



Issue Date	February 19, 2009
------------	-------------------

Audit Report Number	2009-CH-1005
---------------------	--------------

TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

FROM:  Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The Chicago Housing Authority, Chicago, Illinois, Did Not Always Ensure That Section 8 Units Met HUD's Housing Quality Standards

HIGHLIGHTS

What We Audited and Why

We audited the Chicago Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program) under its Moving to Work Demonstration program. The audit was part of the activities in our fiscal year 2008 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. Our objective was to determine whether the Authority administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements and its program administrative plan regarding the enforcement of housing quality standards. This is the second of multiple audit reports that may be issued regarding the Authority's program.

What We Found

The Authority's program administration regarding housing unit conditions and timeliness of annual housing unit inspections was inadequate. Of the 65 housing units statistically selected for inspection that did not receive a quality control inspection by CVR Associates, Incorporated (CVR), the Authority's inspections contractor, 52 did not meet HUD's housing quality standards, and 23 had exigent health and safety violations that existed at the time of CVR's previous

inspections. Based on our statistical sample, we estimate that over the next year, HUD will pay more than \$3 million in housing assistance for units with housing quality standards violations that had not received a quality control inspection.

Further, of the 39 housing units statistically selected for inspection that received a quality control inspection by CVR, 33 did not meet HUD's housing quality standards, and 12 had exigent health and safety violations that existed at the time of CVR's previous inspections. Based on our statistical sample, we estimate that over the next year, HUD will pay more than \$167,000 in housing assistance for units with housing quality standards violations that received a quality control inspection.

The Authority also failed to ensure that its housing unit inspections were conducted in a timely manner. Of the 300 household files selected for review, 62 (21 percent) had inspections that were not conducted within the required one year of the previous inspections. The number of days late ranged from 4 to 1,001.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to reimburse its program from nonfederal funds for the improper use of nearly \$102,000 in program funds and implement adequate procedures and controls to address the finding cited in this audit report. These procedures and controls should help ensure that more than \$3.1 million in program funds is spent on housing units that meet HUD's requirements.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence issued because of the audit.

Auditee's Response

We provided our inspection review results and supporting schedules to the Director of HUD's Chicago Office of Public Housing and the Authority's chief executive officer during the audit. We also provided our discussion draft audit report to the Authority's chief executive officer, its board chairman, and HUD's staff during the audit. We held an exit conference with the Authority's chief executive officer on January 13, 2009.

We asked the Authority's chief executive officer to provide comments on our discussion draft audit report by February 5, 2009. The Authority's chief executive officer provided written comments, dated February 3, 2009. The chief executive officer generally agreed with our findings and recommendations. The complete text of the written comments, along with our evaluation of that response,

can be found in appendix B of this report, except for 35 pages of documentation that was not necessary for understanding the Authority's comments. A complete copy of the Authority's comments plus the documentation was provided to the Director of HUD's Chicago Office of Public Housing.

TABLE OF CONTENTS

Background and Objective	5
Results of Audit	
Finding: Controls over Housing Quality Standards Were Inadequate	7
Scope and Methodology	20
Internal Controls	23
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	25
B. Auditee Comments and OIG's Evaluation	26
C. HUD's Regulations and the Authority's Program Administrative Plan	35

BACKGROUND AND OBJECTIVE

The Chicago Housing Authority (Authority) was established in April 1934 under the laws of the State of Illinois to provide decent, safe, and sanitary housing. The Authority is governed by a 10-member board of commissioners (board) appointed by the mayor of Chicago, Illinois, to five-year staggered terms. The board's responsibilities include overseeing the Authority's operations, as well as the review and approval of its policies. The mayor also appoints the Authority's chief executive officer. The chief executive officer is responsible for coordinating established policy and carrying out the Authority's day-to-day operations.

In May 1995, the U.S. Department of Housing and Urban Development (HUD) assumed control of the Authority due to years of management problems and deteriorated living conditions at the Authority's developments. HUD selected Quadel Consulting Corporation (Quadel) to administer, manage, and operate the Authority's Section 8 Housing Choice Voucher program (program) in October 1995. The contractor created a subsidiary, CHAC, Inc., which formally took over the Authority's program administration in December 1995. The Authority paid the contractor more than 90 percent of its administrative fee to operate the program.

In 1996, Congress authorized the Moving to Work Demonstration (Moving to Work) program as a program under HUD. The Authority was accepted into the Moving to Work program on February 6, 2000, when HUD's Assistant Secretary for Public and Indian Housing signed the Authority's Moving to Work agreement (agreement). Moving to Work allows certain housing authorities to design and test ways to promote self-sufficiency among assisted families, achieve programmatic efficiency, reduce costs, and increase housing choices for low-income households. Congress exempted the Moving to Work participants from much of the United States Housing Act of 1937 and associated regulations. The agreement requires the Authority to abide by the statutory requirements in Section 8 of the United States Housing Act of 1937 and the annual contributions contract, except as necessary for the Authority to implement its Moving to Work demonstration initiatives.

In April 2007, the Authority issued a request for proposal to provide administration and operation of the Authority's program. The two respondents to the request for proposal were Quadel, the Authority's current administrator of the program, and CVR Associates, Incorporated (CVR). Through a series of meetings and negotiations with both vendors, the evaluation committee determined that it was in the best interest of the Authority to divide the administration and operations of the program between the two vendors. The division of the program commenced in June 2008.

CVR began administering and operating the housing quality standards inspections portion of the Authority's program after the division. It used a subcontractor, McCright and Associates, to conduct housing quality standards inspections beginning in June 2008. Although the contractors administer the program, the Authority is ultimately responsible to HUD for program operations. As of November 30, 2008, the Authority had 34,651 vouchers funded under the annual contributions contract with HUD totaling more than \$409 million in program funds.

