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June 17, 2019

NAHMAanalysis 2019-0617

GAO Report: Real Estate Assessment Center – “HUD Should Improve Physical Inspection Process and Oversight of Inspectors”

Recently, the Government Accountability Office (GAO) published a report to Congressional Committees on HUD’s Real Estate Assessment Center (REAC) titled, “HUD Should Improve Physical Inspection Process and Oversight of Inspectors.” REAC inspects the physical condition of HUD-assisted or -insured multifamily housing to determine that it is decent, safe, sanitary, and in good repair.

The 2017 Consolidated Appropriations Act included a provision for GAO to review REAC’s policies and processes. The GAO report, for which NAHMA and some of our industry colleagues were interviewed, finds several weaknesses in the REAC process and makes recommendations for correction; in particular, the report recommends improvements related to REAC’s physical inspection process and its selection, training, and monitoring of contract and quality assurance inspectors, among other things.

The GAO report is especially timely given recent HUD efforts to adjust physical inspection notification timeframes and protocol; this NAHMAanalysis outlines the report’s conclusions and HUD’s responses to the GAO’s recommendations as they relate to impending changes to HUD’s REAC processes and protocol. More information about HUD’s planned REAC protocol changes under its newly announced “National Standards for the Physical Inspection of Real Estate” (NSPIRE) initiative are available online [here](#).

Background

Through the Real Estate Assessment Center (REAC), HUD is responsible for conducting physical inspections to ensure that its multifamily and public housing properties are decent, safe, sanitary, and in good repair. Generally, REAC inspections occur every 1 to 3 years on a risk-based scheduled utilizing the Uniform Physical Condition Standards (UPCS) as its standardized inspection protocol. The Center uses both contract inspectors and quality assurance inspectors to carry out inspections and assign properties an inspection score between 0 and 100, with scores below 60 indicating a failed inspection.

Despite utilizing these long-standing processes for physical condition monitoring and enforcement, HUD has reportedly continued to find some properties that have life-threatening health and safety issues. REAC records indicate that during the fiscal years 2013-2017, 6% of properties in the vast multifamily

housing portfolio failed one or more inspections, while 11% of public housing properties scored 60 or below during the same period.

Congressional and Media Concern

In recent years, Congress and the media have raised concerns about the physical condition of the country's federally-assisted properties, which house over 2 million low- and moderate-income households. In particular, stakeholders voiced concern about discrepancies between properties' awarded score and the actual physical condition, including health and safety issues.

A 2017 law enacted by Congress included a provision requesting a Government Accountability Office (GAO) review of REAC. From July 2017 through March 2019, the GAO reviewed REAC processes, interviewed agency and industry stakeholders (including NAHMA), analyzed REAC data, reviewed documents, and held discussion groups with inspectors. The report examined REAC's processes for: identifying physical deficiencies; selecting, training and developing contract and quality assurance inspectors; monitoring contract and quality assurance inspectors; and monitoring and enforcement processes for addressing physical deficiencies and how REAC's information is used to support these processes.

Report Findings and Recommendations

Overall, the GAO report found several weaknesses in REAC's processes related to timing, staffing, documentation, sampling errors, reviews, and implementation, as well as areas for improvement with regard to selecting, training, and overseeing inspectors:

1. Review of Inspection Process

According to the GAO report, REAC has not conducted a comprehensive review of its inspection process since 2001, even though new risks to its process have emerged since then, including REAC's fundamental change of the entities conducting inspections through the introduction of the reverse auction process in 2005. Additionally, the GAO identified concerns among stakeholder regarding the fairness of the inspection process, which emphasizes deficiencies affecting the property site as opposed to the livability of units.

The GAO report states that "a comprehensive review of the inspection process could help REAC identify risks and ensure it is meeting the goal specified in its strategic plan that inspections be reliable, replicable, and reasonable." The report recommended the REAC deputy assistant secretary conduct a comprehensive review of the physical inspection process.

2. Sampling Errors and Methodology

REAC's inspection process uses a statistical sample of units and buildings, which is used to estimate a score for the entire property. Sampling introduces a degree of uncertainty, called sampling error, which is represented by a range. However, REAC's property inspection scores are currently presented as numerical results without any information on the range associated with the score. According to the report, the lack of a scoring range has significantly affected the number of properties REAC inspected, as well as the frequency with which they conducted inspections on the risk-based model. In addition, REAC has not updated any of its documents related to the sampling

methodology since 2002 to reflect current practices, relying instead on the institutional knowledge of individual staff members.

