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GAO

Report to Congressional Requesters

June 2001

HUD MULTIFAMILY HOUSING

Improved Follow-up Needed to Ensure That Physical Problems Are Corrected

GAO-01-668

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Abbreviations

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
REAC	Real Estate Assessment Center

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

June 21, 2001

The Honorable Marge Roukema
Chairwoman
The Honorable Barney Frank
Ranking Minority Member
Subcommittee on Housing and
Community Opportunity
Committee on Financial Services
House of Representatives

The Department of Housing and Urban Development (HUD) assists nearly 30,000 privately owned and operated multifamily properties through subsidies, financing, or mortgage insurance to help provide affordable housing for the nation's low- and moderate-income population. HUD is responsible for ensuring that the owners of HUD-assisted properties provide housing that is decent, safe, sanitary, and in good repair. However, the poor quality of some of this housing has contributed to long-standing concerns about the Department's ability to fulfill this mandate. To address these concerns, HUD in late 1998 implemented a new system for inspecting multifamily properties and overseeing the owners' correction of physical deficiencies identified by these inspections. Under this system, HUD's Real Estate Assessment Center (REAC) inspects multifamily properties and rates their condition on a scale from 0 to 100. HUD considers properties scoring less than 60 to be in substandard physical condition. HUD's multifamily housing field offices and Departmental Enforcement Center are responsible for ensuring that the owners of these properties complete necessary repairs.

In July 2000, we reported on various aspects of REAC's physical inspection system, including how the system differed from HUD's previous physical inspection systems and the adequacy of REAC's quality assurance procedures.[1] As you requested, this report focuses on HUD's actions to ensure that physical deficiencies at multifamily properties in substandard condition are corrected. Specifically, this report addresses the following questions: (1) Are HUD's field offices complying with the procedures HUD established to ensure that the physical deficiencies at these properties are

[1] *HUD Housing Portfolios: HUD Has Strengthened Physical Inspections but Needs to Resolve Concerns About Their Reliability* (GAO/RCED-00-168, July 25, 2000).

corrected? (2) Have all physical deficiencies been corrected at properties that HUD classified as repaired? (3) Are HUD staff and property owners meeting the Department's timeliness goals and requirements for addressing physical deficiencies?

To address these questions, we reviewed the activities of HUD's Office of Multifamily Housing, multifamily housing field offices, and Departmental Enforcement Center, as well as the center's five satellite offices. Our work focused on the 528 metropolitan-area properties in substandard condition for which HUD issued inspection reports and that its field offices classified as repaired in fiscal year 2000.[2] Our analysis addresses 499 of the 528 properties that we estimate required follow-up action by HUD.[3] In conducting our work, we analyzed documentation pertaining to HUD's follow-up actions on REAC's inspections for a stratified random sample of 95 of these properties. In addition, we visited 35 of the 95 properties in our sample to determine whether the owners had corrected the deficiencies identified by REAC's inspection. During our site visits, we determined whether defects associated with the properties' sites, exteriors, systems, and common areas that REAC categorized as "major" or "severe" had been corrected. On the basis of our analyses of the sampled properties, we estimated the percentage of the 499 properties that did not meet certain HUD follow-up requirements. Appendixes III and IV provide detailed information on our objectives, scope, and methodology.

Results in Brief

HUD's field offices frequently did not follow the Department's procedures for ensuring that property owners are correcting all physical deficiencies. These procedures require field staff to obtain and review key documents related to an owner's corrections before they classify a property as repaired. From our review of HUD's documentation, we estimate that for two-thirds of the 499 properties covered by our analysis, HUD's field offices did not receive the required certification from the owner that all physical deficiencies had been corrected. HUD also requires property

[2]We excluded from our sample properties that were not located in the contiguous United States.

[3]We determined from a sample of the 528 properties that some of the properties did not require HUD's follow-up because their inspection scores had been raised, their HUD-insured mortgages had been foreclosed on or paid off, or a local housing finance agency was responsible for the follow-up actions on the inspection. Accordingly, we used statistical methods to estimate how many of the 528 properties required HUD's follow-up. See appendix IV for more details.

owners to submit a detailed repair plan that, among other things, includes a description of and time frame for correcting each deficiency. However, we estimate that HUD's field offices did not obtain a detailed repair plan for about 60 percent of the properties covered by our analysis. Finally, we estimate that for nearly two-thirds of the properties covered by our analysis, the field offices did not receive progress reports from the owners, as required by HUD's guidance. HUD's field offices did not always comply with inspection follow-up procedures because of insufficient guidance to both field staff and property owners and because HUD's headquarters allowed the field staff to use discretion in implementing agency guidance without ensuring the proper exercise of this discretion.

On the basis of our site visits to properties that HUD classified as repaired, we estimate that for about half of the properties covered by our analysis, at least 25 percent of the deficiencies that REAC classified as "major" or "severe" were not corrected. Our site visits identified a variety of uncorrected problems, including exigent health and safety violations such as exposed electrical wiring. We found these problems because in some instances HUD's field staff classified properties as repaired without obtaining a detailed repair plan and a written certification from the owner that all physical deficiencies had been corrected. We also found that some property owners and managers reported completing repairs that had not been made. On the basis of our site visits, we estimate that about 60 percent of the properties covered by our analysis had one or more deficiencies incorrectly reported to HUD as repaired. Our Office of Special Investigations investigated 10 properties where our work indicated possible fraud or false statements. In three cases, our investigators developed credible evidence that property managers had made material false statements to HUD when reporting that cited deficiencies had been corrected. We referred these matters to the appropriate law enforcement agencies for further action.

HUD has had difficulty ensuring that agency staff and property owners are meeting timeliness goals and requirements for addressing physical deficiencies. For example, while property owners are required to correct exigent health and safety violations within 72 hours of REAC's inspections and certify these corrections in writing, HUD lacked assurance that owners were adhering to this requirement. On the basis of our document review, we estimate that most of the certifications HUD received were not submitted within that time frame. Similarly, HUD's Departmental Enforcement Center—which follows up on properties with the lowest physical inspection scores—seldom met its goal of completing evaluation reports on properties within 90 days of receiving a referral. Although

between fiscal year 1999 and fiscal year 2000 the center substantially improved its average time for completing these reports, it did not meet its timeliness goal for 93 percent of the referrals it received in fiscal year 2000. According to center officials, the major reasons for these processing delays were insufficient and inexperienced staff, the time required to recruit and train staff, and a lengthy process for reviewing proposed enforcement actions. The center has taken actions to address these problems, which should improve its timeliness in processing cases.

This report makes recommendations to the Secretary of HUD designed to improve the effectiveness of HUD's processes for ensuring that (1) owners of properties in substandard condition correct all physical deficiencies and (2) HUD has accurate information on the status of repair work at these properties. In an April 2001 meeting, officials from HUD's Office of Multifamily Housing and Enforcement Center agreed that improvements were needed in HUD's procedures for ensuring that physical deficiencies are corrected. They told us that they were revising their inspection follow-up procedures and believed that the changes they were making would address weaknesses we had identified.

Background

Approximately 2 million American families live in privately owned multifamily housing that receives assistance from HUD. This housing includes properties that get some form of rental assistance, including Section 8 subsidies, from HUD; properties whose mortgages are insured or held by HUD; and properties that are financed by HUD.[4] HUD's physical condition standards for multifamily properties are based on language in the United States Housing Act of 1937 (42 U.S.C. 1437 et seq.) that requires federally assisted housing for low-income individuals to be decent, safe, and sanitary. This act applies to Section 8 assisted housing and public housing. For HUD-insured multifamily housing, the mortgagors are required by contract to maintain the mortgaged premises in good repair and condition. HUD considers this requirement very similar if not identical to the standard for decent, safe, and sanitary housing.

In 1997, as part of its 2020 Management Reform Plan, HUD created REAC to obtain consistent information on, among other things, the physical

[4]HUD's Section 8 program provides rental subsidies for low-income families. These subsidies are linked either to multifamily apartment units (project-based) or to individuals (tenant-based). HUD's uniform physical condition standards apply to Section 8 project-based assisted housing.

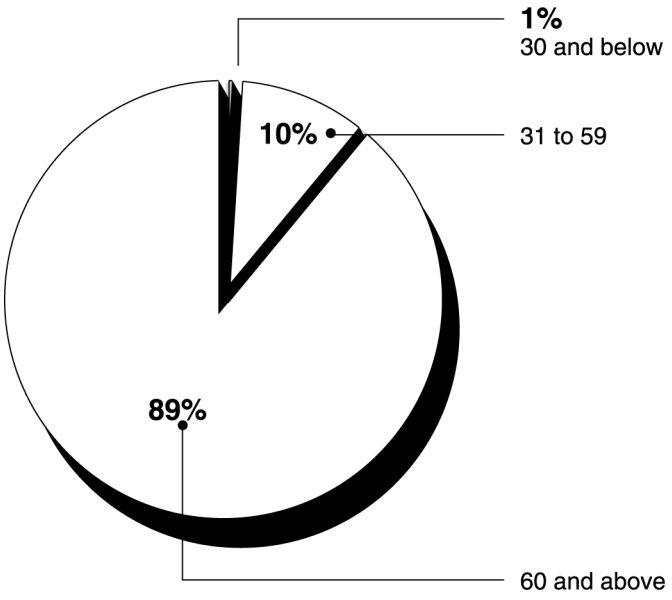
condition of its multifamily housing. In late 1998, REAC began to inspect these properties using a set of uniform standards that could be applied to all HUD housing, regardless of the source of subsidy or assistance. These standards group observable deficiencies into five major inspectable areas: site, building exterior, building systems, dwelling units, and common areas.[5]

REAC's inspectors classify the deficiencies they observe at each property as "minor," "major," or "severe" on the basis of definitions HUD has established for specific inspectable items (e.g., windows, foundations, and water systems). For example, HUD considers a cracked window pane to be a "minor" deficiency, but classifies a missing window pane as a "severe" deficiency. REAC's inspectors are also required to notify a property owner or manager of any exigent ("life-threatening") health and safety violations, such as exposed electrical wiring, at the end of the inspection. A computer program assigns different weights and values to the deficiencies to derive an overall score for the property on a scale from 0 to 100. The final score and observed deficiencies are summarized in a report that REAC sends to the property owner and to the appropriate HUD field office. Following a REAC inspection, property owners are required to conduct their own inspections, referred to as physical surveys, of the entire property.