Our objective was to determine whether the Authority administered its program in accordance with HUD's requirements to include determining whether (1) the Authority's inspections were sufficient to detect housing quality standards violations and provide decent, safe, and sanitary housing to its residents; (2) the Authority conducted adequate quality control unit inspections to detect housing quality standards violations; and (3) the Authority complied with HUD's regulations and its program administrative plan regarding annual housing unit inspections. This is the second of multiple audit reports that may be issued regarding the Authority's program (see report number 2008-CH-1017, issued on September 30, 2008).

RESULTS OF AUDIT

Finding: Controls over Housing Quality Standards Were Inadequate

The Authority did not adequately enforce HUD's housing quality standards. Of the 104 program units statistically selected for inspection (65 non-quality control and 39 quality control), 85 did not meet minimum housing quality standards, and 35 had material violations that existed before the Authority's previous inspections. The violations occurred because the Authority lacked adequate procedures and controls to ensure that the inspections performed by CVR were adequate. It also failed to exercise proper supervision and oversight of Quadel to ensure that its program units' annual housing quality standards inspections were performed in a timely manner. As a result, nearly \$74,000 in program funds was spent on units that were not decent, safe, and sanitary. We estimate that over the next year, the Authority will pay more than \$3.1 million in housing assistance for units with housing quality standards violations.

HUD's Housing Quality Standards Not Met for Non-Quality Control Unit Inspections

As previously mentioned, the Authority contracted with CVR in 2008 to perform housing quality standards inspections of its program units. From the 1,329¹ program units that passed CVR's inspections performed in July 2008, we statistically selected 65² units for inspection by using data mining software. We did not include units that received a quality control inspection. The 65 units were inspected to determine whether the Authority ensured that its program units met HUD's housing quality standards. Our appraiser inspected the 65 units between September 22 and October 10, 2008.

Of the 65 units inspected, 52 (80 percent) had a total of 318 housing quality standards violations. In addition, 23 units were considered to be in material noncompliance since they had one or more exigent health and safety violations that predated CVR's previous inspections. The following table categorizes the 318 housing quality standards violations in the 52 units.

¹ There were 55 Section 8 project-based voucher units included in the 1,329 program units that passed CVR's inspections in July 2008.

² There were four Section 8 project-based voucher units included in our sample of 65 program units and one of these four units failed.

Non-quality control unit inspections		
Category of violations	Number of violations	Number of units
Window	67	27
Electrical	63	37
Smoke/carbon monoxide detectors	30	16
Floor	21	17
Range/refrigerator	18	17
Stairs, rails, and porches	17	14
Wall	16	12
Ceiling	12	9
Security	12	11
Other hazards	9	8
Roof/gutters/chimney	8	5
Toilet/wash basin	7	7
Exterior surface	6	6
Site and neighborhood conditions	6	6
Lead paint	5	4
Water heater	5	3
Heating equipment	4	4
Evidence of infestation	3	3
Tub or shower in unit	3	3
Interior stairs and common halls	2	2
Other interior hazards	1	1
Plumbing/sewer/water supply	1	1
Sinks	1	1
Food preparation/storage	1	1
Total	<u>318</u>	

We provided our inspection results to the Director of HUD's Chicago Office of Public Housing and the Authority's chief executive officer on December 5, 2008.

Window Violations for Non-Quality Control Inspections

Sixty-seven window violations were present in 27 of the Authority's program units inspected. The following items are examples of window violations listed in the table: windows that do not open or stay up properly, cracked or broken panes, and windows that do not lock or close properly. The following pictures are examples of the window-related violations.

Unit F05: A living room window had a broken glass pane.



Unit B03: A broken crank on a bathroom window restricted proper ventilation and made the window difficult to open.



Electrical Violations for Non-Quality Control Unit Inspections

Sixty-three electrical violations were present in 37 of the Authority's program units inspected. The following items are examples of electrical violations listed in the table: exposed fuse box connections, exposed electrical contacts, and missing outlet cover plates. The following pictures are examples of the electrical-related violations.

Unit A06: The electric panel on a basement wall was missing four breakers, exposing electrical contacts.



Unit H05: A left/front bedroom wall outlet was missing a cover plate. Children between the ages of 6 and 18 resided in this unit.



Ceiling Violations for Non-Quality Control Inspections

Twelve ceiling violations were present in nine of the Authority’s program units inspected. The following items are examples of ceiling violations listed in the table: water damage, peeling paint, and cracks. The following pictures are examples of the ceiling-related violations.

Unit D03: The ceiling and wall of the right/center bedroom had damage caused by roof leaks.



Unit A04: Ceiling repair in the kitchen was left unfinished for several months and the ceiling was still experiencing leaks as evidenced by the stains. Children under the age of six resided in this unit.



HUD's Housing Quality Standards Not Met for Quality Control Inspections

From the 89 program units that passed a quality control inspection performed by CVR in August 2008, we statistically selected 39 units for inspection by using data mining software. The 39 units were inspected to determine whether the Authority conducted adequate quality control unit inspections to detect housing quality

standards violations. Our appraiser inspected the 39 units between September 22 and October 10, 2008.

Of the 39 units inspected, 33 (85 percent) had a total of 174 housing quality standards violations. In addition, 12 units were considered to be in material noncompliance since they had one or more exigent health and safety violations that predated CVR's previous inspections. The following table categorizes the 174 housing quality standards violations in the 33 units.

