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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Improvements Are Needed To Ensure That Public Housing Properties Are Inspected in a Timely Manner

Audit Report Number: 2023-CH-0003

May 23, 2023

Date: May 23, 2023

To: Ashley L. Sheriff
Deputy Assistant Secretary for the Real Estate Assessment Center, PX

//signed//
From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: Improvements Are Needed To Ensure That Public Housing Properties Are Inspected in a Timely Manner

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of HUD's Real Estate Assessment Center's inspections.

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, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call Kelly Anderson, Audit Director, at (312) 913-8499.

Highlights

Improvements Are Needed To Ensure That Public Housing Properties Are Inspected in a Timely Manner | 2023-CH-0003

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Real Estate Assessment Center's inspection process. The audit objectives were to determine whether the Center (1) ensured that public housing properties were inspected within required timeframes before the coronavirus disease 2019 (COVID-19) pandemic; (2) could improve its Big Inspection Plan for inspecting high-priority non-National Standards for the Physical Inspection of Real Estate (NSPIRE) demonstration public housing properties; and (3) had experienced delays in inspecting the physical condition of public housing properties approved under the NSPIRE demonstration.

What We Found

Before HUD postponed physical inspections due to COVID-19, the Center did not consistently ensure that public housing properties were inspected within required timeframes. The Center developed its Big Inspection Plan to inspect all NSPIRE demonstration and non-NSPIRE public housing and multifamily properties by March 31, 2023; using for its public housing portfolio, a phased approach to inspect non-NSPIRE properties. We found that under phase I of the Plan, the Center did not inspect all of the high-priority non-NSPIRE public housing properties by December 2021. Under phase II, the inspections for these properties were generally not given priority. Further, the Center experienced delays in inspecting public housing properties approved to participate under the NSPIRE demonstration. HUD can improve its procedures and controls, including the coordination of the procurement for inspection services, to ensure that public housing properties are inspected in a timely manner. Making such improvements will better position HUD's Office of Public and Indian Housing to know whether the physical conditions in public housing properties are decent, safe, and sanitary. These improvements could also result in Public Housing Assessment System scores better reflecting the current conditions of the properties.

What We Recommend

We recommend that the Deputy Assistant Secretary for the Center prioritize the inspection of public housing properties that were (1) not included in the NSPIRE demonstration but were identified as high priority under the Center's Big Inspection Plan and (2) approved to participate under the NSPIRE demonstration that the Center was unable to inspect by March 31, 2023. We also recommend that the Deputy Assistant Secretary for the Center implement adequate policies, procedures, and controls to ensure that public housing properties will be inspected within required timeframes.

Table of Contents

Background and Objectives	5
Results of Audit.....	7
Finding: Improvement Are Needed To Ensure That Public Housing Properties Are Inspected In a Timely Manner.....	7
Scope and Methodology	13
Appendixes	15
APPENDIX A - Auditee Comments and OIG’s Evaluation	15
APPENDIX B - Applicable Regulations	18

Background and Objectives

The U.S. Department of Housing and Urban Development's (HUD) mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD's public housing program was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. Public housing comes in all sizes and types, from scattered single-family houses to highrise apartments. HUD administers Federal aid to local public housing agencies (PHA) that manage the housing for low-income residents at rates they can afford. The units must meet the program's minimum standards for health and safety.

HUD's Real Estate Assessment Center's mission is to provide its customers with independent, actionable assessments that advance risk-informed decisions about the condition of the Nation's affordable housing portfolio. In 1998, HUD established the Uniform Physical Condition Standards (UPCS) and a standardized process for inspecting the physical conditions of properties under HUD's public and multifamily housing programs. The Center used this model to promote consistency in the standards used to assess physical conditions in HUD housing; ensure that the properties were decent, safe, sanitary, and in good repair; and standardize the inspections used to determine compliance with those standards.