A property's inspection score dictates the extent of HUD's follow-up actions to ensure that the physical deficiencies are corrected. A score of 60 or above generally indicates that a property is in satisfactory physical condition. HUD considers all properties that score less than 60 to be in substandard condition and those scoring 30 and below to be in severe physical distress. Figure 1 shows the percentage of the 15,384 multifamily properties whose inspection reports were issued during fiscal year 2000 that fell into each category.

[5]A particular deficiency can be included in more than one of these five major inspectable areas.

Figure 1: Percentage of Multifamily Properties With Inspection Results Issued in Fiscal Year 2000, by Inspection Scoring Range



Source: GAO's analysis of data from HUD's Real Estate Management System.

Properties scoring 60 or above are generally not subject to follow-up from HUD, but the Department expects the owners to correct physical deficiencies as part of their ongoing maintenance programs. In these situations, HUD generally does not require either a repair plan or a written certification from the owner that all deficiencies have been corrected.

Properties scoring 31 to 59 are referred to HUD's multifamily housing field offices—including 18 "hubs" and their associated 33 program centers—which report to HUD's Office of Multifamily Housing. In September 1999, Multifamily Housing issued guidance to these field offices that sets forth HUD's follow-up procedures for properties in substandard condition. According to the procedures, the field offices are responsible for working with owners of substandard properties to ensure that all physical deficiencies identified by the REAC inspection and the owner's physical survey are corrected. These responsibilities include obtaining and reviewing (1) written certifications that indicate the correction of all

exigent health and safety violations[6] and the correction of all other physical deficiencies at the property, (2) detailed repair plans that address each deficiency, (3) the results of owners' physical surveys, and (4) progress reports on the completion of repairs. HUD established timeliness goals and requirements for some of these follow-up actions. For example, property owners are required to correct exigent health and safety violations no later than 72 hours after the inspection and to submit proposed repair plans to HUD within 30 days of receiving the inspection results. Additionally, field office staff are to log all follow-up actions in a departmental database—the Real Estate Management System—that HUD uses to manage its multifamily housing portfolio.

Properties scoring 30 and below are referred to the Departmental Enforcement Center and its five satellite offices in Atlanta, Georgia; Chicago, Illinois; Forth Worth, Texas; Los Angeles, California; and New York, New York. For each referral, the center conducts an evaluation of the property's physical, management, and financial condition to determine whether to accept the case or return it to a HUD multifamily housing field office for routine follow-up on the REAC inspection. If the Enforcement Center accepts the case, it writes an evaluation report that contains an assessment of the property and an action plan outlining (1) the steps the owner must take—such as implementing a repair plan—to bring the property into compliance with HUD's physical standards and (2) the enforcement actions the center may take if the property owner fails to improve the condition of the property. These enforcement actions may include foreclosing on the property's mortgage, terminating Section 8 rental payments, or suspending the owner from further participation in federal government programs. If the center does not take an enforcement action, the case is sent to the appropriate multifamily field office, and the property is subject to the same follow-up requirements as properties scoring 31 to 59.

The Enforcement Center also evaluates portfolios of properties with common owners to uncover patterns of noncompliance with HUD's financial and physical standards. By addressing noncompliance by portfolio rather than by individual property, the center believes it can maximize the impact of its enforcement efforts and reduce the risk of default on HUD-insured mortgages held by common owners. In one case

[6]Any property can be cited for exigent health and safety violations regardless of its inspection score.

involving 30 HUD-assisted properties in substandard physical condition, the center found that the owners were not using available operating and reserve funds to maintain and repair the properties. In response to the center's findings, the owners agreed, among other things, to commit approximately $20 million for current and future repairs at these properties.

HUD's Field Offices Frequently Did Not Follow Procedures for Ensuring That Property Owners Completed Repairs

HUD's field offices have not always complied with the Department's procedures for ensuring that property owners are correcting all physical deficiencies. Contrary to HUD's guidance, HUD's field offices frequently classified properties as repaired without receiving complete certifications of repairs from the owners. In addition, they often did not obtain detailed repair plans from property owners or the results of owners' physical surveys, as required. Lastly, the field offices' monitoring of repair work was limited because field staff often did not obtain required progress reports from property owners. HUD field staff did not always follow these procedures because some of the guidance was inadequate and the Department did not adequately oversee the field staff's implementation of the guidance.

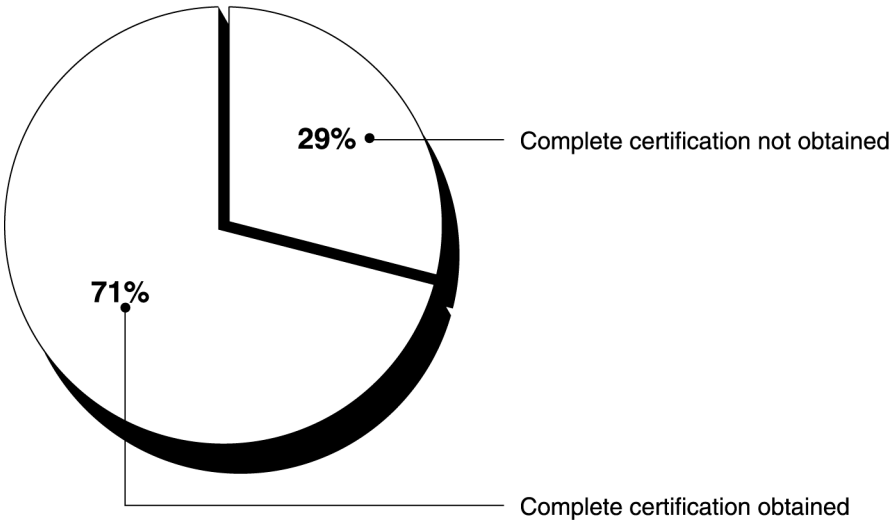
Field Offices Often Did Not Obtain Owners' Certifications of Repairs

HUD requires two written certifications from property owners as evidence that a property has been fully repaired: one stating that all of the exigent health and safety violations have been corrected and the other stating that all other deficiencies identified by REAC's inspection and the owner's physical survey have been repaired. However, our analysis of HUD's documentation for 95 properties that it classified as repaired in fiscal year 2000 showed that HUD field staff often did not obtain these certifications from owners or accepted incomplete certifications that did not indicate all of the defects had been corrected. When HUD does not obtain complete certifications, it lacks an adequate basis for classifying properties as repaired and does not have assurance that all deficiencies have been corrected.

According to HUD's guidance, all exigent health and safety violations identified during a REAC inspection must be corrected by the property owner no later than 72 hours after the inspection. Once the owner fixes the problems, he or she is required to submit a letter to the appropriate HUD field office certifying that all of the violations have been corrected. However, we found that the field offices often did not obtain these certification letters or received certifications that were incomplete (i.e., they indicated that some of the deficiencies had not been repaired).

Specifically, we estimate on the basis of our document review that HUD received either no certification or an incomplete certification for 29 percent of the 460 properties with exigent health and safety violations that were covered by our analysis. (See fig. 2.)

Figure 2: Estimated Percentage of Properties for Which HUD Did Not Obtain a Complete Certification That All Exigent Health and Safety Violations Had Been Corrected



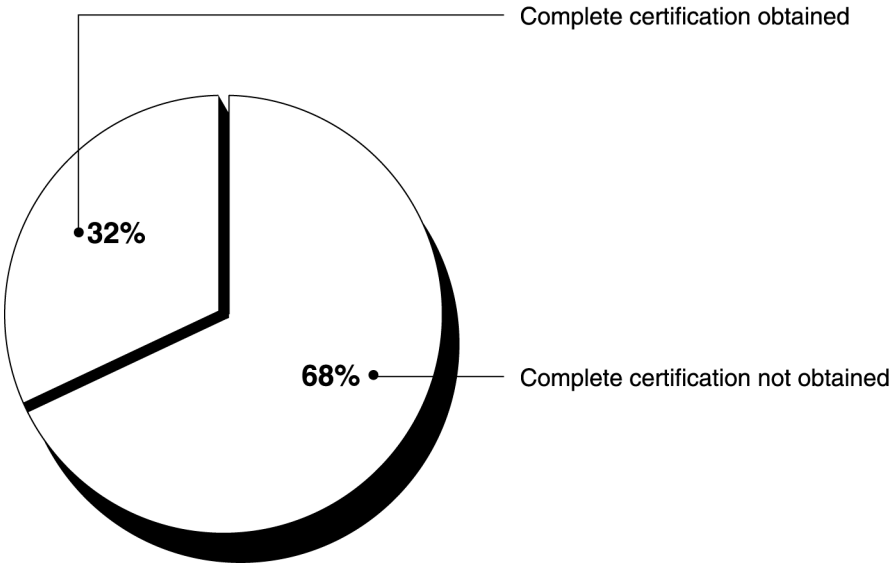
Source: GAO's analysis of documentation from HUD's field offices.

HUD requires property owners to submit a second certification letter once they correct the balance of the deficiencies cited in REAC's inspection report and any other problems identified by the owner's physical survey. Because HUD does not have the resources to perform a follow-up visit to every property and confirm the status of repair work, the certification letter is HUD's primary evidence that the owner corrected all of the physical deficiencies. Furthermore, once field staff receive an owner's certification, they should classify the property as repaired in HUD's Real Estate Management System, thereby concluding their follow-up actions on that inspection.

Despite the importance of certification letters, our document review showed that HUD's field offices often did not obtain them. Specifically, we estimate that HUD did not receive a certification of repairs for 31 percent of the 499 properties covered by our analysis. Moreover, when the field offices received certification letters, the certifications were frequently incomplete (i.e., they indicated that some of the defects had not been

corrected). We estimate that for 68 percent of the 499 properties, HUD's field offices either obtained no certification or an incomplete certification from the owner. (See fig. 3.)

