OFFICE OF INSPECTOR GENERAL (OIG)
CHA AUDIT COMMITTEE
CHICAGO, IL

November 27, 2017

OIG case #2016-06-00001 – Public Housing Over Income

Elissa Rhee-Lee, Inspector General
Michael Kosanovich, Deputy Inspector General
Beatriz Martinez, OIG Senior Auditor
Ellaye Accoh, OIG Senior Auditor
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A. Executive Summary

I. Background

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

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

Due to previous audit observations from the CHA Internal Audit Department and HUD’s 2015 Over income Families Residing in Public Housing Units Audit report. The OIG selected and conducted an audit of the Public Housing Over Income Population. Also, this topic was part of the OIG 2016 Audit Program Plan.

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

II. Objective

1. Review CHA’s Public Housing program and determine the extent to which subsidized public housing units are occupied by over income families.
2. Review CHA’s internal controls and procedures as it relates to the review, approval, and processing of rent calculation.
3. Determine whether CHA is in compliance with HUD’s rent requirements.

III. Scope

The original scope for the Public Housing Over Income audit was for residents with a 50058 effective date of January 1, 2015 through December 31, 2015. However, the scope was adjusted to January 1, 2016 through December 31, 2016 to provide relevant information to the Property Office.
IV. Approach and Methodology

The audit was performed by conducting interviews, reviewing documentation, inspections, testing and other measures deemed necessary. Other measures include, but are not limited to, utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data. Interviews were conducted with key personnel from the following departments:

1. Legal Department
2. Property Office
3. Private Property Management (PPM) firms

The OIG tested, on a sample basis, Public Housing families for compliance with HUD’s income limits and rent calculation.

V. Sample Selection

Using a judgmental sampling method, the OIG selected 18% (10 out of 56) of the CHA’s public housing sites.

<table>
<thead>
<tr>
<th>Region</th>
<th>PPM</th>
<th>Site</th>
<th>Prop Type</th>
<th>Management Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Habitat</td>
<td>022-Lathrop Homes</td>
<td>Traditional-Family</td>
<td>2000 W. Diversey</td>
</tr>
<tr>
<td>1</td>
<td>Habitat</td>
<td>074-Edith S. Sampson Lincoln &amp;</td>
<td>Traditional-Senior</td>
<td>2720 N SHEFFIELD Ave</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sheffield</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Realty &amp; Mortgage</td>
<td>093-Horner - Westhaven</td>
<td>Traditional-Family</td>
<td>1834 W Washington</td>
</tr>
<tr>
<td>2</td>
<td>Realty &amp; Mortgage</td>
<td>070-William Jones 1447 S. Ashland</td>
<td>Traditional-Senior</td>
<td>1447 S Ashland</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ave.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>WCDC</td>
<td>039-Washington Park 613 E. 40th</td>
<td>Traditional-Family</td>
<td>613 E. 40th St.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>St. Chicago, IL 60653</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>WCDC</td>
<td>082-Kenneth Campbell 8360 S.</td>
<td>Traditional-Senior</td>
<td>6360 S. Minerva</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Minerva Ave. Chicago, IL 60637</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>McCormack Baron</td>
<td>035-SS Region 4 - Including PII</td>
<td>Traditional-Family</td>
<td>1324 S Loomis, 60608</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(SW-W- SE)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>McCormack Baron</td>
<td>063-Las Américas 1611 S. Racine</td>
<td>Traditional-Senior</td>
<td>1611 S Racine, 60608</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ave.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Eastlake</td>
<td>025-Lowden</td>
<td>Traditional-Family</td>
<td>200 W. 95th St.</td>
</tr>
<tr>
<td>5</td>
<td>Eastlake</td>
<td>041-Mahalia Jackson Apartments</td>
<td>Traditional-Senior</td>
<td>9141-9177 S. Chicago Ave.</td>
</tr>
</tbody>
</table>
VI. Summary of Results

The following table provides an overview of the observations and recommendations included in this report. Details of each observation and recommendation can be found in their respective sections to follow:

<table>
<thead>
<tr>
<th>Observations</th>
<th>Potential/Actual Result</th>
<th>Risk Level</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Over Income Families - 124 families out of 220 (56%) are 120% over income.</td>
<td>Actual</td>
<td>Low</td>
<td>Implement HUD's H.R. 3700 – 114th Congress (2015-2016) TITLE I – SECTION 8 RENTAL ASSISTANCE AND PUBLIC HOUSING.</td>
</tr>
<tr>
<td>2. Incomplete tenant files - 13 out of 20 family files and 2 out of 10 senior files are incomplete.</td>
<td>Actual</td>
<td>High</td>
<td>Management should strengthen the internal controls so that all the required documents are completed and maintained in the tenant file in order to comply with federal requirements.</td>
</tr>
<tr>
<td>3. HUD’s rent Requirements - Approximately 1,000 CHA residents (8% of households) will be affected by HUD’s new Flat Rent requirement.</td>
<td>Actual</td>
<td>Low</td>
<td>Review the consent decree to determine if the residents at Henry Horner can start paying 30% of the adjusted gross income.</td>
</tr>
</tbody>
</table>

B. Observations and Recommendations

I. Over Income Families

**Observation: Risk Level: Low**

The Department of Housing and Urban Development (HUD) sets income limits for its programs based on the median income of residents in the Chicago metropolitan area.

The chart below outlines the income limits for CHA’s Public Housing program. These income limits represent the maximum allowable income that a family can have at initial screening in order to be eligible to receive CHA housing subsidy.

**HUD’s Income Guidelines - Effective 4/18/2016:**

<table>
<thead>
<tr>
<th></th>
<th>1 Person</th>
<th>2 Person</th>
<th>3 Person</th>
<th>4 Person</th>
<th>5 Person</th>
<th>6 Person</th>
<th>7 Person</th>
<th>8 Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>80% of Area Median Income*</td>
<td>$43,050</td>
<td>$49,200</td>
<td>$55,350</td>
<td>$61,500</td>
<td>$66,450</td>
<td>$71,350</td>
<td>$76,300</td>
<td>$81,200</td>
</tr>
</tbody>
</table>

*HUD updates these figures annually based on regional changes in income.

CHA provided public housing assistance to as many as 220 families whose annual household income exceeded HUD’s Income Guidelines (at the 80% limit), which is 1% (220 out of 16,018) of CHA’s total Public Housing Portfolio.2

1 We ranked findings as High, Medium, or Low Risk, to indicate urgency of recommended actions.  
**High Risk:** Lack of prompt action by Management may severely impact the agency mission/operation in the short run and/or may expose the agency to violation of laws and regulations.  
**Medium Risk:** Lack of corrective action by Management will materially and adversely impact operation in the long run. Action is needed to prevent or mitigate loss.  
**Low Risk:** Action by Management is necessary to improve operations and/or to correct minor control weakness.

