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HUD HOUSING PORTFOLIOS

HUD Has Strengthened Physical Inspections but Needs to Resolve Concerns About Their Reliability

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Contents

Abbreviations

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

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In 1997, as part of its 2020 Management Reform Plan, the Department of Housing and Urban Development (HUD) created the Real Estate Assessment Center (REAC) to obtain consistent information on, among other things, the physical condition of its public and multifamily housing. In the past, for most programs, HUD obtained data on the physical condition of its housing from property inspections, but there were differences in the way the inspections were performed and in the data that HUD collected on property conditions.

In late 1998, REAC began implementing a new electronically based system for inspecting the physical condition of HUD's public and multifamily housing properties. Under the new system, HUD relies primarily on contractors to conduct inspections but uses its own staff to monitor and oversee the contractors through several quality assurance procedures, including on-site reviews, to determine whether the inspections were carried out in accordance with REAC's standards and protocols. HUD plans to use the data from REAC's inspections not only to assess the condition of properties but also to strengthen its oversight of public and multifamily housing.

You expressed concerns about whether REAC's inspections represent an improvement over HUD's prior inspection systems and whether REAC's inspections are reliable. Accordingly, this report

- discusses the basis for the new physical inspection standards HUD has established for public and multifamily housing and any differences between the new standards and inspection procedures and those formerly used by HUD;
- summarizes the results of the first round of physical inspections and determines what REAC's reviews of these inspections show about their reliability;
- determines whether REAC's quality assurance measures are sufficient to ensure that the inspections are reliable and that any problems with the inspections are resolved expeditiously; and
- describes concerns expressed by housing industry representatives about the new system and determines whether they have identified

more cost-effective systems for assessing the physical condition of HUD's properties.

Results in Brief

Under the new physical inspection system, as in the past, the primary basis for HUD's physical inspection standards is the statutory requirement for decent, safe, and sanitary housing. HUD's new standards require that both multifamily and public housing be decent, safe, sanitary, and in good repair. The standards also establish more specific requirements for the major areas of HUD housing, such as the site, dwelling units, and common areas. While the new standards do not differ substantially from the previous ones, HUD substantially revised the procedures used to administer the standards. For example, it developed a detailed list of items that inspectors are required to review at properties and specifically defined what constitutes a deficiency for each inspectable item. During the inspections, the inspectors identify the deficiencies that they observe at a property and transmit their findings electronically to REAC headquarters. At REAC, data submitted by the inspectors are checked and analyzed, and each property's condition is scored using a scale of 0 to 100. HUD believes that the new system produces more objective assessments than those performed under previous systems. These assessments provide a basis for targeting resources to the properties that need the most attention. Moreover, because the assessment data are centralized, HUD can track the actions taken to correct the identified deficiencies.

According to REAC's data, about 87 percent of the multifamily properties and 80 percent of the public housing properties reviewed as of April 2000 received scores of at least 60, which HUD considers satisfactory. However, when REAC quality assurance staff performed on-site follow-up reviews to assess the adequacy of completed inspections, they often found that the inspections were not carried out consistently with REAC's requirements. More specifically, the quality assurance reviewers determined during follow-up reviews performed in 1999 and the early part of 2000 that about 35 percent of the inspections did not meet REAC's standards. However, because these reviews were not performed on a random basis and the effects of the identified problems on the inspection scores cannot be readily determined, it is unclear to what extent the problems with the inspections affected the overall inspection results.

Although REAC deserves credit for establishing quality assurance procedures, we found gaps or weaknesses in some of these procedures that substantially limited their effectiveness. In particular, we found that while

REAC performed on-site reviews to assess the adequacy of the inspections, it did not have procedures for ensuring that these reviews were performed systematically, that problems identified during the reviews were resolved quickly and appropriately, and that its reviews were coordinated with those that its inspection contractors perform as part of their own quality control programs. For example, we found that, as of March 2000, REAC had not reviewed the adequacy of the inspections performed by 21 percent of the active inspectors. Furthermore, REAC did not always report the results of its reviews to inspection contractors in a timely manner, and it did not have the systems and records needed to ensure that corrective actions are taken after problems have been identified. REAC has recently taken a number of actions to strengthen its quality assurance procedures. For example, it drafted a plan that sets forth the objectives for and procedures to be used in its quality assurance program. While this is a positive step, we are recommending several additional actions to strengthen the quality assurance plan. HUD agreed with us that it needs to improve its quality assurance program and pointed out steps it is taking to do so.

Representatives of public housing authorities and multifamily housing industry groups we interviewed also had concerns about the reliability of REAC's inspections. For example, they were concerned that the scores may not necessarily reflect the actual condition of some properties, noting that, in some instances, there were substantial differences in the inspection scores received by properties that had undergone more than one inspection. They were also concerned that HUD may lack the resources needed to ensure the efficient operation of its appeals procedures. While some housing industry groups suggested alternatives to the current physical inspection system, none of the groups we contacted had conducted analyses to compare the cost and accuracy of these alternatives and HUD's current system.

Background

Nearly 4 million American families live in rental housing—either public housing or privately owned multifamily housing—that is owned, insured, or subsidized by HUD. To ensure that these families have housing that is decent, safe, sanitary, and in good repair, REAC inspects these properties annually. Public housing serves low-income families, the elderly, and persons with disabilities and is operated by public housing authorities using funds provided by HUD. Privately owned multifamily housing includes properties that receive some form of rental assistance, including Section 8, from HUD; properties whose mortgages are insured or held by HUD; and properties that are financed by HUD.[1]

REAC's new physical inspection system is based on uniform physical condition standards and a computer-driven physical inspection protocol. The majority of REAC's inspections are conducted by inspectors employed by one of the inspection contractors that HUD has hired for this service; some inspections are, however, performed by HUD personnel. During an inspection, a contract inspector enters observations into a hand-held computer and then electronically transmits the data to REAC for verification and calculation. The computer program generates a score from 0 to 100, which provides a snapshot of the condition of the inspected property, including any health and safety violations observed during the inspection.

To establish uniform standards that could be applied to all HUD housing, regardless of the source of subsidy or assistance, the Department identified hundreds of conditions or deficiencies that could be observed at any HUD housing property. HUD grouped these observable deficiencies into five major inspectable areas:[2]

- the site (including the fencing, grounds, lighting, and parking lots),
- the building exterior (including the foundation, doors, roofs, walls, and windows),
- the building systems (including the electrical systems, elevators, heating and air-conditioning systems, and water and sanitary systems),

[1]HUD's uniform physical condition standards apply to Section 8 project-based assisted housing ("project-based" assistance is attached to the structure, in contrast to "tenant-based" assistance, which is attached to the resident).

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

- the dwelling units (all the elements within a resident's apartment), and
- the common areas (including the halls and stairways, community rooms, rest rooms, utility and mechanical rooms, trash collection areas, and day care centers).

HUD also established weights and values to quantify the severity of the identified deficiencies and determine their relative importance. The more severe the deficiency or the more important the inspectable item with a deficiency, the more points are deducted for that deficiency. An area score is then calculated from all the observed deficiencies for an inspectable area, and the five area scores are averaged and weighted to produce a single score for the property's overall physical condition. Generally, a property's score is based on a sample of units and, less often, on a sample of buildings. Because the score represents the property's condition at the time of the inspection, it does not take into account the property's long-term capital needs—such as whether its roof should be replaced in 5 years or its reserves are sufficient to meet such needs.

The final score and the observed deficiencies are summarized in a report that REAC sends to the property owner or public housing authority and to the appropriate HUD program office. HUD requires that corrective actions be taken for properties that receive inspection scores below certain thresholds. However, the contract inspector is required to notify the owner or manager of any exigent ("life-threatening") health and safety violations at the end of the inspection. These violations must be corrected immediately, and notice of the correction must be sent to the appropriate program office. Health and safety violations are also noted by attaching an alphabetic symbol to the score classifying the violations as non-life-threatening or life-threatening.[3]

To ensure the reliability of the inspections, REAC has established four quality assurance procedures. They include the following:

- Desk reviews. REAC staff review the accuracy of the inspection data, such as the number of buildings at a property and the number of apartment units selected for inspection. Errors are reported to the contractor for immediate resolution. Desk reviews also allow REAC to

[3]Although smoke detector violations are labeled as life-threatening, points are not deducted for them, and they are noted by an asterisk attached to the score.

identify trends and patterns that might suggest weaknesses in the inspection protocol.

- Field reviews of selected contract inspections. These reviews may be collaborative (a REAC staff member accompanies a contract inspector to observe the inspector's performance) or follow-up (a REAC staff member visits a property after it has been inspected to assess whether the inspection meets REAC's requirements).[4] Both types of reviews are used to identify inspectors who are not adhering to the inspection protocols. Inspection contractors are then advised to take appropriate corrective action, which may include reinspecting the property, retraining the contract inspector, or administering disciplinary action.
- Contractor quality control programs. REAC requires each inspection contractor to establish and maintain its own quality control program for overseeing its inspectors and to report its findings to REAC. Contractors, for example, perform collaborative reviews that are similar to REAC's reviews, survey property owners for their views on the inspections, record complaints about inspectors' performance, and retrain poorly performing inspectors.
- Appeals procedures. HUD provides multifamily property owners and public housing authorities with two avenues, technical reviews and data corrections, for disputing inspection scores that they believe are incorrect. The technical review process allows owners and housing authorities to report errors committed by contract inspectors that may result in inaccurate assessments of the condition of their properties. The data correction process provides a means for HUD to correct inspection data when local ordinances or building codes have not been factored into the scoring process. REAC is responsible for processing technical reviews, while data corrections are processed by HUD's Multifamily Housing and Public and Indian Housing program offices. As of April 2000, HUD had finalized the appeals procedures for public housing but not for multifamily housing.