Quality control unit inspections		
Category of violations	Number of violations	Number of units
Electrical	44	18
Window	30	19
Smoke/carbon monoxide detectors	15	11
Wall	14	12
Security	11	8
Stairs, rails, and porches	10	10
Range/refrigerator	9	9
Floor	7	3
Exterior surface	5	4
Other hazards	5	4
Ceiling	4	4
Heating equipment	3	3
Toilet/wash basin	3	3
Evidence of infestation	2	2
Interior stairs and common halls	2	2
Lead paint	2	2
Other interior hazards	2	1
Tub or shower in unit	2	2
Roof/gutters/chimney	1	1
Sinks	1	1
Site and neighborhood conditions	1	1
Water heater	1	1
Total	<u>174</u>	

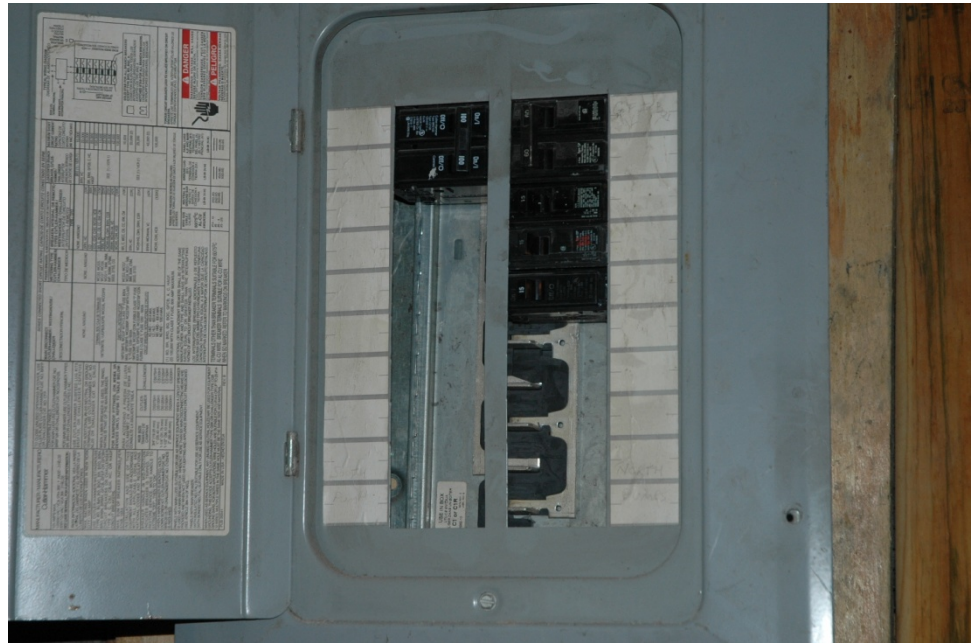
We provided our inspection results to the Director of HUD's Chicago Office of Public Housing and the Authority's chief executive officer on December 5, 2008.

Electrical Violations for Quality Control Inspections

Forty-four electrical violations were present in 18 of the Authority's program units inspected. The following items are examples of electrical violations listed in the table: exposed fuse box connections, exposed electrical contacts, and outlets

with open ground connections. The following pictures are examples of the electrical-related violations.

Unit D07: The electric panel in the basement had 13 breaker knockouts missing, exposing electrical contacts.



Unit K07: An outlet was hanging outside the kitchen pantry wall.



Wall Violations for Quality Control Inspections

Fourteen wall violations were present in 12 of the Authority's program units inspected. The following items are examples of wall violations listed in the table:

missing handrails, handrails not secured, and handrails not mounted in the correct location. The following pictures are examples of the wall-related violations.

Unit B09: The stairway to the basement had no handrail.



Unit G06: The handrail on the back porch leaving the kitchen was too low and stopped short of the top of stairs.



Exterior Surface Violations for Quality Control Inspections

Five exterior surface violations were present in four of the Authority's program units inspected. The following items are examples of exterior surface violations listed in the table: holes in exterior walls, crumbling bricks, and deteriorated

masonry. The following pictures are examples of the exterior surface-related violations.

Unit J01: An abandoned vent through the wall needed to be permanently capped to prevent infiltration. A child under the age of six resided in the unit.



Unit H01: The bricks and mortar joints on the parapet wall had deteriorated, and pieces had fallen to the ground.



Annual Inspections Not Performed in a Timely Manner

Of the 31,363 households that received or had an inspection scheduled between May 2006 and April 2008, we selected 300 households' files to determine whether Quadel performed the Authority's annual inspections within one year in

accordance with HUD's regulations. From January 1, 2007, through April 30, 2008, Quadel conducted late annual inspections for 62 of the 300 households reviewed or 21 percent. In calculating the number of days late, a 30 day grace period was added, allowing the Authority 395 days between inspections. For the 62 households, the range of days late (past the 30-day grace period) was 4 to 1,001. Of the 62 households, 51 received inspections more than 60 days late, and 34 of these were more than 180 days late. The Authority received \$22,112 in program administrative fees for the 62 households residing in units that were more than 30 days past due for housing quality standards inspections.

Quadel's base annual inspection report was designed to identify the last completed annual inspection, rescheduled annual inspection, or initial inspection. However, in October 2005, during the implementation of the Authority's Yardi system, errors in the system caused certain records to be excluded in the inspection batch process reports. The records only appeared in the quality control exception reports used to identify overdue annual inspections and not in the inspection batch process reports used to schedule the annual inspections. To correct the problem of annual inspections not being scheduled and performed, Quadel created an exception report in the system to identify units with an active participant for which an annual or initial inspection had not been completed in more than 365 days.

In early 2006, Quadel was recording the initial inspections in its ETL system and not entering the initial inspection data into the Authority's Yardi system. As a result of the lacking initial inspection data in the Yardi system, annual inspections were not scheduled within 12 months. When Quadel became aware of this situation in May 2007, it scheduled annual inspections for the units for which initial inspections had not been entered into the Yardi system. Therefore, annual inspections for these units were late as a result of a data entry error.

As of June 2008, Quadel continued to encounter problems in successfully building inspection reports in the Authority's Yardi system, including the exception reports. Quadel notified the Authority of the problem and its attempts to resolve it. As of December 2008, CVR continued to encounter problems with correcting the system but was implementing procedures to reduce the number of late inspections.

Weaknesses in the Authority's Procedures and Controls over Its Contractors

The Authority lacked adequate procedures and controls to ensure that program units met HUD's requirements. It also failed to exercise proper supervision and oversight of its contractors. The overall quality of the inspections performed by the Authority's contractors was not in accordance with HUD's housing quality

standards. Housing quality standards were either not known by CVR's inspectors or not applied appropriately and correctly by the inspectors because they did not always conduct accurate and complete inspections. Therefore, CVR did not determine during its inspections whether program units complied with HUD's housing quality standards.

