



Office of Public and Indian Housing Real Estate Assessment Center, Washington, DC

Physical Inspection Operations Division

**Office of Audit, Region 6
Fort Worth, TX**

**Audit Report Number: 2018-FW-0003
August 31, 2018**





To: Donald J. LaVoy, Deputy Assistant Secretary for Office of Public Housing Real Estate Assessment Center, PX

//signed//

From: Kilah S. White, Regional Inspector General for Audit, 6AGA

Subject: REAC Could Improve Its Inspections Processes and Controls

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

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



Audit Report Number: 2018-FW-0003

Date: August 31, 2018

REAC Could Improve Its Inspections Processes and Controls

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Real Estate Assessment Center's (REAC) inspections process. We initiated this audit in accordance with our annual audit plan. Our objective was to determine whether REAC had adequate processes for and controls over the certification and monitoring of contracted inspectors and its public housing units' physical inspections processes.

What We Found

REAC could improve its inspections processes and controls related to the certification and monitoring of its contracted inspectors and its public housing units' physical inspections processes. Specifically, REAC did not always ensure that (1) contract inspectors met requirements, (2) database system controls functioned properly, and (3) it verified the accuracy of sampled units for public housing authorities. These conditions occurred because REAC either did not follow its procedures or did not have procedures in place for parts of its inspections process. As a result, REAC did not always have assurance that it (1) made the most effective and efficient use of its resources when training and certifying inspectors, (2) protected its database system data from unauthorized access and use, and (3) had accurate unit selections.

What We Recommend

We recommend that the Deputy Assistant Secretary for REAC (1) develop written policies and procedures to ensure that inspectors meet program requirements, (2) support that inspector candidates met minimum qualifications and were properly monitored, (3) ensure that it performs annual assessments and continuous monitoring of its database, and (4) develop processes and procedures to verify the accuracy of sampled units.

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Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) Real Estate Assessment Center (REAC) is a national management center located in Washington, DC, and structurally falls under HUD's Office of Public and Indian Housing. REAC's main purpose is to centralize and standardize the way HUD evaluates the condition of the properties in which it has a financial interest or statutory obligation to monitor. In part, REAC's mission is to provide accurate, credible, and reliable information assessing the condition of HUD's housing portfolio. HUD housing must meet certain standards and undergo physical inspections to determine that the housing is decent, safe, sanitary, and in good repair. Through its Physical Inspection Operations Division, REAC performs the inspections of public housing units based on uniform physical condition standards (UPCS), which address six major housing areas: site, building exterior, building systems, dwelling units, common areas, and health and safety.

To be able to conduct physical inspections, all inspectors must be trained and certified through REAC's UPCS inspector certification training program, a comprehensive physical inspection certification training program to prepare experienced inspectors to conduct the inspections for public housing properties. The UPCS training has three phases: phase 1a – online training, phase 1b – onsite training, and phase 2 – field training. The phase 1a and 1b trainings are administered by the Training Facilitation department. The Quality Assurance Division provides phase 2 training and exams for the inspector candidates and also technical assistance through quality assurance reviews to ensure that the physical inspections are conducted according to the UPCS protocol. Additionally, REAC's Inspector Administration Division reviews the performance and conduct of inspectors and takes appropriate action to decertify inspectors as required.

A hand-held computer, referred to as the data collection device, is used by the contract inspectors when inspecting the properties, and the inspection results are electronically transmitted to REAC. REAC has established a standard set of rules and procedures, referred to as the physical inspection protocol, to gather the physical data and define the process for properly completing the assessment.

The data system, which automates the physical assessment of HUD properties, is the Physical Assessment Subsystem (PASS). PASS coordinates the procurement of the UPCS inspections, ensures appropriate inspection scheduling, and arranges for correction and rescheduling of inspections deemed incomplete or deficient. PASS also conducts quality control checks of each uploaded inspection and provides property-specific online reporting of the inspection results.

Our objective was to determine whether REAC had adequate processes for and controls over the certification and monitoring of contracted inspectors and its public housing units' physical inspections processes.

Results of Audit

Finding: REAC's Inspections Processes and Controls Had Weaknesses

REAC could improve its inspections processes and controls related to the certification and monitoring of its contracted inspectors and its public housing units' physical inspections processes. Specifically, REAC did not always ensure that (1) contract inspectors met requirements, (2) database system controls functioned properly, and (3) it verified the accuracy of sampled units for public housing authorities. These conditions occurred because REAC either did not follow its procedures or did not have procedures in place for parts of its inspections process. As a result, it did not always have assurance that it (1) made the most effective and efficient use of its resources when training and certifying inspectors, (2) protected its database system data from unauthorized access and use, and (3) had accurate unit selections.