Figure 3: Estimated Percentage of Properties for Which HUD Did Not Obtain a Complete Certification of Repairs



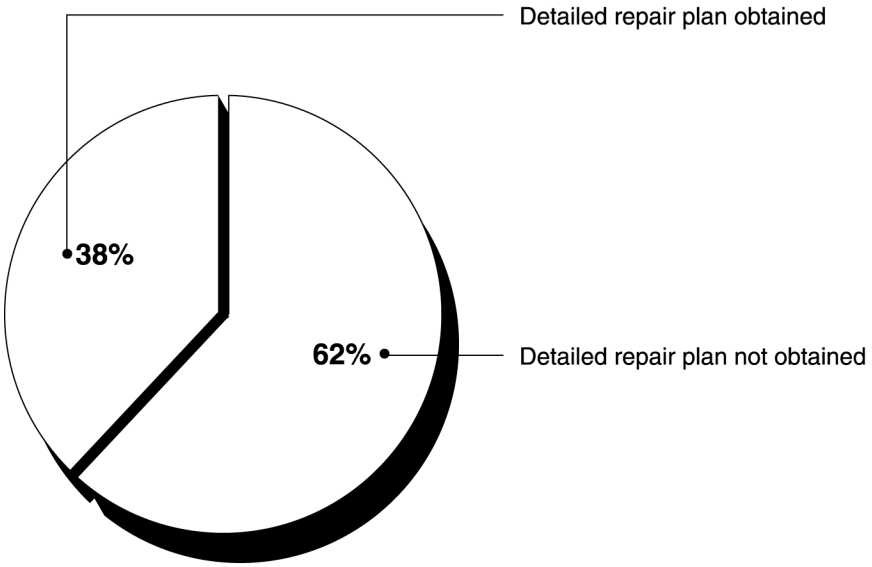
Source: GAO's analysis of documentation from HUD's field offices.

Field Offices Frequently Did Not Get Detailed Repair Plans

HUD requires the owner of a property in substandard condition to submit repair plans for correcting the physical deficiencies identified by REAC's inspection and the owner's physical survey of the property. In most circumstances, HUD requires a "detailed" plan, which includes a description of and time frame for correcting each deficiency, among other things. However, on the basis of our document review for 95 properties, we estimate that HUD did not obtain a detailed repair plan for 62 percent of the 499 properties covered by our analysis. (See fig. 4.) When property owners do not submit detailed plans, HUD has little assurance that they are addressing all of the property's deficiencies or are scheduling the necessary repair work. HUD field staff may waive the requirement for a detailed plan if the owner indicates that all of the repairs can be completed within 90 days of the inspection and the field staff decide, on the basis of the owner's past history and the extent of the property's deficiencies, that the owner can be relied upon to complete the work in an acceptable manner. HUD's guidance requires field staff to document this decision in a memorandum to the file. Because none of the 95 properties in our sample

had such a memorandum, a detailed repair plan should have been prepared for each property.

Figure 4: Estimated Percentage of Properties Without a Detailed Repair Plan



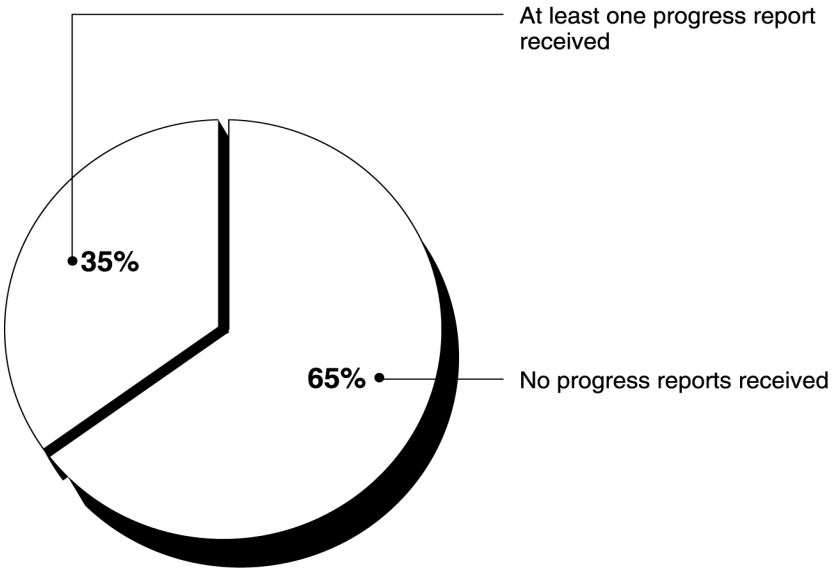
Source: GAO's analysis of documents from HUD's field offices.

In developing repair plans, HUD requires property owners to perform a complete physical survey of the property. HUD's guidance states that the results of this survey should be outlined in the owner's repair plan. According to HUD officials, the purpose of the survey is to supplement REAC's inspection, which usually does not cover all of the property's dwelling units. However, we found that HUD's field offices generally did not obtain information on the results of these surveys in the repair plans or other documentation submitted by property owners. On the basis of our document review, we estimate that for 72 percent of the 499 properties covered by our analysis, HUD did not obtain information on the results of the owner's physical survey. Consequently, HUD had little assurance that property owners were either conducting physical surveys or correcting the physical defects identified by their surveys.

Field Offices Often Did Not Obtain Progress Reports

According to HUD's guidance, property owners must submit monthly progress reports to the appropriate HUD field office. These reports must specify the repairs made during each reporting period until all the repairs have been completed. We found, however, that HUD's field staff often did not obtain these reports, thereby limiting their ability to monitor the progress of repairs. Specifically, on the basis of our document review, we estimate that HUD's field offices did not receive any progress reports for 65 percent of the 499 properties covered by our analysis. (See fig. 5.) Although our review of HUD's documents indicated that HUD field staff sometimes used other monitoring tools, such as site visits and examinations of repair estimates, to track an owner's progress, their use of these tools was limited. Furthermore, these tools are intended as supplements to rather than as replacements for progress reports from property owners.

Figure 5: Estimated Percentage of Properties Without Progress Reports



Source: GAO's analysis of documentation from HUD's field offices.

Insufficient Guidance and Limited Oversight Contributed to Noncompliance

HUD field staff did not always comply with procedures for following up on REAC inspections and classifying properties as repaired because HUD (1) did not provide sufficient guidance to field staff and property owners for key aspects of the follow-up process and (2) allowed its field staff to use discretion in implementing inspection follow-up guidance but did not oversee their actions to ensure that this discretion was exercised properly.

In part, the field offices' noncompliance with procedures is attributable to a lack of clear guidance to both field staff and property owners. While HUD requires and has trained field staff to classify properties as repaired in the Real Estate Management System once an owner submits a letter certifying the correction of all deficiencies, it has not issued guidance to its field staff about how to perform this database procedure. The lack of guidance is problematic because the procedure is potentially confusing to field staff. For example, the database prompts field staff to enter a "start" date when the owner has completed repairs. Once a date is entered, the database categorizes the property as repaired. However, some field staff interpreted the "start" date to mean when the repairs began. As a result, we identified instances where project managers classified properties as repaired before they intended to and before the owners had actually completed all of the repairs. In addition, while HUD's guidance to its field offices indicates that all property owners must certify that all physical deficiencies have been corrected, HUD's standard follow-up letters to property owners about their inspection results do not explicitly state this requirement. Similarly, while HUD's guidance to its field offices indicates that property owners' detailed repair plans must, among other things, include a description of and time frame for correcting each deficiency, HUD's standard follow-up letters to owners do not stipulate that the plans must include these elements. Although HUD field staff are responsible for complying with the agency's inspection follow-up procedures, we believe that the lack of clear instructions to property owners contributed to owners' submitting certifications of repairs and repair plans that did not meet HUD's requirements.

Another factor contributing to the field offices' noncompliance is the lack of headquarters' oversight of the field offices' implementation of inspection follow-up procedures. The Office of Multifamily Housing allows field staff to use some discretion, based on their knowledge of the properties and owners, in implementing the follow-up procedures. Consistent with this decision, some field staff told us they did not always adhere to the procedures when following up on properties about which they felt knowledgeable. While we can understand Multifamily Housing's decision to allow field offices some discretion in implementing the follow-

up procedures, such a decision heightens the need for headquarters' oversight of the field staff's actions. However, Multifamily Housing has not instituted a process for reviewing the field offices' compliance with the procedures. In addition, HUD in fiscal year 2000 developed a quality management review program to assess the efficiency and effectiveness of the field offices' activities. However, the review program does not assess the field offices' implementation of the inspection follow-up process, according to HUD officials who manage the program.

Most Properties Classified as Repaired Had Uncorrected Physical Deficiencies

HUD classified properties as repaired, even though the properties had uncorrected physical deficiencies. On the basis of our visits to some of these properties, we estimate that over three-fourths of the properties covered by our analysis still had physical deficiencies identified by REAC's inspections. At the properties, we found a variety of uncorrected problems, including exigent health and safety violations. HUD improperly classified properties as repaired because its field offices did not always comply with inspection follow-up procedures and because property owners and managers did not always submit accurate reports. HUD is taking some actions to strengthen its inspection follow-up process.

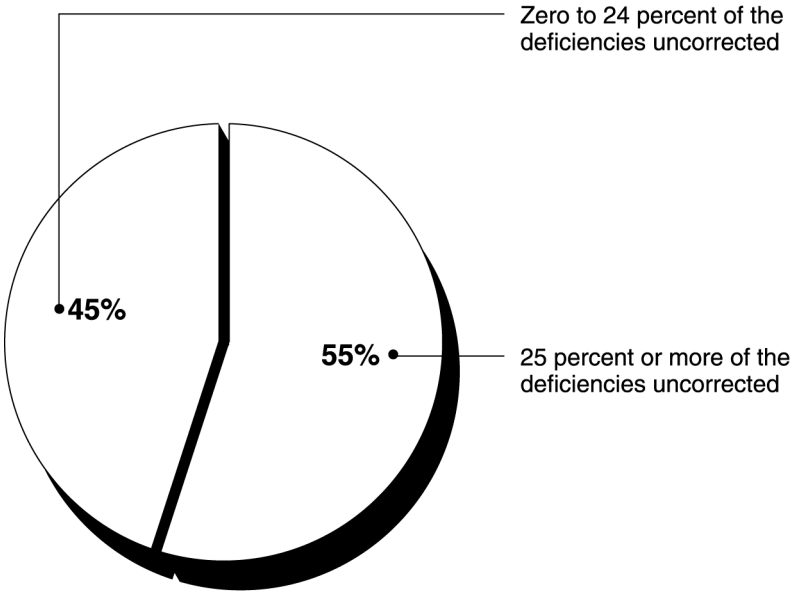
Properties Had Uncorrected Physical Deficiencies

According to HUD's guidance, HUD field staff should classify a property as repaired in the Real Estate Management System after the property owner provides a written certification that all of the deficiencies identified by REAC's inspection and the owner's physical survey have been corrected. However, our visits to 35 properties that HUD's field offices classified as repaired showed that most of the properties had uncorrected physical problems. As a result, we believe that HUD's database overstates the number of properties that were actually fully repaired.

