs/TARCs. This system will capture the main events associated with risk monitoring, including identified physical deficiencies. Until the event tracking system is online, the HUBs/PCs/TARCs will continue to use the current working systems. Samples of comprehensive tracking systems; including model and actual letters, policies, assessments, monitoring reports, negotiated agreements with PHAs, PHA improvement plans, technical assistance plans, and other documentation can be made available to your office upon request.



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