REAC Did Not Always Ensure That Contract Inspectors Met Requirements

REAC did not always ensure that contract inspectors met its qualification and certification requirements. HUD regulations¹ stated that only those individuals who met specific knowledge and experience requirements to be UPCS inspectors could participate in the UPCS training and the inspectors were required to meet minimum qualifications and be trained and certified. To apply for training, REAC required inspectors to view the qualifications document, which documented the minimum qualifications, including (1) conducting at least 250 commercial or residential inspections; (2) having sufficient computer skills; and (3) having technical or general knowledge in residential or commercial building trades for five areas, including electrical; heating, ventilation, and air conditioning; masonry; plumbing; and carpentry; and (4) completing and submitting a questionnaire.² These documents also stated that the applicants would be required to provide verifiable documentation and that the information could be randomly selected for verification. Inspectors also had to pass exams before being fully certified and conducting inspections.³ In addition, inspector notices⁴ required REAC to ensure that contracted inspectors

- Had liability insurance⁵ to ensure self-coverage in the event of any damage to a property as a result of the inspections conducted. The notice also required inspectors to purchase

¹ Public Housing Assessment System (PHAS): Physical Condition Scoring Notice and Revised Dictionary of Deficiency Definitions; Notice, August 9, 2012 and the Uniform Physical Condition Standards and Physical Inspection Requirements for Certain HUD Housing, Final Rule, September 1, 1998

² Inspector Candidate Assessment Questionnaire, form HUD-50002A

³ Training Facilitation's phase 1a and phase 1b protocol and Quality Assurance Division's phase 2 protocol

⁴ The Inspector Administration's business rules issued to all HUD inspectors certified in the use of the UPCS inspection protocol via inspector notices.

⁵ Inspector Notice No. 2009-01, UPCS Inspection Protocol General Liability Insurance Requirement, effective March 24, 2009, and Inspector Notice No. 2015-01, UPCS Inspector Protocol General Liability Insurance Requirement, effective November 1, 2015

and maintain general all-risk liability insurance⁶ and submit a copy of the certificate of liability insurance to HUD within 5 days⁷ after successfully completing training. Without meeting these insurance requirements, contract inspectors could not conduct inspections.

- Successfully passed an in depth background investigation⁸ before completing training.

Further, HUD regulations⁹ required REAC to monitor inspectors with its own quality assurance staff to ensure that the inspectors used the protocol as intended and provided valid inspection reports.

However, a review of file documentation for 24 contract inspectors¹⁰ determined that REAC had not requested or obtained documentation supporting that any of them had the experience notated on their questionnaires. In addition, REAC did not ensure that

- Nine inspectors met the minimum requirements to begin the training. Of the 9, (1) 1 did not have a completed questionnaire and qualification documents, (2) 1 did not have experience in 1 of the 5 required trade areas and had not completed the required minimum of 250 inspections, (3) 5 did not have experience in 2 of the 5 required trade areas, and (4) 2 did not have experience in 1 of the 5 required trade areas.
- Inspectors obtained the required insurance. Specifically, 14 inspectors did not obtain the general all-risk liability insurance within 5 days after successfully completing phase 2 training or receiving full certification; 7 inspectors did not have general all-risk liability insurance when conducting inspections; and 4 inspectors did not meet the minimum insurance limits.¹¹
- It completed or received approval on background investigations¹² for 15 inspectors before they were certified and conducted inspections. Of the 15, (1) two had background investigations pending, (2) five did not complete the background investigations but were later decertified,¹³ and (3) eight did not have background investigations completed for 2 months to approximately 1½ years¹⁴ after being certified.

⁶ To be able to conduct inspections, each inspector must purchase and maintain general all-risk liability insurance with limits not less than a combined single limit of \$1 million per occurrence and \$2 million total.

⁷ Quality Assurance Division's phase 2 protocol, effective dates May 6, 2013, and November 1, 2014; pilot phase 2a and 2b protocol, effective April 12, 2017

⁸ Inspector Notice No. 2014-01, Revised - Personal Identity Verification (PIV) Requirement

⁹ Uniform Physical Condition Standards and Physical Inspection Requirements for Certain HUD Housing, Final Rule, September 1, 1998

¹⁰ The universe of contractors totaled 126.