2 Data extracted from Yardi on 2.09.2017
Out of the 220 families, 124 families (56%) are 120% over income. All are paying less than 30% of the adjusted gross income (See Appendix 1 – 120% Over Income Families in Public Housing for full details).

- 34 families out of 124 (27%) are covered by the Henry Horner consent decree.

HUD’s H.R. 3700 – 114th Congress (2015-2016) TITLE I—SECTIONS 8 RENTAL ASSISTANCE AND PUBLIC HOUSING states:

“(Sec. 103) If a PHA determines that a tenant’s income is greater than 120% of the area median income for two consecutive years, the PHA must: (1) charge the tenant the greater of the fair market rent or the amount of the government subsidy for the unit, or (2) terminate the tenancy. HUD may increase or decrease the income limitation based on unique local conditions, such as construction costs, unusually high or low family incomes, vacancy rates, or rental costs.”

Recommendations:

Implement HUD’s H.R. 3700 – 114th Congress (2015-2016) TITLE I section 103—SECTIONS 8 RENTAL ASSISTANCE AND PUBLIC HOUSING

<table>
<thead>
<tr>
<th>Management Response:</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Concur with observation and recommendation</td>
</tr>
</tbody>
</table>

The Property Office concurs with this observation.

The noted recommendation is consistent with the over income public housing tenancy requirements as established by the Housing Opportunity Through Modernization Act (HOTMA). PHAs, however, are unable to implement the provisions of this statute without HUD’s issuance of final rule making on the policy.

Custodian: Ketsia Colinet (Housing Policy & Occupancy – Property Office)

Implementation Timeline: TBD
II. Incomplete Tenant Files

**Observation: Risk Level: High**

During the fieldwork,
- CHA was going through a transition period of PPMs (new management) in 2016.
- Realty & Mortgage and McCormack Baron staff did not have access to the Enterprise Income Verification (EIV) System.

We tested 20 files from the selected Family Sites and 10 files at the selected Senior Sites to review and observed incomplete tenant files. The following list of documents shows the number of files that were either missing or incomplete:

<table>
<thead>
<tr>
<th>Tenant Files³</th>
<th>Incomplete/Missing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Family</td>
</tr>
<tr>
<td>Rent choice letter on file</td>
<td>5</td>
</tr>
<tr>
<td>What was selected (Income Based/Flat Rent)</td>
<td>4</td>
</tr>
<tr>
<td>EIV Household Summary Report</td>
<td>5</td>
</tr>
<tr>
<td>Income Verification Forms</td>
<td>5</td>
</tr>
<tr>
<td>Asset Verification</td>
<td>3</td>
</tr>
<tr>
<td>Zero Income Checklist Worksheet and Affidavit Verification of Non-Cash (if applicable)</td>
<td>4</td>
</tr>
<tr>
<td>HUD Form 9886-Authorization for the Release of Information/Privacy Act Notice</td>
<td>1</td>
</tr>
<tr>
<td>Current Lease</td>
<td>1</td>
</tr>
<tr>
<td>Signed Lease</td>
<td>3</td>
</tr>
</tbody>
</table>

- After completion of the audit fieldwork (where files were noted to be incomplete) the above conditions has been corrected by the Property Department.

**Recommendations:**

Management should strengthen internal controls to ensure all the required documents are completed and maintained in the tenant file in order to comply with HUD’s Handbook 4350.3 Occupancy Requirements of Subsidized Multifamily Housing Programs as it relates to the record retention requirements.

**Management Response:**

- Concur with observation and recommendation
- Do not concur with observation and recommendation
- Concur with part of the observation and recommendation

Property Office concurs with observation and recommendation. Property Office portfolio managers will conduct 1% monthly and 12% annually tenant file audits utilizing the YARDI Audit Tool.

**Custodian:** Eric Garrett (Deputy Chief – Property Office)

**Implementation Timeline:** TBD

³ See Appendix 2 – Tenant Files Review for full details
III. HUD's rent requirements

Observation: Risk Level: Low

Limited testing was conducted for the rent requirements due to the new HUD requirement which states:

The 2014 federal budget approved by Congress for the Department of Housing and Urban Development (HUD) created a new rule for setting flat rents.

- The new rule states that flat rents must be no less than 80 percent of the fair market rent (FMR).
- This means that the minimum flat rent level for CHA properties will be the amount in the chart below.

CHA expected the new flat rents to be effective for residents with re-certifications beginning August 2016.

- The new law also states that increases in rent due to changes in flat rent cannot exceed 35% annually.
- For residents whose rent would increase more than 35%, the changes will be phased in over 3 years.

1. Approximately 1,000 CHA residents (6% of households) have currently selected the flat or ceiling rent option. Out of the 1,000 residents that selected the flat or ceiling rent option, there are 124 residents that are 120% over income.

   a. 2016 Flat Rent:

<table>
<thead>
<tr>
<th>HUD-required minimum new flat rents</th>
<th>0 BR</th>
<th>1 BR</th>
<th>2 BR</th>
<th>3 BR</th>
<th>4 BR</th>
<th>5 BR</th>
<th>6 BR</th>
</tr>
</thead>
<tbody>
<tr>
<td>80% of Chicago Fair Market Rents</td>
<td>$688</td>
<td>$801</td>
<td>$941</td>
<td>$1,196</td>
<td>$1,424</td>
<td>$1,638</td>
<td>$1,852</td>
</tr>
</tbody>
</table>

   b. Ceiling Rent:

<table>
<thead>
<tr>
<th>CHA Ceiling Rent</th>
<th>0 BR</th>
<th>1 BR</th>
<th>2 BR</th>
<th>3 BR</th>
<th>4 BR</th>
<th>5 BR</th>
<th>6 BR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N/A</td>
<td>$346</td>
<td>$408</td>
<td>$510</td>
<td>$571</td>
<td>$656</td>
<td>N/A</td>
</tr>
</tbody>
</table>

2. Henry Horner has been under a consent decree since 1995. As of February 2017, the consent decree was still active. The site has 286 families. Due to the consent decree, out of the 286 families, 158 (55%) are not paying 30% of the adjusted gross income. Residents at Henry Horner are currently paying ceiling rent from the 2003 schedules. HUD notice PIH 98-41 (HA) issued July 23, 1998 states "Any such ceiling rents cannot be used in reexaminations after September 30, 1998, unless the provisions are extended by law." Per the Legal Department, CHA is taking the following position in regards to Henry Horner consent decree:

"Henry Horner is still covered by an active Consent Decree. All issues involving tenancy changes affecting the residents must be negotiated with the Plaintiffs' counsel based upon Paragraph 16 of the Consent Decree. The parties must reach a consensus on the changes or resolve the conflict before the federal court judge overseeing the Consent Decree. Due to a previous unsuccessful ruling by the federal judge, CHA is currently in negotiations with Plaintiffs' counsel to transition remaining Horner families to the current ACOP. Current changes to the Horner Superblock will require the families remaining at the site to phase into paying 30% for rent based on the RAD rental requirements."
**Recommendations:**

1. Continue implementing HUD's flat rent requirements.
2. Review the consent decree to determine if the residents at Henry Horner can start paying 30% of the adjusted gross income.

