Annual Inspections

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Presenter

Course Objectives

- Overview of REAC contracted inspections under the Public Housing Assessment System (PHAS)
- Role of Real Estate Assessment Center (REAC)
- Annual Inspections
  - Reasons
  - Uses of Data Collected
  - Repair Standards
- Consistency Achieved by Using the UPCS Dictionary of Deficiencies

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Annual Inspections

- There are statutory directives to maintain HUD housing in a condition that is decent, safe, and sanitary
- 24 CFR 5.705 requires PHAs to conduct a physical inspection of properties
- Includes site, systems, buildings, common areas, and units

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Annual Inspections

- Physical condition of the properties affect nearly everything we do as PHAs:
  - Funding
  - Resident Satisfaction
  - Occupancy
  - Building and Systems Life Expectancy
  - Curb appeal and Marketing
  - Assessment scores

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Annual Inspections

- High-performing agencies:
  - Train staff to the physical standards
  - Conduct thorough inspections annually
  - Complete all required repairs expeditiously and in a workmanship-like manner
  - Quality control checks
  - Drive accountability

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Annual Inspections

- Troubled agencies:
  - Do not train staff
  - Inconsistent inspection process
  - Repairs not completed in a timely manner or with poor workmanship
  - No quality control
  - No accountability

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Annual Inspections

- Poor inspection process leads to:
  - Higher costs due to deteriorating units and systems
    - Short Term
    - Long Term
  - Low occupancy
  - Negative publicity
  - Loss of funding
  - Troubled status
  - Increased HUD oversight

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PHAS

Monitoring the condition and operations of our Public Housing Properties

PHAS

- Public Housing Assessment System
- HUD/REAC's monitoring and assessment tool for the effective operations of public housing authority operations
- Four categories of agency operations assessed:
  - Physical
  - Financial
  - Management Operations
  - Capital Fund

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Sub-Indicator Composition

PHAS Sub-indicators

- **Physical Condition (40 points)**
  - Per UPCS
- **Financial Condition (25 points)**
  - Quick Ratio
  - Months Expendable Nets Assets Ratio
  - Debt Service Coverage Ratio

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Sub-Indicator Composition

PHAS Sub-indicators

- **Management Operations (25 points)**
  - Occupancy
  - Tenant Accounts Receivable
  - Accounts Payable
  - PCNE Adjustments
- **Capital Fund (10 points)**
  - Timeliness of Fund Obligation
  - Occupancy Rate

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PHAS Designation Status

PHAS Designation	Composite PHAS Score	Individual Indicator Score
High Performer	Overall score of 90% or higher AND	At least 60% of points each for PASS(24), FASS(15) and MASS(15) and 50% of points for CFP(5)
Standard Performer	Overall score of at least 60% AND	At least 60% of points each for PASS(24), FASS(15) and MASS(15) and 50% of points for CFP(5)
Substandard Performer	Overall score of at least 60% BUT	Less than 60% in one or more of PASS, FASS or MASS Indicators
Troubled	Less than 60% overall score	
CFP Troubled	----	Less than 50% on CFP Indicator

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PASS

Indicator #1 - Physical Assessment Subsystem

PASS Indicator Score

- 40 Points/100 points
- Threshold score must now be at least 24 points, or 60% of maximum points available.

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Physical Condition Indicator

- Inspections performed based on individual project performance, unless troubled
  - Units exempted from physical inspection:
    - Undergoing vacant unit turnaround
    - Undergoing rehab in an approved and fully funded rehab plan
    - Off-line units that require repairs that cannot be made in a normal period of time (5 – 7 days)
    - Units off-line for designated use will be inspected as common area

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Physical Condition Indicator

- Passing score ≥60% or at least 24 of 40 points available
- Statistically valid sampling of occupied units will be inspected as dwelling units
- Access to units must be granted, even if tenant has installed or changed locks
  - If inspector is not granted access, project will receive a physical inspection score of zero