¹¹ Inspector Notice No. 2009-01 and Inspector Notice No. 2015-01

¹² Inspector Notice No. 2016-02, Section I-General Applicability, Part C. Personal Identity Verification (PIV) Process

¹³ These inspectors were decertified for either inactivity with inspections or the number of accumulated performance deficiencies.

¹⁴ According to REAC's Inspector Administration, PIV Processing Standard Operating Procedures, the estimated timeframe to complete background investigations is 15 to 30 business days. The policy allows for an additional 15 to 20 days if additional information is needed.

- It properly monitored contract inspectors. Specifically, it did not maintain documentation showing that it (1) performed the quality assurance review or took administrative actions¹⁵ related to outside standards determinations¹⁶ for 11 inspectors.

See appendix B for a table showing a summary of the 24 files we reviewed.

Therefore, REAC did not have assurance that it made the most effective and efficient use of its resources when selecting, training, certifying, and monitoring inspectors.

REAC Did Not Ensure That Database System Controls Functioned Properly

REAC did not ensure that its system controls for its PASS database functioned properly. REAC's system security plan¹⁷ required it to implement a security assessment plan and perform annual security assessments for ensuring that the security controls of the data system were implemented correctly, operated as intended, and produced the desired outcomes. In addition, as part of its continuous monitoring process, the plan required REAC to conduct annual self-assessments of selected security controls and monitor the security controls on an ongoing basis. However, our review of 13 security controls determined that 2 controls—password length and password disabling—failed to operate as intended and allowed access to the system without meeting the minimum logon security requirements. HUD OCIO and the system contractor corrected this issue; however, neither OCIO nor REAC could provide documentation showing how long or why the controls did not operate as designed. In addition, REAC did not conduct annual assessments and perform monitoring of the database system security controls.

REAC Did Not Verify the Accuracy of Sampled Units for Public Housing Agencies

REAC did not verify the accuracy of public housing agency units' numbers sampled for inspection. Regulations¹⁸ required inspectors to inspect a randomly selected, statistically valid sample of units. The inspectors used a data collection device to download the inspection data, generate the sample of buildings and units for inspections, record observations, and upload the completed inspections. Once the device generated the sample, it displayed a sequence of random whole numbers. The inspector then selected the building units to inspect based on the number sequence, as each random number represented a unit on the rent roll or all-inclusive unit listing when compared in the same numerical order. For example, the number 4 represented the fourth unit appearing on the list of units for that particular building. The inspector then manually entered the actual unit numbers selected into the device and inspected the sample units. While the inspectors followed these procedures, REAC did not verify that contract inspectors accurately selected corresponding unit numbers in the same order as the random numbers generated by the device, thus creating an opportunity for the inclusion or exclusion of certain unit numbers for inspection.

¹⁵ Inspector Notice No. 2016-02, Sections III-Inspector Administration Actions and IV-Performance Reviews

¹⁶ Based on a quality assurance review, an inspector may be determined to be outside standards for not successfully conducting and completing the inspection or not adhering to the UPCS protocol prior to, during, or after an inspection.

¹⁷ System security plan, released September 11, 2015

¹⁸ Uniform Physical Condition Standards and Physical Inspection Requirements for Certain HUD Housing, Final Rule, September 1, 1998, and the Public Housing Evaluation and Oversight: Changes to the Public Housing Assessment System (PHAS) and Determining and Remediating Substantial Default, Interim Rule

REAC Either Did Not Follow Its Procedures or Did Not Have Procedures in Place

REAC either did not follow its procedures or did not have procedures in place for parts of its inspections process. For the verification of contract inspector qualifications, REAC stated that it had not requested documentation from inspector candidates since October 2008. Instead, it relied on different phases of the training program to filter out unqualified candidates rather than following its own procedures for obtaining verifiable documents from the candidates. However, obtaining this documentation would better ensure that REAC trains and certifies only suitable, qualified, and experienced inspectors and makes the most efficient use of its training resources. In addition, following its procedures related to work experience, insurance, background investigations; and following up on outside-of-standards issues would help protect REAC from liability claims.

For its PASS database, REAC stated that most of the security assessment was handled by the OCIO¹⁹ security office and the PASS data system inherited controls from other systems managed by OCIO. Therefore, the PASS data system received assessments and monitoring of the security controls as performed on those other systems. REAC also stated that it did not have the ability to assess the controls. However, in an effort to ensure compliance with its policies and procedures, REAC should have at least maintained constant coordination with OCIO and obtained documentation showing that annual assessments and continuous monitoring of all of the security controls were performed. In addition, because the security of the PASS data system requires special attention due to the risk and extent of harm that can result from the loss, misuse, or unauthorized access to or modification of the information in the system, REAC must follow its plan procedures for assessments and monitoring to ensure that the PASS database is fully protected from unauthorized access and inappropriate use.