<table>
<thead>
<tr>
<th>Management Response:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Concur with observation and recommendation</td>
<td>□ Do not concur with observation and recommendation</td>
</tr>
</tbody>
</table>

Property Office Concur with part of the observation and recommendation, however, at this time we cannot require Henry Horner implement flat rent requirements until all phases are completed and total unit count under this decree is satisfied.

**Custodian:** Eric Garrett (Deputy Chief – Property Office)

**Implementation Timeline:** TBD
OIG Final Report, OIG case #14A-0001 – Follow-Up Emergency Contracts

Elissa Rhee-Lee, Inspector General
Michael Kosanovich, Deputy Inspector General
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Ellaye Accoh, OIG Senior Auditor
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   2. Emergency Contract Filing System .............................................................................. 2  
   3. Availability of Key Documents .................................................................................... 3
A. Executive Summary

1. Background

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

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

2. Objective and Scope

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

The purpose of the original audit, dated April 07, 2015 was to:

i. Assess department-level compliance of CHA’s and HUD’s policies, procedures, and protocols as it relates to Emergency Contract procurement.

ii. Assess effectiveness of CHA’s internal controls related to the review, approval, and processing of Emergency Contracts.

iii. Evaluate effectiveness and efficiency of Emergency Contract current processes, policies and procedures.

To determine the current status of our previous recommendations, we communicated with management to determine the actual actions taken to implement recommendations for improvement. We performed limited testing to verify the implementation of the recommendations for improvement.

3. Approach and Methodology

The follow-up audit was performed by conducting interviews, reviewing documentation, inspections, testing and other measures deemed necessary. Other measures include, but are not limited to utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data. Interviews were conducted with key personnel from the Department of Procurement & Contracts (DPC).
4. Summary of Results
   Of the three recommendations in the original audit report, we determined that all three were implemented. We commend DPC for their implementation of all of our recommendations. The CHA is part of a city-wide Procurement initiative, the Procurement Reform Task Force (PRTF). The PRTF was tasked with developing recommendations and best practices governing the award, management and oversight of contracts in an effort to improve efficiency, transparency and increase accountability of public funds.

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

1. Emergency Contract Start Date
   Risk Level: Low

   Observation:
   The Department of Procurement & Contracts (DPC) procedures did not require procurement staff to follow-up with user department to identify and track starting date of the work or service which created the Emergency Contracts. Without tracking the starting date of the work or service of an awarded contract, the agency is at risk of awarding an Emergency Contract in violation of the Emergency Contract guidelines.

   We Recommended:
   Track and review the start date for approved Emergency Contracts and take appropriate actions when an Emergency Contract is awarded outside the guidelines.

   Status:
   Implemented – DPC requires procurement staff to identify and track the start date of the work/service performed as the result of an Emergency Contract. DPC will not approve Emergency Purchases outside of the guidelines.

2. Emergency Contract Filing System
   Risk Level: Medium

   Observation:
   DPC did not have files completed, centralized and readily available for review. Required documents outlined in the Procurement Guide were not available.

   We Recommended:
   Centralized files for all CHA awarded contracts.

   Status:
   Implemented – DPC has centralized all awarded contract files in both hard copy and electronically.
3. Availability of Key Documents
   
   **Risk Level: Low**
   
   **Observation:**
   DPC did not promptly provide the most current procedures and supporting documentation. It appeared CHA staff did not have access to key information such as RFPs, Emergency Contracts, etc.
   
   **We Recommended:**
   Establish a centralized electronic document system to ensure access of key documents, as outlined in the Procurement Guide.
   
   **Status:**
   Implemented – DPC continues to utilize a shared drive (P-Drive) which allows quick access to all key documents for DPC staff. The link to the drive:
   
   `P:\Solicitation Folders\Non-Compete`
CHICAGO HOUSING AUTHORITY
OFFICE OF INSPECTOR GENERAL
CHICAGO, IL

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

Elissa Rhee-Lee, Inspector General
Michael Kosanovich, Deputy Inspector General
Ellaye Accoh, OIG Senior Auditor
Beatriz Martinez, OIG Senior Auditor

This report was presented to the CHA Board on Tuesday May 16, 2017. This Audit is closed as of today, Wednesday May 17, 2017.
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<td>III. Scope</td>
<td>2</td>
</tr>
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<td>IV. Approach and Methodology</td>
<td>2</td>
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<td>V. Sample Selection</td>
<td>3</td>
</tr>
<tr>
<td>VI. Summary of Results</td>
<td>4</td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>I. High Vacancy Rate</td>
<td>5</td>
</tr>
<tr>
<td>II. Units Not Returned to Rent Roll in Allotted Time</td>
<td>8</td>
</tr>
<tr>
<td>III. Vacant Units Slated for Modernization Are Not Completed Within Reasonable Time</td>
<td>11</td>
</tr>
<tr>
<td>IV. Lack of Data Consistency</td>
<td>12</td>
</tr>
</tbody>
</table>
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Based on observations and concerns of CHA’s Chief Property Officer, the OIG selected a performance audit of CHA’s occupancy process.

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

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

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

IV. Approach and Methodology
The audit was performed by conducting interviews, reviewing documentation, inspections, testing and other measures deemed necessary. Other measures include, but are not limited to utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data. Interviews were conducted with key personnel from the following departments:
- Property Office (PO)
- Private Property Management Company Staff (PPM)
V. Sample Selection
The PO submitted the following data:

<table>
<thead>
<tr>
<th></th>
<th>Total Inventory Units</th>
<th>Traditional Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units Occupied</td>
<td>15,957</td>
<td>12,962</td>
</tr>
<tr>
<td>Units Vacant (Unadjusted)</td>
<td>2,855</td>
<td>2,772</td>
</tr>
<tr>
<td>Units Vacant (Adjusted)</td>
<td>1,042*</td>
<td>961</td>
</tr>
</tbody>
</table>

*Used to calculate the financial impact in Observation 1.