Further, the Authority did not ensure that CVR provided an acceptable level of service because it did not effectively monitor CVR. As of December 2008, the Authority had not conducted any reviews of CVR regarding the housing quality standards inspection process. Therefore, the Authority did not provide effective contract oversight, which would include performing quality control housing quality standards unit inspections. As a result, it did not verify that CVR conducted accurate and complete inspections and ensure that there was consistency among its inspectors in the application of HUD's housing quality standards. Instead, CVR performed the quality control inspections, and as evidenced by this finding, the quality control inspections were not adequate.

The Authority also lacked procedures or controls relating to the quality control review of inspection timeliness. Its quality control procedures relied on Quadel's correct entry of inspection information into the Authority's Yardi system. Therefore, annual inspections were late as a result of a data entry error, which would have been discovered had the Authority effectively monitored its contractor. The Authority also did not ensure that all program units that were included in the report from the Yardi system were scheduled and inspected by Quadel. Although Quadel notified the Authority of its problem with the system and its attempts to resolve it, the Authority did not ensure that program units met HUD's requirements by failing to exercise proper supervision and oversight of its contractor. As evidenced during the period of May through October 2008, after our audit scope ended, inspections for 24 of 133 households that had an annual inspection due were either completed late or not at all.

Conclusion

The Authority's households were subjected to health- and safety-related violations, and the Authority did not properly use its program funds when it failed to ensure that units complied with HUD's housing quality standards and perform timely annual inspections of its program units. In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing authority if it fails to enforce HUD's housing quality standards. The Authority disbursed \$55,971 in program housing assistance payments for the 23 non-quality control-inspected units that materially failed to meet HUD's housing quality standards and received \$4,404 in program administrative fees. It also disbursed \$17,572 in program housing assistance payments for the 12 quality control-inspected units that materially failed to meet HUD's housing quality standards and received \$1,559 in program

administrative fees. Further, the Authority received \$22,112 in program administrative fees for the 62 households residing in units that were more than 30 days past due for housing quality standards inspections. As a result, program households were subject to conditions that were potentially not decent, safe, or sanitary for a prolonged time.

If the Authority implements adequate procedures and controls regarding its unit inspections to ensure compliance with HUD's housing quality standards, we estimate that more than \$3 million in future housing assistance payments will be spent for units that are decent, safe, and sanitary over the next year. We also estimate that more than \$167,000 in future housing assistance payments will be spent for quality control-inspected units that are decent, safe, and sanitary over the next year. Our methodology for these estimates is explained in the Scope and Methodology section of this audit report.

Recommendations

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to

- 1A. Certify that the applicable housing quality standards violations have been corrected for the 85 units (52 non-quality control plus 33 quality control unit inspections) cited in this finding.
- 1B. Reimburse its program \$73,543 (\$55,971 plus \$17,572) for housing assistance payments and \$5,963 (\$4,404 plus \$1,559) in associated administrative fees for the 35 units (23 plus 12 units) that materially failed to meet HUD's housing quality standards.
- 1C. Implement adequate procedures and controls to ensure that all program units meet HUD's housing quality standards to prevent \$3,167,688 (\$3,000,564 plus \$167,124) in program funds from being spent over the next year on units that are in material noncompliance with the standards.
- 1D. Ensure that all inspectors are properly trained, are familiar with housing quality standards, and can apply them appropriately.
- 1E. Ensure that all supervisory quality control inspectors are properly trained, are familiar with housing quality standards, and can apply them appropriately.
- 1F. Perform independent housing quality standards inspections to monitor the performance of its contractors.

- 1G. Reimburse its program \$22,112 from nonfederal funds in associated administrative fees for the 62 units that were more than 30 days late in receiving their annual inspections.
- 1H. Implement adequate procedures and controls to ensure that program units are inspected at least annually in accordance with HUD's requirements.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws and regulations, the Authority's 2006 program administrative plan, HUD's program requirements at 24 CFR Parts 982 and 985, HUD Inspection Form 52580, Housing Inspection Manual-Section 8 Existing Housing Program, and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's household files, policies and procedures, board meeting minutes for January 2007 through March 2008, organizational chart, program annual contributions contract with HUD, and the contracts between the Authority and its contractors.
- HUD's files for the Authority.

We also interviewed the Authority's employees and contractors, HUD staff, and program households.

Using data mining software, we statistically selected 65 of the Authority's program units to inspect from the 1,329 units that passed annual inspections or reinspections by CVR in July 2008. The 65 units were selected to determine whether the Authority's program units met HUD's housing quality standards. Our sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus 10 percent.

Our sampling results determined that 23 of the 65 units (35 percent) materially failed to meet HUD's housing quality standards. Materially failed units were those units that had one or more exigent health and safety violations that predated the Authority's previous inspections.

The Authority's September 2007 through August 2008 housing assistance disbursements listing showed that the average monthly housing assistance payment was \$729 for the 1,329 units in the population. Projecting our sampling results of the 23 units that materially failed to meet HUD's housing quality standards to the population indicates that 470 units or 35.38 percent of the population contains the attributes tested (would materially fail to meet HUD's housing quality standards). The sampling error is plus or minus 9.51 percent. In other words, we are 90 percent confident that the frequency of occurrence of the attributes tested lies between 25.87 and 44.90 percent of the population. This equates to an occurrence of between 343 and 596 units of the 1,329 units in the population.

- The lower limit is 25.87 percent times 1,329 units equals 343 units that materially failed to meet HUD's housing quality standards.
- The point estimate is 35.38 percent times 1,329 units equals 470 units that materially failed to meet HUD's housing quality standards.
- The upper limit is 44.90 percent times 1,329 units equals 596 units that materially failed to meet HUD's housing quality standards.