For the verification of the sampled units, REAC did not require that the rent roll provided to the inspector at the time of the inspection be kept, saved, or uploaded as part of the inspection process. In addition, REAC did not establish or implement specific procedures for reviewing or monitoring the inspection sample to verify that corresponding unit numbers were accurately selected and in the same order as the random numbers generated by the device. Implementing a procedure to verify the accuracy of the sample would reduce the risk of collusion in altering the inspection sample and further validate statistical independence.

Conclusion

Because REAC did not follow its procedures or have procedures in place for parts of its inspections process, it did not always ensure that (1) it obtained documentation to verify contract inspector work experience, (2) inspectors met the minimum requirements to begin training, (3) inspectors obtained the required liability insurance, (4) inspectors had completed or approved background investigations, (5) it properly monitored contract inspectors, (6) its database system controls functioned properly, and (7) it verified the accuracy of sampled units for its public housing agencies. As a result, REAC did not always have assurance that it (1) made the most

¹⁹ The Chief Information Officer is responsible for establishing and overseeing the department wide information security program and provides information security consulting assistance to all HUD program offices for their individual programs.

effective and efficient use of its resources when training and certifying inspectors, (2) protected its database system data from unauthorized access and use, and (3) had accurate unit selections.

Recommendations

We recommend that the Deputy Assistant Secretary for REAC require REAC to

- 1A. Develop and implement written policies and procedures requiring REAC to (1) select a sample of inspector candidates, (2) require the sampled inspector candidates to provide written documentation supporting their minimum qualifications, (3) verify the written documentation provided by the inspector candidates, and (4) document the completion of the verification and method(s) used to verify the documentation.
- 1B. Ensure that the nine contract inspectors, who did not meet the minimum requirements to begin the training, receive specialized training in residential or commercial building for electrical; heating, ventilation, and air conditioning; masonry; plumbing; and carpentry, as applicable.
- 1C. Develop, use, and document an electronic checklist for each contract inspector's file to ensure that inspectors (1) obtain and maintain the required insurance, and (2) have approved background checks before conducting inspections. In addition, support that the four sampled inspectors meet the minimum insurance limits for the current effective periods.
- 1D. Execute administrative action related to outside standards determinations for 11 inspectors.
- 1E. Develop and implement processes and procedures, in accordance with its system security plan and the HUD Handbook, Information Technology Security Policy, to ensure that annual assessments and continuous monitoring of the security controls are performed and that security control failures are prevented and corrected when identified.
- 1F. Establish and implement written processes and procedures to verify the accuracy of the unit numbers sampled and entered for inspection by the inspector, which could include requiring (1) inspectors to upload a picture of the rent roll to the data collection device, (2) housing agencies to maintain a copy of the rent roll used, and (3) inspectors and public housing agencies to sign a certification stating that the units were inspected in accordance with the sample generated by the data collection device.

Scope and Methodology

We performed our audit from October 2017 through June 2018 at the HUD REAC office located at 550 12th Street SW, Washington, DC, and our offices in Baton Rouge, LA, New Orleans, LA, and Fort Worth, TX. The audit generally covered the period October 1, 2014, through September 30, 2017. We expanded our audit scope to review previously issued Inspector Notices covering 2002 through 2009.

To meet the audit objective, we reviewed

- Laws, regulations, and guidance relevant to the physical inspection program.
- Other audits and monitoring reports conducted on REAC.
- The PASS Operations Division's organizational structure and internal written policies and procedures.
- REAC's sampling methodology and sampling procedures for inspections.
- System security plans and HUD handbooks relevant to system security controls.
- Files supporting documentation related to inspectors' selection, training, certification, and monitoring.

We also interviewed HUD's staff.

REAC had 126 active and inactive contract inspectors that performed inspections between October 1, 2014, and September 30, 2017, and were awarded their initial certifications on or after October 1, 2014. Of the 126 active and inactive contract inspectors, due to the size of the universe, we used nonstatistical sampling to randomly select 24 to determine whether the file documentation supported the appropriate selection, training, and certification of the inspectors and whether REAC monitored the inspectors' performance. This approach did not allow us to project the results of the sample to the population; however, it was sufficient to meet the audit objective. We conducted an overall data reliability assessment of the inspector file data, which included reports generated on training exams' scores; general information on each inspector, including listings of their inspections; and listings of quality assurance reviews conducted. We performed the assessment by comparing the information on the reports and listings to the PASS system data and other file documentation provided, such as the questionnaire and monitoring correspondence from REAC's Inspector Administration. Through review of the file supporting documentation, we determined that the computer-processed data related to the inspectors were generally reliable.

