



CHICAGO HOUSING AUTHORITY OFFICE OF INSPECTOR GENERAL CHICAGO, IL

OIG Draft Report, OIG case #2016-08-001
2017 Audit of Occupancy

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This report was presented to the CHA Board on Tuesday May 16, 2017. This Audit is closed as of today, Wednesday May 17, 2017.

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A. Executive Summary

I. Background

The authority to perform this audit is pursuant to the Board approved *Inspector General Charter*, which states that the OIG has the power and duty to audit the administrative programs of the Chicago Housing Authority (CHA). The OIG is tasked to identify inefficiencies, waste, fraud, abuse, misconduct and mismanagement, and to promote economy, efficiency, effectiveness, and integrity in the administration of CHA programs and operations. The role of the OIG is to audit CHA operations and make recommendations for improvement, when appropriate. CHA management is responsible for establishing and maintaining processes to ensure that CHA programs operate economically, efficiently, effectively, and with integrity.

➤ Standards:

The OIG conducts audits of programs in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and *The Principles and Standards for Offices of the Inspector General*. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives to identify conditions and/or an environment that results in and/or could result in waste, fraud, abuse, misconduct or mismanagement.

Based on observations and concerns of CHA's Chief Property Officer, the OIG selected a performance audit of CHA's occupancy process.

All departments impacted by this audit cooperated fully with the OIG staff. We thank CHA management for its cooperation and willingness to better improve the program.

II. Objective

1. Determine whether CHA's occupancy policies and procedures are in compliance with Housing and Urban Development (HUD) requirements.
2. To review and determine whether CHA has adequate controls to accurately monitor and track available units throughout the four regions.
3. Assess the risk environment and the controls to minimize fraud, waste and abuse.

III. Scope

The initial scope of the audit included vacant units from January 1, 2015 through December 31, 2015. The scope was, however, adjusted to December 2016 in order to use data provided by the Property Office (PO).

IV. Approach and Methodology

The audit was performed by conducting interviews, reviewing documentation, inspections, testing and other measures deemed necessary. Other measures include, but are not limited to utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data.

Interviews were conducted with key personnel from the following departments:

- Property Office (PO)
- Private Property Management Company Staff (PPM)

V. Sample Selection

The PO submitted the following data:

	Total Inventory Units	Traditional Portfolio
Units Occupied	15,957	12,962
Units Vacant (Unadjusted)	2,855	2,772
Units Vacant (Adjusted)	1,042*	961

*Used to calculate the financial impact in Observation 1.

Scattered Site Regions (SS) are dispersed across the city, and they represent a higher risk in terms of controls, oversight and monitoring. Using a judgmental sampling method¹, the OIG selected SS Regions for field testing. As of December 2016, SS had a total of 2,764 inventory units². The OIG selected 41% of the unadjusted vacant units (152 out of 373). Units that were vacant for more than 90 days were also selected for site visits.

- Adjusted vacancy includes leasable units only. It is calculated by subtracting the number of vacant units by exempted units. Units are considered exempt for the following eligible reasons:
 - *Non-Dwelling Special Use MTW*
 - *Non-Dwelling Special Use Resident Activities*
 - *Non-Dwelling Special Use of Self-Sufficiency*
 - *Non-Dwelling Special Use of Anti-Drug Crime*
 - *Non-Dwelling Special Use Administrative/Amenity*
 - *Vacant Undergoing Modernization*
 - *Vacant Approved for Demolition or Disposition*
 - *Vacant Court Litigation*

VI. Summary of Results

The following summary table provides an overview of the observations and recommendations included in this report. Details of each observation and recommendation can be found in their respective sections to follow. It should be noted that site visits consisted of testing the classification of unadjusted units. These units were properly classified in Yardi, except for units under litigation.

¹ Judgmental sampling is a non-statistical sampling method where specific items are selected based on the Auditor's professional knowledge about the population (Institute of Internal Auditors).