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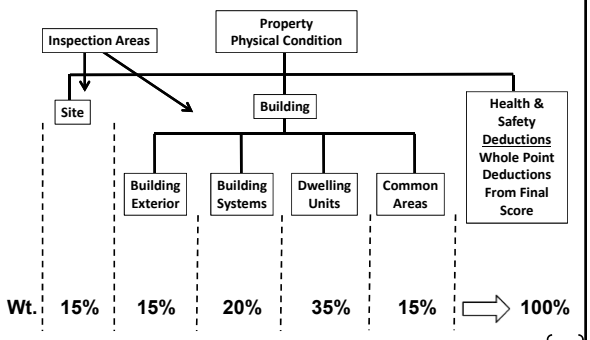
Scoring Dynamics



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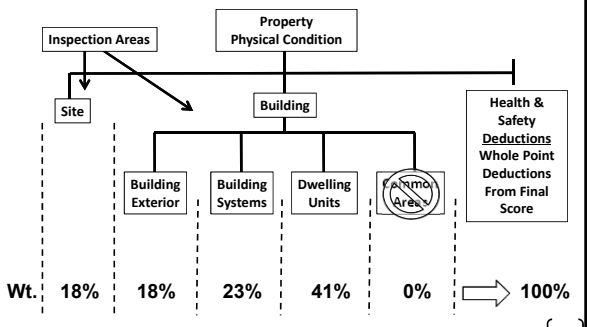
No Two Properties Are Alike

(For example, if there are no Common Areas on a property, the other inspection areas become more important)



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Scoring Methodology

Scores Calculated Based On:

Area Points x Item Weight x Criticality x Severity

Area Points

Site = 15
Dwelling Units= 35
Common Areas = 15
Building Systems= 20
Building Exterior = 15

Item Weight ***(Examples)***

Smoke Detector = 0
Damaged Ceiling = 4.5
Missing Toilet = 10
Misaligned Chimney = 15.5

Criticality

(5) Critical = 5.0
(4) Very Important = 3.0
(3) Important = 2.25
(2) Contributes = 1.25
(1) Slight Contribution = 0.5

Severity

(3) Most Severe = 1.0
(1) Least Severe = 0.25
(2) Severe = 0.50

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Examples of Point Deductions

- H&S deficiency: Sharp Edges
- Different deductions for building vs. unit

Building Level Deduction	
ELEMENTS	VALUES
Possible Points	20
Item Weight	0.184
Criticality	3.0
Severity Level	1
Point Deduction	11.04

Unit Level Deduction	
ELEMENTS	VALUES
Possible Points	1.4
Item Weight	0.15
Criticality	3.0
Severity Level	1
1 of 25 units had defect	
Point Deduction	0.63

Point Deduction *equals* **Item Weight** *times* **Criticality** *times* **Severity** *times* **Total Possible Points**.

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Physical Inspection Score Alphanumeric Codes

Code	No Health & Safety	Health & Safety Deficiencies			
		NLT	LT/EHS	Fire Safety	
				No Smoke Detector Problem	Smoke Detector Problem
a	X			X	
a*	X				X
b		X		X	
b*		X			X
c			X	X	
c*			X		X

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PASS Physical Inspection Frequency Small PHAs *(less than 250 units)*

PASS Inspections Based on Overall PHAS Score/Designation		
High Performer ≥90	Standard & Substandard 60-89	Troubled <60 or CFP Troubled
Every 3 Years	Every 2 Years	Every Year

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PASS Physical Inspection Frequency Large PHAs

PASS Inspections Based on Individual Project Scores - Unless Troubled			
≥90	80 – 89	≤79	Troubled or CFP Troubled
Every 3 Years	Every 2 Years	Every Year	All Projects in the PHA Inspected Every Year

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Unit Weighted Average Formula

$$\frac{(\text{\# of Units} \times \text{40 points score}) + (\text{\# of Units} \times \text{40 points score})}{\text{Project 1} \qquad \text{Project 2}}$$

$$\text{Total \# of Units}$$

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Unit Weighted Average Formula

- Determine each AMP's "40 Point Score"
- Multiply 40 Point Score by total number of units at each property
- Add the totals for each AMP together
- Divide by the total number of units at the PHA

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Case Study: Conversion of Inspection Score to 40 Point Score

Property #	Physical Inspection Score (100 point score)	X	% of PASS Indicator within PHAS	=	40 Point Score
1	80	X	0.40	=	32.0
2	90	X	0.40	=	36.0
3	30	X	0.40	=	12.0

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Case Study: 40 Point Score to Unit Weighted Average