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

Internal Controls

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

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Effectiveness and efficiency of policies and procedures used to ensure that program requirements are met.
- Compliance with applicable HUD regulations and Federal requirements.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- REAC did not always follow or have controls to ensure the selection, training, certification, and monitoring of inspectors; the data system's security controls; and the adequacy of its established processes for inspection sampling (finding).

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
REAL ESTATE ASSESSMENT CENTER

TO: Kilah S. White, Regional Inspector General for Audit, 6AGA

FROM: Donald J. Lavoy, Deputy Assistant Secretary for PIH, REAC, PX

SUBJECT: REAC's Response to OIG's Draft Report, REAC Could Improve Its Inspections Processes and Controls

Thank you for allowing REAC to respond and provide clarification for some of your OIG recommendations concerning REAC's Inspection Processes and Controls. We hope the information provided below will sufficiently clarify the areas identified in the draft recommendations to the REAC.

Recommendation 1C: Develop, use, and document an electronic checklist for each contract inspector's file to ensure that inspectors (1) properly complete training before conducting inspections, (2) obtain and maintain the required insurance, (3) have approved background checks before conducting inspections, and (4) perform the required number of inspections to maintain certification. In addition, support that the three sampled inspectors meet the minimum insurance limits for the current effective periods.

You indicate that *minimum requirements were not met for inspectors being certified prior to conducting inspections*, specifically training not properly completed. The draft OIG document indicates that two inspectors did not complete training properly. This conclusion is not correct based on the following research and review:

- [REDACTED] – According to secure systems passed Phase II February 16, 2017. However, he initially failed phase II on December 8, 2016. Therefore, he conducted 6 Phase II inspections (1st attempt – [REDACTED] [REDACTED] [REDACTED] and 2nd attempt – [REDACTED] [REDACTED] [REDACTED]). His first full inspection was March 21, 2017, at which time he was fully certified.

Comment 1

**Ref to OIG
Evaluation**

Auditee Comments

Comment 1

• [REDACTED] – Per Secure Systems he initially passed Phase II May 25, 2017. The evaluation report in the system is dated May 25, 2017. His Phase II inspections were conducted May 23 -25, 2017. He conducted his first full inspection on July 24, 2017, and another on August 8, 2017. On August 21, 2017, his inspection is listed as Phase II. The comments in secure system state that he took a certification exam to complete Phase IIb training on August 21, 2017, and comments on September 11, 2017, state that the inspector passed Phase IIb.

Comment 2

You indicate that a *liability insurance certificate not submitted within five days* and that 15 inspectors did not submit their certificate of insurance within five days of certification. Inspector Notice 2015-01, UPCS Inspector Protocol – *General Liability Insurance Requirement*, requires that after an individual successfully completes the entire UPCS Inspector Certification Training and is certified to conduct UPCS inspections, the individual must procure the required liability insurance and provide HUD with the Certificate of Liability Insurance prior to being able to conduct a UPCS inspection. The requirement to submit proof of general liability insurance within five days is used as an internal control. Once an inspector is certified, the inspector has access to upload and download inspections. As a safeguard, if an inspector does not have insurance within five days, the inspector’s account is deactivated to avoid liability risks.

Comment 2

The insurance requirements per the cited inspectors were met prior to conducting inspections.

- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA does not agree with this finding. Inspector passed phase II on August 31, 2017. Insurance certificate was dated and uploaded by inspector on September 6, 2017, which was 5 business days following his certification.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.
- [REDACTED] – IA agrees with this finding.

Comment 3

You indicate the *liability insurance minimum insured amounts were not met* and that four inspectors did not have liability insurance minimum insured amounts. The following is provided is provided based on research of the records:

**Ref to OIG
Evaluation**

Auditee Comments

Comment 3

• [REDACTED] - Inspector's certificate of liability insurance form shows his policy has 1,000,000 for General Liability Claim and 1,000,000 for Per Aggregate that is required by the agency protocol.

