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JULY 7, 2021

TO THE EXECUTIVE DIRECTOR AND BOARD OF THE CHICAGO LOW-INCOME HOUSING TRUST FUND, MAYOR, CITY COUNCIL, CITY CLERK, CITY TREASURER, AND COMMUNITY MEMBERS OF THE CITY OF CHICAGO:

The City of Chicago Office of Inspector General (OIG) has completed a follow-up to its December 2019 audit of the Chicago Low-Income Housing Trust Fund's management of housing quality inspections for units participating in the Rental Subsidy Program (RSP). Based on the Trust Fund's responses, OIG concludes that the Trust Fund has fully implemented 3 of 14 corrective actions related to the audit findings, substantially implemented 2, partially implemented 7, and not implemented 2.

The purpose of the 2019 audit was to determine if the Trust Fund met its mission of providing "secure^ safe, and sound" housing by ensuring that RSP properties,

- received their required annual Housing Quality Standards (HQS) inspections;
- had evidence of a lead safe housing certificate in their contracts;
- came into compliance after the discovery of housing deficiencies, including serious health and safety risks; and
- addressed unresolved Chicago Building Code violations.

Our audit found that in 2017, the Trust Fund did not ensure that all properties participating in the RSP met its standards for safe, sound, and secure housing. The Trust Fund subsidized properties with Chicago Building Code violations and other serious housing quality deficiencies, had a payment system that inadequately protected against potential fraud and

errors, and paid properties with incomplete contract documentation. In addition, errors in the Trust Fund's internal management tool caused it to publish inaccurate and incomplete quarterly reports from 2014 through 2018, and prevented accurate accountings of the amount of funding it had allotted to RSP properties in those years.

Based on the results of the audit, OIG recommended that the Trust Fund,

- develop a contracting, inspection, and payment process sufficient to ensure that it only subsidizes well-maintained housing for low-income Chicagoans;
- continue developing a software system that monitors properties' inspection compliance status, ensures that noncompliant properties do not receive payment, tracks contract

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OIG FILE #21-0444

LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

documents in a reliable manner, and allows the Trust Fund to independently monitor the compliance of its HQS inspection vendor;

- assess properties' compliance with the Chicago Building Code every quarter before it pays property owners;
- incorporate controls for quarterly payments to reduce or remove the opportunity for fraud and errors;
- immediately resolve errors in its property tracking spreadsheet; and
- take additional measures to ensure that its reports accurately reflect both the full distribution of active subsidies across the city and the amount of available funding for the RSP.

In its response to the audit, the Trust Fund described corrective actions it would take.

In March 2021, OIG inquired about the status of the Trust Fund's corrective actions. Based on its follow-up response, OIG concludes that the Trust Fund has partially implemented corrective actions related to inspection compliance tracking, payments, and record-keeping. Specifically, the Trust Fund is currently implementing an electronic portal integrating its contract management and subsidy request systems. The new system will also allow the Trust Fund to automatically generate and upload a payment file. The software development was delayed by a year after the Trust Fund released its previous vendor, Globetrotters LLC, from its contract. The Trust Fund cancelled 2020 HQS inspections due to the COVID-19 pandemic; it resumed in-person inspections in April 2021. The Trust Fund has fully implemented OIG's recommendations to use the Chicago Data Portal to verify Chicago Building Code compliance. It has not completed the transition away from a manually updated spreadsheet, but expects to after it has fully implemented new software in the third quarter of 2021.

Once fully implemented, OIG believes the corrective actions reported by the Trust Fund may reasonably be expected to resolve the core findings noted in the audit. We urge the Trust Fund to fully implement an electronic system that allows it to actively monitor inspection and contract compliance, write instructions for how to identify building code violations, transition away from its manually updated spreadsheet, and implement controls to ensure accurate payments. Below, we summarize our 4 audit findings and 14 recommendations, as well as the Trust Fund's responses to our follow-up inquiry.

We thank the staff and leadership of the Trust Fund for their cooperation during the audit and responsiveness to our follow-up inquiries.

Joseph M.Ferguson Inspector General City of Chicago.

Respectfully,

PAGE 2

OIG FILE #21-0444
LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

JULY 7, 2021

FOLLOW UP-RESULTS

In March 2021, OIG followed up on its December 2019 Chicago Low-Income Housing Trust Fund Housing Quality Inspections Audit.¹ The Trust Fund responded by describing the corrective actions it has taken and providing supporting documentation. Below, we summarize OIG's four findings, the associated recommendations, and the status of the Trust Fund's corrective actions. Our follow-up did not observe or test implementation of the new procedures; thus, we make no determination as to their effectiveness, which would require a new audit with full testing.