HUD began a wholesale reexamination of the Center's physical housing inspection process in 2017 and has been modernizing its inspection model through the National Standards for the Physical Inspection of Real Estate (NSPIRE) demonstration. The NSPIRE demonstration was designed to assess all aspects of the Center's physical inspection process through the evaluation of physical inspection data and the development of a new inspection scoring model. Under the 2-year demonstration, HUD planned to inspect 4,500 properties, including public housing properties, from a pool of nationwide volunteers that were willing to adopt the new physical inspection standards.¹ HUD projected that inspections would begin after June 30, 2019.²

In response to the coronavirus disease 2019 (COVID-19) pandemic, the Center officially postponed inspections of all properties on March 16, 2020, out of concern for the health, safety, and welfare of residents, public housing agency staff, property owners and agents, inspectors, and HUD employees. The Center notified stakeholders in August 2020 that it intended to start conducting physical inspections of a limited number of public housing properties in October 2020. The Center stated that it would inspect public housing properties identified as high risk, that required emergency inspections, and at troubled PHAs which requested an inspection.³ Further, the properties had to be in counties that had sustained a low-risk public health rating over six consecutive weekly reporting periods.

¹ Inspections of properties approved to participate in the NSPIRE demonstration were not inspections of record but advisory assessments of the properties' physical conditions, focusing on health and safety conditions that are critical to quality with emphasis on the condition of dwelling units and common areas. The inspections were used to collect data on the properties' physical conditions to identify potential adjustments to the NSPIRE inspection standards, protocols, and processes.

² In September 2021, HUD extended the NSPIRE demonstration through April 2023.

³ HUD uses the Public Housing Assessment System to assess a PHA's performance in managing its public housing program. HUD scores a PHA's performance using four indicators – physical condition, financial condition, management operations, and the Public Housing Capital Fund program. Physical inspections of a PHA's public housing properties are used in determining a PHA's Public Housing Assessment System score. HUD compiles

In an April 2021 letter to PHAs' executive directors, Secretary Fudge announced that HUD would substantially increase housing inspections beginning June 1, 2021. Later that month, the Center outlined in a memorandum its plan for increasing the number of inspections of public housing properties that had been conducted since October 2020.⁴ The memorandum explained that HUD would identify properties for inspection through a risk analysis, resident complaints, properties' most recent inspection scores, and the time elapsed since properties' last inspections. HUD also intended to inspect certain properties at the request of PHAs, as well as properties that had volunteered for the NSPIRE demonstration.

The Center developed its Big Inspection Plan to inspect all NSPIRE demonstration and non-NSPIRE public housing and multifamily properties by March 31, 2023. For its public housing portfolio, the Center planned to use a phased approach to inspect non-NSPIRE properties. In phase I, the Center would focus on inspecting more than 900 high-priority non-NSPIRE properties from June through December 2021 using NSPIRE inspection standards.⁵ In phase II beginning January 1, 2022, the Center would begin inspecting all non-NSPIRE properties, including the high-priority properties, using UPCS based on the PHAs' fiscal year end unless a property was associated with a troubled PHA, which the Center planned to inspect by June 30, 2022. These UPCS inspections would also be used to establish the future inspection intervals for the properties. The Center would start inspecting properties under the NSPIRE demonstration beginning August 2021.

The Center's primary process for securing property inspection services for HUD-assisted housing has been its reverse auction program. The program involves auctions conducted using a reverse auction vendor website that allows eligible contractors to bid for inspections. Awards are made to the contractors with the lowest bids at the close of the auctions. The contractors then schedule and conduct the property inspections. However, the Center is moving toward obtaining property inspection services through regional or national inspection contracts and using the reverse auction program as a backup if there are issues with procuring the contracts or if performance issues arise with the contractors.

Our objectives were to determine whether the Center (1) ensured that public housing properties were inspected within required timeframes before the COVID-19 pandemic; (2) could improve its Big Inspection Plan for inspecting high-priority non-NSPIRE demonstration public housing properties; and (3) had experienced delays in inspecting the physical conditions of public housing properties approved under the NSPIRE demonstration.

the scores into an overall Public Housing Assessment System score for a PHA. PHAs that score 59 percent or less are designated as troubled.

⁴ The Center had inspected only one public housing property from October 2020 through the date of the Secretary's letter.

⁵ Inspections of the high-priority non-NSPIRE demonstration properties using NSPIRE inspection standards were habitability reviews of the properties to identify health and safety deficiencies.

