



**Program Evaluation and Audit**

**Family Affordable Housing Program -  
Property Management Contracted Services  
Review**

17 October, 2008

# INTRODUCTION

## Background

The Metropolitan Council owns and operates 150 units of scattered site public housing. Funding for this program comes from federal grant (HUD) and rent revenue. At the beginning of FY 2008 the Metropolitan Council Housing and Redevelopment Authority (HRA) began a process to transition the properties from Family Affordable Housing Program (FAHP) to project based housing choice voucher (Section 8). FAHP is currently engaged in a contract with Kingwood Management, Inc. (Kingwood) to provide property management services for these properties. As a part of the transition to a Section 8 program, management is in the process of amending the contract with Kingwood.

## Purpose

The purpose of the review is to determine if Kingwood is meeting its contractual obligations and to identify management functions that may be efficient to perform in house.

## Scope

The review focused on the contractor's performance for calendar years 2007 and 2008 with an emphasis on 2008 performance.

## Methodology

### *Data Collection*

Review of:

- Current policies and procedures
  - Meeting minutes
  - Yearly reviews
  - Contract
- Financials (actual), budgets, budget projections, receipts
- Rent collection data
- Tenant waiting lists, placement
- Federal regulations

### *Survey*

Tenants were surveyed to determine their satisfaction with Kingwood's management (See Appendix A).

### *Analysis*

The analysis portion of this audit included random samples of tenant files and disbursement documentation in order to assess the following:

- Financial controls
- Adequacy of lease enforcement and rent collection procedures
- Compliance with HUD re-certification regulation
- Compliance with HUD purchasing and procurement regulations
- Efficiency of maintenance procedures

Based on results of the initial analysis an expanded review of maintenance and capital expenditures was conducted.

## **Assurances**

This review was conducted in conformance with *Government Auditing Standards* and the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors.

# OBSERVATIONS

## Tenant Survey

In June and July 2008 audit conducted a Tenant Satisfaction Survey of the tenants of the FAHP homes. All 147 tenants were contacted. Surveys were completed by phone with 84 tenants. Those not reachable by phone were sent the survey via the U.S. Mail Service. Written surveys were received from 22 tenants. The 106 tenants who responded to the survey represented 72% of the tenants at the time.

A copy of the survey and the survey results are provided in Appendix A.

Tenants were asked whether they had received maintenance or other services in the last 30 or 90 days. If they had received services they were surveyed as to their satisfaction with the services. Satisfaction with services was broken down into two categories. The first category (Question 4) concerned maintenance and repairs to the tenants home. The second category (Question 5) dealt with information requests and requests other than maintenance or repairs.

Overall 90% of the tenants were satisfied to very satisfied with maintenance and repair services. 45% said that services have improved while 45% felt services had stayed the same.

In the area of information requests and other services an average of 75% were satisfied to very satisfied. 26% felt the information requests and other services had improved while 50% thought it had stayed the same.

## Contract Compliance

### Financial Management

#### **Inadequate controls exist over expenditure of Council funds.**

Audit analyzed all Kingwood invoices for the month of June 2008 and attempted to tie the invoices to Kingwood work orders. For each property that had supplies billed but no labor charges for the same period, audit reviewed previous work orders to determine if the charges were appropriate. Three of 28 invoices were materials purchased and charged to a property that did not have labor charged to the property at the time the materials were purchased. Review of these charges resulted in expanding the scope of testing to include a statistically significant sample of those houses that had a higher than average level of cost for this period. All labor, contracted service and supply charges were reviewed for 26 properties for the period of January 2008 through July 2008.

Audit found that the Kingwood Property Manager responsible for charging expenses to Council properties had charged the Council for cleaning supplies that were not purchased for Council properties. The employee stated that these supplies were for the Council but, the Maintenance Supervisor said they were not used on Council property and should not have been charged to the Council. Kingwood will be repaying the Council \$278.29 for these two inappropriate charges. When asked to explain how they determined who to charge for the supplies the Kingwood Property Manager said that when the cleaner purchased supplies she indicated where they would be used. Kingwood began contracting out for Met Council cleaning services as of April 1, 2008 so no more cleaning supplies will be purchased.

Audit found that five replacement windows were charged to one residence. This residence was not due to receive capital improvements in the 2008 capital improvement plan. The invoice dates for the windows ranged from February 2008 through April 2008. Audit reviewed the subcontractor's labor charges for the property and found that some of the windows were purchased after the claimed installation date. Further review and questioning of the Maintenance Supervisor revealed that two of the windows had been installed at one residence and two of the windows at another residence. The contractor maintained that he had returned one window, but there is no evidence that this occurred. As a result of a lengthy investigation it was determined that the fifth window was not installed in a Council owned house. Kingwood agreed to reimburse the Council \$730.58. The subcontractor is no longer being used by Kingwood.