Property #	100 point score	40 point score	X	# of Units	=	Product
1	80	32.0	X	60	=	1920
2	90	36.0	X	103	=	3708
3	30	12.0	X	196	=	2352
Total	---	---		359		7980
7980 ÷ 359 = 22.2 PASS Score						

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Example: Impact of Project Size on PASS Score *(Switch the Largest & Smallest Projects)*

Property #	100 point score	40 point score		# of Units		Product
1	30	12.0	X	60	=	720
2	90	36.0	X	103	=	3708
3	80	32.0	X	196	=	6272
Total	---	---		359		10700

10700 ÷ 359 = 29.8 PASS Score

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ANNUAL INSPECTIONS

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Annual Inspection Process

- Agencies should develop a process
  - Establishes timeframes and schedules
  - Identify who conducts each aspect of the inspection
  - Assigns follow up responsibility for issues identified during the inspection process
  - Drives accountability for breakdowns in protocol

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Annual Inspection Process

- All site staff is responsible for the physical condition of the property
- Walk the property daily, and respond!
- Inspections should be conducted by trained, qualified personnel
- Repairs should be completed in a quality workmanship-like manner
- Quality control – cross section of units, repair types, and staff

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Annual Inspection Process

- All applicable inspections should be completed within 11 months… why?
- Timing will be up to each agency, but has to be completed annually
- Appropriate forms and checklists should be utilized
- All repairs should be documented and tracked

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Tools of The Inspector

- The inspection form or handheld computer
- Apartment entry keys
- Copy of the Dictionary of Deficiencies
- Digital Camera
- Flashlight
- Circuit tester
- Thermometer
- Yardstick or dowel
- 2-way radio or cell phone
- Basic hand tools
- Several new smoke detectors/batteries and light bulbs
- Switch plate and outlet covers
- Entry notices (to be left when resident is not at home)

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Inspection Procedures

- Complete the top section of the inspection report prior to the inspection
- Compare ID/serial numbers of PHA-furnished appliances on record to numbers on appliances during the inspection
- Provide or wear identification
- Exercise professional courtesy while in the resident's home

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Inspection Procedures

- Never be confrontational
  - Report all problems to the property manager
- Completely and thoroughly inspect all PHA-owned property
- Record all deficiencies and observations on the Inspection Form
- Record all H & S Deficiencies, even if tenant controlled

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Inspection Procedures

- Record all deficiencies defined in the UPCS Dictionary of Deficiencies (regardless of level)
- Do not mark anything that is present NA-Not Applicable
- Use N/A only if an item does not exist
- When an inspectable item is present, but not deficient, mark NOD-No Observed Deficiencies

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Inspection Procedures

- Observed Deficiencies - OD
  - Record location and description of deficiencies
  - Record cause of deficiency if determinable
  - Document with photographs
    - Unusual damage
    - Significant damage
    - EH&S deficiencies

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Inspection Procedures

- Inspect all 5 inspectable areas
  - Site
  - Building Exterior
  - Building Systems
  - Common Areas and
  - Units
- All 5 areas do not have to be inspected at same time

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Dictionary of UPCS Deficiencies

- Inspectable Area
  - Inspectable item
    - Deficiency
- Health and Safety item
  - A deficiency that if present, creates a danger to the health and safety of the resident(s)

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DOCUMENT INSPECTIONS!!!

If it's not documented – it didn't happen

Thorough & Well Documented Annual Inspections

- Provide a verbal photograph of the property;
- Provide records to accurately report the annual inspections
- Improve physical inspection scores under the PASS indicator for PHAS
- Provide documentation for use in requesting technical reviews of the contracted physical inspection score

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Thorough & Well Documented Annual Inspections

- Identify H&S deficiencies requiring immediate attention
- Identify routine maintenance work needed
- Used to determine long-range modernization needs
- Identify products that are of either poor or outstanding quality
- Identify equipment replacement needs

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Thorough & Well Documented Annual Inspections

- Can be used as a quality control tool to identify inferior workmanship by outside contractors or maintenance staff;
- Assist in control of PHA equipment inventory;
- Are a planning and budgeting tool for the maintenance function;
- Identify staffing needs in the maintenance department;
- Identify tenant-caused damages;

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Thorough & Well Documented Annual Inspections