Results of Audit

FINDING: IMPROVEMENTS ARE NEEDED TO ENSURE THAT PUBLIC HOUSING PROPERTIES ARE INSPECTED IN A TIMELY MANNER

Before HUD postponed physical inspections due to COVID-19, the Center did not consistently ensure that public housing properties were inspected within required timeframes.⁶ The Center developed its Big Inspection Plan to inspect all NSPIRE demonstration and non-NSPIRE public housing and multifamily properties by March 31, 2023; using for its public housing portfolio, a phased approach to inspect non-NSPIRE properties. We found that under phase I of the Plan, the Center did not inspect all of the high-priority non-NSPIRE public housing properties by December 2021. Under phase II, the inspections for these properties were generally not given priority. Further, the Center experienced delays in inspecting public housing properties approved to participate under the NSPIRE demonstration. HUD can improve its procedures and controls, including the coordination of the procurement for inspection services, to ensure that public housing properties are inspected in a timely manner. Making such improvements will better position HUD's Office of Public and Indian Housing to know whether the physical conditions in public housing properties are decent, safe, and sanitary. These improvements could also result in the Public Housing Assessment System scores better reflecting the current conditions of the properties.

The Center Did Not Consistently Ensure That Public Housing Properties Were Inspected Within Required Timeframes Before the COVID-19 Pandemic

For nearly 900 of the more than 5,600 active non-NSPIRE demonstration public housing properties inspected using the UPCS inspection process before March 16, 2020, the last inspection scores were less than 80,⁷ and the inspections for these properties ranged from occurring more than 1 year to more than 6 years before March 16, 2020.⁸ See the following table for a breakdown by PHA size on the timing of the previous inspections for the nearly 900 properties.

PHA size	> 1 through 2 years	> 2 through 3 years	> 3 through 4 years	> 4 through 5 years	> 5 through 6 years	> 6 years	Totals
Large	310	149	72	5	2	1	539
Small	197	74	42	13	0	1	327
Totals	507	223	114	18	2	2	866

⁶ According to HUD's regulations at 24 CFR (Code of Federal Regulations) 902.13(b)(1), PHAs with 250 units or more, may be assessed annually. Section 902.13(b)(2) states that the physical condition score for each project associated with a large PHA will determine the frequency of inspections of each project. Further, according to regulations at 24 CFR 902.13, the frequency of HUD's assessment and scoring of the performance of a small PHA with fewer than 250 units is based on the PHA's Public Housing Assessment System designation. See appendix B.

⁷ According to regulations at 24 CFR 902.13(b)(2), for a project associated with a large PHA with a physical condition score of less than 80 points, a physical inspection will be conducted annually at the project. See appendix B.

⁸ The date on which the Center postponed inspections due to the pandemic.

The Center initially stated that there were three primary factors that led to an inspection backlog before physical inspections were postponed due to COVID-19. First, the Center was unable to conduct auctions for physical inspections for several months due to problems in 2017 and 2018 transitioning to a new contractor to operate the technology for the Center's reverse auction program. The new contractor's subcontract to use the previous contractor's technology fell through, and the new contractor used off-the-shelf software that required significant customization, which resulted in performance issues. Further, HUD was delayed in awarding emergency backlog contracts for physical inspections.⁹ In addition, there was poor performance by one of the contractors awarded an emergency backlog contract.

We wanted to determine the specific reasons why properties were not inspected within required timeframes, if applicable. Therefore, we selected a statistical sample of 63 of the nearly 900 active non-NSPIRE demonstration public housing properties in which the most recent UPCS inspections before March 16, 2020, occurred more than 1 year before March 16, 2020, and the inspection scores were less than 80.¹⁰

Based on our review of the documentation provided by the Center, at least 28 of the 63 properties (44 percent) were not inspected within required timeframes. Only 7 of the 28 properties were included in the emergency backlog contracts.¹¹ An additional three properties were scheduled to be inspected through the Center's reverse auction program.¹²

We found that 8 of the remaining 18 properties were included in an order for the reverse auction program but were either not included in a reverse auction or did not receive a bid to be inspected. Our review also identified that properties were included in the emergency backlog contracts or scheduled to be inspected through the Center's reverse auction program that had been inspected more recently and had higher scores than some of the 18 properties. For example, a property in Illinois received a score of 31 on its September 2016 inspection, and a property in Georgia received a score of 63 on its October 2017 inspection but were not included in an order for the reverse auction program. However, a property in Illinois that received a score of 76 on its January 2019 inspection was scheduled to be inspected through a reverse auction that occurred in January 2020.