*Financial recordkeeping needs improvement.*

In reviewing property files, Audit found that only internal work orders and invoices were being maintained in property files. All contracted work and vendor invoices were kept separately in the accounting area. This makes it difficult to tie the monthly financial reports to the actual properties. Audit found 11 instances where the wrong Council property was charged for an expense. This type of mistake would be easier to identify if all documentation of maintenance and improvements were maintained within the property file.

The contract requires that all expenditures over \$1,000 be pre-approved by the Metro HRA Assistant Manager. Audit found that documentation of this was not always available. Discussion with the HRA Assistant Manager found that in some cases she gives a verbal approval, knowing a formal sign off would occur with the invoice approval. Actual payments over \$1,000 are approved by her or an authorized signatory.

*Capital improvement plan was not monitored appropriately.*

An annual capital improvement plan is approved at the beginning of each year. The Metro HRA Assistant Manager then requests proposals for the projects and awards the contracts. When Audit reviewed the window purchases, it was discovered that two of the five windows had been installed at a property that was on the capital improvement list and for which a contract had been issued. In spite of the capital improvement plan and the established process for awarding those projects Kingwood included the capital projects in their work order system. Kingwood said they would not do this in the future.

Inspection of the window installation work performed by the Kingwood subcontractor found the work to be substandard. The Metro HRA Assistant Manager has informed Kingwood that they will be held responsible for bringing the work up to standard at no additional cost to the Council.

*Heating and air conditioning costs are significant.*

Initial work on furnaces is done by Kingwood employees. If they are not able to fix the problem an outside vendor is hired. During the first six months of 2008 over \$27,000 was paid to an outside vendor for 15 invoices. As the properties age it can be expected that there will be a continued need for furnace repairs. This is not a service that the Council has previously put out for bid. Conducting a competitive procurement for this service may lower the Council's overall costs.

*Rent receivable is substantially larger when compared to January 2007.*

In February 2008 there were 22 residents who owed more than one month's rent. The receivable totaled \$21,000. In November 2007, January 2008 and April 2008 the Metro HRA Assistant Manager met with Kingwood to discuss the need for a stronger rent collection stance, pursuing past due accounts and filing unlawful detainers.

In April 2008 Kingwood implemented changes to address this issue. As of July 22, 2008 the number of residents owing more than one month's rent was down to 16. The individual receivables ranged from \$75 to \$3,512. The total receivable was \$16,000. While this is a significant improvement compared to April 2008, the receivable is considerably more than the receivable from January 2007 which was \$4,600. The Metro HRA Assistant Manager continually presses Kingwood to address this issue.

By contract, tenants with unpaid rent must make payment arrangements or Kingwood must take eviction action. That is the responsibility of Kingwood's Property Manager. The process for this was to send an initial notice to the tenants on the 6<sup>th</sup> of the month and then a second notice 14 days later. The 14 day notice was not being sent by Kingwood. With the changes implemented at Kingwood, we found that the appropriate correspondence is now being sent and actions are being taken on delinquent accounts.

*Payment checks to tenants for their utility allowance are consistently late.*

When families are certified eligible for FAHP a formula is used to determine the monthly rent. As a part of the formula a utility allowance is factored into the rent determination. Approximately 10% of the families are entitled to a monthly utility check. These checks, like rent, are due on the 1<sup>st</sup> of the month.

Review of utility check payments for the first seven months of 2008 found that all checks have been issued after the 10<sup>th</sup> of the month with some being paid as late as the 25<sup>th</sup> of the month. Discussion with Kingwood accounting personnel indicated that they were unaware of the required payment timeframe.

*Tenant utility allowance check amounts were wrong in two instances.*

Utility payments are based on the certified rent calculations. Audit reviewed utility check payments for 19 residents for the period of January 2008 through July 2008. In one case the resident was receiving checks for \$79 per month. In April the resident was recertified and was to pay rent of \$34 per month. The resident instead was issued checks in the amount of \$112 during April through July 2008. Kingwood said they had recently caught the mistake. In the second instance the certified payment amount changed on July 1, 2008 but the correction was not made. In one other instance the amount that Kingwood reflected as the certified rate was in fact the interim rate, in this case the correct amount was being paid but the rate being reported to the Council was inaccurate and would result in the Council reporting inaccurate information to HUD.

## **Leasing**

The vacancy rate in 2007 was 5%. In December 2007 there was a vacancy rate of 10%. HUD funding allows payment for a vacancy rate of 3%. Kingwood Management reorganized work assignments to address the vacancy issue. As of July 2008 the vacancy rate was less than 3%. Documentation of the leasing efforts has improved significantly. There are several instances where the eligible families have turned down available houses due to the distance between the housing and their jobs.

## **Communications**

Comments on the resident survey indicate that 10% of the residents have issues communicating with Kingwood office staff. This concern has also been reflected by the Metro HRA Assistant Manager in Quarterly Review letter to Kingwood. Audit also found that there was no apparent sense of urgency in responding to questions given to the Kingwood Property Manager.