Scattered Site Regions (SS) are dispersed across the city, and they represent a higher risk in terms of controls, oversight and monitoring. Using a judgmental sampling method\(^1\), the OIG selected SS Regions for field testing. As of December 2016, SS had a total of 2,764 inventory units\(^2\). The OIG selected 41% of the unadjusted vacant units (152 out of 373). Units that were vacant for more than 90 days were also selected for site visits.
- Adjusted vacancy includes leasable units only. It is calculated by subtracting the number of vacant units by exempted units. Units are considered exempt for the following eligible reasons:
  - Non-Dwelling Special Use MTW
  - Non-Dwelling Special Use Resident Activities
  - Non-Dwelling Special Use of Self-Sufficiency
  - Non-Dwelling Special Use of Anti-Drug Crime
  - Non-Dwelling Special Use Administrative/Amenity
  - Vacant Undergoing Modernization
  - Vacant Approved for Demolition or Disposition
  - Vacant Court Litigation

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

---
\(^1\) Judgmental sampling is a non-statistical sampling method where specific items are selected based on the Auditor's professional knowledge about the population (Institute of Internal Auditors).
\(^2\) Inventory units includes mixed income, RAD and traditional portfolio units. The total number of units, including occupied and vacant, is 18,812. Of these units, there are 2,764 units at Scattered Sites.
# Executive Summary: Audit Observations and Recommendations

<table>
<thead>
<tr>
<th>Applicable Objective</th>
<th>Observations</th>
<th>Potential/Actual Result</th>
<th>Risk Level</th>
<th>Recommendations</th>
</tr>
</thead>
</table>
| 1. Objective 1, 2, and 3 | CHA had a high vacancy rate. Specifically, CHA had an unadjusted vacancy rate of 18% (2,772 out of 15,734) and an adjusted vacancy rate of 7% (961 out of 13,923). The adjusted estimated financial loss of potential rental income (1,042 leasable units) is $242,525 monthly and $2,910,306 annually. | Waste | High | a) CHA should develop a strategic plan and forecast to reduce the number of vacant units, including measurable procedures to manage vacant units and ensure units are put back into available status in a reasonable amount of time.  
b) Portfolio Managers and PPMs should conduct quarterly on-site assessments of vacant units in their portfolios. |
| 2. Objective 1 and 3 | The length of vacancy time for unoccupied units was prolonged, with an average vacancy time of 13 months for the sampled SS units. | Waste | High | a) See Recommendation 1(a)  
b) The PO should work diligently with PPMs to reduce the average turnaround time depending on HUD’s guidelines and a units’ condition.  
c) CHA should develop procedures to coordinate and oversee the repair of vacant units and return them to rent ready.  
d) CHA should ensure that PPM’s are holding tenants accountable for the damage incurred in their units beyond normal wear and tear, pursuant to lease agreement.  
e) PPM’s should have a consistent centralized approach to selecting applicants on the wait list to fill the unit. |
| 3. Objective 3 | CHA has 795 units scheduled for modernization and/or make ready work. The renovation for some of these units have been ongoing for years. | Waste | High | a) See Recommendation 1(a)  
b) See Recommendation 2(c)  
c) CHA should reallocate necessary resources for repair and modernization of units to rent them out efficiently.  
d) CHA should monitor and inspect construction and repair work conducted by contractors and sub-contractors to ensure that work is carried out effectively. |
| 4. Objective 3 | CHA PO maintains an offline report from Yardi regarding occupancy/vacancy rate, as opposed to pulling directly from Yardi. | Lack of Data Integrity | High | a) Establish a written procedure regarding the classification of vacant units based on HUD’s recommended guidelines.  
b) The PO should consider cleaning current data in Yardi using the same criteria that the PO has used when scrubbing data that is sent to HUD. |

---

3 We ranked findings as High, Medium, or Low Risk to indicate urgency of recommended actions.  
**High Risk**: Lack of prompt action by Management may severely impact the agency mission/operation in the short run and/or may expose the agency to violation of laws and regulations.  
**Medium Risk**: Lack of corrective action by Management will materially and adversely impact operation in the long run. Action is needed to prevent or mitigate loss.  
**Low Risk**: Action by Management is necessary to improve operations and/or to correct minor control weakness.
B. Observations and Recommendations

Observation 1: High Vacancy Rate

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

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

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

<table>
<thead>
<tr>
<th>Grade</th>
<th>Actual Vacancy Rate (Unadjusted)</th>
<th>Adjusted Vacancy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3%</td>
<td>2% or less</td>
</tr>
<tr>
<td>B</td>
<td>greater than 3% or less than or equal to 5%</td>
<td>greater than 2% and less than or equal to 3%</td>
</tr>
<tr>
<td>C</td>
<td>greater than 5% or less than or equal to 7%</td>
<td>greater than 3% and less than or equal to 4%</td>
</tr>
<tr>
<td>D</td>
<td>greater than 7% and less than or equal to 9%</td>
<td>greater than 4% and less than or equal to 5%</td>
</tr>
<tr>
<td>E</td>
<td>9% and less than or equal to 10%</td>
<td>greater than 5% and less than or equal to 6%</td>
</tr>
<tr>
<td>F</td>
<td>10%</td>
<td>7%</td>
</tr>
</tbody>
</table>

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

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

---

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Units</th>
<th>Occupied Units</th>
<th>Vacant Units</th>
<th>Unadjusted Vacancy Rate</th>
<th>Exempted Units (Non-Leasable)</th>
<th>Leasable Units</th>
<th>Adjusted Vacant Units</th>
<th>Adjusted Vacancy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>REGION 1</td>
<td>4,786</td>
<td>3,742</td>
<td>1,044</td>
<td>22%</td>
<td>855</td>
<td>3,931</td>
<td>189</td>
<td>5%</td>
</tr>
<tr>
<td>REGION 2</td>
<td>3,222</td>
<td>2,547</td>
<td>675</td>
<td>21%</td>
<td>518</td>
<td>2,704</td>
<td>157</td>
<td>6%</td>
</tr>
<tr>
<td>REGION 3</td>
<td>2,948</td>
<td>2,689</td>
<td>259</td>
<td>9%</td>
<td>59</td>
<td>2,889</td>
<td>200</td>
<td>7%</td>
</tr>
<tr>
<td>REGION 4</td>
<td>4,778</td>
<td>3,984</td>
<td>794</td>
<td>17%</td>
<td>379</td>
<td>4,399</td>
<td>415</td>
<td>9%</td>
</tr>
<tr>
<td>CHA TOTAL</td>
<td>15,734</td>
<td>12,962</td>
<td>2,772</td>
<td>18%</td>
<td>1,811</td>
<td>13,923</td>
<td>961</td>
<td>7%</td>
</tr>
</tbody>
</table>

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

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

**Recommendation:**

a) CHA should develop a strategic plan and forecast to reduce the number of vacant units, including measurable procedures to manage vacant units and ensure units are back in available status in a reasonable amount of time.

b) Portfolio Managers and PPMs should conduct quarterly on-site assessments of vacant units in their portfolios.