REAC's goal was to obtain baseline data on the physical condition of all HUD properties by the end of calendar year 1999. REAC completed its baseline inspections of public housing properties on schedule but did not finish its baseline inspections of multifamily properties. As of April 12, 2000, REAC had inspected 26,528 multifamily properties, or 92 percent of the multifamily properties scheduled to be inspected.

[4]REAC officials refer to follow-up reviews as limited quality assurance inspections.

Inspection Standards Have Not Changed Substantially, but Inspection Procedures Are Different

HUD's new physical inspection standards, called uniform physical condition standards, are based on a statutory requirement that HUD housing be decent, safe, and sanitary. Although the new standards are similar to HUD's former physical inspection standards, the procedures for implementing the standards have been substantially revised to address problems with HUD's prior inspection procedures.

New Standards Continue to Be Based on Statutory Requirements

Like HUD's prior physical inspection standards, the new uniform standards are based on statutory language that requires HUD housing to be decent, safe, and sanitary. HUD believes that housing assisted under its programs should be subject to uniform physical standards, regardless of the source of the subsidy or assistance. Consequently, rather than altering the statutory requirement for the maintenance of HUD housing, HUD aimed to describe the statutory requirement clearly and make that definition consistent across applicable HUD programs. The Congress established the standard for HUD housing in the United States Housing Act of 1937 (42 U.S.C. 1437 et seq.), providing that federally assisted housing for low-income individuals be decent, safe, and sanitary.[5] 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—a standard that, HUD says, is very similar if not identical to the standard for decent, safe, and sanitary housing.

HUD's new uniform physical condition standards include requirements for the major areas of HUD housing, such as the site, dwelling units, and common areas. For example, the standards specify that the site—including the fencing and retaining walls, grounds, play areas, and walkways—must be free of health and safety hazards and in good repair. In addition, the site must not be subject to material adverse conditions, such as abandoned vehicles, excess accumulations of trash, infestations of vermin or rodents, or fire hazards. Similarly, the standards specify that the property's dwelling units must be structurally sound and habitable and that all areas and

[5]The physical condition standard currently required under the United States Housing Act of 1937 is referred to as "decent and safe." HUD does not consider this standard substantively different from the previous statutory standard of "decent, safe, and sanitary."

aspects of the dwelling units must be free of health and safety hazards, functionally adequate, operable, and in good repair.

According to HUD, the new uniform physical condition standards do not differ substantially from the housing quality standards that the Department formerly used for public housing and still uses for dwelling units rented to tenants with section 8 tenant-based assistance. HUD officials told us that the two sets of standards cover essentially the same inspectable items except that the housing quality standards apply only to the dwelling units while the new uniform standards apply to the entire property. HUD also considers the uniform standards more specific and less subjective than the housing quality standards. While the uniform standards require that, in addition to being decent, safe, and sanitary, HUD housing must be in good repair, HUD believes that this is the physical condition standard to which HUD assisted housing has always been subject.

HUD Changed Its Physical Inspection Procedures to Address Concerns With Prior Inspections

HUD revised its physical inspection procedures and made them uniform in an effort to address a number of concerns about its former inspection programs.[6] First, HUD required all inspections to be performed by trained and certified inspectors. In the past, inspections were performed by inspectors representing several different entities, depending on the HUD program—Section 8 contract administrators, mortgagees, HUD field offices, or public housing authorities. According to HUD officials, these inspectors were not uniformly trained, and different training sometimes produced inconsistent results.

Second, HUD identified items that must be observed during inspections, developed detailed definitions for deficiencies in each of them, and assigned a specific number of points for each deficiency. Now, when a HUD inspector identifies a particular deficiency, a certain number of points are automatically deducted from the inspected property's total physical condition score. In the past, without such specific guidance and detailed definitions, some inspectors might have focused on some deficiencies but not on others. Moreover, without a point system for deficiencies, some inspectors might have determined that a particular deficiency, such as a cracked toilet seat, was severe enough for a unit to "fail" its inspection, while another inspector might have attached less importance to the same

[6]The new inspection procedures apply to the HUD housing covered by the uniform physical condition standards.

deficiency and allowed the unit to "pass." Under the new inspection procedures, individual inspectors no longer have such broad discretion to determine whether the dwelling units they inspect meet HUD's standard for decent, safe, and sanitary housing. According to HUD, the new procedures are more objective, ensuring more consistent results.

Third, HUD centralized the reporting, scoring, and storing of property inspection results. After inspectors electronically transmit the inspection data they have entered into their hand-held computers to REAC, the data are processed, the properties receive physical inspection scores, and the data are maintained in centralized databases. Because the new scores are based on a point system, they are scalable, allowing HUD to assess the breadth or severity of the deficiencies found. HUD can then use the scores to evaluate the condition of the inspected properties and to focus its resources on the properties needing the most attention. Furthermore, since all the data obtained during the inspections are centralized, HUD can use the data to track the actions taken to correct deficiencies found during the inspections. In the past, the pass/fail determinations that HUD received from some inspection entities did not provide the information needed to direct resources to the properties with the greatest deficiencies. Moreover, HUD received no information on the physical condition of public housing because it relied on public housing authorities to certify their units' compliance with the standard for decent, safe, and sanitary housing.

Besides revising the physical inspection procedures, HUD established four quality assurance procedures to help ensure the reliability of its contractors' inspections. Previously, HUD had no comprehensive, consistent quality assurance procedures.

Although Baseline Scores Show Most Properties Were in Satisfactory Condition, REAC's Reviews Indicate Some Inspections Were Not Reliable

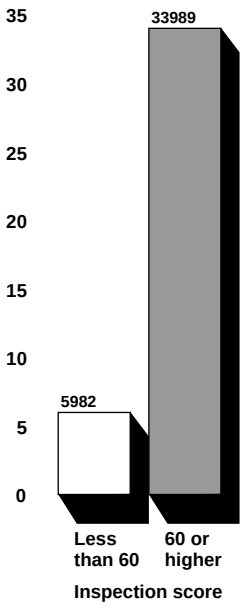
The results of the first round of physical inspections performed under the new inspection system indicate that most of HUD's public and multifamily housing is in satisfactory physical condition. However, REAC's quality assurance reviews have found that a number of these inspections were not carried out consistently with REAC's requirements. It is unclear to what extent the problems with the inspections affected the overall inspection results.

Baseline Scores Indicate That Most Properties Are in Satisfactory Physical Condition

As of April 12, 2000, REAC had conducted initial, or "baseline," inspections for 26,528 multifamily properties and over 3,100 public housing authorities with 13,607 properties. These figures represent about 92 percent of the multifamily properties and all of the public housing properties that REAC intended to include in the baseline inspections.

As shown in figure 1, almost 34,000 properties, or 85 percent of those inspected, received scores of 60 or higher. A score of 60 indicates that a property is in satisfactory physical condition. Properties receiving inspection scores of 60 or higher accounted for just under 1.9 million units, or about 74 percent of the 2.6 million units receiving assistance in the properties inspected.

Figure 1: Number of Multifamily and Public Housing Properties With Inspection Scores of Less Than 60 and 60 or Higher



Overall, the inspection scores for multifamily properties were slightly higher than the scores for public housing properties, but for both types of properties, a significant percentage of the scores were 60 or higher.[7] For example, about 87 percent of the multifamily properties and 80 percent of the public housing properties received scores of 60 or higher. The properties receiving scores of 60 or higher accounted for 84 percent of the multifamily units and 64 percent of the public housing units in the properties that were inspected.[8]

A substantial number of properties received high inspection scores. More specifically, about 38 percent of the multifamily properties and 25 percent of the public housing properties received scores of 90 or higher. By contrast, only about 2 percent of the multifamily and about 3 percent of the public housing properties received scores of 30 or lower, an indication that these properties may be in severe physical distress.

Despite the high proportion of satisfactory scores, a substantial number of properties were cited during the inspections for exigent health and safety problems. For example, almost one-third of the multifamily and public housing properties received health and safety citations for defects REAC categorizes as "life-threatening." Examples of such defects, according to REAC documents, include missing or inoperable smoke detectors, electrical system problems, hazards, missing fire extinguishers, and the presence of security bars. Appendix I provides additional information on the results of REAC's baseline inspections.

REAC Reviews Find Problems With Inspections, but Effect on Baseline Results Is Unclear

The results of reviews REAC performs as part of its quality assurance program show that, while the number of inspections that REAC rejects during desk reviews has declined substantially, REAC has found problems with a substantial number of the inspections for which it has performed follow-up reviews.

[7]Our analysis excludes the inspection scores for 164 multifamily properties because we lacked complete information on the characteristics of these properties.

[8]According to data provided by HUD's Office of Public and Indian Housing, about 87 percent of the nation's public housing authorities received composite physical inspection scores of 60 or above. These housing authorities accounted for about 65 percent of the public housing units.