The GAO report states: “If REAC were to resume reporting on sampling errors and develop a process to address properties that fall below certain cutoff scores when the sampling error is taken into account, it would have the information it needs to identify properties that may require more frequent inspections or enforcement actions.”

The report recommended the REAC deputy assistant secretary resume calculating the sampling error associated with the physical inspection score for each property, identify what changes may be needed for HUD to use sampling error results, and consider those results when determining whether more frequent inspections or enforcement actions are needed.

Additionally, the GAO recommended the REAC deputy assistant secretary develop comprehensive and organized documentation of REAC’s sampling methodology and develop a process to ensure that documentation is maintained going forward.

3. Timing of Housing Inspections

According to the report, REAC conducted inspections for properties about 6 months late on average. Although there may be legitimate reasons for a delayed inspection (such as natural disasters or major rehab), HUD maintains limited data on inspection timing, delays, and cancellations. The report also states that REAC does not track its progress toward meeting prescribed inspection timeframes.

The GAO report states: “Improvements in REAC’s on-time performance of multifamily property inspections could provide HUD with more timely information on the physical condition of these properties and the information it needs to take any enforcement actions”

The report recommended the REAC deputy assistant secretary track, on a routine basis, whether REAC is conducting inspections of multifamily housing properties in accordance with federal guidelines for scheduling and coordinate with the deputy assistant secretary for Multifamily Housing to minimize the number of properties that can cancel or reschedule their physical inspections.

4. Implementation of Open Recommendations and Other Findings

According to the report, HUD has made limited progress in implementing recommendations from an internal review of REAC that was conducted in 2016. Some of these recommendations address REAC’s management of the inspection process, such as the weighting of dwelling units in inspections scores, notice provided to property owners of impending inspections, and exigent health and safety risk abatement verification policies.

For example, according to the report, HUD offices do not have a formal program to ensure that property owners are addressing the exigent health and safety issues identified during inspections, and “as a result, property owners may choose to correct only those deficiencies that they believe will be checked by HUD field office staff.” The report also discussed increasing the weight of dwelling unit deficiencies over repairs in common areas.

The report made several recommendations related to inspection selection, training and monitoring, calling on the REAC deputy assistant secretary to:

- Follow through on REAC's plan to create a process to verify candidate qualifications for contract inspectors—for example, by calling references and requesting documentation from candidates that supports their completion of 250 residential or commercial inspections. The plan should also consider whether certain types of inspections—such as Federal Emergency Management Agency inspections and U.S. Army Office of Housing inspections—satisfy REAC's requirements.
- Develop a process to evaluate the effectiveness of REAC's training program—for example, by reviewing the results of tests or soliciting participant feedback.
- Revise training for quality assurance inspectors to better reflect their job duties. Revised training should be documented, include expanded subject matter training, and address skills that may not be included in training for contract inspectors.

HUD also identified a number of weaknesses related to the staffing inspections, including through the reverse auction process and the pilot for hard-to-staff areas as well as performance standards and training policies for inspectors. The report's remaining recommendations include implementing a plan for timeliness and frequency of inspector reviews.

HUD Response to GAO Recommendations

Although HUD generally agreed with the report's recommendations, REAC stated it did not have the resources to implement all recommended actions. Instead, REAC stated that it intends to move forward with its intention to develop a new inspection model.

In a March 2019 letter responding to the GAO's report, REAC Deputy Assistant Secretary Donald J. La Voy stated:

REAC largely agrees with the GAO's findings and has been examining how it can develop, pilot, and evaluate an alternative approach that will address the issues raised in the GAO's draft report. However, with a long history of finite, if not inadequate, resources, REAC will be unable to simultaneously develop a new model and implement all recommendations the GAO has made regarding REAC's current inspection model.

After 20 years of extremely limited resources to upgrade the information technology systems supporting the inspection model, the process has become susceptible to manipulation and the Department needs to develop a new physical inspection process. A full-scale effort is underway to pilot the new model.

To learn more about this topic as well as any new REAC-related news, visit NAHMA's [Emerging REAC Issues webpage](#) for all the latest information. The REAC-specific page can be found on the HUD Issues webpage under the Agencies tab at www.nahma.org.