Our inspections of the 35 properties focused on deficiencies with the properties' sites, exteriors, common areas, and systems that REAC cited in its inspection report and categorized as "major" or "severe." At each property, we determined whether the deficiencies that met these criteria had been corrected. On the basis of our visits, we estimate that 83 percent of the 499 properties covered by our analysis had one or more uncorrected deficiencies that met our criteria for review. Although some repairs had been made at all of the properties we visited, at many of the properties a

significant portion of the defects remained uncorrected.[7] Specifically, we estimate on the basis of our visits that for 55 percent of the 499 properties, 25 percent or more of the deficiencies that met our review criteria had not been corrected. (See fig. 6.)

Figure 6: Estimated Percentage of Properties for Which 25 Percent or More of the Deficiencies Were Not Corrected



Source: GAO's analysis of information from inspections of 35 properties.

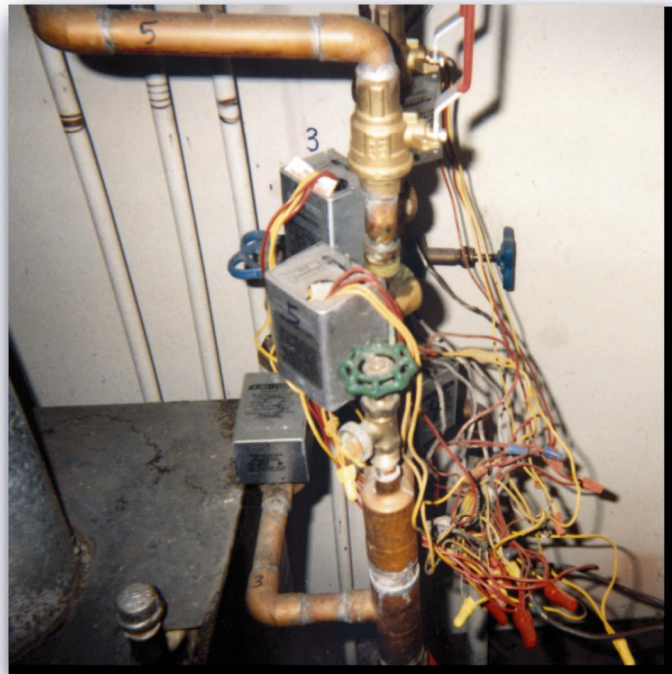
[7]Among the 35 properties we visited, the percentage of deficiencies that we reviewed that had not been corrected ranged from 0 percent (5 properties) to 88 percent (1 property). The number of defects we reviewed at each property ranged from 4 to 85. When we were unable to determine whether a defect had been repaired (e.g., because of snow cover), we did not include it in our analysis. Eighteen of the 35 properties we visited received a REAC inspection subsequent to the one we used as a basis for our visit. Although changes in REAC's inspection protocol, among other factors, make comparisons between the scores problematic, all 18 properties scored higher on the second inspection.

Uncorrected Defects Encompassed a Range of Problems, Including Exigent Health and Safety Violations

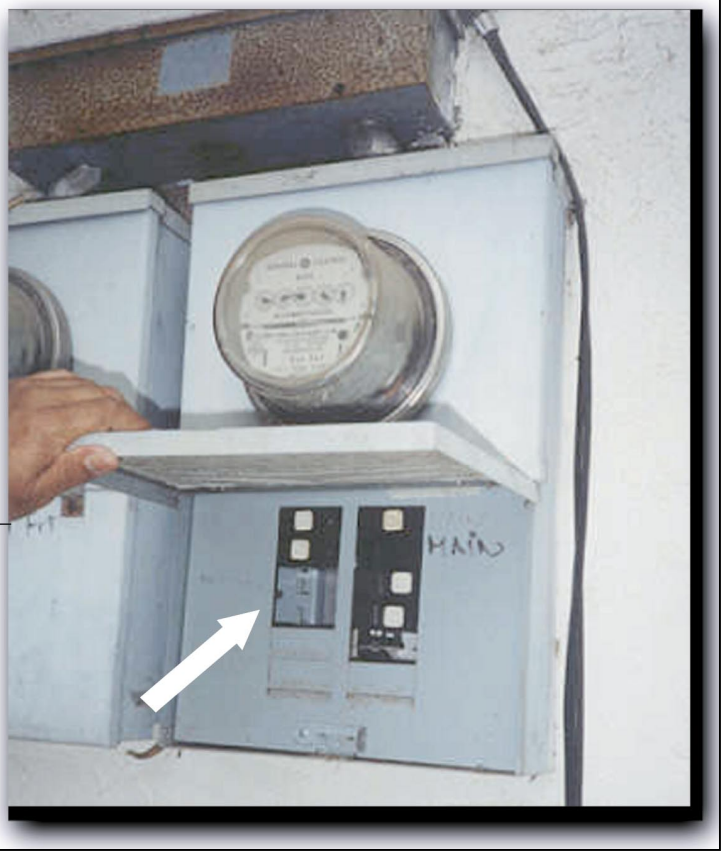
During our inspections, we observed a variety of uncorrected physical problems. For example, at some sites the driveways and walkways had deteriorated, and the fencing was damaged or missing. On the exteriors of buildings, we found defects such as holes in the walls and a cracked foundation. In addition, we noted problems in the common areas of buildings, including a damaged ceiling and a missing heating and air-conditioning unit. Finally, we found uncorrected problems with water and electrical systems, including rusted and corroded pipes and inoperable lights. The photographs in figure 7 illustrate some of the uncorrected deficiencies we found at the properties we visited.

Figure 7: Uncorrected Physical Deficiencies at Properties That HUD Classified as Repaired

Exigent Health and Safety Violations



Exposed electrical wiring



Exposed electrical circuits

Site Deficiencies

Deteriorated driveway

Missing section of fence

Building Exterior Deficiencies

Cracked foundation

Damaged wall

Building System Deficiencies

Rusted water system

Uncovered sewer cleanout pipe

Common Area Deficiencies

Missing heating and air-conditioning unit

Damaged ceiling

Sources: HUD and GAO.

Some of the defects we observed were conditions that REAC classified as exigent health and safety violations. Because these conditions are life threatening, HUD requires property owners to correct them within 72 hours of inspection. Despite this requirement, we found at five of the properties we visited that one or more of these violations had not been

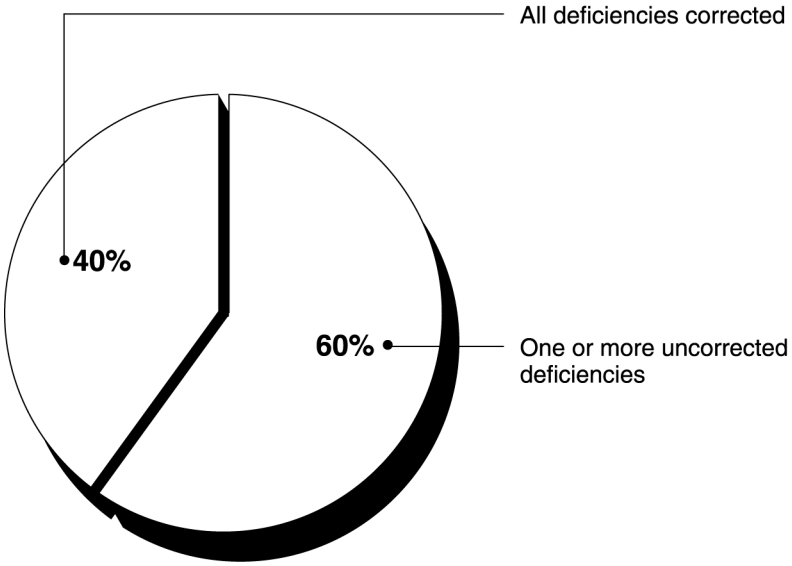
corrected. The violations included exposed electrical wiring and circuits and an expired fire extinguisher. For example, at one California property, an electrical panel on the outside of the building had exposed circuits. According to the REAC official who accompanied us to the property, this condition posed an electrocution hazard.

Properties Were Misclassified Because of Limited Compliance With Procedures and Inaccurate Reporting on the Status of Repairs

Many of the properties that HUD's field offices classified as repaired had uncorrected physical deficiencies, in part because field office staff did not follow guidance for ensuring that all of the defects were corrected. For example, on the basis of our document review and property inspections, we estimate that properties for which HUD did not obtain a certification of repairs and/or a detailed repair plan were more likely to have at least 25 percent of their deficiencies uncorrected than properties for which HUD obtained both of these documents.

Another factor that contributed to HUD's misclassification of properties was inaccurate reporting on the status of repair work. During our inspections of the 35 properties, we found uncorrected deficiencies that the property owners and managers had reported as repaired in their certification letters and progress reports to HUD's field offices. For example, at one California property, we found that some of the problems REAC had identified were still present, including holes in the exterior walls and cracked walkways, even though the property management firm had sent a letter to HUD stating it had "completed all the necessary repairs listed in the [REAC] inspection summary report." On the basis of our inspections, we estimate that 60 percent of the 499 properties covered by our analysis had one or more deficiencies incorrectly reported to HUD as repaired. (See fig. 8.) While we recognize that some of the problems we found could have recurred after the property owners completed the repairs, it is unlikely that this was the case in most instances, given the severity of the deficiencies we observed.

Figure 8: Estimated Percentage of Properties at Which One or More Defects Were Incorrectly Reported as Repaired



Source: GAO's analysis of documents from HUD's field offices.