During desk reviews, REAC staff members review whether contract inspectors have made errors in such things as the number of buildings at a property and the number of apartment units selected for inspection. If errors exist, the inspection report is returned to the inspection contractor for resolution within 48 hours. If the contractor does not resolve the problems within 48 hours, the inspection is rejected. According to REAC, about 10 percent of the inspections submitted to REAC in March 1999, when REAC began tracking rejection rates, were rejected. But by April 2000, the percentage of inspections rejected during REAC desk reviews had decreased to less than 1 percent.

However, from February 1999 through the early part of 2000, REAC quality assurance reviewers continued to find problems with inspections when performing collaborative and follow-up reviews. During the collaborative reviews, quality assurance reviewers accompany contract inspectors to judge their performance. Under follow-up reviews, reviewers test the accuracy of completed inspections by examining building exteriors, common areas, mechanical and electrical systems, and site conditions, such as parking areas and fencing. They then make a judgmental determination as to whether the original inspection met REAC's standards.[9]

As of March 15, 2000, REAC quality assurance reviewers determined that about 12 percent of the 728 initial inspections they evaluated during collaborative reviews did not meet REAC's standards. Furthermore, REAC reviewers assessed 819 more initial inspections during follow-up reviews. About 35 percent of those 819 inspections did not meet REAC's standards. Among the problems found during such reviews were failures of contract inspectors to record physical deficiencies, failures to inspect all buildings, and omissions of health and safety violations. Furthermore, the results of these reviews, unlike the results of desk reviews, have not improved during the first year. Between March 1999 and March 2000, REAC quality assurance staff found little change in the percentage of inspections that met REAC's standards.

As part of our review, we accompanied REAC quality assurance inspectors on 10 follow-up reviews. In each of the 10 cases, the REAC quality assurance reviewer determined that the original inspection did not meet

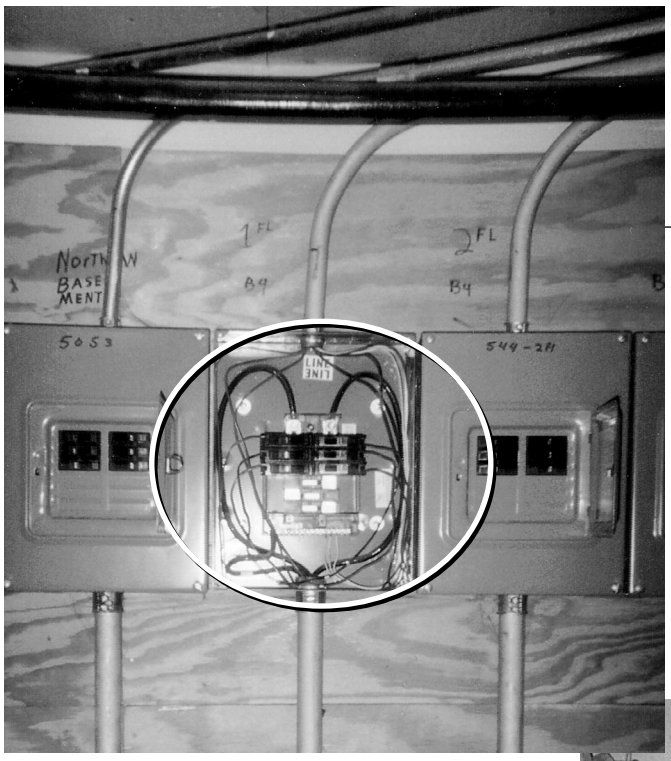
[9]Initially, REAC classified the inspections according to four categories—highly satisfactory, satisfactory, less than satisfactory, or unsatisfactory—but in March 2000, REAC consolidated the four categories into two—within standard and outside of standard.

REAC's standards and required that a new inspection be performed. Among the problems that the quality assurance inspectors found were adverse site conditions that were not recorded, areas that were not included during inspections, and health and safety violations that were not reported. The photographs in figure 2 illustrate some of the defects in property conditions that contract inspectors did not document during their inspections of four of the properties we visited.

Figure 2: Physical Conditions That REAC Quality Assurance Reviewers Found Contract Inspectors Did Not Record at Properties GAO Visited

Perimeter fencing in need of repair.

Entryway steps with missing hand railing.



Exposed electrical wiring in junction boxes.

Damaged floor in laundry facility.

While the results of REAC's quality assurance reviews call into question the adequacy of some of the inspections performed, it is not clear how the problems identified affect the overall results of the inspections. Because REAC performs quality assurance reviews on a targeted rather than a random basis, it is difficult to project the results of these reviews to all of the inspections. Furthermore, REAC has not performed any analyses to assess how the problems identified by the quality assurance inspectors affected the inspection scores. REAC quality assurance reviewers do not rescore the condition of properties when performing their reviews, but in some instances they do require the contract inspectors to reinspect the properties. The reinspection then generates a new inspection score.

While REAC officials agreed that the percentage of inspections identified as not meeting REAC's standards was unacceptable, they indicated that a precise tolerance level has not yet been established as a guide in evaluating the reliability of the inspections. In addition, they noted that because the classification of inspections into one of two categories was based on the reviewers' judgments rather than specific criteria, the results of the reviews might not be as accurate, consistent, or reliable as they should be. REAC officials told us that they were developing more specific criteria for reviewers to use in assessing the inspection results.

REAC officials also emphasized that while field reviews are an important part of the quality assurance process, their results must be considered in conjunction with other relevant quality assurance information. They did not believe that the results of the field reviews alone meant that a substantial portion of the inspections performed were substandard. Furthermore, REAC officials noted that REAC was in the process of testing changes that have been made in the inspection protocol. These changes include revisions aimed at clarifying the definitions for a number of deficiencies. They believe that after the new inspection protocol is implemented, there will be fewer problems with the quality of inspections.

Weaknesses Have Limited the Effectiveness of Quality Assurance Measures, but REAC Is Making Improvements

REAC deserves credit for establishing quality assurance procedures to help ensure the reliability of its contract inspections, but our review identified certain weaknesses that substantially limited the effectiveness of some of these procedures. More specifically, although REAC has established a well-defined process for performing desk reviews of contract inspections, we found problems with its processes for performing field quality assurance reviews of the inspections and for reviewing contractors' quality control programs. During our review, REAC began making improvements to address a number of these weaknesses. For example, it drafted an overall plan for carrying out its quality assurance program. However, REAC has been slow to develop formal processes for multifamily housing owners and public housing authority managers to request changes in their property inspection scores.

Desk Reviews Appear Sound, but Field Reviews and Processes for Overseeing Contractors Have Weaknesses

REAC's desk review process appears to be a well-defined and thorough quality control mechanism for determining whether contract inspectors are appropriately entering data into their hand held computers and complying with other established protocols at the time they perform their inspections. In addition to tracking each inspector's error rate, REAC uses the information to teach the inspection contractors about the types of data deficiencies that can lead to rejected inspections. For example, REAC provides contractors with a frequently updated report that shows, by inspection standard, the types of deficiencies that could result if a standard is not followed and the action that REAC will take if a requirement is not met. It also uses the desk reviews to identify trends and patterns that might suggest a weakness in a particular component of the inspection protocol. REAC believes that these efforts have helped to lower the rejection rates for these reviews.

In addition to desk reviews, REAC conducts on-site collaborative and follow-up reviews to determine whether contract inspections have been performed in accordance with its standards and protocols. However, we found that REAC had not established systematic, clearly defined processes for carrying out these types of reviews. The following illustrate some of the weaknesses in REAC's quality assurance processes:

- REAC's business operating plan for quality assurance did not include written policies and procedures for REAC's overall quality assurance program, nor did it explain how REAC's quality assurance program relates to or interfaces with those of the four inspection contractors.

- REAC did not have a systematic process for planning its quality assurance reviews nor did it have criteria that effectively defined which inspectors or inspections would be reviewed. For example, REAC set out to review 4 percent of its contract inspections through collaborative and follow-up reviews, but by the end of 1999, only 47 percent of the inspection force had received reviews. Accordingly, REAC accelerated its reviews, and by March 2000, it had increased the percentage of inspectors reviewed to 79 percent. As of that date, it had completed 1,543 reviews, thereby approximating the 4 percent target, but 56 percent of the reviews were associated with just 53 of the more than 300 inspectors that had performed inspections as of that date.
- REAC did not have strict criteria on when collaborative and follow-up quality assurance reviews were to take place. For example, for 374 public housing authority follow-up reviews, as of March 2000, the time between the contractor's original inspection and REAC's follow-up review ranged from 1 to 394 days, with an average elapsed time of 96 days. Several contractors were concerned that property conditions could change between the date of the original inspection and the date of the follow-up review, thus limiting the ability of quality assurance reviewers to determine and evaluate conditions that existed at the time of original inspection. One inspection contractor observed that since REAC had waited so long to point out the inspection problems, it was sometimes difficult to discuss performance issues credibly with inspectors.
- REAC did not maintain the records necessary to document actions taken by inspection contractors to address problems identified during the reviews. For example, REAC was often unable to tell us when the results of its reviews were referred to contractors and when contractors responded with corrective actions. Furthermore, when documentation was available, there were often delays in communicating the results of reviews to the inspection contractors. For example, in mid January 2000, REAC gave contractors documentation on 75 inspections that did not meet REAC's standards. At least 47 of the quality assurance reviews had taken place before December 1999, and several dated back to June 1999.
- REAC's inspection contractors also raised concerns that they were not being advised of quality assurance reviews that did meet REAC's standards so that these results could be considered in the administration of their own quality control programs.
- REAC did not have written criteria outlining specific disciplinary actions that should be taken against poorly performing inspectors, nor did it have a monitoring system to record and track disciplinary actions.