² Inventory units includes mixed income, RAD and traditional portfolio units. The total number of units, including occupied and vacant, is 18,812. Of these units, there are 2,764 units at Scattered Sites.

Executive Summary: Audit Observations and Recommendations

	<u>Applicable Objective</u>	<u>Observations</u>	<u>Potential/ Actual Result</u>	<u>Risk Level³</u>	<u>Recommendations</u>
1.	Objective 1,2, and 3	CHA had a high vacancy rate. Specifically, CHA had an unadjusted vacancy rate of 18% (2,772 out of 15,734) and an adjusted vacancy rate of 7% (961 out of 13,923). The adjusted estimated financial loss of potential rental income (1,042 leasable units) is \$242,525 monthly and \$2,910,306 annually.	Waste	High	<ul style="list-style-type: none"> a) CHA should develop a strategic plan and forecast to reduce the number of vacant units, including measurable procedures to manage vacant units and ensure units are put back into available status in a reasonable amount of time. b) Portfolio Managers and PPMs should conduct quarterly on-site assessments of vacant units in their portfolios.
2.	Objective 1 and 3	The length of vacancy time for unoccupied units was prolonged, with an average vacancy time of 13 months for the sampled SS units.	Waste	High	<ul style="list-style-type: none"> a) See Recommendation 1(a) b) The PO should work diligently with PPMs to reduce the average turnaround time depending on HUD's guidelines and a units' condition. c) CHA should develop procedures to coordinate and oversee the repair of vacant units and return them to rent ready. d) CHA should ensure that PPM's are holding tenants accountable for the damage incurred in their units beyond normal wear and tear, pursuant to lease agreement. e) PPM's should have a consistent centralized approach to selecting applicants on the wait list to fill the unit.
3.	Objective 3	CHA has 795 units scheduled for modernization and/or make ready work. The renovation for some of these units have been ongoing for years.	Waste	High	<ul style="list-style-type: none"> a) See Recommendation 1(a) b) See Recommendation 2(c) c) CHA should reallocate necessary resources for repair and modernization of units to rent them out efficiently. d) CHA should monitor and inspect construction and repair work conducted by contractors and sub-contractors to ensure that work is carried out effectively.
4.	Objective 3	CHA PO maintains an off-line report from Yardi regarding occupancy/vacancy rate, as opposed to pulling directly from Yardi.	Lack of Data Integrity	High	<ul style="list-style-type: none"> a) Establish a written procedure regarding the classification of vacant units based on HUD's recommended guidelines. b) The PO should consider cleaning current data in Yardi using the same criteria that the PO has used when scrubbing data that is sent to HUD.

³ We ranked findings as High, Medium, or Low Risk to indicate urgency of recommended actions.

High Risk: Lack of prompt action by Management may severely impact the agency mission/operation in the short run and/or may expose the agency to violation of laws and regulations.

Medium Risk: Lack of corrective action by Management will materially and adversely impact operation in the long run. Action is needed to prevent or mitigate loss.

Low Risk: Action by Management is necessary to improve operations and/or to correct minor control weakness.

B. Observations and Recommendations

Observation 1: High Vacancy Rate

Applicable Audit Objective(s): (1) Determine whether CHA’s occupancy policies and procedures are in compliance with Housing and Urban Development (HUD) requirements. (2) To review and determine whether CHA has adequate controls to accurately monitor and track available units throughout the four regions. (3) Assess the risk environment and the controls to minimize fraud, waste and abuse.

- One way HUD measures the effectiveness of a public housing authority (PHA) is to examine its vacancy rate, progress in reducing vacancies and unit turnaround time.
- Although some of the standard metrics that HUD uses to measure public housing authorities’ successes may not apply to CHA as a participant in the Moving to Work (MTW) Demonstration Program⁴, the following shows how CHA would rank using non-MTW agencies’ performance indicators.