Comment 3

• [REDACTED] - Inspector certificate of liability insurance form shows insurance effective date December 2, 2015, and insurance limit total 3,055,000. Inspector met the requirement for submitting his certificate on time, insured amount, and having insurance before conducting his first inspection.

Comment 3

• [REDACTED] - Inspector certificate of liability insurance form shows a total limit of 2,000,000 that is required by the agency protocol. Inspector met the requirement for the correct total insured amount.

Comment 3

• [REDACTED] - Inspector certificate of liability insurance form shows a total limit of 2,000,000 that is required by the agency protocol. Inspector met the requirement for submitting his certificate on time, insured amount, and having insurance before conducting his first inspection.

Comment 4

You indicate that *inspections conducted without liability insurance* and specifically that seven inspectors conducted inspections without liability insurance. The following is provided based on research of the records:

Comment 4

• [REDACTED] - Inspector passed Phase II February 16, 2017. His insurance was submitted on February 24, 2017. He conducted his first inspection as a certified inspector on March 21, 2017.

Comment 4

• [REDACTED] - Inspector passed Phase II on November 19, 2015, and insurance was updated on December 3, 2015. His first full inspection was conducted on December 3, 2015. The inspector met the requirement for submitting his insurance on time and prior to conducting his first inspection.

Comment 4

• [REDACTED] - Inspector met HUD certificate of liability insurance requirement on December 2, 2014. Inspector conducted her first full inspection on April 3, 2015. Inspector met the requirement for having insurance before conducting his first inspection.

Comment 4

• [REDACTED] - Inspector passed Phase II on February 19, 2015. Inspector uploaded his insurance certificate on February 18, 2015 and insurance was updated on February 19, 2015. His first full inspection was conducted on February 27, 2015.

Comment 4

• [REDACTED] - Inspector's insurance was updated on July 27, 2016. Her first full inspection was conducted on September 26, 2016. Inspector met the requirement for having insurance before conducting inspections.

**Ref to OIG
Evaluation**

Auditee Comments

Comment 4

• [REDACTED] – Inspector passed Phase II on December 4, 2014. Inspector uploaded his certificate on December 11, 2014 and insurance was updated on December 11, 2014. His first full inspection was conducted on December 15, 2014. Inspector met the requirement for submitting his certificate on time and having insurance before conducting his first inspection.

Comment 4

• [REDACTED] – Inspector passed Phase II on November 20, 2014. Inspector insurance was updated on November 12, 2014. Her first full inspection was conducted on December 2, 2014. Inspector met the requirement for submitting her certificate on time and having insurance before conducting her first inspection.

You indicate that *background investigations were not completed before certified and conducting inspections and that 15 inspectors that did not complete the background investigation before being certified and conducting inspections. IA agrees with this finding.*

Comment 5

You indicated that a *minimum of 25 inspections not conducted* and specifically that one inspector did not meeting the minimum of 25 inspections. The following is provided based on research of the records:

Comment 5

• [REDACTED] – Inspector was granted an exemption to this requirement due to weather related activities in Puerto Rico that impacted inspection activities.

Comment 6

You indicate a *lack of support showing review or administrative actions*. We are not able to respond due to lack of information.

Comment 1

You indicate the following concerning Phase II training: Phase II Training: • 1st attempt Field training: 12/6/2016 (day 1) and 12/7/2016 (day 2). Field exam: 12/8/2016 (day 3)

• 2nd attempt Field training: 2/14/2017 (day 1) and 2/16/2017 (day 2). Field exam: 2/15/2017 (day 3)

• Secure Systems shows 2/15/2017 as the inspection date of the exam inspection (ID: 595884). The 2/15/2017 exam was prior to the completion of day 2 training on 2/16/2017. Additionally, the CQA report for the February 2017 training was not in the file."

**Ref to OIG
Evaluation**

Comment 1

Auditee Comments

We offer the explanation that we set up the inspections and identified them in Secure Systems; however, the inspector, our staff, and the properties switched them around at the last minute without updating Secure Systems. (See the copy of [REDACTED] schedule for that week.)