Using the lower limit of the estimate of the number of units and the average housing assistance payment, we estimate that the Authority will annually spend \$3,000,564 (343 units times \$729 average payment times 12 months) for units that materially fail to meet HUD's housing quality standards. This estimate is presented solely to demonstrate the annual amount of program funds that will be correctly paid over the next year on decent, safe, and sanitary housing if the Authority implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

Using data mining software, we statistically selected 39 of the Authority's program units to inspect from the 89 units that passed quality control inspections by CVR in August 2008. The 39 units were selected to determine whether the Authority's program units met HUD's housing quality standards. Our sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus 10 percent.

Our sampling results determined that 12 of the 39 units (31 percent) materially failed to meet HUD's housing quality standards. Materially failed units were those units that had one or more exigent health and safety violations that predated the Authority's previous inspections.

The Authority's September 2007 through August 2008 housing assistance disbursements listing showed that the average monthly housing assistance payment was \$733 for the 89 units in the population. Projecting our sampling results of the 12 units that materially failed to meet HUD's housing quality standards to the population indicates that 27 units or 30.77 percent of the population contains the attributes tested (would materially fail to meet HUD's housing quality standards). The sampling error is plus or minus 9.11 percent. In other words, we are 90 percent confident that the frequency of occurrence of the attributes tested lies between 21.66 and 39.88 percent of the population. This equates to an occurrence of between 19 and 35 units of the 89 units in the population.

- The lower limit is 21.66 percent times 89 units equals 19 units that materially failed to meet HUD's housing quality standards.
- The point estimate is 30.77 percent times 89 units equals 27 units that materially failed to meet HUD's housing quality standards.
- The upper limit is 39.88 percent times 89 units equals 35 units that materially failed to meet HUD's housing quality standards.

Using the lower limit of the estimate of the number of units and the average housing assistance payment, we estimate that the Authority will annually spend \$167,124 (19 units times \$733 average payment times 12 months) for units that materially fail to meet HUD's housing quality standards. This estimate is presented solely to demonstrate the annual amount of program funds that will be correctly paid over the next year on decent, safe, and sanitary housing if the Authority implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

Using the inspection data provided by Quadel for all inspections scheduled and performed between May 2006 and April 2008, we determined that the Authority performed housing quality

standard inspections on a total of 31,363 households. The list of inspections was filtered by tenant identification number and inspection date, and the first 300 were selected for review.

Of the 300 households reviewed, the Authority failed to conduct a timely annual inspection for 62 (21 percent). We calculated \$22,112 in improper administrative fees earned by identifying the average monthly administrative fee received per unit from January 2007 through April 2008, which was \$64.44, and multiplying it by the number of months that the annual inspection was late between January 1, 2007, and April 30, 2008. Late annual inspections were those with more than 395 days between scheduled annual inspections or between an initial inspection and an annual inspection.

We performed our on-site audit work between April and November 2008 at the Authority's offices located at 60 East Van Buren, Chicago, Illinois. The audit covered the period January 1, 2007, through March 31, 2008, but was expanded as determined necessary.

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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of data – Policies, procedures, and practices that management has implemented to provide reasonable assurance that operational and financial information used for decision making and reporting externally is relevant and reliable and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.
- Safeguarding of assets and resources – Policies and procedures that management has implemented to prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

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

- The Authority lacked adequate procedures and controls to ensure compliance with HUD's requirements and/or its program administrative plan regarding housing quality standards inspections and timeliness of annual unit inspections (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1B	\$79,506	
1C		\$3,167,688
1G	<u>22,112</u>	
Totals	<u>\$101,618</u>	<u>\$3,167,688</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendations, it will cease to incur program costs for units that are not decent, safe, and sanitary and not inspected annually and, instead, will expend those funds in accordance with HUD's requirements. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

CHANGE.
CHICAGO HOUSING AUTHORITY

Martin Nesbitt
Chairperson

Board of Commissioners
Halle Amey
Dr. Mildred Harris
Michael Ivers
Samuel Mendenhall
Bridget O'Keefe
Carlos Ponce
Mary E. Wiggins
Sandra Young

Lewis A. Jordan
Chief Executive Officer

Scott W. Ammarcell
General Counsel

February 3, 2009

Heath Wolfe
Regional Inspector General for Audit, Region V
Department of Housing and Urban Development
Metcalfe Federal Building - Room 2646
77 West Jackson Boulevard
Chicago, IL 60604-3507

RE: Response to Draft Audit of Housing Quality Standards Compliance

Dear Mr. Wolfe:


Please find attached the Chicago Housing Authority's (CHA) response to HUD's Office of Inspector General's draft Phase I audit of our implementation of measures to ensure that Section 8 Units met Housing Quality Standards.

While we do not concur with all of the draft findings, we agree that the implementation of Chicago's Housing Choice Voucher Program (HCV), including the inspections, can be improved. To that end, the CHA is in the process of enhancing our internal controls and oversight of the HCV Program, reorganizing CHA's internal HCV staffing to comprise nine persons dedicated to quality control monitoring, revising the Administrative Plan, upgrading our data management systems, revamping our workflow processes and improving our communications with both participants and landlords.

The CHA staff and its HCV contractors look forward to working with the HUD OIG and HUD public housing staff to ensure that the Chicago Housing Authority will be the best in the nation. Please contact Senior Vice President, Jessica Porter, at 312.913.7792, should you have questions regarding this matter.

Thank you for your assistance.

Sincerely,


Lewis A. Jordan,
Chief Executive Officer

Attachment: CHA's Response to Draft Audit

80 E. Van Buren Street • Chicago, Illinois 60605-1207 • (312) 742-8500 • www.thecha.org

Comment 1

**Chicago Housing Authority's
Response to
Department of Housing and Urban Development, Office of Inspector
General's (OIG's)
Draft Audit of Compliance with Housing Quality Standards dated
January 7, 2008**

1A. Certify, along with the owners of the 85 units (52 non-quality control plus 33 quality control unit inspections) cited in this finding, that the applicable housing quality standards violations have been repaired.