The Center's Director for External Shared Services¹³ told us that the Center's controls over tracking the inspections of public housing properties were not sufficient to ensure that the properties were inspected in a timely manner. For instance, HUD's schedule of public housing properties that required a UPCS inspection as of December 2020 included an ideal future date for each property's next inspection but

⁹ Emergency backlog contracts for physical inspections were awarded in June 2019.

¹⁰ We decided to select a statistical sample from the active non-NSPIRE demonstration public housing properties in which the most recent UPCS inspections before March 16, 2020, occurred more than 1 year before March 16, 2020, and the inspection scores were less than 80; because we were seeking clarification from HUD on the frequency of inspections for projects associated with small PHAs. See the scope and methodology for specific details regarding the statistical sample.

¹¹ Five of the seven properties were included in the emergency backlog contract with the poor-performing contractor.

¹² The properties were to be inspected by the poor-performing contractor.

¹³ The Director for External Shared Services was responsible for overseeing the Center's physical inspections of non-NSPIRE demonstration public housing properties.

some of the ideal future dates were before or significantly after the date of the properties' last inspection. The Center would not provide us the methodology it used to calculate the ideal future date.

Of the more than 5,600 active non-NSPIRE demonstration public housing properties, the ideal future date for 559 properties was before the properties' last inspection. For 800 properties, the ideal future date was more than 4 years after the date of the properties' last inspection. For example, although a property in New York was last inspected in October 2018, it had an ideal future date of December 2017. In another example, a property in North Carolina associated with a troubled PHA received a physical inspection score of 69 in May 2014 but had an ideal future date of December 2020.

The ideal future date for 559 active non-NSPIRE demonstration public housing properties was before the properties' last inspection.

After receiving clarification from HUD on the frequency of inspections for projects associated with small PHAs, we determined that of the more than 5,600 active non-NSPIRE demonstration public housing properties inspected using the UPCS inspection process before March 16, 2020, at least 981 properties were not inspected within required timeframes.

We concluded that the Center did not have sufficient controls to ensure that it had an appropriate date for when properties should be inspected. Improving these controls would help the Center ensure that residents were living in properties that were in decent, safe, and sanitary condition and public housing assessment system scores better reflected the current conditions of the properties.

The Center Could Have Better Targeted High-Priority Properties In Phase II of Its Big Inspection Plan

The Center inspected public housing properties using criteria outlined in its Big Inspection Plan. Phase I of the Plan included that the Center focus on inspecting high-priority non-NSPIRE demonstration properties from June through December 2021 using NSPIRE inspection standards. However, the Center inspected approximately 100 properties from its initial list of 947 high-priority public housing properties by December 31, 2021. In phase II of the Plan beginning January 1, 2022, the Center would generally inspect all non-NSPIRE demonstration properties, including the high-priority properties, using UPCS based on the PHAs' fiscal year end; meaning that properties associated with PHAs with a fiscal year end of March 31 would be inspected first and properties associated with PHAs with a fiscal year end of December 31 would be inspected last, regardless of when the properties were last inspected or the properties' last inspection score.¹⁴ As of July 2022, the Center had inspected 391 of the 947 high-priority properties.

We found that HUD could have improved its Plan by better targeting properties in phase II that it already identified as a high priority. Nearly 50 of the high-priority properties that had not been inspected since before January 1, 2019, and received scores below 80 were not planned to be inspected until after other properties, including properties that were not identified as a high priority, because the PHAs had a fiscal year end of December 31. For example, a property in Illinois received a score of 68 on its December 2015

¹⁴ The Center planned to inspect properties associated with a troubled PHA by June 30, 2022.

inspection, and a property in New York received a score of 30 on its August 2018 inspection but may not be inspected until early 2023 because the PHAs' fiscal year end was December 31.