The results of an evaluation contracted by HUD's Office of Multifamily Housing were consistent with our findings. In September 2000, the contractor inspected 13 Illinois properties whose REAC inspection scores fell within the 31 to 59 scoring category and that HUD classified as repaired. At 9 of the 13 properties, the contractor found that one or more of the deficiencies REAC had categorized as "major" and "severe" remained uncorrected. Despite these findings, HUD has not conducted further evaluations of this type for properties scoring 31 to 59 on their REAC inspections. As a result, HUD may be unaware of other properties with uncorrected defects. Furthermore, at two of the properties, the contractor noted that the owners had certified to completing repairs that had not been made. HUD, however, did not pursue enforcement actions against the property owners. Moreover, Multifamily Housing has not developed policies and procedures for (1) informing property owners and managers about the penalties they may face for providing false certifications to HUD or (2) pursuing administrative and legal sanctions against owners who provide false certifications. In our view, such policies and procedures would reduce the likelihood of owners submitting false certifications of repairs to HUD.

Our Office of Special Investigations investigated 10 cases from the contractor's evaluations and from the sample of properties we visited. These cases indicated possible fraud or false statements by property owners or managers about the completion of repairs. In three cases, we obtained credible evidence that property managers had made false statements to HUD when reporting that they had corrected physical deficiencies cited on REAC's inspection report.[8] In these instances, HUD accepted the false statements as a basis to classify the properties as repaired. For example, in one case the property manager wrote a letter stating that "all items on the formal inspection report have been resolved quickly." When asked about the unrepaired major deficiencies in the parking lot, building foundation, and sidewalks identified in REAC's inspection report, the property manager told us that he "didn't misrepresent much." In addition, although REAC cited deteriorated stairways as a "severe" deficiency, both the on-site leasing manager and the maintenance supervisor stated that this problem had not been repaired. We referred this matter and the other two cases to the appropriate law enforcement agencies for further action. Appendix I provides additional information on the Office of Special Investigations' work.

HUD Plans to Strengthen Its Inspection Follow-Up Process

HUD is taking some actions to strengthen its process for following up on REAC's inspections. In March and April 2001, we met with HUD to discuss weaknesses we identified in HUD's follow-up actions and possible actions to correct them. Multifamily Housing officials told us they agreed that improvements were needed in HUD's procedures for ensuring that deficiencies identified during REAC's inspections of multifamily properties are corrected. They told us that they were drafting revised guidance for the field offices and would address the weaknesses we had identified as part of this effort. The officials said that the guidance, among other things,

[8]Although the property owners or managers for the remaining seven properties submitted inaccurate certifications to HUD, our investigation found evidence that this problem occurred because of miscommunication with HUD officials or a misunderstanding of HUD's requirements rather than an intent to mislead the Department. For example, one property manager fully implemented a repair plan that was approved by a HUD field official but did not address all of the physical deficiencies identified by REAC's inspection. The HUD field official subsequently instructed the property manager to submit a certification specifically stating that all of the deficiencies identified by REAC had been corrected. In keeping with these instructions, the property manager used this language in her certification to HUD and, as a result, certified to correcting deficiencies that were not repaired.

will set forth required language for owners' certifications of repairs and will include procedures for verifying owners' completion of repairs through site visits. In addition, the officials said that under the revised guidance, properties whose physical inspection scores either go down or do not improve between inspections may be subject to on-site reviews by HUD field staff or may be referred to HUD's Departmental Enforcement Center for possible enforcement action. Also, the Enforcement Center—which follows up on properties in the worst physical condition—has proposed new procedures for verifying owners' completion of repairs and for monitoring the progress of repairs at properties referred to the center. Under these proposed procedures, the center will inspect either all or a sample of the properties whose owners have certified to completing repairs to determine whether all of the deficiencies identified by REAC have been corrected. In addition, center staff would be responsible for monitoring the progress of repair work at some properties.

HUD Has Had Difficulty Ensuring That Timeliness Goals and Requirements for Addressing Physical Deficiencies Are Achieved

HUD has had difficulty ensuring that agency staff and property owners are meeting timeliness goals and requirements for addressing physical deficiencies. Specifically, HUD's multifamily field offices did not ensure property owners' prompt correction of exigent health and safety violations or timely submission of repair plans. Similarly, HUD's Departmental Enforcement Center—which handles properties with the lowest physical inspection scores—infrequently met its timeliness goals for completing evaluation reports on the properties referred to the center for follow-up action. The center has taken actions to address this problem and has reduced its backlog of old cases.

HUD Did Not Ensure Timely Actions by Property Owners

According to HUD's guidance, any exigent health and safety violations cited during a REAC inspection must be corrected by the property owner immediately, if possible, but not later than 72 hours after the inspection. Once the owner fixes the problems, he or she is required to submit a letter to the appropriate HUD field office certifying that the violations have been corrected. Until January 2001, HUD did not require an owner to submit a certification within a specified time frame. Consequently, we found that for the 416 properties covered by our analysis with exigent health and safety violations and for which HUD received a certification letter, HUD's field offices often lacked assurance that property owners were correcting the violations within the required time frame. Specifically, we estimate that for 82 percent of these properties, the owners' certification letters were not submitted to HUD within 72 hours of the inspection. Of the

properties in our sample for which a certification letter was submitted to HUD more than 72 hours after the inspection, the elapsed time ranged from 4 to 371 days. Under regulations that became effective in January 2001, HUD now requires property owners to file their certifications within 3 business days of the inspection date. In April 2001, Multifamily Housing officials told us that they were drafting revised inspection follow-up guidance for HUD's field offices that would reflect this requirement.

HUD's guidance also states that the owners of substandard properties must submit proposed repair plans to the appropriate HUD field office within 30 days of receiving the inspection results. However, we estimate that for 41 percent of the 484 properties covered by our analysis for which the owner submitted a proposed repair plan, the submission date was more than 30 days after the owner received the inspection results. Among the properties in our sample for which a proposed plan was submitted to HUD more than 30 days after the owner received the inspection results, the elapsed time ranged from 32 to 222 days. Although HUD's guidance describes the 30-day time frame as a requirement, HUD officials told us that they treated it as goal because they expected that some owners would require additional time.

HUD did not establish timeliness goals for property owners' completion of repairs because the time required to repair a property depends on the extent and nature of the deficiencies and the resources available to address them. Also, as we discuss in this report, many of the properties that HUD classified as repaired still had uncorrected problems. For these reasons, we did not attempt to measure the time that elapsed between REAC's inspection of a property and the owner's actual completion of repairs.

Enforcement Center Frequently Did Not Meet Its Timeliness Goals for Evaluating Properties but Has Made Improvements

During the past 2 fiscal years, the Enforcement Center generally did not meet its timeliness goals for completing evaluations of properties referred to the center and documenting the results in a written evaluation report. The purpose of the evaluation report is to outline the center's basis for its proposed follow-up actions, which may include requiring a property owner to implement a repair plan or taking enforcement measures against the property owner. Timeliness is particularly important for properties with serious physical deficiencies because the tenants may be living in dangerous or unhealthy conditions. However, in fiscal year 1999, the center did not meet its goal for completing evaluation reports within 90 days for 96 percent of the properties that REAC referred to the center. Between fiscal year 1999 and fiscal year 2000, the center substantially

improved its average time for completing these reports, but it did not meet its timeliness goal for 93 percent of the referrals it received in fiscal year 2000. Specifically, the average number of days needed to complete the evaluations declined from 304 days in fiscal year 1999 to 210 days in fiscal year 2000. Recognizing that the 90-day goal was too ambitious, the center revised its goal for fiscal year 2001 to 180 days.

The major reasons for delays included insufficient and inexperienced staff, the time required to recruit and train staff, and a lengthy process for reviewing proposed enforcement actions. According to center officials, during its start-up phase, the center's satellite offices were either severely understaffed and/or had a large number of inexperienced staff. Many of these employees were selected either from a pool of unplaced HUD employees resulting from a reorganization of HUD staff that occurred as part of HUD's 2020 Management Reform Plan or from non-multifamily program and enforcement areas. Only a few of the staff were from multifamily housing. Because the applicants lacked experience, the center had to spend considerable time and resources addressing the training needs of those who were hired. To ensure quality control and consistency of enforcement actions among the satellite offices, the center's headquarters required all action plans—a critical part of the evaluation report—to be approved by a headquarters attorney. Such reviews could take more than a month to complete.

The center has taken actions to address most of these problems, which should improve its timeliness in processing cases. In June 2000, the center hired 43 additional staff, mostly in the satellite offices. According to a senior center official, the delay in hiring additional staff occurred because of a lack of funding. Even with these new hires, well over 50 percent of the center's staff had little or no multifamily housing experience. Although the center has assigned mentors and conducted extensive training, a significant amount of training is still needed, particularly in servicing and enforcement options for troubled multifamily properties. Lastly, in December 2000, the satellite offices were delegated authority to approve all final evaluation reports and action plans for physical inspection referrals.

Enforcement Center Has Reduced Its Backlog of Old Cases

The Enforcement Center receives most of its referrals involving physically troubled properties from REAC. As of September 15, 2000, 90 of REAC's referrals had been at the center for over a year without being closed. The center made a specific effort to close these cases, and, as of November 30, 2000, the number fell to 70, a 22-percent decrease in a little more than 2

months. In addition to referrals from REAC, the center receives some referrals from HUD's multifamily housing field offices.[9] Over the same 2-month period, the number of referrals from HUD's multifamily housing field offices that had been at the center for over a year declined by 55 percent. Since these cases represented most of the oldest cases in each satellite office's portfolio, this decrease was a particularly significant accomplishment. We reviewed several of these cases during our visits to the satellite offices and found that they were often very complex and involved some of the most physically distressed properties. Until September 2000, the center was not routinely monitoring the number of and elapsed time for open cases at each of its satellite offices. The center began monitoring these cases on a monthly basis after we raised concerns about this issue with senior center officials.

Conclusions

Although most of the properties in HUD's multifamily housing portfolio for which inspection results were issued in fiscal year 2000 are in satisfactory condition, others have serious physical deficiencies. HUD's establishment of systems and procedures for inspecting multifamily properties and for overseeing the owners' correction of physical deficiencies are positive steps toward addressing the portion of the housing stock that is in disrepair. However, poor compliance by HUD's field offices with inspection follow-up procedures and evidence of uncorrected deficiencies at properties classified as repaired point to the need for improvements in the Department's process for correcting physical problems at multifamily properties in substandard condition.