Management Response: Concur with modification of the recommendation requested

Discussion: CHA requests that OIG modify this recommendation to accept our certification that appropriate corrective actions were taken to remedy Housing Quality Standards (HQS) violations in lieu of certifying that all repairs were made. We also request that HUD not require owner certification as this is not in any HQS protocols, and we had taken corrective actions prior to the receipt of this recommendation.

CHA can certify that the appropriate actions were taken for the 52 Non-Quality Control and 33 Quality Controlled Units that failed housing quality standards. Such actions are in accordance with CHA policy, federal regulations, HUD Inspection Manual, and HUD Guidebook 7420.7.

Specifically, on the next business day, CHA's contractor re-inspected all 35 Units identified as containing 24-hour Exigent Health and Safety violations. Thirty of the 35 Units passed the 24 hour reinspection.

Further, CHA's contractor notified the owners/managers of all 85 Units of the routine deficiencies found during the OIG inspections and gave them up to 30 days to complete the repairs. The contractor conducted reinspections to ensure repairs were made. The outcomes of these reinspections are as follows:

1. Repairs were made to 75 units which subsequently passed the reinspections.
2. Six units failed the reinspection, and HAPs were abated.
3. Four units have scheduled reinspections.

1B. Reimburse its program \$73,543 (\$55,971 plus \$17,572 for housing assistance payments and \$5,963 (\$4,404 plus \$1559) in associated administrative fees) for the 35 units (23 plus 12 units) that materially failed to meet HUD's Housing Quality Standards

Management Response: Concur that some units did not meet the housing quality standards, but do not concur that all 35 units materially failed the standards.

Ref to OIG Evaluation

Auditee Comments

CHA Response to OIG draft audit on Housing Quality Standards
Page 2 of 5

Comment 2

Discussion: CHA agrees that 20 regular and 6 Quality Control inspections did not meet HQS. Our analysis of the inspection results is provided as Exhibits IA and IB. CHA requests that the following factors be considered in determining the amount to be reimbursed:

Comment 3

1. CHA commissioned an assessment of its HCV Program and was implementing improvement measures at the time of the audit

The CHA procured an assessment of its HCV Program in 2006. As a result of that assessment, CHA initiated procurement actions to obtain a new contractor to administer its program. After two extensive Request for Proposal processes, CHA negotiated and entered into contracts with two contractors to manage its program. As a result, a new contractor began performing inspections in June 2008 and conducted its first quality control inspections in August 2008. Since the audit selected inspection results for July 2008 and August 2008, they are skewed because of the confluence of events. During this period, the contractor was evaluating existing staff and determining their strengths and weaknesses. As a result of these evaluations, the CHA contractor provided additional HQS training, placed some inspectors on performance improvement plans or provided them with different career opportunities. Also, the contractor hired a full-time Chicago-based Quality Control inspector in mid-October 2008 and implemented a new Quality Assurance rating system in January 2009. Consequently, CHA contends that the HQS inspection findings are mitigated by the fact that the audit inspection period converged with the beginning of a new inspection contract and other CHA HCV improvement measures.

Comment 4

2. There is no objective documentation that deficiencies were preexisting.

CHA acknowledges that the deficiencies noted were in existence at the time of the OIG Inspection, but takes exception to the categorization of deficiencies as "preexisting". The OIG relied on its inspector's judgment and participant interviews to determine "preexisting" deficiencies and does not use any other empirical data. Consequently, it is possible that many of the deficiencies did not exist at the time CHA's contractor performed its inspection. The later conclusion is supported by our review of the inspection data that shows that the longer the period between our contractor's inspections and those by the OIG, the greater the number of HQS violations. For example, the number of deficiencies noted per unit by the OIG increased 233% when lapsed days ranged from 30 days to greater than 60 days. In addition, OIG does not distinguish between possible tenant-caused violations and other types. CHA notes that participant interviews may be unreliable in cases where the deficiencies are tenant-caused.

3. Certain violations cited by the OIG are not defined as Exigent Health and Safety or HQS deficiencies

Ref to OIG Evaluation

Auditee Comments

During the audit inspection process, CHA staff requested the references for a number of OIG citations of HQS violations. We were informed that several were judgment calls by the Inspector. CHA does not agree with some of the OIG judgment calls and specifically, questions the OIG's citation of the following conditions:

Comment 5

- Inoperable stove burners as 24-hour Exigent Health and Safety (EHS) violations. CHA agrees that it is a violation, but one that requires repair within 30-days, rather than within 24-hours. CHA's position is buttressed by the fact that HUD's Uniform Property Conditions Standards for public and multi-family housing do not define such violations as 24-hour EHS.

Comment 6

- Forty-two GFI or open ground citations, which the OIG inspectors inconsistently categorize as 24-hour EHS or routine deficiencies. CHA asserts these citations are not deficiencies and are not considered hazardous by electrical code standards, the HUD inspection manual (page A9) and HUD's 1995 HCV Guidebook (page 10-8). See attached documentation, Exhibits II-A through II-C. As Chicago's housing stock is older than many communities, requiring all circuits to be grounded may have the unintended consequence of limiting the availability of acceptable housing for our HCV participants.

Comment 7

- Absence of carbon monoxide monitors on floors not used for living purposes as 24-hour EHS violations. Further, the carbon monoxide monitor requirement is a local definition per Illinois and City of Chicago ordinances that CHA has adopted and included in its Administrative Plan.

Comment 8

- Nineteen citations prescribing the height and length of handrails.

Comment 9

- The amount of space available for food preparation and storage, which is both subjective and a participant preference.

Comment 10

- TV cable cords as an EHS deficiency. Since the cables can be easily moved by the participants, they are not intrinsic to the units and therefore, not HQS violations.

Comment 11

- A window that is difficult to open, but is openable (Picture B03, page 9 of the draft audit report).

Comment 12

- Oven doors that do not close tightly or stick.

Comment 13

- A tree that was presumed to be dead and therefore, cited as hazardous.

Comment 14

Comment 15

CHA Response to OIG draft audit on Housing Quality Standards
Page 4 of 5

These deficiencies are not consistent with the requirements of the Section 8 Housing Inspection Manual, HCV Program Guidebook 7420.7, federal regulations (24 CFR 982.401), or CHA's Administrative Plan.