The Director for External Shared Services said that the Center inspected approximately 100 high-priority non-NSPIRE demonstration properties using NSPIRE inspection standards in phase I because the Center's staff inspectors were able to inspect only so many properties. Further, the inspectors had to modify current software to inspect the properties because software specifically designed for the NSPIRE inspection standards was not yet available.¹⁵ This condition reduced the efficiency of the inspections. The Director for External Shared Services also said that the Center's focus for phase II of the Plan was inspecting all the properties by March 2023 rather than using a risk-based approach.¹⁶ However, for the high-priority properties that were not inspected under phase I, any health and safety deficiency that residents were exposed to may not have been identified and addressed until the properties were inspected under phase II.

The Center Experienced Delays in Inspecting Public Housing Properties Approved To Participate In the NSPIRE Demonstration

As part of the Big Inspection Plan, the Center planned to start inspecting properties under the NSPIRE demonstration beginning August 2021.¹⁷ However, as of July 2022, the Center had inspected less than 300 of the more than 800 approved public housing properties.¹⁸ The Director of Program and Product Management¹⁹ told us that delays in the procurement of an information technology application to collect inspection data slowed the inspections of the properties approved to participate under the NSPIRE demonstration. The Center was able to bring the information technology application online in December 2021, and the Director believed all the public housing properties would be inspected by March 31, 2023. However, the Director stated that the public housing properties that do not get inspected under the NSPIRE demonstration program by the end of March 2023, will receive an NSPIRE inspection of record after March 2023.

HUD Experienced Delays in Awarding Contracts for Inspection Services

The Center's response to us regarding the inspection pipeline stated that one of the primary factors that led to the pre-COVID-19 pandemic inspection backlog was a delay in awarding emergency backlog contracts in 2019 for physical inspections. The Director for External Shared Services said that as part of the Big Inspection Plan, the Center planned to award regional gap contracts by September 2021 and start inspections of public housing properties under the gap contracts in January 2022. The Center planned to award a national inspection contract²⁰ in June 2022 and start inspections of additional public housing properties under the national inspection contract in October 2022.

¹⁵ The Center was in the process of procuring an information technology application to collect inspection data in the NSPIRE demonstration.

¹⁶ Prioritizing the inspections of properties based on risk.

¹⁷ The Center planned to inspect all of the properties by March 31, 2023.

¹⁸ Based on the Center's Big Inspection Plan production update through February 24, 2023, the Center had completed 713 public housing inspections under the NSPIRE demonstration.

¹⁹ The Director of Program and Product Management was responsible for managing the NSPIRE demonstration.

²⁰ The national inspection contract is a blanket purchase agreement to provide property inspection services. It is to be the Center's new primary source for securing property inspection services.

We identified differing viewpoints as to the cause of the delays during interviews with staff in HUD's offices involved in the award and administration of the contracts. The Director for External Shared Services told us that the delays in awarding the contracts timely were due to issues with HUD's Office of the Chief Procurement Officer (OCPO). The gap contracts did not get awarded until February 2022, the inspections started in June 2022, and the national inspection contract was not awarded until September 2022, with inspections starting in January 2023.

However, the Director of HUD's Office of Public and Indian Housing's Office of Procurement Management²¹ said that there were no delays by the OCPO in awarding the backlog contracts. Regarding the gap contracts, the Director said that the Center changed the initial statement of work to shift the risk to the vendors rather than HUD, and after conducting the market research, HUD determined that vendors were not interested. The Center then revised the statement of work, and HUD had to conduct additional market research resulting in a delay in awarding the gap contracts. The Director said that the Center initially requested a stand-alone contract for the national inspection contract, but HUD's market research indicated that HUD should consider contracting with a small business. The Center was concerned about awarding the national inspection contract to a small business due to small businesses' previous performance on larger inspection contracts, so the former Deputy Assistant Secretary for the Center decided that the national inspection contract should be a blanket purchase agreement as most agreements are awarded to large businesses. This change in contract vehicle caused the delay in procurement for the national inspection contract.

The Center Is Currently Designing the Procedures and Controls for the NSPIRE Inspection Model

The Director for External Shared Services stated that the Center had established a defined quality control program specifically designed for the Big Inspection Plan. However, the Center was designing the procedures and controls for the NSPIRE inspection model to be used after inspections were completed through the Big Inspection Plan and the Center returned to inspecting public housing properties based on when the last inspection occurred and the inspection score (large PHAs) or Public Housing Assessment System score (small PHAs). The Director of Program and Product Management said that the Center's system for NSPIRE would be designed to track the inspections of public housing properties to ensure that the properties would be inspected in a timely manner.