According to 24 CFR Chap 901.10 Sub-Indicator #1 and 2, vacancy rate and unit turnaround time, “A Public Housing Authority (PHA) may choose whether to use the actual [unadjusted] vacancy rate, adjusted vacancy rate or a reduction in the actual vacancy rate within the past three years. A PHA is graded for vacancy rate in one of the following categories if the PHA has:

Grade	Actual Vacancy Rate (Unadjusted)	Adjusted Vacancy Rate
A	3%	2% or less
B	greater than 3% or less than or equal to 5%	greater than 2% and less than or equal to 3%
C	greater than 5% or less than or equal to 7%	greater than 3% and less than or equal to 4%
D	greater than 7% and less than or equal to 9%	greater than 4% and less than or equal to 5%
E	9% and less than or equal to 10%	greater than 5% and less than or equal to 6%
F	10%	7%

- During the course of the Audit, CHA’s PO provided the OIG with a Summary Occupancy Report, as of December 31, 2016 that the PO submitted to HUD. This data shows a total inventory of 18,812 units (including Mix-Finance and Rental Assistance Demonstration units). Of this, 15,734 units are considered CHA conventional (traditional) portfolios. The OIG’s analysis of CHA’s vacancy rate, using the PO’s data of traditional portfolios, revealed that CHA had an unadjusted vacancy rate of 18% (2,772 out of 15,734) and an adjusted vacancy rate of 7% (961 out of 13,923). Based on this information, CHA has a high vacancy rate and would be graded below an “F” according to the aforementioned Federal regulation (Sub-indicator #1 and 2).

The following table (Table I) shows the analysis of CHA’s vacancy rate by region:

⁴ Moving to Work (MTW) is a demonstration program for public housing authorities that provides the opportunity to design and test innovative locally-designed strategies that use Federal dollars more efficiently. CHA has exemptions from many existing public housing and voucher rules and more flexibility with the use of its Federal funds (U.S. Department of Housing and Urban Development).

Table I. Analysis of Vacancy Rate of CHA Traditional Portfolios by Region								
Region	Total Units	Occupied Units	Vacant Units	Unadjusted Vacancy Rate	Exempted Units (Non-Leasable)	Leasable Units	Adjusted Vacant Units	Adjusted Vacancy Rate
REGION 1	4,786	3,742	1,044	22%	855	3,931	189	5%
REGION 2	3,222	2,547	675	21%	518	2,704	157	6%
REGION 3	2,948	2,689	259	9%	59	2,889	200	7%
REGION 4	4,778	3,984	794	17%	379	4,399	415	9%
CHA TOTAL	15,734	12,962	2,772	18%	1,811	13,923	961	7%

- It should be noted that the number of exempted units (or non-leasable) is relatively high for regions 1,2, and 4. Also, the number of non-leasable units is greater than the number of vacant units. The non-leasable units include a total of 1,493 units planned for redevelopment (439 units at Cabrini Rowhouses, 769 units at Lathrop Homes, 244 units at Altgeld/ Murray Homes, and 41 units at ABLA Homes).
- When considering CHA’s total inventory units, including mixed income, RAD and traditional portfolio units, there are 1,042 vacant (adjusted) units. This is critical when calculating the financial impacts of having a high vacancy rate.
 - Average rent charged at CHA: \$232.75 /month⁵
 - Total number of leasable units: 1,042
 - Average monthly rent income loss: \$242,525
 - Estimated adjusted loss/year: \$2,910,306

Although there are no monetary impacts and/or sanctions by HUD regarding the assessment of CHA’s vacancy rate, being graded an “F” on the above scale and having such a high vacancy rate may indicate that CHA’s occupancy policies and procedures are **not** in compliance with Housing and Urban Development (HUD) requirements, as well as the fact that CHA lacks the controls to accurately monitor and track available units throughout the five regions. This observation shows that there is actual waste.

Recommendation:

- a) CHA should develop a strategic plan and forecast to reduce the number of vacant units, including measurable procedures to manage vacant units and ensure units are back in available status in a reasonable amount of time.
- b) Portfolio Managers and PPMs should conduct quarterly on-site assessments of vacant units in their portfolios.

⁵ Per December 2016 Yardi Rent Collection Summary Report.