The Trust Fund did not ensure that all RSP properties met its standards for safe, sound and secure housing in 2017.*

OIG Recommendation 1:

Continue to develop and implement an integrated software system that enables the Trust Fund to independently monitor and report on the compliance status of properties, and to ensure [the Trust Fund's inspection vendor's] adherence to the terms of the parties' contract. The system should allow the Trust Fund to run global reports and identify inspection backlogs. It should also include property-level alerts when serious/emergency deficiencies are identified, and compliance deadlines have passed.

Status of Corrective Action: Partially Implemented

The Trust Fund is currently developing a new "Trust Fund Central" (TFC) software system. This project was delayed for a year because the Trust Fund terminated its contract with its previous inspections and software vendor (Globetrotters LLC) in the first quarter of 2020. The Trust Fund hired a new software developer (High Access) in April 2020.

TFC will integrate the Trust Fund's existing document management and property information systems into a single portal. Property owners will use TFC to upload contract documents, submit tenant information, request payments, and connect to property inspection records. The Trust Fund's agreement with High Access states that the developer will work with Trust Fund staff to identify reports that should be migrated to the new system, and design new reporting on an as-needed basis.

¹ City of Chicago Office of Inspector General "Chicago Low-Income Housing Trust Fund Housing Quality Inspections Audit," December 12, 2019, <<https://igchicago.org/wp-content/uploads/2019/12/Chicago-Low-Income-Housing-Trust-Fund-Housing-Quality-Inspections-Audit.pdf>>

OIG FILE #21-0444

LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

The Trust Fund hired a separate vendor (Bravura) to conduct HQS inspections. Bravura uses its own electronic portal ("THRYV") to schedule, conduct, and document the results of HQS inspections. Property owners and the Trust Fund can access THRYV directly or via a link in TFC. THRYV provides real-time inspection results. The Trust Fund stated that Bravura produces monthly reports on the number of inspections it has conducted, independently tracks the status of serious violations, and alerts them when deadlines have passed for serious and emergency deficiencies. The Trust Fund can see high-level inspection schedules and results using TFC, but must access THRYV to see inspection details.

For testing purposes, a beta group of 34 property owners currently have access to TFC; the remainder of the Trust Fund's participants are still using the Trust Fund's pre-existing electronic systems. The Trust Fund is adding users on a rolling basis and expects all eligible participants to have access to TFC by the third quarter of 2021. Bravura began inviting property owners to join its THRYV inspection platform in April 2021.

OIG Recommendation 2:

In cooperation with [the Trust Fund's inspection vendor], adjust inspection schedules to ensure that participating properties receive inspections early enough in the year to provide the Trust Fund with reasonable assurance it is subsidizing only compliant properties. For example, the Trust Fund may consider prioritizing inspections of properties with histories of noncompliance.

Status of Corrective Action: Substantially Implemented

The Trust Fund scheduled all 2020 HQS inspections to be completed within the first three quarters of the year. However, due to the COVID-19 pandemic, the Trust Fund cancelled all in-person inspections effective March 2020. It implemented an owner self-inspection requirement for 17 properties with new, vacant units. The Trust Fund required those self-inspected units to receive HQS inspections when in-person inspections resumed.

The Trust Fund resumed in-person inspections for all units in April 2021, with the goal of completing all inspections by the end of the third quarter.

OIG Recommendation 3:

Integrate the new subsidy payment system with its inspection system in order to allow it to identify and withhold payment from properties that have not achieved full compliance for all applicable units. The Trust Fund

OIG FILE #21-0444

LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

should also implement an internal control system allowing program coordinators to verify that all covered units received compliance letters and that related payments are calculated accurately.

Status of Corrective Action: Partially Implemented

Once TFC is fully implemented in the third quarter of 2021, the Trust Fund stated that the systems will be integrated. TFC will automatically calculate the eligible payment amount for each landlord based on inspection compliance records. Upon review and confirmation of compliance, Trust Fund staff will generate a file of payment amounts and upload it directly from TFC into the Trust Fund's payment system (Tipalti). This will mitigate the risks of data entry errors and subsidizing non-compliant units.

OIG Recommendation 4:

Assess [Chicago] Building Code compliance every quarter before issuing subsidy payments. If the Trust Fund decides to pay a property with unresolved violations, management and staff should carefully document the decision rationale and store it in the property file in case questions arise in the future.

Status of Corrective Action: Substantially Implemented

The Trust Fund stated that its "practice is to check for [Department of Buildings] violations at the time quarterly payments are requested by the Owner... If at the time of request the DOB violation is such that it can't be remediated due to the nature of the repair ([e.g.], tuckpointing in the month of January), the Trust Fund will pay the owner provided they present a plan of action." OIG requested a copy of the Trust Fund's policies and procedures for identifying outstanding violations. The Trust Fund provided a copy of its quarterly payment request form, which directs Trust Fund staff to note they checked for building violations but does not provide any related instructions. Without written instructions, staff may not have a full understanding of how and when to research building code violations, document communications with landlords, or justify payments.