DESCRIPTION	INSPECTOR ID	LAST NAME	DATE	TIME	GA	PROPERTY ID	INSPECTOR ID	CONTACT NAME	CONTACT #	BUILDING	STATUS
02/15/17 9:00 AM			02/15/17	9:00 AM	GA	00222					IN
02/16/17 9:00 AM			02/16/17	9:00 AM	GA	00222					IN
02/17/17 9:00 AM			02/17/17	9:00 AM	GA	00222					IN
02/18/17 9:00 AM			02/18/17	9:00 AM	GA	00222					IN
02/19/17 9:00 AM			02/19/17	9:00 AM	GA	00222					IN
02/20/17 9:00 AM			02/20/17	9:00 AM	GA	00222					IN
02/21/17 9:00 AM			02/21/17	9:00 AM	GA	00222					IN
02/22/17 9:00 AM			02/22/17	9:00 AM	GA	00222					IN
02/23/17 9:00 AM			02/23/17	9:00 AM	GA	00222					IN
02/24/17 9:00 AM			02/24/17	9:00 AM	GA	00222					IN
02/25/17 9:00 AM			02/25/17	9:00 AM	GA	00222					IN
02/26/17 9:00 AM			02/26/17	9:00 AM	GA	00222					IN
02/27/17 9:00 AM			02/27/17	9:00 AM	GA	00222					IN
02/28/17 9:00 AM			02/28/17	9:00 AM	GA	00222					IN
02/29/17 9:00 AM			02/29/17	9:00 AM	GA	00222					IN
02/15/17 9:00 AM			02/15/17	9:00 AM	GA	00222					IN
02/16/17 9:00 AM			02/16/17	9:00 AM	GA	00222					IN
02/17/17 9:00 AM			02/17/17	9:00 AM	GA	00222					IN
02/18/17 9:00 AM			02/18/17	9:00 AM	GA	00222					IN
02/19/17 9:00 AM			02/19/17	9:00 AM	GA	00222					IN
02/20/17 9:00 AM			02/20/17	9:00 AM	GA	00222					IN
02/21/17 9:00 AM			02/21/17	9:00 AM	GA	00222					IN
02/22/17 9:00 AM			02/22/17	9:00 AM	GA	00222					IN
02/23/17 9:00 AM			02/23/17	9:00 AM	GA	00222					IN
02/24/17 9:00 AM			02/24/17	9:00 AM	GA	00222					IN
02/25/17 9:00 AM			02/25/17	9:00 AM	GA	00222					IN
02/26/17 9:00 AM			02/26/17	9:00 AM	GA	00222					IN
02/27/17 9:00 AM			02/27/17	9:00 AM	GA	00222					IN
02/28/17 9:00 AM			02/28/17	9:00 AM	GA	00222					IN
02/29/17 9:00 AM			02/29/17	9:00 AM	GA	00222					IN

Comment 1

Overall it doesn't matter which inspection is used as the "Test," as long it takes place last, which we are certain it did. [REDACTED] was with the inspector candidate Tuesday, Wednesday and Thursday and he would not have tested the inspector candidate on the second day. What should have happened was that the inspection commentary should have been updated in Secure Systems so that it reflects that the inspection initially scheduled for Thursday, 02/16/17 [REDACTED] was actually conducted on Wednesday (02/15/17) and it became the second day inspection. The inspection initially scheduled for Wednesday, 02/15/17 [REDACTED] was actually conducted on Thursday (02/16/17) and it counted as the test. This was a data entry issue. We found not additional instance where this data entry error ever happened in our history because our quality assurance inspector staff are specifically and thoroughly trained to not administer the examination prior to giving the person the proper training opportunities. Therefore, we can state with complete that this was a data entry error.

OIG Evaluation of Auditee Comments

Comment 1 REAC stated that the OIG's conclusion that two inspectors did not complete training properly is not correct. REAC stated that according to secure systems,²⁰ the first inspector initially failed phase 2 on December 8, 2016, and then passed phase 2 on February 16, 2017. His first full inspection was March 21, 2017, at which time he was fully certified. For the second inspector, REAC stated that according to secure systems, he initially passed phase 2 on May 25, 2017. He conducted his first full inspection on July 24, 2017, and another on August 8, 2017. REAC also provided additional documentation with its response.

We reviewed the additional documentation provided by REAC, and revised the report to remove this issue. The inspector names and the identification numbers of the inspectors and the property inspections included in the auditee comments were hidden for privacy reasons.

Comment 2 REAC stated that after successfully completing training, inspectors must purchase the liability insurance and submit proof of general liability insurance within five days before conducting inspections. REAC agreed that 14 of the 15 did not submit the liability insurance certificate within five days. For the remaining inspector, REAC stated the inspector passed phase 2 on August 31, 2017, and the insurance certificate was dated and uploaded by the inspector on September 6, 2017, which was five business days following his certification.

We reviewed the additional documentation provided and revised the report from 15 to 14 inspectors who did not meet the requirement for submitting the insurance certificate within five days.