Consequently, CHA requests that the amount to be reimbursed be reduced to reflect on those violations that are objectively defined as HQS deficiencies.

1C. Implement adequate procedures and controls to ensure that all program units meet HUD's housing quality standards to prevent \$3,167,688 (\$3,000,564 plus \$167,124) in program funds from being spent over the next year on units that are in material noncompliance with the standards.

Management Response: Concur.

Discussion: CHA is currently revising its HCV workflow processes as well as upgrading its HCV data management software systems. As part of these improvements, report tools are being defined that will improve CHA's ability to oversee contractor performance. CHA is also in the process of hiring a Quality Control team that will include two staff persons dedicated to reviewing and updating inspection protocols and performing Quality Control inspections. In addition, the Quality Control staff will review information on an ongoing basis to ensure inspections and appropriate follow-up actions, such as abatements, are taking place timely. Information to be reviewed includes CHA's and its contractors' management system reports, documentation in participant files as well as IMS-PIC inspection data. Should the information reviewed indicate contractor performance requirements are not being met; appropriate action will be taken.

1D. Ensure that all inspectors are properly trained and are familiar with housing quality standards and can apply them appropriately.

Management Response: Concur.

Effective immediately, the CHA contractor will conduct monthly training sessions based on their quality control findings. As part of these trainings, the OIG housing quality standards violations will be used as case studies. Over the next 12 months, CHA is requiring that the contract inspectors attend HQS training from a source independent of the contractor. CHA will monitor the contractor's compliance with these training requirements.

As mentioned previously, CHA is in the process of hiring its Quality Control team, including two Quality Control Inspectors. The inspectors and their supervisor are required to attend an HQS class and to pass the certification examination. Post-class, CHA's Quality Control contractor will assign an HQS subject matter expert to provide field training to the CHA staff, including walking them through their first inspections and assessing their work. Additional classroom work will be structured with the goal that each inspector passes the HQS certification exam with a minimum 85% score within 6 months of their hire date. The HQS subject matter expert will coach and provide on-the-job training of the CHA inspectors through June 2010.

CHA Response to OIG draft audit on Housing Quality Standards
Page 5 of 5

1E. Ensure that all supervisory quality control inspectors are properly trained and are familiar with housing quality standards and can apply them appropriately.

Management Response: Concur.

CHA will work with its Quality Control contractor to develop basic and continuing education training standards to be required of all supervisory Quality Control inspectors.

1F. Perform independent housing quality standards inspections to monitor the performance of its contractors.

Management Response: Concur.

Discussion: CHA is in the process of hiring two Quality Control Inspectors to perform independent HQS inspections.

1G. Reimburse its program \$22,443 from nonfederal funds in associated administrative fees for the 62 units that were more than 30 days late in receiving their annual inspections.

Management Response: Concur that inspections were late, but disagree that administrative fees should be disallowed.

Discussion: While the inspections were conducted late, CHA requests that the administrative fees should not be called into question because CHA took reasonable corrective actions. Specifically, the system issues which contributed to late inspections were identified and resolved. Further, all units cited in this finding were subsequently inspected. Therefore, we request that CHA not be required to reimburse the administrative fees.

Attachments: Exhibit IA -- Detailed response to standard inspections
Exhibit IB -- Detailed responses to Quality Control inspections
Exhibit IIA -- Ungrounded GFI is safe and not hazardous
Exhibit IIB -- GFI tester information
Exhibit IIC -- History of GFI requirements

Comment 16

OIG Evaluation of Auditee Comments

- Comment 1** We adjusted recommendation 1A in the final audit report to require the Authority to certify that the applicable housing quality standards violations have been corrected for the 85 units (52 non-quality control plus 33 quality control unit inspections). HUD regulations at 24 CFR 982.401 require that all program housing meet HUD's housing quality standards at the beginning of the assisted occupancy and throughout the tenancy. The Authority will have further opportunity to provide supporting documentation to HUD's staff, who will work with the Authority to address the recommendation.
- Comment 2** The Authority did not provide sufficient documentation with its written comments to support that only 20 regular and 6 quality control inspections did not meet housing quality standards.
- Comment 3** We acknowledge that the Authority procured a new contractor; however, HUD regulations at 24 CFR 982.401 require that all program housing meet HUD's housing quality standards at the beginning of the assisted occupancy and throughout the tenancy. Therefore, we reported all violations identified at the time of our inspection so that HUD and the Authority could ensure that they were corrected.
- Comment 4** We disagree that the report did not objectively document deficiencies that were preexisting. We performed tenant interviews, consulted with our appraiser, and reviewed the Authority's latest inspection reports in conservatively determining whether a housing quality standards violation existed before the last passed inspection conducted by the Authority or whether it was noted on the last passed inspection conducted by the Authority and was not corrected.
- HUD requires housing authorities to conduct quality control inspections within 90 days of the initial inspection. Six of our 104 inspections were conducted more than 90 days after the Authority's inspection, with 99 days being the maximum. This was a result of the time it took to gather data, select the sample, schedule inspections, and give proper notification to the households. Therefore, a majority of our inspections that cited deficiencies were conducted within the 90-day period. Hence, we maintain that our results are representative of the condition of the universe of program units.
- In addition, we agree that the report does not distinguish between possible tenant-caused violations and other types, but it was not our intention to report this distinction. HUD's regulations require that units comply with housing quality standards regardless of when the deficiency occurred or who was responsible.
- Comment 5** We disagree with the Authority's assertion that an inoperable stove burner is a routine failure. HUD's Housing Choice Voucher Guidebook 7420.10G states that the oven must heat and all burners on the stove or range must work. If a tenant

turns on a burner and it does not ignite properly, escaping gas could cause an explosion and fire and possible injury or death to the tenants. We reported these items as exigent 24-hour violations to the Authority and HUD for immediate correction.