Conclusion

Before HUD postponed physical inspections due to COVID-19, the Center did not consistently ensure that public housing properties were inspected within required timeframes. HUD can improve its procedures and controls, including the coordination of the procurement for inspection services, to ensure that public housing properties are inspected in a timely manner. As a result, HUD's Office of Public and Indian Housing did not always (1) know whether residents were living in public housing properties that were in decent, safe, and sanitary condition and (2) have Public Housing Assessment System scores better reflecting the current conditions of the properties.

²¹ The Director was responsible for monitoring and overseeing contracts within the Office of Public and Indian Housing and liaising with HUD's OCPO on such contracts.

Recommendations

We recommend that the Deputy Assistant Secretary for the Center

- 1A. Prioritize the inspection of public housing properties that were (1) not included in the NSPIRE demonstration but were identified as high priority under the Center's Big Inspection Plan and (2) approved to participate under the NSPIRE demonstration that the Center was unable to inspect by March 31, 2023.
- 1B. Implement adequate policies, procedures, and controls to ensure that public housing properties will be inspected within required timeframes.

Scope and Methodology

We performed our audit remotely from October 2020 through February 2023. The audit covered the period January 2017 through February 2023.

To accomplish our objectives, we reviewed

- Applicable laws; HUD’s regulations at 24 CFR (Code of Federal Regulations) parts 5 and 902;²² the Federal Register, dated May 23, and August 21, 2019; HUD’s Public and Indian Housing Notices 2020-05, 2020-33(HA), and 2022-02; and HUD Center’s inspector notices 2020-01 and 2021-01.
- HUD’s fiscal year 2022 through 2026 strategic plan; fiscal year 2024 annual performance plan and fiscal year 2022 annual performance report; inspection data; inspection criticality methodology; COVID-19 frequently asked questions; Big Inspection Plan information brief, dated June 14, 2021; and Big Inspection Plan production updates.

In addition, we interviewed HUD senior officials.


Regulations at 24 CFR part 902.13(b)(2) clearly state that the physical condition score for each project associated with a large PHA with 250 units or more will determine the frequency of inspections of each project and that for projects with physical condition scores of less than 80 points, physical inspections will be conducted annually at the project. However, regulations at 24 CFR part 902.13(a) and 902.22(b) do not clearly state that the Public Housing Assessment System designation for a small PHA with fewer than 250 units will determine the frequency of inspections of each project. Further, the Center’s website stated that for PHAs with fewer than 250 units, inspections would occur every year for projects scoring less than 80.

While seeking clarification from HUD on the frequency of inspections for projects associated with small PHAs, we decided to select a statistical sample from the active non-NSPIRE demonstration public housing properties with annual contributions contract units in which the most recent UPCS inspections before March 16, 2020, occurred more than 1 year before March 16, 2020, and the inspection scores were less than 80, and determine whether the properties were inspected within required timeframes once we received clarification from HUD. Therefore, we selected a statistical sample of 63 of the nearly 900 active non-NSPIRE demonstration public housing properties with annual contributions contract units in which the most recent UPCS inspections before March 16, 2020, occurred more than 1 year before March 16, 2020, and the inspection scores were less than 80.²³ We wanted to determine whether the properties were inspected within required timeframes and the reason properties were not inspected within required timeframes, if applicable, and confirm the Center’s statement regarding inspection delays. Further, although we selected a statistical sample, we are not projecting the results to the population we did not review.

We relied in part on inspection data provided by HUD. Although we did not perform a detailed assessment of the reliability of the data, we found the data to be sufficiently reliable for our purposes.

²² See appendix B.

²³ The 63 properties included 37 associated with large PHAs and 26 associated with small PHAs.



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 objectives.