---

^5 Per December 2016 Yardi Rent Collection Summary Report.
Management Response:

- Concur with observation and recommendations

- Do not concur with observation and recommendations

- Concur with part of the observation and recommendations

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

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

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

Custodian: PO
Implementation Timeline: In Process; To Be Completed by the End 4th Quarter 2017
Observation 2: Units Not Returned to Rent Ready in Allotted Time

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

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

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

<table>
<thead>
<tr>
<th>Grade</th>
<th>Turnaround Time (calendar days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0-20 days</td>
</tr>
<tr>
<td>B</td>
<td>21-25 days</td>
</tr>
<tr>
<td>C</td>
<td>26-30 days</td>
</tr>
<tr>
<td>D</td>
<td>31-40 days</td>
</tr>
<tr>
<td>E</td>
<td>41-50 days</td>
</tr>
<tr>
<td>F</td>
<td>51+ days</td>
</tr>
</tbody>
</table>

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

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

```
<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Occupied</th>
<th>Adjusted Vacancy</th>
<th>Number of Units Selected</th>
<th>Average Days of Vacancy for Units Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region 1</td>
<td>1,433</td>
<td>1,266</td>
<td>128</td>
<td>68</td>
<td>447</td>
</tr>
</tbody>
</table>
```

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

\(^7\) The OIG took this into consideration when calculating the length of a units’ vacancy (Table II).
<table>
<thead>
<tr>
<th>Region 2</th>
<th>570</th>
<th>469</th>
<th>85</th>
<th>29</th>
<th>419</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region 3</td>
<td>337</td>
<td>302</td>
<td>27</td>
<td>17</td>
<td>352</td>
</tr>
<tr>
<td>Region 4</td>
<td>424</td>
<td>354</td>
<td>53</td>
<td>38</td>
<td>608</td>
</tr>
<tr>
<td><strong>SS Total</strong></td>
<td><strong>2,764</strong></td>
<td><strong>2,391</strong></td>
<td><strong>293</strong></td>
<td><strong>152</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

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

**Recommendation:**

a) See Recommendation 1(a).

b) The PO should work diligently with PPMS to reduce the average turnaround time depending on HUD’s guidelines and a units’ condition.

c) CHA should develop procedures to coordinate and oversee the repair of vacant units and return them to rent ready.

d) CHA should ensure that PPM’s are holding tenants accountable for the damage incurred in their units beyond normal wear and tear, pursuant to lease agreement.

e) PPM’s should have a consistent centralized approach to selecting applicants on the wait list to fill the unit.
Management Response:

<table>
<thead>
<tr>
<th>Concur with observation and recommendations</th>
<th>Do not concur with observation and recommendations</th>
<th>Concur with part of the observation and recommendations</th>
</tr>
</thead>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Custodian:</th>
<th>PO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation</td>
<td>In Process; To Be Completed by the End 4th Quarter 2017</td>
</tr>
</tbody>
</table>
Observation 3: Vacant Units Slated for Modernization / or Make Ready Are Not Completed Within Reasonable Time

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

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

<table>
<thead>
<tr>
<th>Number of Years Units Vacant</th>
<th>Total Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater than 4 Years.</td>
<td>15</td>
</tr>
<tr>
<td>Between 3 Years and 4 Years</td>
<td>15</td>
</tr>
<tr>
<td>Between 2 Years and 3 Years</td>
<td>39</td>
</tr>
<tr>
<td>Between 1 Year and 2 Years</td>
<td>188</td>
</tr>
<tr>
<td>Between 50 days and 1 Year</td>
<td>538</td>
</tr>
<tr>
<td>Total Units Under Modernization or Make ready</td>
<td>795</td>
</tr>
</tbody>
</table>

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

This observation exemplifies waste.

Recommendation:

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

- Concur with observation and recommendations
- Do not concur with observation and recommendations
- Concur with part of the observation and recommendations

Please review the attached presentation that describes our occupancy initiative plan as part of the management response.

Custodian: PO
Implementation Timeline: In Process; To Be Completed by the End 4th Quarter 2017

Observation 4: Lack of Data Consistency

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

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

This observation shows the lack of data integrity.

Recommendation:

a) Establish a written procedure regarding the classification of vacant units based on HUD guidelines.

b) The PO should consider cleaning current data in Yardi using the same criteria that the PO has used when scrubbing data that is sent to HUD.
**Management Response:**

- Concur with observation and recommendations
- Do not concur with observation and recommendations
- Concur with part of the observation and recommendations

PPM staff has not been fully utilizing the Yardi tool and Property Office staff has not consistently held them accountable for effective and timely documentation and reporting. We will continue to train staff on the proper ways to use Yardi and its functions and staff (both CHA and PPM) will be held accountable for its consistent and accurate use. The Yardi system can meet the Property Office needs to manage the occupancy process if used fully and properly.

| Custodian: | PO |
| Implementation Timeline: | To Be Completed by the End 4th Quarter 2017 |
CHICAGO HOUSING AUTHORITY
OFFICE OF INSPECTOR GENERAL
CHA AUDIT COMMITTEE
CHICAGO, IL

May 22, 2017

OIG Final Report, OIG Case # 14A – 0001
Follow-Up Security Guard Services

Elissa Rhee-Lee, Inspector General
Michael Kosanovich, Deputy Inspector General
Beatriz Martinez, OIG Senior Auditor
Ellaye Accoh, OIG Senior Auditor
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## A. Executive Summary

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3. Security Folder ................................................ 4  
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A. Executive Summary

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

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

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

2. Objective and Scope
The OIG conducted a follow-up review of the Security Guard Services Audit. The purpose of our follow-up review was to determine the status of previous observations and recommendations for improvement.