Comment 3 REAC asserted that, based upon the research of its records, the four inspectors cited in the audit report met the minimum general liability insurance amounts and provided explanations for each inspector.

We disagree. Inspector Notices 2009-01 and 2015-01 stated that to conduct inspections, each inspector must purchase and maintain general all risk liability insurance with limits not less than a combined single limit of \$1 million per occurrence, and \$2 million total. For these four inspectors, the insurance certificates listed the different types of coverage

²⁰ Secure systems is a HUD web portal which has access to many HUD systems and provides a means for trusted business partners to submit and retrieve required program information. Secure systems is sponsored by the Office of Public and Indian Housing (PIH) Real Estate Assessment Center (REAC) and sometimes referred to as REAC or Online Systems.

included in the general liability insurance policy and the insured amount limits for each type. As such, the insurance certificates should reflect minimum insured amounts of \$1 million per occurrence and \$2 million total. However, of the four inspectors, the general total limit amount for three inspectors was only \$1 million and one did not have any insured limit amount included for each occurrence during one policy period. Therefore, we maintain our original conclusion.

Comment 4

For the seven inspectors cited in the report for conducting inspections without liability insurance, REAC stated it researched the records and provided explanations for each inspector. REAC did not provide additional documentation.

We disagree based upon REAC's explanations and provide further clarification as follows:

- Inspector 1- The history table in secure systems showed that the inspector met the insurance requirement on February 24, 2017. However, secure systems did not have an insurance certificate covering the period prior to January 14, 2018, and the inspector conducted 71 inspections between March 21, 2017, and January 12, 2018.
- Inspector 2- Secure systems had one insurance certificate covering the period from December 2, 2015, through December 2, 2016. However, the inspector conducted 18 inspections between January 30, 2017, and April 4, 2017, with no documentation of insurance in the file.
- Inspector 3- The history table in secure systems showed that the inspector met the insurance requirement on December 2, 2014. However, secure systems did not have an insurance certificate covering the period prior to April 11, 2016, and the inspector conducted 32 inspections between April 3, 2015, and March 29, 2016.
- Inspector 4- The inspector had a one-month gap in liability insurance coverage between January 18, 2018, and February 18, 2018. During this gap, the inspector conducted 22 inspections.
- Inspector 5- The history table in secure systems showed that the inspector met the insurance requirement on July 27, 2016. However, secure systems did not have an insurance certificate covering the period prior to July 14, 2017, and the inspector conducted 78 inspections between September 26, 2016, and July 13, 2017.

- Inspector 6- Secure systems did not have an insurance certificate for the period covering December 10, 2015, through December 12, 2016, and the inspector conducted 60 inspections during this time period.
- Inspector 7- The history table in secure systems showed that the inspector met the insurance requirement on November 12, 2014. However, secure systems did not have an insurance certificate covering the period prior to September 30, 2015, and the inspector conducted 163 inspections between December 2, 2014, and September 28, 2015.

Therefore, we maintain our original conclusions.

Comment 5

For the one inspector cited in the report for not meeting the requirement of conducting a minimum of 25 inspections in the most recent 12 month period, REAC stated it researched the records and explained that it granted the inspector an exemption to this requirement due to weather related activities in Puerto Rico that impacted inspection activities.

We agree with REAC's decision, as Hurricane Maria severely impacted Puerto Rico in September 2017. Therefore, we revised the audit report to remove this issue.

Comment 6

REAC stated it was unable to respond to the lack of support showing review or administrative actions for inspectors, due to lack of information.

We discussed this issue with REAC during the audit and provided a spreadsheet detailing the issues identified. Since REAC was unable to provide any additional information to address this issue, we maintain our position.

Appendix B

Summary of Inspector File Review Findings

Sample	Selection	Certification			Monitoring	
	Minimum requirements not met	Liability insurance certificate not submitted within 5 days	Liability insurance minimum insured amounts not met	Inspections conducted without liability insurance	Background investigation not completed before certified and conducting inspections	Lack of support showing review or administrative actions
1		X	X	X	X	
2					X	
3	X				X	
4		X				
5		X				
6		X				
7	X	X				
8	X	X				
9	X	X				
10		X	X	X	X	X
11	X				X	X
12			X		X	
13	X			X	X	X
14					X	X
15		X				
16		X	X	X	X	X
17					X	X
18		X		X		X
19						
20	X	X			X	X
21	X			X	X	X
22		X			X	
23	X				X	X
24		X		X	X	X
Totals	9	14	4	7	15	11