Appendixes

APPENDIX A - AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation – Auditee Comments



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

OFFICE OF PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: Kilah S. White, Assistant Inspector General for Audit, GA

ATTENTION: Kelly Anderson, Audit Director, Rental Assistance and Safe and Affordable Housing Audit Division, 5AGA

FROM: Ashley L. Sheriff, Deputy Assistant Secretary for the Real Estate Assessment Center, PX Ashley L Sheriff

SUBJECT: Comments on OIG Draft Audit, "Improvements are Needed to Ensure That Public Housing Properties Are Inspected in a Timely Manner"

Digitaly signed by: Ashley L Sheriff
DN: CN = Ashley L Sheriff, email = Ashley.L.Sheriff@hud.gov, C = US, O = REAC, OU = PH
Date: 2023.04.17 15:17:44 -0400

 **Comment 1 >**

Thank you for the exit interview on April 11, 2023, and for the opportunity to provide comments on the subject draft audit report. As the Deputy Assistant Secretary of Real Estate Assessment Center (REAC), I take seriously our role in performing accurate and timely physical inspections of the public housing portfolio. I appreciate that OIG made oversight of this function the subject of an audit to help ensure that inspections were completed within required timeframes. REAC concurs with all the OIG's recommendations. Through this memo, I am providing some additional context, an update on current operations and procurement awards, and more information about upgrades to REAC's system to implement the "National Standards for the Physical Inspection of Real Estate" (NSPIRE) final rule.

As discussed in staff interviews, REAC had a backlog of inspections prior to the COVID-19 pandemic. The pause in inspections to prevent the spread of COVID-19 significantly increased this inspection backlog. While some inspections were completed during the pandemic for potentially severe conditions, normal inspection operations were paused from mid-March 2020 until June 1, 2021. A sub-set of these inspections conducted under the NSPIRE Demonstration did not resume until October 2021. With the return of operations on June 1, 2021, REAC made internal plans to prioritize what staff considered "high risk" properties. At the time, however, inspections were still limited to areas with low COVID-19 risk ratings from the Centers for Disease Control and Prevention. The initial inspection targets and risk ranking criteria described by the OIG were developed by REAC staff and not subject to the standard Departmental clearance process.

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In retrospect, REAC’s internal targets for inspections during the pandemic were overly ambitious. They did not consider the uncertainty of the spread of new COVID-19 variants, the impact on labor for PHAs and inspection firms, and the availability of HUD staff and contract resources to manage the effort. At the time, most of PIH’s staff resources shifted to implementing the CARES Act and the waiver flexibility that the Act provided HUD. This new, increased workload from the CARES Act also impacted HUD’s financial and procurement staff.

 **Comment 1 >**

In HUD’s [FY2022-2026 Strategic Plan](#), PIH committed to a goal to “eliminate the backlog of inspections of Public and Multifamily Housing properties that have been delayed because of the COVID-19 pandemic.” This two-year goal has a target date of September 30, 2023, for completion. In FY22, REAC reported in its Annual Performance Plan that HUD completed 56%, or 18,340 inspections out of 32,289 properties. As of March 31, 2023, REAC has completed 27,168 inspections, or about 81% of the goal.

 **Comment 2 >**

 **Comment 3 >**

The pandemic also contributed to a delay in launching and completing inspections under the NSPIRE Demonstration. The NSPIRE Demonstration provided REAC authorization to test new inspection standards and scoring. The NSPIRE Demonstration for public housing was announced in August 2019 and launched after the comment period closed in October. Properties were enrolled on a rolling, regional basis to allow for a scale up in operations, but the progress of inspections and contract awards were impacted by the pandemic. While inspections were delayed, REAC did not violate any regulations when it missed its internal targets for completing inspections, because these were effectively waived for Demonstration participants.

 **Comment 1 >**

With the ability to resume NSPIRE Demonstration inspections in late 2021, inspections picked up in pace. REAC was able to successfully test provisions of the proposed rule, including the NSPIRE standards, software, and most recently, the new scoring model. The Demonstration will end when all inspections are completed or the NSPIRE rule is effective. The NSPIRE final rule and implementing notices will include new property inspection frequencies and inspection timing for public housing and affirm that properties with lower scores or associated with a Troubled PHA are inspected at least annually.