The purpose of the original audit, issued February 18, 2014 was to determine whether:

1. Security Guard Service Vendors are adhering to the requirements of contracts, 11642, 11643, and 11644.
2. PPM were adhering to the Cash Disbursements section of the PPM Financial Policy and Procedures Manual with regard to security services.
3. PPM maintained effective accounting controls over obligations, and expenditures.
4. Assess effectiveness of CHA’s internal controls Security Guard Services Contract.

To determine the current status of our previous recommendations, we communicated with management to determine the actual actions taken to implement recommendations for improvement. We performed limited testing to verify the implementation of the recommendations for improvement.

3. Approach and Methodology
The follow-up audit was performed by conducting interviews, reviewing documentation, inspections, testing and other measures deemed necessary. Other measures include, but are not limited to utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data. Interviews were conducted with key personnel from the Property Office (PO) previously known as Asset Management Departments.

4. Summary of Results

Of the five recommendations in the original audit report, we determined that four were implemented and one was not implemented. The Safety and Security Department and PO developed a SharePoint site to centralize all security related documents such as insurances, invoices, and security credentials. The SharePoint is not being utilized to store the security documents. We commend PO for their implementation of our recommendations.
B. Status of Recommendations

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

Observation: 1. Contracts for all PPMs  Risk Level: High

The observation regarding inconsistent terms and conditions of the contracts were not submitted to the PPMs for response. The PPM Manual requires that the PPMs have a “fully executed contract” with the security guard service provider. However, there was no definition of what constitutes a “fully executed contract”. Therefore, this issue should be addressed internally amongst CHA’s Legal, Procurement and the Asset Management departments.

Recommendation:

Asset Management work with Legal and Procurement to define “fully executed security contract” stated in the PPM Procedural Manual. Asset management provide PPMs with contract template with minimum required provisions pursuant to 24 CFR and HUD regulations.

CHA Asset Management Response:

- Asset Management agrees with the recommendation to better define the requirements and expectations for what constitutes a fully executed security contract.
- Asset Management will conduct a review of the current security contract template with CHA Legal, Procurement, and Risk Management in the 1st quarter of 2014 to determine areas for improvement or revision. Subsequently, Asset Management will issue a written advisory to PPMs to clarify expectations and require firms to adhere to the revised security contract template.

Current Status: Implemented

CHA executed new ground security services contracts with all security service providers on CHA sites.

Observation: 2. Insurance Coverage for all PPMs  Risk Level: High

Security company did not provide required insurance coverage and/or endorsement.

Recommendation:

PPMs monitor the security vendor’s insurance portfolios to ensure that the minimum required insurance coverage amounts are met and that CHA is listed as an additional insured on the insurance policy ensure compliance with Section 17.8 and 17.9 of the PPM Manual.
**CHA Asset Management Response:**

- CHA Asset Management agrees with the recommendation.
- All required insurance documentation for these contracts has been provided and added to the respective security folder.
- CHA Asset Management has also completed a review of every other security contract and security folder (not just those selected for this review) to ensure that all required insurance documentation is present.
- CHA Asset Management has added a more detailed review of insurance certificates to the existing payment process checklist to ensure that each payment has all proper insurance documentation in place prior to approval of each CHA payment for contracted services.

**Current Status: Implemented**

The Safety and Security Department has been working with the P.O. to develop and implement a SharePoint site to centrally catalog all insurance and security credentials. This new site will become the standard as CHA transitions to the new centrally procured security contracts that are scheduled to transition in summer of 2017.

**Observation: 3. Security Folders for all PPMs  Risk Level: Low**

- PPMs did not have the required documentation in the security folders on site for audit purposes as required by PPM Manual, Chapter 17.
- During field work, the PPMs informed the OIG that it was not their practice to maintain security folders that contain security officers’ credentials on site. As field work progressed, the PPMs started collecting information from the security vendors to meet the documentation requirements. Except for the education requirement, the documents requested for the audit were also part of requirements for licensed Private Security companies in the State of Illinois.

**Recommendation:**

Maintain security folders at premises as required by the PPM Manual, Chapter 17.

**CHA Asset Management Response:**

- CHA Asset Management agrees with the recommendation that PPMs must have security folders as required by the PPM Procedural Manual.
- Asset Management will review the requirement about where the folders should be located (currently stated as “on the premises”) to take into consideration electronic file practices in 1st Quarter 2014. If any revisions or clarifications to the PPM Procedural Manual are required as a result of this review, a new written advisory will be issued.
- CHA Asset Management has also completed a review all security folder (not just those selected for this review) to ensure that all required elements are present.
Current Status: Not Implemented

The Safety and Security Department has been working with the P.O. to develop and implement a SharePoint site to catalog centrally all security folders which would then be accessible to each vendor, PPM and the Property Office staff. This new site will become the standard as we transition to the new centrally procured security contracts that are scheduled to transition in August of 2017.

Security Department staff continue to implement the action plans with the security firms and have successfully tested the new SharePoint site with the two newly contracted firms in summer of 2015.

Observation: 4. Required Verification of Credentials for all PPMs  
Risk Level: Medium

PPMs did not provide evidence of compliance with Section 17.2 and 17.3 of the PPM Manual.

a. PPMs did not establish a process to ascertain that the security vendors had the required credentials for security guards, including Off Duty Police Officers.

b. In addition, WSA did not provide Off Duty Police identifications as per the contract.

Recommendation:

a. PPMs develop a process to ensure compliance with Section 17.2 and 17.3 of the PPM Manual.

b. The PPMs verify the accuracy and completeness of each document submitted by the Security companies.

c. The PPMs obtain from the security vendor copies of the required documentation for Off Duty Police Officers.

CHA Asset Management Response:

- CHA Asset Management agrees with the recommendations.
- CHA Asset Management will issue an advisory to all PPM firms to strengthen the procedures related to security guard credentials in 1st Quarter 2014. The new procedures will require the PPM firms to sign an affidavit declaring that they have reviewed the credentials of each employee and that the credentials are current, complete and valid for each guard for every request for payment.
- CHA Asset Management will conduct a review of the enhanced credential review procedures to ensure PPM compliance on a quarterly basis.

Current Status: Implemented

The Safety and Security Department has been working with the P.O. to develop and implement a SharePoint site to catalog centrally all insurance and security credentials. This new site will become the standard as we transition to the new centrally procured security contracts that are scheduled to transition in Summer of 2017.

To date, all new security personnel submit their credentials to the Director of Safety Strategies as an interim measure.
Observation: 5.  Billing  
Risk Level: High

Charges were unsupported.

Recommendation:

a. The PPM ensure that security vendor invoices and security guard timesheets are matched for accuracy and that payment is made in accordance with established contract rates.

