CHICAGO HOUSING AUTHORITY
OFFICE OF INSPECTOR GENERAL
CHA AUDIT COMMITTEE
CHICAGO, IL

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OIG Final Report, OIG Case # 18A – 0004
Follow-Up Audit of Occupancy

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A. Executive Summary

I. Background:

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

➢ Standards:

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

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

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

II. Objective and Scope

The OIG conducted a follow-up review of the Occupancy Audit. The purpose of our follow-up review was to determine the status of previous observations and recommendations for improvement.

The purpose of the original audit, presented to the CHA Board on May 16, 2017, was to determine whether:

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

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

III. Approach and Methodology

To determine the current status of our previous findings and recommendations, we requested from management of the auditee, the current status of the observations and recommendations. We performed limited testing to verify the implementation of the recommendations for improvement asserted by management.

The follow-up audit was performed by conducting interviews, reviewing documentation, inspections, testing and other measures deemed necessary. Other measures include, but are not limited to utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data. Interviews were conducted with key personnel from PO. Our follow testing was performed during the month of March 2018.

IV. Summary of Results

Of the four observations and recommendations in the original audit report, we determined that all four recommendations were substantially implemented The below reference table identified the significant reduction in vacancy rate from the audit period to period to when this follow-up review was conducted.

Table I. Analysis of Vacancy Rate by Region		
Region	**Actual Vacancy Rate During the Audit**	**Actual Vacancy Rate as March 2018**
REGION 1	21.81%	13.53%
REGION 2	20.95%	10.85%
REGION 3	8.79%	6.28%
REGION 4	16.62%	16.40%
CHA TOTAL	17.62%	12.24%

Our testing also affirmed that 21 of 44 units or 48% of Scattered Sited Region 4, and 33 of 44 units or 70% of Scattered Sited Region 1, identified during the initial audit as being vacant for more than 200 days were occupied. This is a positive trend.

We commend PO for their implementation of our recommendations.

B. Status of Recommendations

This section reports our follow-up review on actions taken by management on the Recommendations in the original audit of the Occupancy. The observations and recommendations contained herein are those of the original audit, followed by the current status of the recommendations.

I. Observation 1: High Vacancy Rate

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

CHA's vacancy rate, which is graded an "F" may indicate that CHA's occupancy policies and procedures are **not** in compliance with Housing and Urban Development (HUD) requirements.

CHA lacks the controls to accurately monitor and track available units throughout the five regions. This observation shows that there is actual waste.

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

Current Status Provided by Management:
The Property Office's **Job Order Contracting (JOC) program** *is working to turn existing and newly vacated units to ensure availability for new residents. In Q4 2017, JOC conducted assessments of long-term vacant units and found undiscovered conditions which resulted in longer redevelopment periods.*

As JOC works to complete the backlog of vacant units, they will be able to more quickly address the newly vacant units which should require less work.

Current Status of Recommendation: Implemented

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

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

Region	Total	Occupied	Adjusted Vacancy	Number of Units Selected	Average Days of Vacancy for Units Selected
Table II. Average Number of Days a Unit is Vacant at Scattered Sites					
Region 1	1,433	1,266	128	68	447
Region 2	570	469	85	29	419
Region 3	337	302	27	17	352
Region 4	424	354	53	38	608
SS Total	**2,764**	**2,391**	**293**	**152**	

Based on the guidelines for unit turnaround time, CHA would be graded an "F" for unit turnaround time based on the sampled selection. CHA's PPM contract states that unit turnaround time is expected within 20 days.

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

Current Status Provided by Management:
Due to Property Management's inability to properly use direct procurement for unit turns, JOC is now responsible for turning all units (old, new, and significant rehab), which has slowed progress of completing the back log.

The Chicago Housing Authority, in conjunction with The Gordian Group, set out to establish a Job Order Contract program exclusively for Section 3 business interests. In 2016 the CHA and the Gordian Group developed a Request for Proposals (RFP) in which certified Section 3 Contractors meeting a predefined set of minimum requirements were qualified and awarded a Job Order Contract with CHA. The program originally awarded contracts to 46 Section 3 Job Order Contractors in 2016 and in 2017 expanded to include 107 Section 3 Contractors.

This more than doubled the vendor pool and allowed the CHA to not only expand the opportunity to more Section 3 businesses, but also take on more critically needed renovations and repair tasks at CHA properties across the City. This expansion of participation was a critical part of the CHA reaching 90% occupancy in 2017 for the

first time in decades by renovating more than 500 units. We anticipate completion of the backlog by Q42018.

Current Status of Recommendation: Implemented

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

The renovation for some of these units have been ongoing for years. As shown in the following table (Table III), 188 units were vacant for over one year.

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

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

Current Status Provided by Management:
Below reflects an updated Vacant Units by Category

Time Frame	Number of Vacant Units
Greater than 4 Years	23
Between 3 Years and 4 Years	9
Between 2 Years and 3 Years	45
Between 1 Years and 2 Years	63
Between 50 days and 1 Year	453
Total Vacant Units	**593**

Data comparison

Time line	During the Audit	Currently	Difference
Greater than 4 Years	15	23	*+8*
Between 3 Years and 4 Years	15	9	*-6*
Between 2 Years and 3 Years	39	45	*+6*
Between 1 Years and 2 Years	188	63	*-125*
Between 50 days and 1 Year	538	453	*-85*

- *Greater than 4 years increased by 8 units due to unforeseen conditions found in long term vacancies.*
- *Between 3 years and 4 years decreased by 6 units.*
- *Between 2 years and 3 years increased by 6 units due to unforeseen conditions found in the units*
- *Between 1 years and 2 years decreased by 125 units*
- *Between 50 days and 1 years decreased by 85 units*

In 2017 the Occupied Unit Count increased by more than 300 units.

2017 Total Move-Ins	*2017 Total Move-Outs*	*2017 Net Move-Ins*
2,115	*1,787*	*328*

Current Status of Recommendation: Implemented
* we did not test the effectiveness of works performed by the contractors and sub-contractors.

IV. **Observation 4: Lack of Data Consistency**
The PO uses two sets of data for the same process, it is challenging to audit CHA's vacancy rate using the Yardi system.

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

Current Status Provided by Management:
Property Office continues to clean exception reports on a weekly basis to ensure that Yardi data is reflected accurately.

Current Status of Recommendation Evaluated by the OIG: Substantially Implemented. The Yardi data cleanup was implemented. Property Office emphasized adherence to HUD procedures pertaining to exempt status for vacancy requirements. They did not however establish internal written procedures.