OIG Recommendation 5:

Use the Data Portal to identify unresolved Building Code violations. However, given the significant errors in the Portal, the Trust Fund should remain in regular contact with the Department of Buildings (DOB) to ensure it understands the severity, content, and status of violations, and to remain up to date on where to find the best data for identifying violations.

PAGE 5

OIG FILE #21-0444

LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

Status of Corrective Action: Fully Implemented

The Trust Fund stated that staff verify DOB compliance-on a quarterly basis, when building owners submit payment requests-by using DOB's "Building Permit and Inspection Records:

Agreement" website (<https://webappsl.chicago.gov/buildingrecords> <<http://webappsl.chicago.gov/buildingrecords>>), and Building Violations dataset on the City of Chicago Data Portal (<https://data.cityofchicago.org> <<http://data.cityofchicago.org>>) Trust Fund staff have a contact at DOB who can answer questions when necessary.

Flaws in the Trust Fund's payment system resulted in overpayments totaling \$30,703 to at least six properties in 2017 and \$6,120 to at least one property in 2018.

OIG Recommendation 6:

The Trust Fund should consider reviewing all remaining 2017 and 2018 payment ledgers to identify and correct any additional overpayments in those years. The Trust Fund should also develop a payment system that reduces or removes the opportunity for fraud and errors by,

1. eliminating, to the extent possible, manual data entry;
2. flagging potentially duplicative payments for review;
3. requiring management approval for the creation of new payee codes; and
4. separating authority and responsibility to create new payees, enter subsidy amounts, and approve payments between multiple staff.

Status of Corrective Action: Partially Implemented

The Trust Fund stated that it audited the payment ledgers of all active program participants going back to 2016. It identified a \$27,115 reimbursement from a property owner in 2018. Upon OIG's inquiry, the Trust Fund also paid \$450 to the owner of a property that it had underpaid in 2017, and sent notice to another property owner that it had overpaid \$270 the same year.

Regarding ways to reduce or remove the opportunity for payment fraud and errors, as described in corrective action three above, TFC will automatically calculate the amount the owner is entitled to based on the approved subsidy and inspection compliance for each unit, eliminating the possibility of human calculation errors.

PAGE 6

OIG FILE #21-0444

LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

Because TFC limits the requested payment amount to the approved subsidy for each unit the risk of property owners requesting duplicate payments will be eliminated. The risk of such payments is also mitigated by the executive director's final review and approval.

The Trust Fund stated that only one employee can create Tipalti vendor codes and that other duties are separated. Landlords must initiate payment requests. Program coordinators review requests and compliance records in TFC and generate the payment file for Tipalti. The executive director must review and approve all payments. During the review, the executive director would

need to identify and resolve,

- any accounts that had not been approved by the Board;
- transposition errors;
- duplicate payments; and
- payment amounts exceeding the maximum approved subsidies.

The executive director agreed that this system relies heavily on their final review, stated that TFC's capabilities were still in development, and said that they would communicate with their payment vendor to ensure these fraud risk factors were taken into account. In addition, the Trust Fund hired an internal auditor who can also review payment records if needed.

The Trust Fund did not ensure that subsidized property owners submitted required documentation regarding City code violations.

OIG Recommendation 7:

Continue to develop and implement a document tracking system to ensure that landlords complete and return all contract documents every year.

Status of Corrective Action: Partially Implemented

Once fully implemented, TFC will integrate the Trust Fund's existing document management and property information systems into a single portal. TFC requires owners to upload electronic versions of their contract exhibits. The Trust Fund stated that TFC will prevent property owners from requesting payments if they have not uploaded all required documents.

PAGE 7

OIG FILE #21-0444

LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

TFC is currently in development, with full implementation estimated for the third quarter of 2021.

OIG Recommendation 8:

Implement a process for completion and confirmation of renewal contracts before the end of December, in order to ensure that funds are provided only to properties that have met contractual requirements.

Status of Corrective Action: Not Implemented

The Trust Fund stated that it aims to send contract renewals to property owners in early January of each year. Although it hopes to receive signed contracts soon after, the Trust Fund stated that

this deadline has not been strictly enforced.

The Trust Fund stated that TFC will prevent property owners from requesting payments if they have not uploaded all required documents. TFC is currently in development, with full implementation estimated for the third quarter of 2021.

OIG Recommendation 9:

Take steps to ensure that lead exhibits² are readily available. For example, the Trust Fund should consider requiring program coordinators to document prior lead compliance status by retaining a copy of the original lead exhibit in each subsequent year's updated property file.