HUD could significantly improve its compliance with procedures for following up on REAC's inspections. HUD did not provide field staff and property owners with clear guidance for performing certain follow-up procedures. As a result, field staff sometimes classified properties as repaired before receiving owners' certifications of repairs, and property owners submitted certification letters and repair plans that did not meet HUD's requirements. However, even when the guidance was clear, field staff often did not perform key follow-up actions. Because HUD has not used oversight tools, such as its quality management review program, to assess the field offices' implementation of the procedures, it was not in a

[9]These cases generally involve property owners who did not cooperate with HUD's field offices in correcting physical deficiencies.

position either to detect extensive noncompliance with its guidance or to take corrective measures. As a result of these oversight and procedural weaknesses, HUD lacks assurance that property owners are correcting all physical deficiencies.

HUD also does not have accurate information on the number of properties for which repairs have been completed. Because HUD field staff did not comply with inspection follow-up procedures and some property owners did not accurately report the status of their repair work, most of the properties that HUD classified as repaired in its database had uncorrected physical problems. Furthermore, although a study contracted by HUD found evidence of these problems, the Department has not implemented a process for verifying the owners' correction of physical deficiencies. Moreover, HUD's multifamily housing field offices do not have policies and procedures for taking corrective actions against owners who falsely certify to completing repairs. As a result of these problems, tenants residing in properties that HUD regards as repaired may be living in unsatisfactory conditions.

Recommendations for Executive Action

To improve the effectiveness of the Department's process for ensuring that owners of properties in substandard condition correct all physical deficiencies and to ensure the accuracy of HUD's information on the status of repair work at these properties, we recommend that the Secretary of HUD

- improve compliance with procedures for following up on REAC's inspections by informing property owners that (1) certifications of repairs must explicitly state that all of the deficiencies identified by REAC's inspection and the owner's physical survey have been corrected and (2) repair plans should address all of the physical deficiencies identified by REAC's inspection and the owner's physical survey;
- strengthen oversight of the inspection follow-up process by using the Department's quality management review process to assess the extent to which the multifamily housing field offices are (1) complying with guidance pertaining to property owners' certifications of repairs, detailed repair plans, physical survey results, and progress reports and (2) properly classifying properties as repaired in the Real Estate Management System;
- improve the accuracy of the Department's data on the status of repair work at multifamily properties by (1) removing the "repaired" classification in the Real Estate Management System from properties for which the field offices did not receive a certification letter stating that all

of the physical deficiencies identified by REAC's inspection and the owner's physical survey had been corrected and (2) issuing guidance to the field offices on how to apply the "repaired" classification to a property using data input screens in HUD's Real Estate Management System;

- ensure property owners' compliance with HUD's property standards by (1) developing and implementing a system of on-site reviews to verify the completion of repairs at samples of properties in substandard physical condition that HUD's field offices classify as repaired, (2) informing property owners and managers about the penalties they may face for providing false certifications of repairs to HUD, and (3) developing policies and procedures for the multifamily field offices to follow in pursuing administrative and legal sanctions against owners who provide false certifications; and finally,
- issue guidance to the multifamily housing field offices that incorporates our recommended improvements in HUD's inspection follow-up process, including specific requirements for owners' certifications of repairs and repair plans, on-site verification of repair work, and procedures for pursuing sanctions against owners who submit false certifications.

Agency Comments and Our Response

We provided HUD a copy of this report for its review and comment. HUD indicated that it generally agreed with the report's recommendations and that it had begun taking actions to address them.

In response to our recommendation to improve compliance with inspection follow-up procedures by better informing property owners about HUD's requirements for certifications of repairs and repair plans, HUD said that it had developed specific language for certifications of repairs and would issue letters to owners that clearly explained HUD's requirements for these certifications. However, HUD did not indicate that it would issue instructions to owners about the requirements for repair plans. We believe that by issuing such instructions, HUD would increase the likelihood of owners submitting repair plans that address all of the physical deficiencies identified by REAC and the owner's physical survey.

In response to our recommendation to strengthen oversight of the inspection follow-up process by using the Department's quality management review process, HUD said that it had revised its procedures for quality management reviews to include a review of the inspection files maintained by the field offices. HUD also stated that it had devised a checklist for field office supervisors to use in reviewing their staff's compliance with inspection follow-up guidance.

HUD did not agree with our recommendation to improve the accuracy of data on the status of repair work by removing the "repaired" classification from properties for which the field offices did not receive a complete certification of repairs. HUD said this action would be "counterproductive" and that subsequent inspections would accurately show the condition of the properties. We disagree with HUD's assertion that correcting inaccuracies in its database would be counterproductive and continue to believe that properly recording the repair status of properties is an important aspect of HUD's inspection follow-up responsibilities. We also believe that correcting the data could be done as part of HUD's follow-up on future REAC inspections. HUD agreed with our recommendation to issue guidance to field staff clarifying how to apply the "repaired" classification to a property. HUD said it would issue guidance which made clear that a property should not be classified as repaired in HUD's Real Estate Management System until HUD receives a certification of repairs from the owner.

In response to our recommendations for ensuring property owners' compliance with HUD's property standards, HUD said it would perform on-site reviews at some properties to verify the owners' certifications of repairs, inform owners about the penalties for submitting false certifications of repairs, and issue guidance to field staff outlining the sanctions that should be considered against property owners who make false certifications.

In response to our recommendation that the Department issue guidance to the field offices that incorporates our recommended improvements in HUD's inspection follow-up process, HUD said that it would immediately issue guidance that reflected our recommendations. HUD also indicated that it would train field staff on the new guidance. The full text of HUD's letter is presented in appendix II.

We conducted this review from June 2000 through May 2001. We performed our audit work in accordance with generally accepted government auditing standards and our investigative work in accordance with standards established by the President's Council on Integrity and Efficiency.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to the Secretary of Housing and Urban Development. We will make copies available to others on request.

If you or your staff have any questions about this report, please call me at (202) 512-2834. Key contributors to this report are listed in appendix V.

Stanley J. Czerwinski
Director, Physical Infrastructure Team

Appendix I: Office of Special Investigations' Findings

From the sample of properties we visited and the properties a contractor reviewed for the Department of Housing and Urban Development (HUD), we identified 10 properties, located in three different states, that we believed required additional investigation. Therefore, we referred these matters to our Office of Special Investigations, the criminal investigative unit within GAO. This office developed credible evidence that, for three of the properties, false statements[1] were made to HUD about the condition of the properties after the Department cited the properties for being in substandard physical condition. The Office of Special Investigations has referred these cases to the United States Attorney's Office in the appropriate jurisdictions. The following are two examples of the Office of Special Investigations' findings.

Property 1

In August 1999, HUD's Real Estate Assessment Center (REAC) inspected the property and found 189 deficiencies, 13 of which were categorized as "severe," 32 as "major," and 144 as "minor." Three of the "severe" deficiencies were also determined to be exigent health and safety violations. The property received an overall physical inspection score of 49. Within 3 weeks of the inspection, the property manager notified HUD in writing that the three exigent health and safety violations had been corrected. In December 1999, HUD notified the property owner of the inspection score and requested that the owner conduct a physical survey of the property and submit a repair plan within 30 days of the notification. In February 2000, HUD sent another letter to the owner, informing him that HUD had not yet received the required survey or repair plan and notifying him of the regulatory requirements for these documents. Two days later, the owner submitted a letter to HUD by facsimile stating "all items on the formal [REAC] inspection report have been resolved quickly."

In November 2000, the HUD project manager (i.e., the HUD field office official responsible for the Department's oversight of the property) conducted a site visit to the property and found that some of the previously identified deficiencies had not been corrected. The HUD project manager, who rated the property's physical condition "below average," reported that he had closed out the earlier inspection on the basis of the owner's February 2000 letter stating that all items identified by

[1]Under 18 U.S.C. § 1001, it is a felony to knowingly or willfully make any materially false, fictitious, or fraudulent representation, or make or use any false writing or document in any matter, within the jurisdiction of any department or agency of the United States.

REAC had been "resolved quickly." In December 2000, HUD notified the property owner in writing of the results of the November site visit and informed the owner of the "below average" rating. In January 2001, the property manager wrote a letter to HUD citing maintenance practices at the property. In the letter, the property manager wrote that regularly scheduled maintenance called for the exterior stairways to be "power washed, repaired and repainted" annually "to prevent trip hazards."

In February 2001, we inspected the property and interviewed its on-site leasing manager and on-site maintenance supervisor. We also interviewed the property manager—the author of the letters to HUD—who admitted to us that the required corrections had not been made to the parking lot, building foundation, and sidewalks, all of which REAC cited as "major" deficiencies. When asked why he had certified that these deficiencies had been corrected, he stated, "I didn't misrepresent much." In addition, both the leasing manager and maintenance supervisor told us that the property's damaged stairways—which REAC cited as "severe" deficiencies—had not been repaired in over 2 years.

Property 2

In March 2000, REAC inspected the property and found 117 deficiencies, 44 of which were categorized as "severe," 13 as "major," and 60 as "minor." The property received an overall physical inspection score of 46. Approximately 3 weeks later, HUD notified the property owner in writing of the inspection results and informed the property owner of the requirement to conduct a complete physical survey of the property and to submit a written repair plan. Two weeks later, the property's manager orally informed HUD that the exigent health and safety violations had been corrected immediately following the inspection. Although the manager did not submit a written certification of these corrections, the HUD project manager received confirmation from the manager by telephone. The manager assured the HUD project manager that the violations had been corrected, and the project manager made a notation of this in HUD's files.

In June 2000, the property manager submitted to HUD by facsimile a repair plan dated May 2000. The repair plan stated that deficiencies in specific units that had been identified by REAC's March 2000 inspection had been corrected. Specifically, the repair plan stated that the windows and window locks in certain units, which REAC had found to be inoperable, had been repaired, as had a broken window pane. REAC had classified these conditions as "severe." The property owner never submitted the required written certification to HUD that all physical deficiencies had

been corrected. In November 2000, the HUD project manager again contacted the owner by telephone, who indicated that "all work is complete."

In March 2001, we inspected the property and interviewed the property manager. During our inspection, we found that none of the specifically cited inoperable windows or the broken window pane had been repaired. In addition, we identified several other uncorrected deficiencies that the manager said he had corrected. The manager told us that he had not "gotten around to [correcting] them."