We also found weaknesses in REAC's oversight of the quality control programs that REAC required its inspection contractors to establish. The following are illustrative:

- Although REAC received and reviewed the written quality control plans of its contractors, it did not perform on-site evaluations to assess the effectiveness of the contractors' quality control programs during 1998 or 1999. HUD's contract management policies recommend a thorough assessment of contractors' quality control programs to ensure the adequacy of quality control systems at the contractor level. These assessments can also be used to determine the appropriate balance between HUD's quality assurance programs and those of the contractors.
- While REAC's inspection contracts require contractors to submit monthly reports describing the results of their quality control programs, REAC has not always received the reports and did not have a systematic process for analyzing them and using them to monitor contractors' performance when they were received. Furthermore, REAC did not factor in the results of contractors' quality control programs when developing its own plans for carrying out quality assurance reviews. Such coordination could help REAC better target its resources.
- REAC limited its inspection contractors to performing only one type of review—collaborative reviews. Several contractors have informed REAC that their quality control programs could be improved if they had the authority to perform follow-up reviews as well. For example, they did not believe that the collaborative reviews always give a true indication of the quality of an inspector's work because most inspectors are usually more conscientious when they are being observed during an inspection.

REAC Is Making Improvements to Address Weaknesses in Its Quality Assurance Processes

During the course of our audit, REAC officials began making a number of changes to address weaknesses we identified. REAC officials noted that their quality assurance goal is one of continuous improvement and zero defects in inspectors' performance. They acknowledged that the quality assurance process itself was not fully developed when the new inspection system began in 1998. Rather, as they noted, the process has evolved and is continuing to evolve over time through experience, testing, and analysis.

Among the steps REAC took during our audit to improve its quality assurance processes were the following:

- To strengthen its planning, REAC began, in January 2000, to compare the number of quality assurance reviews with the total number of inspections performed by each contract inspector so that inspectors could be targeted for reviews.
- To improve the objectivity, consistency, and credibility of its quality assurance reviews, REAC was developing definitive criteria for rating the quality of contract inspections, and it set a policy goal of performing follow-up reviews within 30 days of the original contract inspections.
- Also in January 2000, REAC began conducting on-site evaluations of contractor's quality control programs and started reporting the results of every quality assurance review to the contractors, including those reviews that meet REAC's standards.
- REAC allowed one of the four inspection contractors to expand its quality control program by performing follow-up reviews, as well as the collaborative reviews it was already performing.
- To improve its processes for taking disciplinary action, REAC began developing criteria for taking specific actions against contract inspectors. It also started to establish a system to track deficiencies for individual inspectors and the associated disciplinary actions taken.

More recently, in April 2000, REAC officials told us that they had drafted an overall plan for carrying out REAC's quality assurance program. The quality assurance plan is aimed at establishing procedures in four areas that would allow REAC to evaluate the (1) inspection contractors' compliance with provisions in their contracts and their quality control programs, (2) inspectors' performance in applying REAC's inspection protocol, (3) accuracy of the inspections and the resulting scores, and (4) performance of the physical inspection program as indicated by the precision and replicability of the inspection protocol. REAC officials told us that the plan's development was based on both their own plans to develop a more formalized quality assurance program and the suggestions we made during our review.

REAC's establishment of an overall plan for its quality assurance activities is a positive step toward providing the tools needed to ensure the reliability of its contract inspections. But because the plan is still in draft and subject to change, it is difficult to fully assess its merits. According to our preliminary review of the plan, it is a good start in that it establishes a framework for REAC's quality assurance activities. Nevertheless, we are concerned that some of the procedures in the plan may not allow REAC to achieve the plan's four overall objectives.

First, the plan does not specify how REAC will use the information collected through various quality assurance procedures to measure its performance against each of the four objectives. For example, the plan directs REAC, when assessing the performance of the physical inspection system as indicated by the precision and replicability of the inspection protocol, to measure and control the level of variance resulting from the application of the protocol. However, the three procedures that the plan proposes for accomplishing this task are vague. Specifically, they call for REAC to identify variances among inspectors, identify variances caused by inconsistencies in inspectors' performance, and develop risk indicators and communicate them to appropriate levels for implementation. It is unclear precisely what data REAC will be collecting or how the data will be used to measure the inspection protocol's precision and replicability. Furthermore, the plan does not discuss how REAC will report to HUD management and the Congress on its performance in meeting each of the four objectives.

Second, although the plan recognizes the importance of the inspection contractors' compliance with their respective quality control programs, it does not explain precisely how REAC's quality assurance objectives and procedures interface with those of the contractors. For example, the plan directs REAC to review the contractors' quality control activities and requires the contractors to report regularly on their programs, but it does not specify how REAC will use the information from these reviews and reports to target its own quality assurance activities, such as its collaborative and follow-up reviews.

Third, we have some questions about the criteria REAC is using to assess its performance in meeting the plan's four overall objectives. For example, REAC's criterion for assessing inspectors' performance during collaborative reviews allows an error rate as high as 20 percent in certain areas before an inspector's performance is classified as not meeting REAC standards. Such a high error rate appears inconsistent with REAC's goal of zero defects in inspectors' performance. Furthermore, the plan does not clearly indicate what criteria REAC will use to assess inspectors' performance when it conducts follow-up reviews. In addition, although the plan includes steps for reviewing REAC's processing of property owners' and public housing authorities' concerns about their inspection scores, it does not specify what criteria REAC will use to determine whether these reviews have been handled appropriately and in a timely manner.

Finally, although the plan indicates how contractors should document inspectors' performance for their quality control programs, it does not

specify what records REAC should maintain to document its own actions when it identifies poorly performing inspectors during collaborative and follow-up reviews.

HUD Has Been Slow to Develop and Implement Formal Processes for Requesting Changes in Inspection Scores

In January 2000, after nearly a year and a half, HUD finalized regulations for providing public housing authorities with a means to request changes or adjustments in their inspection scores. As of April 2000, HUD had not yet finalized such regulations for multifamily property owners. HUD had been using interim guidelines to address their concerns. However, even with the direction provided by these interim guidelines, HUD was not able to address many public housing authorities' and multifamily property owners' concerns, and requests from both remain pending, including several that date back to May and June 1999.

As discussed in the background section of this letter, HUD has established two procedures for public housing authorities and multifamily property owners to appeal property inspection scores they believe are incorrect. Specifically, HUD uses (1) technical reviews to identify errors by contract inspectors and (2) data correction reviews to factor in local ordinances and building codes that may not have been considered, or may have been considered inappropriately, during inspections. For example, the owner or manager of a property may request a data correction review when REAC's inspection protocol—applicable nationwide—is not entirely consistent with a local code requirement or when an owner is incorrectly held responsible for the condition of items (such as roads and sidewalks) that the owner does not own and is not responsible for maintaining. Although HUD considers these procedures critical to the REAC inspection system's credibility and acceptance within the housing industry, the Department had not established the procedures when it implemented the inspection system in October 1998. Instead, Office of Housing and REAC officials explained, HUD's first priority was to get the inspection system up and running and then to establish procedures for technical and data correction reviews. As a result, HUD only recently finalized applicable regulations for public housing authorities, and, as of April 2000, had not yet finalized such regulations for multifamily property owners. Consequently, it is too soon for us to assess the effectiveness of these procedures.

As of April 2000, HUD also lacked guidelines for processing data correction requests from public housing authorities, although it did have interim guidelines for processing such requests from multifamily property owners. REAC also developed interim guidelines for processing technical review requests from both multifamily property owners and public housing authorities, but as of April 2000, the guidelines were still in draft format. According to the draft guidelines, the overall goal of the technical review process is to provide owners and public housing authorities with a quick, fair, and consistent assessment of their appeals. Moreover, as an official from HUD's Office of Housing noted, timely responses to the concerns of owners and public housing authorities are important because they help HUD confirm the existence of problems with inspection scores and determine the need for correction. However, according to HUD's data on requests from property owners and public housing authorities for technical and data correction reviews, HUD was often slow in resolving cases under the interim guidelines. For example, as of April 2000, HUD had received about 400 technical review requests, over half of which were still pending. Although most of the pending requests were submitted during March and April 2000, several dated back to May and June 1999. Furthermore, of the requests HUD had resolved, the Department had taken 3 months, on average, to reach a decision, and had determined, for over half, that changes in the inspection score were warranted.[10] When we asked REAC officials why cases were not always processed in a timely manner, they cited delays in the rulings for establishing the review processes and insufficient staff to process the cases. In addition, one REAC official said that some cases are more complex and take longer to process. For example, a request from one public housing authority involved 10 different properties and took REAC nearly 4 months to complete. REAC officials told us that they recognize the need to reduce processing times. They said that as REAC gains additional experience in processing requests for technical reviews and appeals, they anticipate that the time for completing them will decrease.

[10]HUD also corrected the inspection score or grade for health and safety violations for another 1,400 properties. REAC officials told us that most of these corrections were required because of an error in the scoring software or differences between local building standards and REAC's inspection standards that REAC identified during the initial months of the inspection process.