- Comment 6** We disagree with the Authority's assertion that ground fault circuit interrupter and open ground outlets are not violations of HUD's housing quality standards. HUD's regulations at 24 CFR 982.401(f)(2), when referring to outlets in both sections (ii) and (iii), specifically state that outlets must be in proper operating condition. Further, section 10.3 of HUD's Housing Choice Voucher Program Guidebook 7420.10G discusses acceptability criteria for each of 13 housing quality standards performance requirements. The acceptability criteria for illumination and electricity performance requirements states in part that the public housing agency must be satisfied that the electrical system is free of hazardous conditions, including improper insulation or grounding of any component of the system. If outlets are not functioning as designed, they are a potential hazard. An inoperable ground fault circuit interrupter clearly is not "in proper operating condition," and testing ground fault circuit interrupters is the method to ensure compliance with this requirement.
- Comment 7** According to the City of Chicago's code (code), not less than one approved carbon monoxide detector shall be installed in each residential unit. The code states that in every building that is heated by one main central fossil fuel powered heating unit that is not exempted under section 13-64-200, one approved carbon monoxide detector must be installed in the room containing the central heating unit. Therefore, regardless whether the floor was used for living purposes or not, we cited missing or inoperable carbon monoxide detectors in a room containing a heating unit as a 24-hour exigent health and safety violation based on the code because the Authority adopted the code in its program administrative plan with regards to smoke and carbon monoxide detectors.
- Comment 8** According to HUD's Housing Choice Voucher Guidebook 7420.10G, the condition of all exterior stairs, railings, and porches must not pose a danger to the household that would cause tripping or falling. The Section 8 Housing Inspection Manual states that unsound or hazardous conditions include stairs, porches, balconies, or decks with severe structural defects such as broken, rotting, or missing steps; absence of a handrail when there are extended lengths of steps (i.e., generally four or more consecutive steps); or absence of or insecure railings around a porch or balcony which is approximately 30 inches or more above the ground. The handrail violations that existed were for stairs with four or more steps. The handrails were either missing, not secure, or mounted at an incorrect height which presented a safety risk. Having handrails mounted too low or too high poses a safety hazard because occupants cannot easily use the handrails while taking the stairs.

- Comment 9** According to HUD's Housing Choice Voucher Guidebook 7420.10G, the household will not be exposed to serious infestations. The countertop in the unit was pulled away from the wall leaving a gap which impeded sanitation.
- Comment 10** According to HUD's Housing Choice Voucher Guidebook 7420.10G, the condition and equipment of interior and exterior stairs, halls, porches, and walkways must not present the danger of tripping and falling. Together with our appraiser, we determined that television cables that run across a walkway in a unit constitute a tripping hazard and could result in injury to the household.
- Comment 11** According to regulations at 24 CFR 982.401(h)(2)(ii) and (iii), there must be adequate air circulation in the dwelling unit. Bathroom areas must have one openable window or other adequate exhaust ventilation. The window in this unit provided the only ventilation for the bathroom.
- Comment 12** According to HUD's Housing Choice Voucher Guidebook 7420.10G, section 10.3, under Food Preparation and Refuse Disposal, all required equipment (stove and refrigerator) must be in proper operating condition.
- Comment 13** According to HUD's Housing Choice Voucher Guidebook 7420.10G, the household must not be exposed to any dangerous site or neighborhood conditions which would seriously and continuously endanger the health or safety of the household. The dead trees listed for two units did not cause the unit to fail; however, the dead trees were listed as health and safety violations. There were five other violations in one unit and 15 violations in the other.
- Comment 14** The violations noted in the audit report are consistent with published guidance, including the Section 8 Housing Inspection Manual, HUD's Housing Choice Voucher Guidebook 7420.10G, HUD's regulations (24 CFR 982.401), and the Authority's program administrative plan.
- Comment 15** We performed our inspections accurately and appropriately applied HUD's housing quality standards. The violations noted were defined as housing quality standards deficiencies without bias; therefore, the amount requested to be reimbursed was not reduced.
- Comment 16** In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fees paid to a public housing agency, in the amount determined by HUD, if the agency fails to perform its administrative responsibilities correctly or adequately. Further, the timeliness of annual inspections was an ongoing problem for the Authority after our scope as shown in the audit report. From May through October 2008, inspections for 24 of 133 households that had an annual inspection due were either completed late or not at all; therefore, the system issues have not been entirely resolved.

Appendix C

HUD'S REGULATIONS AND THE AUTHORITY'S PROGRAM ADMINISTRATIVE PLAN

HUD's regulations at 24 CFR 982.401 require that all program housing meet HUD's housing quality standards performance requirements both at commencement of assisted occupancy and throughout the tenancy.

HUD's regulations at 24 CFR 982.404 require that owners of program units maintain the units in accordance with HUD's housing quality standards. If the owner fails to maintain the dwelling unit in accordance with HUD's housing quality standards, the authority must take prompt and vigorous action to enforce the owner's obligations. The authority's remedies for such breach of the housing quality standards include termination, suspension, or reduction in housing assistance payments and termination of the housing assistance payments contract. The authority must not make any housing assistance payments for a dwelling unit that fails to meet the housing quality standards unless the owner corrects the defect within the period specified by the authority and the authority verifies the correction. If a defect is life threatening, the owner must correct the defect within 24 hours. For other defects, the owner must correct them within 30 calendar days.

HUD's regulations at 24 CFR 982.405(a) require that public housing authorities inspect the unit leased to a family before the term of the lease, at least annually during assisted occupancy, and at other times as needed to determine whether the unit meets housing quality standards.

HUD's regulations at 24 CFR 982.153 state that that the public housing authority must comply with the consolidated annual contributions contract, the application, HUD regulations and other requirements, and its program administrative plan.

CHAC, Inc.'s Procedures Manual, dated May 2006, page 13-10, part two, Annual Inspections, states that once a unit is leased, CHAC is required to inspect the unit annually to ensure that it continues to meet housing quality standards. The annual inspection process begins 10 months after the last full inspection and must be completed by the end of the 12th month after the last full inspection.