Management Response:

Concur with observation and recommendations

Do not concur with observation and recommendations

Concur with part of the observation and recommendations

The attached presentation describes the 2016 Property Office occupancy business plan as part of the management response, along with the additional policy described below. Beyond the recognition that the key drivers to occupancy are turning units and screening applicants, the Property Office has worked to systematically address the process and capability gaps which have led to the high vacancy rate. This has included a value stream mapping analysis along with building new strategic partnerships. Beyond the work described in the attachment, there is also a historical perspective that is an important starting point.

After the transition of PPM firms in Fall 2015, the vacancy rate immediately increased. Once new firms took control of properties, they found that units that were said to be occupied were not and that residents who moved out were not taken off the resident list. Once these issues were corrected, the true vacancy rate began to be realized. This starting deficit, along with the major turnover of 210 units at Altgeld Gardens in September of 2016, have both revealed underlying root causes of high vacancy, while further stressing a poorly functioning process. As of this response, the Property Office has been able to implement or fully implement all of the value stream improvements except for site-based waitlists and in-house trades hired by the PPMs. The site based waitlist process requires additional reviews and agreement with BPI in regards to Gautreaux, and the PPMs have not shown the ability to fully staff the budgeted skilled trades positions.

The most recent addition to the 2016 Property Office occupancy business plan occurred in March 2017. The Private Property Manager (PPMs) were given the authority to procure urgent services for work that must be completed within 30 days of identification and is less than \$25,000. This very stringent procedure was designed to provide the PPM firms another tool to support reduced unit turn time and improvements to work order response time.

Custodian:

PO

Implementation Timeline:

In Process; To Be Completed by the End 4th Quarter 2017

Observation 2: Units Not Returned to Rent Ready in Allotted Time

Applicable Audit Objective(s): (1) Determine whether CHA’s occupancy policies and procedures are in compliance with Housing and Urban Development (HUD) requirements. (3) Assess the risk environment and the controls to minimize fraud, waste and abuse.

- The average amount of time it takes CHA to turn back a vacant unit to leasable status is well beyond the recommended guidelines.⁶

24 CFR Chap 901.10 Sub-Indicator #1 and 2 also indicates that a PHA is graded for vacancy turnaround time in one of the following categories if the average number of calendar days between the time when a unit is vacated and a new lease takes effect for units re-occupied during the PHA’s assessed fiscal year, is:

Grade	Turnaround Time (calendar days)
A	0-20 days
B	21-25 days
C	26-30 days
D	31-40 days
E	41-50 days
F	51+ days

According to Article 4.1.e of CHA’s PPM contract, unit turnaround time is expected to occur within 20 days of being notified of the vacancy. During the execution of internal control questionnaires, the Chief PO stated that the expected time, according to HUD, to make previously leased units ready for new occupancy is within 30 days.⁷ It was added that 5 weeks or 25 business days may be more realistic.

- **Sample Selection:** The OIG analysis revealed that at each of the four SS Regions, at least 152 units were vacant for more than 50 calendar days. CHA has units that stayed vacant for over 19 months at SS Region 4. This is significantly more than one year greater than HUD’s recommended turnaround time noted above (24 CFR Chap 901.10 Sub-Indicator #1 and 2). Table II shows the average number of days SS units are vacant:

Table II. Average Number of Days a Unit is Vacant at Scattered Sites					
Region	Total	Occupied	Adjusted Vacancy	Number of Units Selected	Average Days of Vacancy for Units Selected
Region 1	1,433	1,266	128	68	447

⁶ As noted in Observation 1, CHA is a MTW agency and is not subject to the same performance indicators as non-MTW agencies.

⁷ The OIG took this into consideration when calculating the length of a units’ vacancy (Table II).