 **Comment 1 >**

In addition to the updated inspection regulations and policy, the NSPIRE system will improve upon REAC’s current Physical Assessment Sub-System (PASS) for scheduling and managing inspection results. Notably, the NSPIRE system will not rely on “Ideal Future Dates” as the metric to gage compliance with inspection timing regulations. A property’s Ideal Future Date could be revised manually in REAC’s current system and did not always correlate to the date required under HUD’s regulations.

 **Comment 1 >**

Regarding procurement, REAC completed the award of one of two “National Inspection Contracts” for inspections. To keep procurements moving, PIH senior leadership hosts biweekly NSPIRE Task Force meetings to ensure that REAC, HUD’s Offices of the Chief Information Officer, Chief Procurement Officer, and other budget and contract support staff stay within expected milestones to complete the award process.

I appreciate the OIG’s work on this audit and look forward to working with you to implement the recommendations.

OIG Evaluation of Auditee Comments

- Comment 1 We acknowledge HUD’s commitment to (1) eliminate the backlog of inspections of public housing and multifamily properties that have been delayed because of the COVID-19 pandemic, (2) using the NSPIRE system to improve upon the Center’s current Physical Assessment Subsystem for scheduling and managing inspection results, and (3) stay within expected milestones to complete the procurement award process. We appreciate HUD’s cooperation during the audit and look forward to working with HUD during the audit resolution process to address the recommendations.
- Comment 2 We clarified with HUD that it had actually reported in its fiscal year 2024 annual performance plan and fiscal year 2022 annual performance report, dated March 27, 2023, that it had completed 56 percent, or 18,340, of physical inspections of 32,289 public housing and multifamily properties since October 1, 2021.
- Comment 3 Although HUD announced the NSPIRE demonstration for public housing in August 2019, in May 2019, HUD filed in the Federal Register its Notice of Emergency Approval of an Information Collection: NSPIRE Demonstration, that stated the Center had developed a new inspection model entitled NSPIRE. Before nationwide implementation, the Center would test NSPIRE through a multistage demonstration to identify potential adjustments to standards, protocols, and processes. HUD would ask public housing agencies and owners and agents to participate in the demonstration through a voluntary application process and planned to test the model with approximately 4,500 properties.

APPENDIX B - APPLICABLE REGULATIONS

HUD's regulations at 24 CFR 902.13 state that the frequency of a PHA's Public Housing Assessment System assessments is determined by the size of the PHA's low-rent program and its Public Housing Assessment System designation. HUD may, due to unforeseen circumstances or other cause as determined by HUD, extend the time between assessments by direct notice to the PHA and relevant resident organization or resident management entity and any other general notice that HUD deems appropriate. Section 902.13(a) states that HUD will assess and score the performance of a small PHA with fewer than 250 public housing units as follows: (1) a high performer may receive a Public Housing Assessment System assessment every 3 years; (2) a standard or substandard performer may receive a Public Housing Assessment System assessment every other year; and (3) all other small PHAs, including a PHA that is designated as troubled or Public Housing Capital Fund-troubled in accordance with 24 CFR 902.75, may receive a Public Housing Assessment System assessment every year.

Regulations at 24 CFR 902.13(b)(1) state that all PHAs other than stated in section 902.13(a), PHAs with 250 units or more, may be assessed annually. Section 902.13(b)(2) states that the physical condition score for each project will determine the frequency of inspections of each project. For projects with a physical condition score of 90 points or higher, physical inspections will be conducted every 3 years at the project. For projects with a physical condition score of less than 90 points but at least 80 points, a physical inspection will be conducted every 2 years at the project. The physical condition score of 80 points or higher will be carried over to the next assessment period and averaged with the other project physical condition score(s) for the next assessment year for an overall Public Housing Assessment System physical condition indicator score. For projects with physical condition scores of less than 80 points, physical inspections will be conducted annually at the project. Section 902.13(b)(3) states that if a PHA is designated as a troubled performer, all projects will receive a physical condition inspection regardless of the individual project physical condition score. Section 902.13(b)(4) states that in the baseline year, every PHA will receive an overall Public Housing Assessment System score and a score in all four of the Public Housing Assessment System indicators; physical condition, financial condition, management operations, and Capital Fund program. This process will allow a baseline for the physical condition inspections and the 3-2-1 inspection schedule, as well as a baseline year for small, deregulated PHAs.