Appendix II: Comments From the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

May 21, 2001

Mr. Stanley J. Czerwinski
Director, Physical Infrastructure Team
United states General Accounting Office
Washington, D.C. 20548

Dear Mr. Czerwinski:

The Department appreciates the opportunity to comment on GAO's draft report entitled HUD Multifamily Housing: Improved Follow-up Needed to Ensure That Physical Problems Are Corrected (GAO-01-668).

The Department has improved the oversight of its Multifamily portfolio as a result of recent changes. As part of these changes, HUD established the Real Estate Assessment Center (REAC) to more scientifically assist Multifamily Housing to manage approximately 30 billion dollars of inventory. Furthermore, the Departmental Enforcement Center (DEC) was established to focus on those properties that would not, or could not, comply with their business agreements with HUD, or where the economics rendered a property unable to compete because of obsolescence or market change.

Although it was envisioned that the Department would have some slippage in advancing this initiative, HUD is now in a better position than ever before to manage its large, complex inventory of rental housing. The country is in a period of relative economic stability where HUDs inventory is more desirable to the investor; we are receiving more requests to pay off our loans, to refinance our loans, HUD-held mortgages are more attractive in mortgage sales and even failed properties, from our Property Disposition inventory, are attractive to buyers.

With the establishment of REAC and the DEC, and with the improvements taking place in HUD's automated systems, as well as with the training of field office staff, we are now better positioned to move forward and take full advantage of the platform of programs and systems put in place over the last several years. The Department is now able to efficiently measure risk, take action where there is risk, and do so in a more business-like manner.

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GAO Recommendations and HUD's Responses:

Recommendation 1:

- Improve compliance with procedures for following up on REAC's inspections by informing property owners that (1) certifications of repairs must explicitly state that all of the deficiencies identified by REAC's inspection and the owner's physical survey have been corrected, and (2) repair plans should address all of the physical deficiencies identified by REAC's inspection and the owner's physical survey.

HUD's Response:

Guidance for the field was established and promulgated during the infancy of this program relative to managing physical inspections. But headquarters, the field and the industry found this new program to be both different, novel and not so simple to manage. In the past, if we did a physical inspection, field staff would conduct the inspection, negotiate the plan, inspect progress and record the results at the end. Unfortunately, we were only able to inspect a limited number of properties in a year. With the REAC program, we inspected 100% of the properties when establishing the baseline of inspections. We went to the owner certification approach instead of a field review by staff. There were just too many inspections, too few staff, too little time, and no travel funds. The draft report points out some problems that arose as a result of the voluntary owner certification. Our new guidance will correct this.

Improved guidance is about to be promulgated. Training in this guidance will be held in June, with more follow-up training this fiscal year. Some field reviews will be conducted to do file reviews. Monthly calls to those offices lagging will be instituted.

Specifically, the guidance has clear instructions on how to manage the certification procedures. No corrective action plan or exigent finding will be closed out until the certification is in hand. New certification language has been developed in concert with the DEC, and false certifications will be referred to the DEC or some other appropriate action will be taken. Using REAC inspectors and resources at the DEC, spot checks will be conducted at projects where the owner has certified the work has been completed.

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Recommendation 2:

- Strengthen oversight of the inspection follow-up process by using the Department's quality management review process to assess the extent to which the multifamily housing field offices are (1) complying with guidance pertaining to property owners' certifications of repairs, detailed repair plans, physical survey results, and progress reports and (2) properly classifying properties as repaired in the Real Estate Management System.

HUD's Response:

Housing has included in the Quality Management Review (QMR) procedures a review of physical inspection files. In addition, Housing developed a checklist for Multifamily Hub/Program Centers' Project Managers and team leaders. They will routinely use this format to check project managers' compliance with our guidance. As stated above, Multifamily will also use the resources of REAC and the DEC to conduct oversight of the process. REAC Quality Assurance staff will follow up on certifications of exigent deficiencies. This can be implemented immediately. Working with the DEC, Housing and REAC will implement procedures where REAC contractors will be available to conduct some follow-up on certifications of completion of repairs. Regular calls will be made from Headquarters on lagging offices. When doing QMR and other reviews, headquarters will ascertain if the program is being managed in accordance with outstanding instructions.

There are other ways we will be alerted to non-compliance. The new guidance and Rule has a tenant component, whereby the interested tenant will be able to visit the management office to view the records. We fully expect tenants to advise us if there is any problem between the repair plan, the certification and what is actual. We have always contended, and fully expect, the subsequent inspection would reveal any false certification or lack of repair. All properties having a score of 79 or below will receive an inspection every year. Our new guidance advises the field on what to do when a second cycle inspection only goes up a few points, stays essentially the same, or goes down.

Even if the owner is well intentioned, but is unable to perform, we will be able to detect it and take appropriate action to protect the interest of both the tenant and the Department. In addition, the DEC has greatly strengthened its time frame for handling cases in its inventory. The DEC

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has a new 180 day period from acceptance to closure of the case and is concentrating on cleaning out the pipeline of cases in its inventory.

Recommendation 3:

- Improve the accuracy of the Department's data on the status of repair work at multifamily properties by (1) removing the "repaired" classification in the Real Estate Management System from properties for which the field offices did not receive a certification letter stating that all of the physical deficiencies identified by REAC's inspection and the owner's physical survey had been corrected, and (2) issuing guidance to the field offices on how to apply the "repaired" classification to a property using data input screens in HUD's Real Estate Management System.

HUD's Response:

Housing believes it would be counter-productive to remove the "repaired" status from REMS where there is a question as to whether the designation was proper. We believe the new cycle of inspections will be sufficient to accurately reflect the condition of the property. As stated earlier, the new guidance is clear that a project will not be "repaired" in REMS until the certification from the owner is in hand. Nor will an exigent deficiency be closed till a certification is actually received. Guidance will be given to supervisors and team leaders to ensure the Project Manager is complying. Action will be taken in situations that involve false certifications or non-compliance. The new guidance is clear in this regard.

Recommendation 4:

- Ensure property owners' compliance with HUD's property standards by (1) developing and implementing a system of on-site reviews to verify the completion of repairs at samples of properties in substandard physical condition that HUD's field offices classify as repaired, (2) informing property owners and managers about the penalties they may face for providing false certifications of repairs to HUD, and (3) developing policies and procedures for the multifamily field offices to follow in pursuing administrative and legal sanctions against owners who provide false certifications.

HUD's Response:

In a number of places above, we have mentioned how on-site verifications will be conducted. All letters to the Owner from Housing, REAC and the DEC will have language which will

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clearly explain the certification requirements, and the penalties for false certification or non-compliance. Information on 2530, previous participation language, is also being added to the letters. Guidance has been revamped for the field outlining the options the Project Manager can consider. Properties which do not have significant improvement, or which have slipped in score, will be dealt with more stringently. More second cycle non-improved projects will be "elective referrals" to the DEC even if the score is over 30. Properties that were in the DEC, placed under plan and subsequently released to Housing, or are still with the DEC, but got a new score under 60, will be referred automatically to the DEC by REAC. Finally, when a REAC inspector cites a property for exigent deficiencies, they will leave a blank certification form with the owner with instructions to send the certification to the Project Manager within three business days.

Recommendation 5:

- Issue guidance to the multifamily housing field offices which incorporates our recommended improvements in HUD's inspection follow-up process, including specific requirements for owners' certifications of repairs and repair plans, on-site verification of repair work, and procedures for pursuing sanctions against owners who submit false certifications.

HUD's Response:

New guidance based on our experience since 1998, GAO's recommendations, program changes, system enhancements and lessons learned will be issued immediately. Training in this guidance will immediately follow.

In conclusion, let me reaffirm our commitment to building on our experience and swiftly placing the final touches on a strong controls structure for follow-up to REAC physical inspections of Multifamily projects.

Sincerely,

Sean G. Cassidy
General Deputy Assistant Secretary
for Housing-Deputy Federal Housing
Commissioner

Appendix III: Objectives, Scope, and Methodology

Our objectives were to answer the following questions: (1) Are HUD's field offices complying with the procedures HUD established to ensure that the physical deficiencies at multifamily properties in substandard condition are corrected? (2) Have all physical deficiencies been corrected at multifamily properties that HUD classified as repaired? (3) Are HUD staff and property owners meeting the Department's timeliness goals and requirements for addressing physical deficiencies at multifamily properties? Our work focused on the 528 metropolitan-area properties in substandard condition for which HUD issued inspection reports and that its field offices classified as repaired in fiscal year 2000. We estimate that 499 of the 528 properties in this group required follow-up action by HUD. In conducting our work, we reviewed documentation pertaining to HUD's follow-up actions on REAC's inspections for a stratified random sample of 95 of these properties. In addition, we visited 35 of the 95 properties in our sample to determine whether the owners had corrected the deficiencies identified by REAC's inspections. On the basis of our analyses of the sampled properties, we estimated the percentage of the 499 properties that did not meet certain HUD follow-up requirements. Appendix IV provides information on our sampling methodology and the precision of our estimates.

To determine whether HUD's field offices complied with the Department's procedures to ensure the correction of physical deficiencies, we reviewed HUD's guidance to its multifamily housing field offices and instructions to property owners on follow-up actions to REAC's physical inspections. We also interviewed officials from HUD's Office of Multifamily Housing, Real Estate Assessment Center, and selected multifamily housing field offices. For each of the 95 properties in our sample, we requested documents from the cognizant HUD field office staff pertaining to REAC's physical inspection and the actions taken by HUD and the property owner to ensure the completion of necessary repair work. We reviewed and analyzed this information to determine how frequently HUD field staff obtained required documents from the property owners and managers, including (1) certification letters stating that exigent health and safety violations and all other physical deficiencies had been corrected, (2) detailed repair plans, (3) the results of the owners' physical surveys, and (4) reports on the progress of repairs.

To determine whether physical deficiencies had been corrected at properties that HUD classified as repaired, we inspected 35 of the 95 properties in our sample during December 2000 and February 2001. For each of these properties, we used REAC's inspection reports to identify the deficiencies with the property's site, building exteriors, building

systems, and common areas that REAC had categorized as "major" or "severe." For each of the deficiencies, we determined from HUD field office documentation whether the property owner reported that the deficiency had been repaired. We conducted visual inspections of the properties to determine whether the deficiencies that met our criteria for review still existed. REAC staff responsible for monitoring the quality of physical inspections accompanied us on these inspections to provide technical assistance. We also reviewed the results of similar inspections conducted by a HUD contractor for 13 Illinois properties. Lastly, we referred to our Office of Special Investigations 10 properties from our sample and the contractor's inspections where the results indicated possible fraud or false statements by property owners or managers about the completion of repairs.