Housing Industry Officials Have Concerns About the Reliability of Inspections and Other Issues

Although HUD has consulted both the multifamily and public housing industries during the development and revision of the new physical inspection process, officials from both industries have periodically expressed concern about the reliability of the inspections and other aspects of the inspection process. In response to these concerns, HUD officials have emphasized that the physical inspection process is relatively new and still evolving and that HUD intends to continue working with the industry to improve it. Some industry officials have suggested possible alternatives to the current system, but none of the groups we contacted had analyzed the costs or accuracy of these alternatives. The National Academy of Public Administration is currently reviewing alternative performance measurement systems for subsidized housing that would include a physical inspection component.

Both the Multifamily and Public Housing Industries Have Concerns About Aspects of the Physical Inspection System

During the 2 years that it has been developing and refining its new physical inspection system, HUD has met with representatives of the multifamily and public housing industries to obtain their views on the system's design and their suggestions for improving certain parts of it. However, officials from both industries still have concerns about aspects of the system, which they believe is not yet providing a true picture of the condition of some properties. Some of their concerns include the following:

- Some of the properties that have been inspected more than once have received significantly different scores, even though the condition of the properties has remained more or less the same.
- HUD is not adequately testing changes that it had made in its inspection software to incorporate revised definitions for a substantial number of deficiencies.
- The training and skills of some contract inspectors need to be improved.
- HUD is not giving property owners and managers enough time to prepare and submit documentation for technical reviews, database corrections, and appeals; these processes are complex and can lead to confusion; and HUD may not have sufficient resources at its field offices to implement the procedures efficiently and effectively.

In addition, representatives of some public housing organizations have a number of other concerns. For example, they said the scoring system considers an excessive number of deficiencies, including some that are so minor they should not be considered; too many points are deducted for some items relative to their importance; defects found in a very small

percentage of the items inspected could result in a property's receiving a failing score; and HUD imposes different oversight requirements on public housing properties and multifamily properties that receive comparable inspection scores.

In response to these concerns, HUD officials said they are committed to developing a physical inspection system that accurately portrays the condition of HUD's subsidized and assisted properties. At the same time, they recognize that developing such a system will be an evolutionary process. To ensure that the system accurately portrays the condition of HUD housing, officials said that HUD has consulted with representatives from both industries, will continue to do so, and will make appropriate revisions. They also cited actions HUD was taking to address the industries' concerns as the inspection process was evolving, such as considering requests for technical reviews even if they are submitted after HUD's deadline for filing them. Concerns expressed by the housing industry representatives and HUD's responses to them are discussed in greater detail in appendix II.

Housing Industry Officials Lacked Data on Alternative Systems, but the National Academy of Public Administration Is Conducting a Review

While some of the housing industry officials we spoke with suggested possible alternatives to HUD's current system, they had not conducted detailed analyses of these systems. Among the alternatives they suggested were (1) returning to HUD's prior system but doing a better job of verifying the self-certified physical condition information reported by public housing authorities; (2) turning the current inspection system over to the owners/managers of the properties, letting the owners/managers conduct their own inspections using the computer inspection instruments approved by HUD, and having HUD verify the results on a random basis; (3) establishing a physical inspection system based on local codes under which housing agencies or owners would initiate inspections of their properties using inspectors selected from HUD's list of certified inspectors; and (4) using a peer review model that would rely on standards developed, and agreed to, by members of the housing industry and would have evaluations of a property's physical condition conducted by a commission or board comprised of experts and practitioners in the field. However, the industry groups did not have detailed information on how these systems would work, nor did they have information for comparing these systems with HUD's current system in terms of cost or accuracy.

The National Academy of Public Administration is currently assessing the effectiveness of various methods of evaluating public housing authorities

and other providers of federally assisted housing, as required under section 563 of the Quality Housing and Work Responsibility Act of 1999 (P. L. 105-276). The act specified two primary purposes for the study. First, the study is to identify and examine various methods of evaluating and improving the performance of public housing authorities in administering public housing and tenant-based rental assistance programs and of other providers of federally assisted housing that offer alternatives to oversight by HUD. Second, the report is to evaluate whether specific monitoring and oversight activities currently conducted by HUD should be eliminated, expanded, modified, or transferred to other entities to increase their accuracy and effectiveness and to improve monitoring. According to Academy officials, the study will include an assessment of HUD's physical inspection portion of performance measurement. The Academy is to provide a final report on its findings and recommendations by September 2000.

Conclusions

The establishment of a new physical inspection system is a positive step by HUD to address weaknesses in its oversight of multifamily and public housing properties. In particular, the establishment of uniform standards and inspection procedures helps to address inconsistencies in the way standards were applied to HUD properties and in the way physical inspections were performed. Equally important, the establishment of centralized databases for collecting information on the physical condition of these properties provides HUD not only with detailed, readily available data but also with a mechanism for (1) ensuring that deficiencies identified during inspections are corrected and (2) helping HUD take appropriate action against property owners and housing authorities that fail to provide housing that is decent, safe, sanitary, and in good repair.

However, there are continuing concerns about the extent to which inspections performed under the new system are reliable—concerns that are substantiated by the results of HUD's own quality assurance reviews. These concerns increase the importance of HUD's having a system of quality assurance procedures that will allow it to assess and report on the reliability of its inspections and take corrective actions when problems are found. Such a system includes having effective processes for addressing multifamily property owners' and public housing authorities' concerns about the results of inspection scores.

REAC has recently taken a number of actions to strengthen its quality assurance procedures. These include recently preparing a plan that sets forth the objectives for and procedures to be used in its quality assurance

program. In our view, this is a positive step toward providing HUD management, the Congress, and others with information for assessing REAC's progress in achieving key objectives, such as ensuring that inspection contractors are complying with the terms of their contracts, inspectors are performing inspections consistently with REAC's inspection protocol, and inspection scores accurately reflect the condition of properties being assessed. Nevertheless, we are concerned that, in some areas, the draft plan may not provide REAC with the information it needs to assess its progress in meeting these objectives.

Recommendations

We recommend that the Secretary of Housing and Urban Development direct the Director of HUD's Real Estate Assessment Center to revise REAC's April 2000 quality assurance plan as necessary to ensure that the quality assurance activities it contains will provide REAC with the information it needs to evaluate four key areas—inspection contractors' compliance with provisions in their contracts and quality control programs; inspectors' performance in applying REAC's inspection protocol; the accuracy of the inspections and resulting scores; and the performance of the physical inspection program as indicated by the precision and replicability of the inspection protocol. The revisions should include adding information to the plan that describes (1) how the information obtained through various quality assurance procedures will be used to assess REAC's performance in meeting each of the plan's objectives, (2) how REAC's quality assurance activities relate to activities performed by the inspection contractors as part of their quality control programs, and (3) what records REAC should maintain to document its actions when poorly performing inspectors are identified during collaborative and follow-up reviews. In addition, REAC should reevaluate whether the plan contains appropriate criteria for quality assurance personnel to use in assessing each of the activities covered by the plan.

Finally, to provide the Congress with timely information on REAC's progress in addressing concerns about the reliability of physical inspections, we recommend that HUD periodically issue reports describing the quality assurance activities that it has performed and the results of these activities.

Agency Comments

We provided HUD with a draft of this report for its review and comment. HUD said while its staff and management had themselves identified many

of the items we pointed out during the course of our audit, we helped the Department focus on specific areas and suggested improvements that further strengthened the inspection protocol. HUD stated that the inspection protocol has enabled the Department to determine the condition of its entire property inventory, which represents a major modification and improvement over what existed previously. HUD agreed with us that the Department needs to improve its quality assurance program but pointed out that in the past no quality assurance program, consistent standards, or reliable inspection process existed at HUD.

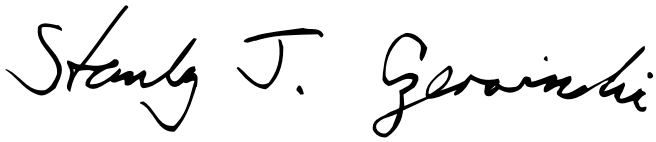
In response to our recommendation that REAC revise its April 2000 quality assurance plan as necessary to ensure that the quality assurance activities it contains provide REAC with the information needed to assess its performance in achieving the plan's four key objectives, HUD pointed out aspects of the plan that are aimed at addressing our recommendation and noted some modifications that it had made to the plan. HUD also provided us with an updated version of its quality assurance plan. While this version is an improvement over the previous plan, it does not fully address our recommendation. For example, although the plan includes some indicators for assessing REAC's performance in meeting the plan's objectives, it still does not contain indicators for some key quality assurance activities, such as follow-up reviews for assessing inspectors' performance and activities aimed at assessing the inspection system's precision and replicability. REAC officials told us that they were still determining what indicators they will use to assess the results of quality assurance activities, and they said they were planning to develop additional indicators. REAC officials also told us that although the draft plan contains requirements for reviewing and assessing the results of contractors' quality control programs, they recognize that they need to improve coordination between contractors' quality control activities and REAC's quality assurance activities. They said they are considering revisions to the requirements for contractors' quality control programs that would more clearly integrate these requirements with REAC's overall quality assurance program.