Region 2	570	469	85	29	419
Region 3	337	302	27	17	352
Region 4	424	354	53	38	608
SS Total	2,764	2,391	293	152	

- During site visits to the selected sample units, the OIG observed a wide range of work that needed to be completed. Some of the vacant units appeared to need minor repair work, such as window glass repair, carpentry, plastering and painting. Other units were not able to be viewed due to the PPM’s not having the correct keys or it being boarded up. Lastly, the OIG observed some units that had obvious and poor workmanship, as well as damage left behind by the previous tenants that was beyond normal wear and tear.
- Failure to timely turn units back to leasable status has an enhanced financial impact.
- CHA has over 34,000 households on the wait list, as some families and individuals have been waiting more than 3 years for housing. CHA has a social responsibility to ensure that qualified families are housed in a timely manner.
- PPM’s have an inconsistent approach on the application of tenant selection to fill vacancies.
- The Operation and Occupancy Department (OCD) stated that the responsibility of managing vacant units falls under each PPM. The OIG was not able to ascertain how the CHA Property Department oversees this process.

Based on the guidelines for unit turnaround time as mentioned above, CHA would be graded an “F” for unit turnaround time based on the sampled selection. CHA’s PPM contract states that unit turnaround time is expected within 20 days. As unit turnaround time increases, the estimated financial loss of potential rental income increases and CHA will continue to experience a higher than acceptable vacancy rate. The financial impact, combined with the fact that there is an inconsistent application of operational procedures by the PPM’s and a lack of oversight by CHA, CHA’s occupancy policies and procedures are **not** in compliance with Housing and Urban Development (HUD) requirements. This observation shows that there is actual waste.

Recommendation:

- a) See Recommendation 1(a).
- b) The PO should work diligently with PPMs to reduce the average turnaround time depending on HUD’s guidelines and a units’ condition.
- c) CHA should develop procedures to coordinate and oversee the repair of vacant units and return them to rent ready.
- d) CHA should ensure that PPM’s are holding tenants accountable for the damage incurred in their units beyond normal wear and tear, pursuant to lease agreement.
- e) PPM’s should have a consistent centralized approach to selecting applicants on the wait list to fill the unit.

Management Response:

Concur with observation and recommendations

Do not concur with observation and recommendations

Concur with part of the observation and recommendations

As in the response to observation 1, please review the attached presentation that describes our occupancy initiative plan as part of the management response. The Property Office (PO) portfolio managers are each tasked with holding the site based PPM accountable for meeting the required one-month timeline to turn and lease units. This is, however, only one of three key parts of renting units. Additionally, each property is required to keep screened names in reserve equal to the current vacancy plus the projected vacancy for 120 days. Each PPM committed to have all of their properties at this level by the end of April, even without the implementation of the much needed site-based waitlist. The final key area of improvement is the PPM staff capability to take screened applicants and rent ready units, and ensure move ins within 1 week of unit turn. With the improvements made to date there are portions of the portfolio making steady incremental improvements, while there are a few properties which have yet to demonstrate a clear turn around. Based upon the improvements made and the success in areas, the Property Office has learned that the remaining challenge lies in the people who day-to-day manage and implement this process being accountable and engaged. Using numbers from the March 2017 report, 220 units were turned, however, we experienced a net of only 65 move ins. While units are now being turned at a more efficient pace, we are still lagging in having screened and approved applicants ready to move into these newly finished units.

To help turn units and more quickly reduce the vacancy rate, the Job Order Contracting (JOC) program utilizes its vendors to turn units, especially in the Scattered Sites portfolio. JOC will be used for the units that require substantial work and can't be completed quickly by PPM staff. This program will be doubling in size by June of 2017 to further build capacity for the organization.

To complete the backlog of units, we are targeting the completion of 220 units per month with a net of at least 100 move ins per month. With a net gain of approximately 120 more rent-ready units per month over the next several months, we will make consistent improvement on the vacancy rate while also eliminating much of the backlog that currently exists.

Custodian:

PO

Implementation Timeline:

In Process; To Be Completed by the End 4th Quarter 2017

Observation 3: Vacant Units Slated for Modernization / or Make Ready Are Not Completed Within Reasonable Time

Applicable Audit Objective(s): (3) Assess the risk environment and the controls to minimize fraud, waste and abuse.