**CHA Asset Management Response:**

- CHA Asset Management agrees with the recommendations.
- CHA will conduct audits of 2013 security invoices as part of the financial year end close out to determine if there have been any other payments not in line with established contract rates.
- In 2014, CHA will conduct quarterly reviews to ensure that security vendor invoices and security guard timesheets are matched for accuracy and that payments are made in accordance with established contract rates.
- CHA will require that any reimbursement due to the CHA for payments made in excess of the contracted rates be paid to the CHA within 30 days after giving written notice;
- Finally, CHA will issue an advisory that all increase in security coverage (hours, rates or service level) must be approved by the Director of Asset Management.
- Any security increase that results in long term changes to security costs must be incorporated into a revised contract within 30 days of the change. No increase in security coverage will be allowed without proper approvals.
- Any violation in these policies will result in sanctions to the PPM firms.

**Current Status: Implemented**

The Director of Security Strategies now personally directs all staffing changes in terms of quantity and credentials to ensure that invoices received match assignments made directly from CHA and not from the PPM. The Director also reviews and approves each invoice to ensure accuracy in terms of assignments and hours worked.

Additional improvements in the area of invoicing that will be implemented, as part of the new centralized procured security contracts, is to utilize the SharePoint site to catalog all security logs, incident reports and sign in logs/ time sheets to improve controls.

One final area that is being investigated to strengthen the controls is the use of the door access control system. This is an RFID control system that is currently being piloted and expected to be rolled out to each property by the end of 2017. This system is being tied to our camera system which would allow us to verify each guard’s time of start and end, along with their patrol locations.
EXECUTIVE SUMMARY
Section 3 Small Grants Program

PURPOSE
To identify potential fraud, waste and/or abuse in the Section 3 Small Grants Program.

Prepared by the Chicago Housing Authority (CHA) Office of the Inspector General (OIG). For more information, please contact either the CHA OIG at fraud@thecha.org or Ashley Lindemann at 312-913-5818 or alindemann@thecha.org

BACKGROUND
The Central Advisory Council (CAC) is awarded approximately $200,000 annually to administer the Section 3 Small Grants Program. This program is to provide small grants for CHA public housing or Housing Choice Voucher (HCV) participants in need of business development assistance. A grant can assist a participant with startup costs for a new business, training expenses or supporting an existing business. A CHA employee assigned to the CAC reviews all applications and interviews each applicant. If an applicant has met the necessary qualifications, then he or she is awarded a grant. As a condition of the grant program, recipients who wish to start a business must complete an approved entrepreneurship program through Project Management Plus, Inc. or by an accrediting agency; proof of completion is required. Once approved for a grant, recipients must submit receipts or documentation to verify the grant was utilized for the purposes stated in their application. If recipients do not use the money properly, CHA, through the CAC, will follow the Section 3 Policy for investigating fraud and misconduct, as stated in the grant application.

FINDINGS
In 2016, a total of $143,149.66 was awarded to 33 recipients. The grants ranged from $415.00 to $5,060.00 and about half of the recipients are Public Housing residents and half are in the HCV Program. A variety of businesses were created or supported through the grant program, including catering services, salons, landscaping or general labor businesses. Fifteen of the 33 recipients have registered their business with the Illinois Secretary of State and are “active/in good standing” (See Appendix 1 and 2 on demographics of all recipients).

To assist recipients in fulfilling the entrepreneurship requirement of the grant program, CAC awarded Project Management Plus, Inc. $42,245.00 (out of the budgeted $200,000.00 – See Appendix 3) to provide an instructional course in entrepreneurship and economic development to Section 3 residents. According to the CAC’s Income Statement, however, $50,779.96 was recorded on the “Section 3 Consultants” line item.

Additionally, the CAC did not adhere to Section 2.10 (a) and (c) of the Funding Agreement between the CAC and CHA regarding procurement:
a. CAC shall procure all goods and services to carry out its functions in the most efficient and economical manner and in compliance with the provisions of all applicable Federal, State and local laws, particularly 2 C.F.R. 200.317 et al, under procedures suitable to, and consistent with, the requirements of the HUD Procurement Handbook No. 7460.8 REV2...
c. All CHA funded Contracts and supporting documentation establishing the basis on which such contracts were awarded shall be kept on file and made available for review by CHA, HUD and their designees, upon request. CAC shall, when specifically required by HUD, reimburse CHA, from funds other than those granted by HUD for any purpose, for any expenditure or obligation made in violation of Section 2.10 or any violation of HUD requirements.

Although Project Management Plus, Inc. was competitively procured in Spring of 2016, the CAC is using them again for the 2017-2018 year and the original payment agreement for 2016 did not account for this extension. The reason why this may be problematic is twofold: 1) Project Management Plus, Inc. is currently “Dissolved” with the IL Secretary of State; 2) The CAC did not provide “supporting documentation establishing the basis on which such [a] contract [was] awarded” for a second year. The open bid and solicitation process ensures fairness, competition and equitable treatment of all persons or firms involved in procurement by the CHA, and by not competitively rebidding for a consultant in 2017, the CAC did not fully comply with the applicable procurement guidelines.

The OIG would like to thank the CAC for its cooperation and willingness to improve the program. The OIG looks forward to working with the CAC in the future and to continue to promote accountability, transparency and efficiency in the administration of CHA’s programs.

**RECOMMENDATIONS**

- The language in the CAC’s Section 3 grant application should be amended as followed for clarity:
  - **Application:** Only one individual may apply for a CAC Section 3 Grant in his or her lifetime. It is also not permissible if two individuals start a business and one of those individuals reapplies for a grant in the following period for the same business.
  - **Response:** The CAC agrees that Section 3 Need Based Grants should be capped at one per person in his or her lifetime. However, we do not agree that the Section 3 Need Based Grant should be capped at one per household.

  - **Application:** Applicants must certify that he or she is in good standing with CHA. For example, the resident or participant cannot be under “evict” status or have any outstanding lease violations (CHA must verify this information, which may require additional due diligence by the CAC).
  - **Response:** The CAC agrees with this recommendation. Presently the CAC does not have access to the Yardi System. If the CAC granted the CAC access to the Yardi System, then the CAC could promptly verify lease compliance at the time of a resident’s application. The CAC does not agree with the IG’s recommendation to deny applicants based upon a prior lease violation if the violation has been cured.

  - **Application:** Remove wording of CAC’s Section 3 Committee if the Committee does not exist.
  - **Response:** The CAC agrees with this recommendation.
- **Application:** Applicants must submit a projected invoice supporting the request for funding.
  **Response:** The CAC believes that it is already complying with this recommendation. Participants in the class submit a projected invoice as part of their business plan. Other applicants are required to submit a projected budget before funds are granted as well as proper documentation to support their request.