In response to our recommendation that HUD periodically issue reports describing the quality assurance activities that REAC has performed and the results of these activities, HUD said that it plans to issue a semi-annual report summarizing the results of REAC's quality assurance activities. REAC officials told us that they were still deciding what information to include in the report. The complete text of HUD's comments and our evaluation of them appear in appendix IV.

We conducted our work from August 1999 through June 2000 in accordance with generally accepted government auditing standards. (See app. III for a discussion of our objectives, scope, and methodology).

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 Honorable Andrew M. Cuomo, 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) 512-7631. Key contributors to this report are listed in appendix V.



Stanley J. Czerwinski
Associate Director, Housing and
Community Development Issues

List of Requesters

The Honorable Rick A. Lazio
Chairman
The Honorable Barney Frank
Ranking Minority Member
Subcommittee on Housing and
Community Opportunity
Committee on Banking and
Financial Services

The Honorable Christopher S. Bond
Chairman
Subcommittee on VA, HUD and
Independent Agencies
Committee on Appropriations
U.S. Senate

Results of Baseline Inspections Conducted by HUD's Real Estate Assessment Center

As of April 12, 2000, HUD's Real Estate Assessment Center (REAC) had completed baseline inspections of 26,528 multifamily properties and 13,607 public housing properties at over 3,100 public housing authorities. These totals represent about 92 percent of the multifamily properties and all of the public housing properties that REAC intended to inspect in order to gather baseline data.

Figure 3 provides information on the percentage of multifamily and public housing properties whose physical inspection scores fell into one of four scoring ranges. As the figure shows, a large percentage of the inspection scores were 60 or above. According to HUD, a score of 60 or above generally indicates that a property is in satisfactory physical condition. Furthermore, 38 percent of the multifamily properties and 25 percent of the public housing properties received a score of 90 or higher. In contrast, only about 2 percent of the multifamily properties and 3 percent of the public housing properties received scores of 30 or below. Such scores indicate that there may be substantial problems with the physical condition of these properties.

Figure 3: Percentage of Multifamily and Public Housing Property Inspections, Sorted by Inspection Scoring Range

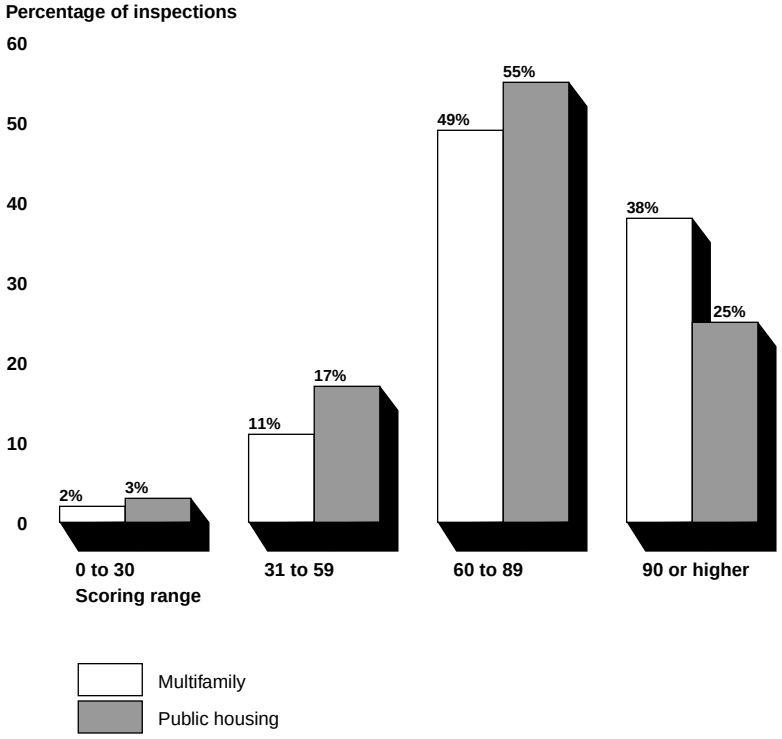
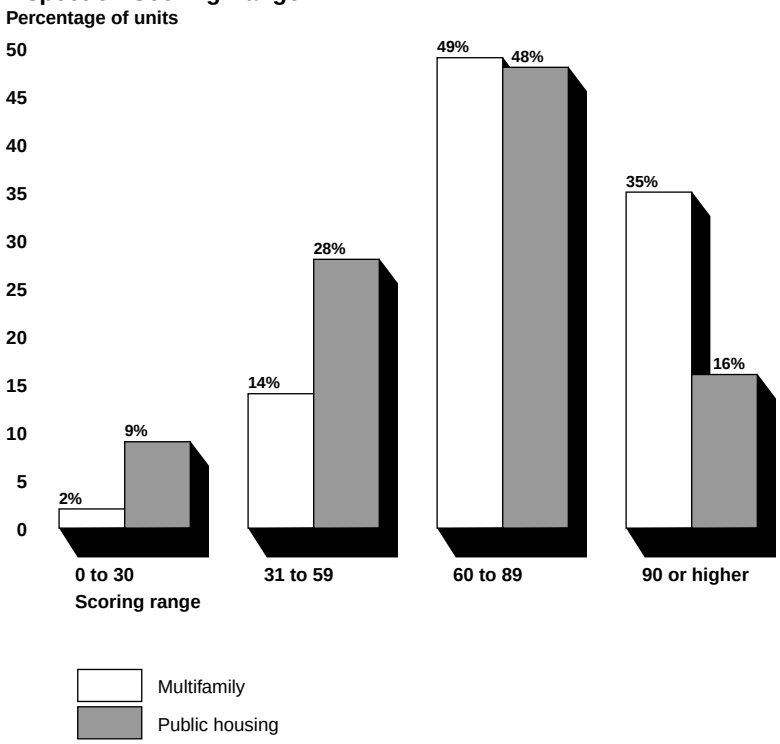


Figure 4 summarizes the percentage of multifamily and public housing units associated with the properties whose physical inspection scores fall into one of the four scoring ranges. About 84 percent of the multifamily units and about 64 percent of the public housing units were in properties with inspection scores of 60 or higher. About 2 percent of the multifamily units, and about 9 percent of the public housing units, were in properties with inspection scores of 30 or below.

Figure 4: Percentage of Multifamily and Public Housing Property Units, Sorted by Inspection Scoring Range



Our analysis indicates that the baseline physical inspection scores vary according to location. Table 1 provides information on the total number of properties inspected, the number of assisted units in these properties, and the average inspection score for all property inspections within each of the four regions of the country. Properties in the Northeast and Midwest regions received lower average inspection scores than properties located in the South and West. REAC officials cited several factors that may have contributed to these regional variations, including the facts that properties in the Northeast and Midwest tend to be older and weather conditions in those regions are generally harsher. Nevertheless, REAC officials noted that the United States Housing Act of 1937 requires that all HUD-assisted facilities, including both assisted and public housing, be in decent, safe, and sanitary condition and in a good state of repair.

Table 1: Physical Inspection Results for Properties in HUD's Baseline Inventory, by U.S. Region

Region	Total properties	Total assisted units	Average inspection score
Northeast	7,388	698,843	74.95
Midwest	10,694	621,052	77.78
South	14,644	855,789	79.60
West	6,664	299,319	81.25
Other	581	83,261	70.42
Total	**39,971**	**2,558,264**	**78.40**

Note: "Other" refers to properties in Puerto Rico and the Virgin Islands. The average inspection score when these properties are excluded is 78.51.

Our analysis also indicates that physical inspection scores vary according to the type of financing and assistance received from HUD. Table 2 provides information on the total number of multifamily properties inspected, the number of assisted units in these properties, and the average inspection score for all property inspections according to the type of assistance HUD provides. Properties that receive funding through HUD's 202/811 programs received the highest average inspection score. The 202/811 programs are aimed at expanding the supply of housing and supportive services for the elderly and handicapped. Properties whose mortgages are "held" by HUD received the lowest average scores. HUD assumed responsibility for these properties after they became financially troubled, and their financial difficulties may have had an impact on their physical condition.

Table 2: Physical Inspection Results for Multifamily Properties in HUD's Baseline Inventory, by Type of Financing and Assistance

Type of financing	Assisted or unassisted	Total properties	Total assisted units	Average inspection score
202/811	Assisted	5,956	250,408	86.77
202/811	Unassisted	57	0	92.61
HUD-held	Assisted	683	52,733	68.60
HUD-held	Unassisted	87	0	72.62
FHA-insured	Assisted	8,448	643,246	77.11
FHA-insured	Unassisted	4,629	0	81.30
Noninsured	Assisted	6,504	377,963	78.99
Total	**Not applicable**	**26,364**	**1,324,350**	**Not applicable**

Industries' Concerns and HUD's Responses

HUD consulted representatives of the multifamily and public housing industries during both the development of its physical inspection system and recent revisions to it. Nevertheless, industry officials whom we spoke with still had concerns about the system. In general, these officials were concerned that the inspection results do not consistently provide accurate information on individual properties. They were also concerned that the two processes that allow owners and managers to appeal their physical inspection scores—technical reviews and database corrections—are too complex and do not allow enough time for housing authorities and owners to prepare appeals. In addition, public housing industry officials were concerned about differences in HUD's treatment of public housing properties and multifamily properties that receive comparable inspection scores. In response to these concerns, HUD officials noted that they had been working with housing industry representatives to address their concerns and would continue to do so.