To determine whether HUD was meeting its timeliness goals and requirements for addressing physical deficiencies at multifamily properties, we reviewed the activities of both HUD's multifamily housing field offices and its Departmental Enforcement Center. We reviewed their guidance and procedures, which set forth time frames for specific follow-up actions. For the multifamily housing field offices, we reviewed and analyzed owners' certifications of exigent health and safety violations and proposed repair plans for the properties in our sample. Specifically, we determined whether (1) owners' certifications that exigent health and safety violations had been corrected were submitted to HUD within 72 hours of the inspection date and (2) the owners submitted proposed repair plans within 30 days of receiving the results of their REAC inspection. In making these determinations, we used the date on the owner's certification and repair plan as the date they were submitted to HUD. We used the date on HUD's letter notifying an owner of the results of the REAC inspection as the date the owner received the inspection results. For the Enforcement Center, we analyzed information maintained by the center on the status of cases referred to the center's five satellite offices during fiscal years 1999 and 2000. Specifically, we determined the extent to which the center met its timeliness goals for completing evaluation reports on the referred properties. In addition, we determined the extent to which the center made progress in completing action on cases that, as of September 15, 2000, had remained unresolved for over a year. Finally, we spoke with officials from the center's headquarters and satellite offices about their efforts to process cases more expeditiously.

We tested the data we obtained from HUD for reasonableness and completeness and found them to be reliable for the purpose of our analyses. In addition, we reviewed existing information about the quality

and controls supporting the data systems and discussed the data we analyzed with agency officials to ensure that we interpreted them correctly.

We conducted this review from June 2000 through May 2001. We performed our audit work in accordance with generally accepted government auditing standards and our investigative work in accordance with standards established by the President's Council on Integrity and Efficiency.

Appendix IV: GAO's Sampling Methodology

This appendix describes the (1) methodology we used to select the samples of properties we reviewed and (2) precision of the estimates we made from these samples.

To select properties for review, we obtained a data extract from HUD's Real Estate Management System containing information, as of September 30, 2000, on REAC's physical inspections of properties in HUD's multifamily housing portfolio and the follow-up actions by HUD's multifamily housing field offices on these properties. This information included the date of the inspection, the inspection score, and the status of repair work at each property. We tested the data for reasonableness and completeness and found them to be reliable for the purpose of our analyses.

Our data extract contained the results of approximately 27,000 inspections of multifamily properties that REAC performed from the start of its inspection process in 1998 through September 30, 2000. From this population, we eliminated about 1,800 properties that had received more than one inspection because we could not readily determine which follow-up actions were associated with which inspection. From the remaining properties, we then identified the 2,003 properties for which REAC issued the inspection results during fiscal year 2000 and that HUD's field offices classified as repaired that year. We focused on this time period because HUD's current inspection follow-up procedures were implemented close to the start of fiscal year 2000. From the population of 2,003 properties, we eliminated 331 properties because they were either not located in or near metropolitan areas, were not located in the contiguous United States, or did not have a valid geographic code in HUD's database. We eliminated these properties because of the additional time and cost that visiting properties in these locations would have required. For the remaining 1,672 properties, we identified the 550 properties that scored below 60 on their REAC inspections (i.e., were in substandard condition) because HUD focuses its follow-up actions on properties in this scoring range. We eliminated 22 of the 550 properties because HUD's data indicated that they had a single dwelling unit and, therefore, were not technically multifamily properties. We divided the remaining 528 properties into three groups according to their REAC physical inspection score: those scoring 30 and below, those scoring 31 to 45, and those scoring 46 to 59. We sampled all five of the properties that scored 30 and below and drew simple random samples from each of the other two groups.

In selecting properties to review from these samples, we eliminated those that did not require follow-up action by HUD because (1) their REAC

inspection scores were subsequently increased to 60 or above after the property owner appealed the original score; (2) their mortgages were foreclosed on or paid off by the owner prior to the completion of repairs; or (3) they were insured under a risk-sharing program, which assigns the responsibility for inspection follow-up actions to a local housing finance agency. Our sample of properties for review consisted of 5 that scored 30 and below, 30 that scored 31 to 45, and 60 that scored 46 to 59, for a total of 95 properties. Using statistical methods, we estimated that a total of 499 of the 528 properties we originally sampled from required HUD's follow-up and, therefore, met our criteria for review.

For each of the 95 properties, we reviewed selected documents from the appropriate HUD multifamily housing field office pertaining to REAC's physical inspection and the field office's actions to ensure the completion of necessary repair work. In addition, we inspected a random subsample of 35 of the 95 properties. This subsample included all 5 properties scoring 30 and below, 10 properties scoring 31 to 45, and 20 scoring 46 to 59. The number of properties in each group and our sample sizes are provided in table 1.

Table 1: Number of Properties That GAO Sampled and Reviewed, by Scoring Group

	Number of properties			
Scoring group	**Total**	**Sampled**	**Reviewed by GAO**	**Inspected by GAO**
30 and below	5	5	5	5
31 to 45	142	34	30	10
46 to 59	381	62	60	20
Total	**528**	**101**	**95**	**35**

Because we used a sample—called a probability sample—of properties to develop our estimates, each estimate has a measurable precision, or sampling error, which may be expressed as a plus/minus figure. A sampling error indicates how closely we can reproduce from a sample the results we would have obtained if we had been able to review documentation for or inspect all of the properties in the population from which we sampled. By adding the sampling error to and subtracting it from the estimate, we can develop upper and lower bounds for each estimate. This range is called a confidence interval. Sampling errors and confidence intervals are stated at a certain confidence level—in this case 95 percent. For example, a 95-percent confidence level means that in 95 out of 100 instances, the sampling procedures we used would produce a confidence interval containing the value we are estimating. In making our estimates,

we appropriately weighted the results from our samples to represent the properties in our universe. For example, while each property in the sample scoring 30 or below represented only itself, each sampled property scoring 31 to 45 represented about four other properties, and each sampled property scoring 46 to 59 represented about six other properties scoring in that range. The confidence intervals for the estimated number of properties that met our criteria for review and the estimates we made from our samples are presented in tables 2 and 3.

Table 2 : Confidence Intervals for Estimates Relating to GAO's Document Review

		95-percent confidence interval	
Description of estimate	**Estimate**	**From**	**To**
Number of properties that met GAO's criteria for review	499	465[a]	518[a]
Percentage of these properties that did not have			
A letter certifying the correction of some or all of the physical deficiencies identified by REAC[b]	30.9%	22.3%	39.6%
A letter certifying the correction of all of the physical deficiencies identified by REAC	67.6%	58.7%	76.5%
A detailed repair plan	61.6%	52.4%	70.8%
Interim progress reports from the owner	65.2%	56.1%	74.2%
Documented evidence of the results of the owner's physical survey	71.7%	61.6%[a]	80.0%[a]
Number of properties with exigent health and safety violations that met GAO's criteria for review	460	426[a]	479[a]
Percentage of these properties that did not have			
A letter certifying the correction of some or all of the violations	21.7%	13.5%[a]	31.9%[a]
A letter certifying the correction of all of the violations	29.4%	20.2%	38.6%
Number of properties with exigent health and safety violations that met GAO's criteria for review and for which HUD received a letter certifying the correction of some or all of the violations	416	382	450
Percentage of these properties that did not have a certification letter sent to HUD within 72 hours of the inspection date	81.7%	71.3%	89.5%
Number of properties that met GAO's criteria for review and for which HUD received a proposed repair plan from the owner	484	446[a]	508[a]
Percentage of these properties for which the owner submitted the proposed repair plan to HUD within 30 days of receiving the results of REAC's inspection	41.0%	31.7%	50.2%

[a]These numbers were calculated using the binomial method suggested by Korn and Graubard for calculating confidence intervals for proportions when samples contain a small number of cases with a characteristic. For a description of the method we used, see Edward L. Korn and Barry I. Graubard, *Analysis of Health Surveys* (Wiley: 1999), pp. 64-69.

[b]The associated estimates did not include certification letters for exigent health and safety violations. We analyzed these letters separately.

Table 3 : Confidence Intervals for Estimates Relating to GAO's Property Inspections

		95-percent confidence interval	
Description	**Estimate**	**From**	**To**
Number of properties that met GAO's criteria for review	499	465[a]	518[a]
Percentage of these properties that had			
One or more uncorrected deficiencies	82.7%	67.8%	96.3%
At least 25 percent of the deficiencies uncorrected	55.0%	37.6%	72.4%
One or more deficiency reported as repaired that was uncorrected	59.6%	41.5%	76.8%
Number of properties that met GAO's criteria for review and for which a certification of repairs and/or a detailed repair plan were not obtained[b]	363	314	412
Percentage of these properties with at least 25 percent of the deficiencies uncorrected[c]	66.1%	45.0%	85.6%
Number of properties that met GAO's criteria for review and for which both a certification of repairs and a detailed repair plan were obtained[b]	136	91	183
Percentage of these properties with at least 25 percent of the deficiencies uncorrected[c]	31.0%	0.0%[d]	66.3%

Note: Except as noted, we used simulation techniques to estimate the confidence intervals in this table because of the relatively small number of properties we subsampled and inspected in each scoring category.

[a]These numbers were calculated using the binomial method suggested by Korn and Graubard for calculating confidence intervals for proportions when samples contain a small number of cases with a characteristic. For a description of the method we used, see Edward L. Korn and Barry I. Graubard, *Analysis of Health Surveys* (Wiley: 1999), pp. 64-69.

[b]The associated estimates did not include certification letters for exigent health and safety violations. We analyzed these letters separately.

[c]We simulated the difference between two groups of properties in the proportion of properties for which at least 25 percent of the deficiencies were uncorrected. The first group contained properties for which a certification of repairs and/or a detailed repair plan were not obtained. The second group contained properties for which both a certification of repairs and a detailed repair plan were obtained. In at least 95 percent of these simulations, the proportion of properties with at least 25 percent of the deficiencies uncorrected was higher for the first group than the second group.

[d]Although a relatively small number of simulations contained no properties with this characteristic, we know, on the basis of our document review and property inspections, that there were at least three such properties.

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

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