- **Application:** The CHA reserves the right to contact the applicant by telephone, email or mail for the sole purpose of clarifying or confirming application information.
  **Response:** The CAC agrees with this recommendation.

- **Provide adequate outreach across the public housing and HCV portfolio.**
  **Response:** The CAC agrees with this recommendation.

- **Ensure the collection of all physical receipts and establish a plan for when recipients do not use the funds for the stated purpose(s) –** See the attached sample letter for when recipients do not submit receipts.
  **Response:** The CAC agrees with this recommendation and will use the form provided by the IG.

- **Ensure residents and participants are knowledgeable about how to report income to the CHA once their businesses are up and running.** Provide a list of recipients and their coinciding business name to the appropriate business units – See the attached list of 2016 grant recipients.
  **Response:** The CAC agrees with this recommendation. However, the Section 3 Need Based Grant is not counted towards the calculation of a resident's rent because it is a one-time grant or payment.

- **To avoid going over budget, create a limit on the number of grants awarded each year and establish a selection process for when there is an abundance of applicants.**
  **Response:** The CAC agrees with this recommendation. The CAC has adjusted its Funding Agreement to include the cost of hiring a contractor for the Entrepreneurship Training Program. The cost of the contractor which will not come out of the Section 3 Need Based Grant fund.

- **Receive feedback on the Entrepreneurship Program and establish measures to evaluate the program's effectiveness.**
  **Response:** The CAC agrees with this recommendation.

- **Adhere to Section 2.10 of the Funding Agreement between the CAC and CHA regarding procurement.**
  **Response:** The CAC agrees with this recommendation.
### Appendix 1 - Public Housing Recipients

<table>
<thead>
<tr>
<th>Site</th>
<th>Number of Grant Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altgeld</td>
<td>6 (35%)</td>
</tr>
<tr>
<td>Cabrini</td>
<td>2 (12%)</td>
</tr>
<tr>
<td>Lake Parc Crescent</td>
<td>2 (12%)</td>
</tr>
<tr>
<td>Lake Park Place</td>
<td>1 (6%)</td>
</tr>
<tr>
<td>Minnie Ripperton- RAD</td>
<td>1 (6%)</td>
</tr>
<tr>
<td>SRO</td>
<td>1 (6%)</td>
</tr>
<tr>
<td>Scattered Sites</td>
<td>3 (17%)</td>
</tr>
<tr>
<td>Washington Park</td>
<td>1 (6%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17 (100%)</strong></td>
</tr>
</tbody>
</table>

### Appendix 2 - Demographics of all Recipients

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Recipients (33)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PH</td>
<td>17 (52%)</td>
</tr>
<tr>
<td>HCV</td>
<td>15 (45%)</td>
</tr>
<tr>
<td>No File</td>
<td>1 (3%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33 (100%)</strong></td>
</tr>
<tr>
<td>Age</td>
<td></td>
</tr>
<tr>
<td>0-29</td>
<td>1 (3%)</td>
</tr>
<tr>
<td>30-39</td>
<td>9 (27%)</td>
</tr>
<tr>
<td>40-49</td>
<td>10 (31%)</td>
</tr>
<tr>
<td>50-59</td>
<td>6 (18%)</td>
</tr>
<tr>
<td>60+</td>
<td>6 (18%)</td>
</tr>
<tr>
<td>N/A</td>
<td>1 (3%)</td>
</tr>
<tr>
<td><strong>Date Entered into Program</strong></td>
<td></td>
</tr>
<tr>
<td>Before 2000</td>
<td>9 (27%)</td>
</tr>
<tr>
<td>2000-2010</td>
<td>11 (33%)</td>
</tr>
<tr>
<td>2010-current</td>
<td>12 (37%)</td>
</tr>
<tr>
<td>N/A</td>
<td>1 (3%)</td>
</tr>
<tr>
<td><strong>Grant Amounts</strong></td>
<td></td>
</tr>
<tr>
<td>$5,000 or more</td>
<td>19 (58%)</td>
</tr>
<tr>
<td>$4,000-$4,999</td>
<td>7 (21%)</td>
</tr>
<tr>
<td>$3,999 or less</td>
<td>7 (21%)</td>
</tr>
<tr>
<td><strong>Business Type</strong></td>
<td></td>
</tr>
<tr>
<td>Fashion/Boutique/Salon</td>
<td>4 (12%)</td>
</tr>
<tr>
<td>Restaurant/Catering</td>
<td>4 (12%)</td>
</tr>
<tr>
<td>Real Estate</td>
<td>3 (9%)</td>
</tr>
<tr>
<td>Child Care</td>
<td>1 (3%)</td>
</tr>
<tr>
<td>Cleaning Service</td>
<td>1 (3%)</td>
</tr>
<tr>
<td>Demographics</td>
<td>Recipients (33)</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Photography</td>
<td>1 (3%)</td>
</tr>
<tr>
<td>Two different businesses</td>
<td>2 (6%)</td>
</tr>
<tr>
<td>Not for Profit</td>
<td>1 (3%)</td>
</tr>
<tr>
<td>Insurance</td>
<td>1 (3%)</td>
</tr>
<tr>
<td>Landscape</td>
<td>2 (6%)</td>
</tr>
<tr>
<td>Individual Assistance</td>
<td>4 (12%)</td>
</tr>
<tr>
<td>Financial Services/Consulting</td>
<td>2 (6%)</td>
</tr>
<tr>
<td>General Labor/Construction</td>
<td>6 (18%)</td>
</tr>
<tr>
<td>N/A</td>
<td>1 (3%)</td>
</tr>
<tr>
<td><strong>SOS Filing</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Active</strong></td>
<td>15 (45%)</td>
</tr>
<tr>
<td>Involuntary Dissolution</td>
<td>3 (9%)</td>
</tr>
<tr>
<td>Not in Good Standing</td>
<td>6 (18%)</td>
</tr>
<tr>
<td>N/A</td>
<td>9 (27%)</td>
</tr>
</tbody>
</table>

Appendix 3: CAC Amount

<table>
<thead>
<tr>
<th>Description</th>
<th>Budgeted</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 3 Program 2016</td>
<td>$200,000.00</td>
<td>$193,929.62</td>
</tr>
<tr>
<td>Consultants</td>
<td>$42,245.00</td>
<td>$50,779.96</td>
</tr>
<tr>
<td>Residents/Participants</td>
<td>-</td>
<td>$143,149.66</td>
</tr>
</tbody>
</table>