Status of Corrective Action: Partially Implemented

TFC requires owners to upload electronic versions of their contract exhibits, including lead compliance documentation, for each unit. In their follow-up response, the Trust Fund stated, "When a property submits the annual agreement, staff will review the submission against the Agreement Property Checklist, which includes 'Lead Disclosure Statement.' This document is uploaded to the CLINKED portal by the property owner and received by staff. The Trust Fund hired an Auditor who annually reviews every hard file and Sharefile for completeness. For the newly selected beta testers and future participants, the document is/will be uploaded to the newly developed TFC portal." TFC is currently in development, with full implementation estimated for the third quarter of 2021.

² This exhibit certifies that a unit is free of lead hazards and complies with Illinois' lead-safe housing law.

PAGE 8

OIG FILE #21-0444
LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

The Trust Fund could not accurately determine the amount of available RSP funding because its 2014 1 through 2018 quarterly reports were inaccurate and incomplete.

■ **Findings**

OIG Recommendation 10:

Immediately review the contents of its master spreadsheet, correct all formulas and labels to ensure it captures only active properties, and ensure that the funded unit totals, wards, and community areas are correct.

Status of Corrective Action: Fully Implemented

OIG reviewed the Trust Fund's fourth quarter 2020 report and found that it had corrected some

inaccuracies identified during the original audit. The Trust Fund corrected other records after OIG inquired about them during the follow-up. The Trust Fund stated that the staff member who maintains the spreadsheet had reviewed all formulas in the spreadsheet.

The Trust Fund stated that TFC would include the same information and would replace the spreadsheet once the system was fully implemented in the third quarter of 2021.

OIG Recommendation 11:

Implement an ongoing review system to ensure that the spreadsheet is accurately updated before publication.

Status of Corrective Action: Fully Implemented

The Trust Fund stated that it undertakes a two-week-long process each quarter to verify the accuracy of the spreadsheet, based on Exhibit B in each property's contract.³ This includes a review of the spreadsheet's formulas. The Trust Fund stated that this review system was "in process" while it was implementing TFC.

OIG Recommendation 12:

Consider reporting unique buildings separately (even if they are covered under the same contract) or identifying all wards or community areas related to each building address.

¹ Exhibit B includes information such as the number of units and maximum rent subsidy.

PAGE 9

OIG FILE #21-0444

LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

JULY 7, 2021

Status of Corrective Action: Partially Implemented

The Trust Fund continues to report buildings in groups if they are listed under the same contract.⁴ It stated that once TFC has been fully implemented, the reports the system produces will list all addresses separately.

The Trust Fund stated that "[TFC] will automatically accommodate for wards and community areas," and will connect to the City's Geographic Information Systems (GIS) website to identify the accurate ward and community area for each address.

OIG Recommendation 13:

Adjust the title of the Trust Fund's "RSP Allocations" table in the City's quarterly housing reports to reflect that it includes MAUI [Multi-Year Affordability through Upfront Investment Program] funding, and alert the City that its calculations elsewhere in the report should be adjusted accordingly.

Status of Corrective Action: Partially Implemented

The Trust Fund retained the title of its subsidy allocations table (formally titled "Rental Subsidy Allocations as of [Date]") and continues to report RSP and MAUI properties together. The Trust Fund's reports do not include narrative descriptions of which properties belong solely to the MAUI program. In response to OIG's follow-up, the Trust Fund stated that it "allocates 'rental subsidies' under both the RSP and MAUI programs. The RSP is an annual/renewable subsidy, whereas MAUI funding is allocated as a long-term operating subsidy (LTOS), escrowed and disbursed quarterly over a period of 15-30 years."

The Trust Fund stated that it communicated with the Department of Housing (DOH), and the City decided it would no longer report on RSP unit counts because such reports did not clearly convey how many new RSP units had been created each quarter. DOH's quarterly reports now list "CLIHTE/MAUI Capital Funds" as a single line item, with the RSP in a separate category.

OIG Recommendation 14:

Reduce the opportunity for errors by transitioning away from a manually updated spreadsheet to an electronic tool integrated with the Trust

⁴ The Trust Fund has since separated one of the "grouped" buildings that OIG identified in the original audit into unique line items.

PAGE 10

OIG FILE #21-0444

LOW-INCOME HOUSING TRUST FUND HQS INSPECTIONS AUDIT FOLLOW-UP

Fund's inspection database, online portal for landlords, and payment system.

Status of Corrective Action: Not Implemented

In its response, the Trust Fund stated, "[TFC] will replace the existing manual spreadsheet, once all participants are uploaded by the end of Q3, 2021. At that time, the Trust Fund will be in the position to generate automatic reports. Until then, the Quarterly Reporting remains a manual process using an Excel spreadsheet."

The Trust Fund stated that TFC will integrate the Trust Fund's existing document management and property information systems into a single portal. Property owners will use TFC to upload contract documents, submit tenant information, request payments, and connect to property inspection records. The Trust Fund also stated that TFC will assign ward locations by connecting to the City's GIS website.

PAGE 11

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