- As stated above, the vacancy rate did not include 439 units at Cabrini Rowhouses, 769 units at Lathrop Homes, 244 units at Altgeld/ Murray Homes, and 41 units at ABLA Homes due to being slated for redevelopment. However, the OIG did include units that were scheduled for modernization work or major renovations. The renovation for some of these units have been ongoing for years. As shown in the following table (Table III), 188 units were vacant for over one year.

Table III. Vacancy for Modernization or Major Repairs Days	
Number of Years Units Vacant	Total Units
Greater than 4 Years.	15
Between 3 Years and 4 Years	15
Between 2 Years and 3 Years	39
Between 1 Year and 2 Years	188
Between 50 days and 1 Year	538
Total Units Under Modernization or Make ready	795

- During field work, the OIG observed that some of the construction work had not been completed adequately. For instance, unit SE0522, located at 7612 S. Coles, had been gutted out and the outside panel was not flushing with the foundation. Some units had floors caved in, while one unit was flooded with running water. In addition, several vacant units had mold odor, even though the units above or below were occupied by families. These examples indicate that CHA is not adequately monitoring the PPM’s responsibility of checking the conditions of the vacant units.
- The lack of monitoring vacant units and the prolonged vacancy lead to further deterioration of a building’s condition and can result in higher repair costs.
- The disposition of these units classified for modernization were transferred to the Chief Development and Capital Construction Officer.

This observation exemplifies waste.

Recommendation:

- See Recommendation 1(a)
- See Recommendation 2(c)
- CHA should reallocate necessary resources for repair and modernization of units to rent them out efficiently.
- CHA should monitor and inspect construction and repair work conducted by contractors and sub-contractors to ensure that work is carried out effectively.

Management Response:		
<input checked="" type="checkbox"/> Concur with observation and recommendations	<input type="checkbox"/> Do not concur with observation and recommendations	<input type="checkbox"/> Concur with part of the observation and recommendations
Please review the attached presentation that describes our occupancy initiative plan as part of the management response.		
Custodian:	PO	
Implementation Timeline:	In Process; To Be Completed by the End 4 th Quarter 2017	

Observation 4: Lack of Data Consistency

Applicable Audit Objective(s): (3) Assess the risk environment and the controls to minimize fraud, waste and abuse.

- Initially, the OIG used a Yardi generated report to analyze the occupancy and vacancy rates for CHA. Yet, as noted above, the PO informed the OIG that the data in Yardi did not accurately depict the vacancy rate, and therefore, the PO provided the OIG with alternative data. Although this offline report was also generated from Yardi, the data was scrubbed to reflect the current condition of the units “on the ground” according to the PO.
- For example, the original Yardi Report shows there are 246 units in litigation, whereas the PO’s data shows (presumably more accurate based upon P.O.’s interview) 0 units in litigation. Additionally, 698 units were under modernization in the original report, while 107 units were under modernization in the PO’s data.
- Because the PO uses two sets of data for the same process, it is challenging to audit CHA’s vacancy rate using the Yardi system.

This observation shows the lack of data integrity.

Recommendation:

- a) Establish a written procedure regarding the classification of vacant units based on HUD guidelines.
- b) The PO should consider cleaning current data in Yardi using the same criteria that the PO has used when scrubbing data that is sent to HUD.

Management Response:		
<input checked="" type="checkbox"/> Concur with observation and recommendations	<input type="checkbox"/> Do not concur with observation and recommendations	<input type="checkbox"/> Concur with part of the observation and recommendations
<p>PPM staff has not been fully utilizing the Yardi tool and Property Office staff has not consistently held them accountable for effective and timely documentation and reporting. We will continue to train staff on the proper ways to use Yardi and its functions and staff (both CHA and PPM) will be held accountable for its consistent and accurate use. The Yardi system can meet the Property Office needs to manage the occupancy process if used fully and properly.</p>		
Custodian:	PO	
Implementation Timeline:	To Be Completed by the End 4 th Quarter 2017	