Concerns About Whether Inspection Scores Consistently Reflect Properties' True Physical Condition

Multifamily and public housing industry officials told us that REAC's inspection protocol and scoring algorithm do not consistently produce inspection scores that accurately reflect the physical condition of the properties being assessed. They said they were aware of several instances in which a property's inspection score changed substantially from the initial inspection to a more recent one. For example, they noted that one property received a score of 85 in 1999 and a score of 42 in 2000. The officials believed that so much change in the score from one year to the next, when there was little change in the condition of the property, calls into question the reliability of the inspection system.

In addition, officials from both industries believed that the number of points properties lose for some deficiencies is out of proportion to their importance because of the weight that HUD assigns to the deficiencies. For example, one public housing group identified a number of deficiencies with point deductions that it considered inappropriate. These included fences and retaining walls that showed signs of deterioration but still served their intended functions, minimal accumulations of water in parking lots and driveways, and play equipment that does not operate correctly but does not pose a safety risk. As a result, some officials believed that the system was not fair and generated some scores that were lower than they should have been.

HUD officials said they are aware of significant discrepancies between recent and first-year scores for some properties. The officials told us they

are reviewing variations in property scores and will develop remedial alternatives as warranted. In addition, HUD officials said that pending revisions to the inspection software should make inspection results more accurate. As to the industries' concerns about the number of points associated with some deficiencies, HUD officials believed that at least some have been addressed by changes that HUD recently made to define a large number of deficiencies more specifically. However, the officials said that if concerns persist after the new inspection protocol incorporating the changes in definitions has been tested and implemented, they will consider looking at the weights assigned to certain deficiencies.

Concerns About HUD's Procedures for Testing Revised Inspection Software

In response to the multifamily and public housing industries' concerns, in December 1999, HUD made changes to the definitions of a large number of potential deficiencies that inspectors use in assessing properties' physical condition. Although HUD has begun testing the revised software that incorporates these changes, industry officials believed that HUD should review its testing procedures. The officials believed that HUD should use a statistically valid sampling methodology for selecting test sites and that HUD should conduct complete inspections, using both the revised and old software simultaneously, rather than looking only at the test results for deficiencies with revised definitions. After completing the test inspections, they said, HUD should compare the results to determine how the revised definitions affected the properties' scores and whether the revised software produces more accurate results.

According to HUD officials, HUD has modified its testing procedures twice to address the industries' concerns about its selection of test sites and testing methodology. Initially, HUD conducted tests targeted to deficiencies with revised definitions, but later it modified its procedures to test the complete protocol at six public housing authorities. In all, HUD tested the software at 23 developments in 15 cities. At the 17 properties where HUD conducted tests using the complete protocol, the scores for 14 increased by an average of about 5 points when the new software was used.

Concerns About the Training and Skills of Some Inspectors

Both multifamily and public housing industries said that significant variations in the physical inspection scores received by some properties show that certain contract inspectors need additional training in how to implement REAC's inspection protocol. Industry officials also believed that variations in the scores might mean that HUD is not providing enough on-

site training for the contract inspectors. The officials further suggested that turnover among inspectors might be negatively affecting the quality of inspections.

In response to these concerns, HUD officials maintained that the Department's requirements for inspectors are sufficient to ensure that they are qualified. The officials noted that the contract inspectors must have a minimum of 3 years of experience in the building trades and, to be certified, must pass tests that ensure they can appropriately characterize deficiencies. While acknowledging that there has been some turnover among inspectors, HUD officials said the inspection contractors have not reported problems in hiring replacement inspectors. They also noted that when HUD has found an inspector's performance unacceptable, it has revoked the inspector's certification to perform HUD inspections. Finally, they informed us that HUD will retrain and recertify the entire inspector workforce in the course of implementing the latest version of its inspection software.

Concerns About Differences in the Treatment of Multifamily and Public Housing Properties

Public housing officials are concerned that public housing properties and multifamily properties with comparable inspection scores receive different treatment from HUD. For example, they said HUD's regulations designate public housing properties that receive physical inspection scores of 60 or lower as "troubled," whereas multifamily properties do not receive a comparable designation. They also noted that public housing properties receiving overall scores of from 60 through 69 points under HUD's Public Housing Assessment System (which includes REAC's physical inspections as one of its components) must submit an improvement plan to HUD to eliminate the deficiencies in the housing authority's performance, whereas no similar requirement exists for multifamily properties. In addition, they said that multifamily properties receiving the highest physical inspection scores are to be reinspected every 3 years, whereas top-performing public housing authorities will be reinspected every 2 years.

Officials from HUD's Office of Public and Indian Housing said that some of the differences in how properties are treated, such as the designation of public housing properties with scores of 60 or below as troubled, is based on statutory requirements. HUD officials also said that public housing authorities are required to file improvement plans only if their overall score under HUD's Public Housing Assessment System is from 60 through 69. If a housing authority receives a score in this range on the physical inspection component of the system, it does not need to file an improvement plan so

long as its overall score is 70 or higher. However, the rule provides that, on a risk-management basis, a field office/program center may require that a housing authority with a score of not less than 70 submit an improvement plan. The officials also said they believed allowing high-performing public housing authorities to be reinspected every 2 years was an appropriate incentive, but that they would continue to review this and other incentives as the new assessment system was being implemented.

Concerns About Whether HUD Is Giving Property Owners Enough Time to Prepare and Submit Documentation for Technical Reviews and Database Corrections

According to the multifamily and public housing industries, HUD's technical review and database correction processes do not give them enough time to seek redress for problems with inspections. The technical review process allows owners and housing authorities to appeal their scores when they believe contract inspectors have made errors in judgment when assessing the condition of their properties. The database correction process provides a means for HUD to correct inspection data when local ordinances or building codes are not factored into the scoring process. Specifically, industry groups are concerned that 15 days is not enough time to complete the steps for requesting technical reviews or database corrections. Industry groups also fear that HUD will accept appeals for cases only when a change in score will lead to a change in the property's "designation" and disposition (e.g., whether the property will be referred to a HUD office for corrective action). Finally, industry groups are concerned about the potential for confusion resulting from HUD's having different processes for handling technical reviews and database corrections and the possibility that HUD may not have enough staff to implement the processes efficiently and effectively.

HUD officials said that the time frames specified in HUD's regulations for housing authorities and property owners to request technical reviews and database corrections are short to minimize the prospects of substantial change in a property's condition between the time an inspection occurs and the time a request is received. However, the officials said that HUD has processed the requests even if it has received them after the specified time frames. They also said that different systems are needed for technical reviews and database corrections because HUD field offices have to be involved in the database correction process. They also noted that as they identify instances calling for database corrections (e.g., when they find differences between local building codes and REAC's standards), they plan to modify their inspection database. Over time, corrections in the database will reduce the burden on field office staff.

Objectives, Scope, and Methodology

Congressional requesters expressed concerns about whether REAC's inspections represent an improvement over HUD's prior inspection systems and whether REAC's inspections are reliable. In response to their concerns, we agreed to

- discuss the basis for the new physical inspection standards HUD has established for public and multifamily housing and any differences between the new standards and inspection procedures and those formerly used by HUD;
- summarize the results of the first round of physical inspections and determine what REAC's reviews of these inspections show about their reliability;
- determine whether REAC's quality assurance measures are sufficient to ensure that the inspections are reliable and that problems with the inspections are resolved expeditiously; and
- describe concerns expressed by housing industry representatives about the new system and determine whether they have identified more cost-effective systems for assessing the physical condition of HUD's properties.

We reviewed HUD's proposed rules for establishing REAC's physical inspection system; these rules lay out HUD's basis for its new physical inspection standards. In addition, we reviewed HUD's statutory requirements to provide decent, safe, and sanitary housing as set forth in the United States Housing Act of 1937, as amended. We also reviewed the requirements in the Department's contracts with mortgagors of HUD-insured housing. To determine how the new standards and procedures differ from prior ones, we interviewed (1) HUD officials in REAC, the Office of Public and Indian Housing, and the Office of Housing and (2) representatives of public and multifamily housing industry associations. We also compared the new standards with HUD's housing quality standards.

To summarize the results of the baseline inspection data, we obtained two databases from HUD in early April of this year. These databases contain information on the first round of inspections of properties in HUD's multifamily and public housing portfolios. This information includes, for each property, the type of property inspected, the date of inspection, the physical inspection score, and the types of exigent health and safety violations identified during the inspection. We performed tests for reasonableness and completeness. When we found discrepancies (e.g., duplicate entries or data entry errors) we brought them to HUD's attention.

We corrected these discrepancies before conducting our own analyses. To assess the overall physical condition of these portfolios, we determined the extent to which properties included in the baseline inventory received satisfactory physical ratings. To determine what REAC's reviews of these inspections showed about their reliability, we analyzed the results of REAC's collaborative and follow-up quality assurance reviews.

To determine whether REAC's quality assurance measures are sufficient to ensure that inspections are reliable, we interviewed REAC officials, reviewed contract files and reports, and analyzed data on the different quality assurance processes and appeals procedures. We analyzed inspection contracts and visited two of the four inspection contractors, who provided us with information on their quality control programs. We also judgmentally selected 10 contract inspections completed at properties in three different metropolitan areas and accompanied REAC quality assurance inspectors on follow-up reviews to verify whether each inspection met REAC's standards. To determine whether inspection problems were being resolved expeditiously, we reviewed HUD's proposed and final regulations for appeals and comments submitted on the regulations, and we analyzed appeals data.