- Provide an opportunity to instruct or direct residents;
- Provide an opportunity for positive feedback to and from residents;
- Validate charges assessed to residents; and
- Substantiate lease violations

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Record Maintenance

- Records needed to support annual inspections include:
  - Completed and signed inspection forms;
  - Unit inspection logs;
  - System inspection logs;
  - Work orders generated as a result of the inspections; and
  - Referrals to modernization

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Quality Control

- Maintain records for 3 fiscal years following the certification
- Must have a system in place for tracking inspections
- Must have staff who are knowledgeable in both inspection criteria and PHA standards
- Must have good communications between maintenance, management and the modernization departments

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Quality Control

- Reinspect the dwelling unit, site or system within 48 hours of the original inspection
- Conduct shadow inspections
- Check random inspection reports for documentation, details, and signatures
- Contact residents to verify random recordings on the inspection and the inspector
- Check at least 5% of each inspector's inspections

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Industry Repair Standards

"It has become apparent that some HUD subsidized properties are embracing the idea of minimal repairs in order to pass the REAC inspection. This has led to an environment of substandard repairs that do not meet the "Industry Standard" for being a reasonable and/or an appropriate repair (e.g. plywood covering a hole in the drywall)."

- Inspectors will record a deficiency for inspectable items in which non-industry standard repairs are observed

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Industry Repair Standards

- All repairs shall be made in a good and workmanlike manner with materials that are suitable for the purpose and free from defects
  - The phrase "good and workmanlike manner" includes:
    - Ensuring that the component, as repaired, performs its intended function/purpose; and
    - Finishing the repair in a manner **reasonably** compatible in design and quality with the original and adjoining decorative finishing materials

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Industry Repair Standards

- Each repair shall be made in accordance with the industry standard for that particular inspectable item
  - e.g. a hole in the drywall will be repaired using the same or equivalent materials, have the same texture, and shall have minimal deviation from and/or have an indistinguishable difference from the original esthetics/appearance

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Industry Repair Standards

- Property representatives may use the TR/DBA process to appeal deficiencies cited in which non-industry standard repairs were made
  - The appeal process is the same as appealing any other item and requires that a property representative present appropriate documentation that supports, without question, that the repair meets industry standards
  - Such technical review documentation/information must contain both the supporting industry standard documentation, as well as a written justification by a third-party subject matter expert for the particular deficiency type being appealed

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Industry Repair Standards

- A defect will be recorded for each sub-standard repair observed based on the size of the area affected and/or the item inspected
  - For example, a piece of plywood covering a hole in the drywall would be recorded by REAC as:
    - A 6" x 6" piece of plywood will be recorded as a L1 defect;
    - A 2' x 2' piece of plywood will be recorded as a L2 defect; but
    - A piece of plywood, regardless of size, that covers up a hole that completely penetrates the wall will be recorded as a L3 defect

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Industry Repair Standards

A partial list of typical inspectable items that are often incorrectly repaired or corrected:

1. Cracks in brick wall – caulking not appropriate – should be tuck-pointed using mortar
2. Drywall repair – not simply covering hole or damage with plywood, laminate, etc. – should be sheetrock with mud and/or tape
3. Door repair – wood/wood veneer, not sheetrock mud, plywood, etc.
4. Downspouts – same materials, shape and design – not plastic or PVC piping

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Industry Repair Standards

5. Erosion – fix the root cause of the problem – don't simply hide it
6. Electrical Panels – caulking or expandable spray foam used to fill gaps/cracks in lieu of installing correct panel cover or using manufactured blanks
7. Refrigerator gasket – replace the gasket in lieu of using white electrical tape, fingernail polish, white out, etc
8. Stick to hold up a window – fix the original lock or provide an aftermarket manufactured lock - a stick is no longer acceptable as the primary means of securing a window or sliding door

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Industry Repair Standards

- Recent Rephrasing of the rule to include "reasonably compatible with the design and quality of the original."
- HUD has emphasized that new materials will not be an exact match
- Use "best judgement" and "professional common sense"

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Summary

- The Annual Inspection must be:
  - Objective
  - Consistent
  - Comprehensive
  - Documented
  - Timely
- Correction of deficiencies must be documented

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For any class questions or follow-up, please contact:
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