To obtain information on the multifamily and public housing industries' concerns about REAC's inspection system and on whether the industries have identified more cost-effective systems for assessing properties' physical condition, we met with representatives of associations for both industries, including the American Association of Homes and Services for the Aging, Council of Large Public Housing Authorities, National Association of Home Builders, National Association of Housing and Redevelopment Officials, National Affordable Housing Management Association, National Center for Housing Management, National Housing Conference, National Leased Housing Association, National Association of Realtors, and Public Housing Authorities Directors Association. We also discussed concerns and alternatives with a selected number of executive directors, or their representatives, for public housing authorities. Finally, we met with officials from the National Academy of Public Administration to discuss their ongoing study.

Comments From the Department of Housing and Urban Development

Note: GAO's comments supplementing those in the report text appear at the end of this appendix.

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JUN -9 2000

REAL ESTATE ASSESSMENT CENTER

Richard A. Hale
U. S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Hale:

The Department of Housing and Urban Development has examined the United States General Accounting Office's draft report titled "HUD Has Strengthened Physical Inspections but Needs to Resolve Concerns About Their Reliability" (Job Code 385813). HUD would like to thank the United States General Accounting Office for the opportunity to work with them as they performed the audit of the new physical inspection protocol and process at HUD.

As the GAO noted, HUD significantly modified and improved the physical inspection protocol and system since the previous Housing Quality Standards. The inspection protocol developed by HUD was one part of the reforms that were put in place by Secretary Andrew Cuomo as part of the HUD 2020 Management Reform Plan. This single program has enabled HUD, in a little more than a year, to accurately determine the condition of the entire HUD property inventory. This is a major modification and improvement over what existed prior. The process for evaluating the physical condition of every asset is now structured, standard and statistically reliable. While the GAO correctly points out that there is still work that HUD needs to do to improve its quality assurance program, we believe it is important to point out that in prior periods there was no quality assurance, no consistent standards, and no reliable inspection process to assess the condition of the HUD housing inventory. The outcome from this effort is that, for the first time, HUD knows the condition of approximately 40,000 properties in its national inventory.

The protocol and system development work HUD did from 1997 through 1998 (when the first inspection was completed) was significant. But the work continues to hone the tool that was developed and to improve it as time passes. HUD staff and management had identified many of the items that GAO pointed out during the course of the audit. However, the GAO helped us focus on specific areas, for priority treatment and the GAO suggested additional improvements to further strengthen our protocol (one example being improvements to the Exigent Health & Safety form process). The report points out the modifications that HUD has already made in its overall quality assurance plan. The dialogue with GAO enabled these modifications.

HUD requests that you consider the tables below as well as the enclosed documents. In the two tables below HUD has responded to GAO's recommendations and has clarified a statement from page 20 of the draft report. The attached document is the entire revised Quality Assurance Plan.

See comment 1.

See comment 2.

See comment 3.

See comment 4.

GAO Recommendation	REAC Response	Referenced section in PASS QA Plan (April 2000)
1) Revise the quality assurance plan as needed to ensure that the quality assurance activities it contains will provide REAC with the information it needs to assess its performance in achieving the plan's four key objectives. This should include adding information to the plan that describes how the information obtained through various quality assurance procedures will be used to assess REAC's performance in meeting each of the plan's objectives.	The plan already includes primary and secondary outcome reporting requirements for each level. It also includes inter-level QA reporting requirements for findings detected in one level that might have an affect on another level. We will include a third reporting requirement that will summarize the overall results of each of the above reporting requirements. We will do this on a semiannual basis.	"REAC Quality Assurance Program ", narrative section 2.4 and section 2.5 Semi-Annual Quality Assurance Program Evaluation Report
2) This should include adding information to the plan that describes how REAC's quality assurance activities relate to activities performed by inspection contractors as part of their quality control programs.	The interdependency of activities within each level are described in the QA plan. Specifically, in Level 1 of the PASS QA plan the contractors' quality control programs are reviewed for compliance with their QC plan. The results of this review are communicated to the other levels of the QA plan and activities are adjusted accordingly. Formal reports that communicate overall contractor and program performance will be provided to the contractors on a monthly basis.	"REAC Quality Assurance Program ", section 2.3.1
3) This should include adding information to the plan that describes what records REAC should maintain to document its actions in regard to poorly performing inspectors identified during collaborative and follow-up reviews.	PASS has developed and implemented an "Inspector Tracking System" designed to manage corrective action taken on sub-standard inspectors and inspections. The system records the details of the problem, the prescribed remedial action, required response date, and the date issue was resolved by contractor.	Outcomes of Level 2 and 3
4) REAC should reevaluate whether the plan contains appropriate criteria for quality assurance personnel to use in assessing each of the activities covered by the plan.	The PASS QA plan calls for the utilization of standardized evaluation tools and processes (the CQA and LQA tools identified in Levels 2 and 3) to collect and evaluate performance data. The evaluation criteria are modified as appropriate (outcome of activities within Level 4).	"REAC Quality Assurance Program", section 2.1 (fig. 1) and Levels 1-4.

See comment 5.

GAO Statement on page 20	HUD Discussion	HUD's specific recommended change to text
For example, the criteria REAC proposes to use for assessing inspector performance during collaborative reviews allows inspectors an error rate as high as 20 percent in certain areas before their performance is classified as not meeting REAC standards. Allowing such a high error rate appears inconsistent with REAC's goal of zero defects in inspector performance.	The REAC QA plan does not allow for any errors in the inspection data. During the course of a CQA review, all errors are corrected during the inspection and only accurate data is to be uploaded to REAC.	Delete complete statement.

We believe the interplay of the GAO staff with those involved in the daily operations of the REAC has served only to strengthen the important work begun by the HUD 2020 Management Reforms. We look forward to continuing our productive working relationship. Working together we can make the goals of HUD a reality.

Sincerely,

Donald J. LaVoy
Director,
Real Estate Assessment Center

cc: Larry McGhee
Ernie Parker
Saundra Green
Jim Martin

Enclosures

The following are GAO's comments on the Department of Housing and Urban Development's letter dated June 9, 2000.

GAO's Comments

1. In response to our recommendation that HUD periodically issue reports describing the quality assurance activities that it performs and the results of these activities, REAC updated its quality assurance plan to include the preparation of a semi-annual report that will summarize the overall results of REAC's quality assurance activities. REAC also provided us with a 1-page document containing indicators that it had developed for assessing the results of its quality assurance activities. However, these indicators do not cover some key quality assurance activities, such as (1) follow-up reviews for determining whether inspectors performed inspections completely and correctly and (2) activities for assessing the inspection system's precision and replicability. When we later met with REAC officials to discuss HUD's comments, they told us they were still deciding what indicators to include in the semi-annual report, and they said they were planning to add indicators to those included in the document they gave to us earlier.

2. The revised quality assurance plan that HUD provided us still does not specify how REAC will use its inspection contractors' quality control data and information to target its own quality assurance efforts. After giving us the revised plan, REAC officials told us they recognize that better coordination is needed between the contractors' and REAC's own quality assurance programs. They said they are considering revisions in the requirements for the contractors' quality control programs that would better integrate them with REAC's quality assurance program. The revisions would include more specifically defining the information that needs to be included in the reports that contractors prepare on their quality control activities. In addition, REAC is looking at ways of providing more information to contractors for them to use in strengthening their quality control efforts.

3. REAC has taken actions to help ensure that poorly performing inspectors are dealt with appropriately. For example, it has developed the inspector tracking system that HUD refers to in its comments, and it has added a step to its quality assurance plan that is aimed at determining whether an inspector's substandard performance has been documented and reported to the contractor. However, given the problems we identified with REAC's documentation of actions taken

against contract inspectors, we believe the plan should identify the records HUD staff need to maintain to document poor performance and the actions taken to correct it.

4. Although REAC has developed criteria for assessing some of the activities covered in the quality assurance plan, it is still not clear how REAC will assess some other important activities, such as its success in controlling the level of variance in inspection scores resulting from the application of its inspection protocol. The plan identifies various tests that will be performed to assess variations in inspection scores, such as analyses of data from different inspectors for the same or similar sites, yet it is not clear what level of variation will be regarded as acceptable. Additionally, it is not clear what criteria will be used to assess the results of follow-up reviews aimed at determining whether inspections have been performed completely and correctly.

5. We continue to have concerns about the criteria REAC plans to use during collaborative quality assurance reviews for assessing whether inspectors' performance meets REAC's standards. REAC's quality assurance plan indicates that inspectors could have an error rate as high as 20 percent in certain areas before their performance is classified as not meeting REAC's standards. We recognize that REAC plans to correct data errors in inspections for those properties where it has actually conducted the collaborative reviews. However, it is not clear how REAC will determine whether the inspectors are making similar errors at other properties that are not reviewed. At our meeting with them to discuss HUD's comments, REAC officials told us that it is not their intention to allow inspectors with error rates as high as 20 percent to continue performing inspections and they would reexamine the criteria used in the plan and define it more clearly.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Acknowledgments

In addition to those named above, Karen Bracey, Martha Chow, Mark Egger, Bess Eisenstadt, John McGrail, Sally Moino, Jay Raple, Rose Schuville, and Don Watson made key contributions to this report.

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