## Recertifications

The April 2008 quarterly review indicated that recertifications were not being initiated and thus not completed in the appropriate timeframes. As of July 2008 audit found that a significant effort had been undertaken to address the issue and that the timeframes were being met.

## Property Inspections

The contract provides for either the Council or Kingwood to conduct annual inspections of the properties. In addition Kingwood is required to inspect the interior of the property twice a year and the exterior every two months. During the initial years of the contract the Council conducted annual inspections. During 2007 and 2008 Kingwood has conducted the annual inspections. Several units that turned over in late 2007 and early 2008 had significant wear and tear that was repaired in early 2008. In 2008 Kingwood is on schedule to complete the required inspections.

## Work Orders

Analysis of work orders found 134 of the 150 units had at least one work order completed during the period of April 2008 through June 2008. The total number of work orders for January 2008 through June 2008 was 868. The number of work orders has increased 25% since 2007 while the average completion time per work order has decreased by 1 ½ days. Contract requirement for work order completion time is being met. Table 1 recaps work order volume and completion time.

**Table 1**

Month	# of Work Orders 2007	# of Work Orders 2008	Percent Increase in Work Orders	Average # of Days for Work Order Completion 2007	Average # of Days for Work Order Completion 2008	Change in Days for Work Order Completion 2008
January	127	145	14%	1.91	2.03	+ .12
February	104	138	32%	3.77	2.48	- 1.29
March	145	150	3%	3.93	2.61	- 1.32
April	91	154	69%	3.74	2.00	- 1.74
May	111	166	49%	4.48	1.64	-2.84
June	114	115	0 %	3.97	2.28	-1.69
Total	692	868	25%	3.63	2.17	-1.46



## CONCLUSIONS

*1. Financial controls were inadequate.*

Kingwood Property Manager was not adequately reviewing expenditures to ensure that they were appropriate. Five cleaning supply invoices that were charged to the Council were questionable. Two of the five were for a different client of Kingwood, three were questionable as to the appropriateness of the items purchased.

Five windows charged to a property which had only two installed indicate that purchases were not being tied to work performed.

Documentation of work orders, maintenance and capital expenditures within a property file would allow Kingwood to accurately review and assign expenditures.

*2. Lease enforcement and rent collection efforts have improved.*

Lease enforcement and rent collection practices improved significantly since April 2008. The outstanding rent balance is high and will require monitoring in order to ensure that it continues to decrease.

*3. Recertifications are now on track.*

Recertification was not done in accordance with the contract at the start of 2008. As of July 2008 they were being conducted in accordance within the Council specified timelines.

*4. HUD purchasing requirements are being met.*

No violations of HUD purchasing requirements were found.

*5. Maintenance work order volume and processing time demonstrates increasing efficiency.*

The amount of work orders increased by 25% in 2008 compared to 2007. At the same time the completion time has been reduced by 1.46 day. This indicates that a greater effort is being made to complete maintenance in a timely fashion while dealing with an increased workload

*6. Responsiveness to tenant requests need improvement.*

Tenant survey results and comments as well as Council management feedback indicate that there is an issue with timely response to phone calls and emails to Kingwood.

7. *Survey results indicate overall tenant satisfaction.*

Tenant satisfaction with Kingwood maintenance services is very high. 90% of the tenants feel that maintenance services are either staying the same or getting better. Information requests are considered getting worse by 24% of the tenants.

## **Overall**

Kingwood had several areas that were deficient in 2007. The Metro HRA Assistant Manager consistently monitors the contract and works with Kingwood to ensure they address any deficiencies. As of April 2008, after numerous meetings and written correspondence with the HRA Assistant Manager, Kingwood implemented several changes which have helped to address the deficiencies. The financial deficiencies, identified in the audit, need to be addressed to ensure that the Council is charged only for those goods and service it receives.

## RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.

### **1. Kingwood must take immediate steps to ensure that expenditures are accurately charged to the Council. (Essential)**

Expenditures were not accurately charged to Council accounts. Kingwood employees were not following Kingwood procedures which resulted in Kingwood office staff charging purchases to the wrong account. Each expenditure should have documentation identifying the property, amount and date of purchase or service. This information should tie to work orders or sub contracts and should be included in the property file.

#### ***Management Response:***

*Metro HRA requested that Kingwood Management create a written procedure changing their invoice approval process to ensure a Maintenance Supervisor is signing off on all purchases. The procedure will require an expenditure documentation process to ensure all expenses are evidenced in a property file as well as in an accounting file. The Metro HRA Assistant Manager will follow up to ensure the new processes are in place effective immediately.*

**2. Metro HRA must monitor Kingwood to ensure that the following items that Kingwood agreed to during April 2008 or during the course of the audit are in place: (Essential)**

- a. Purchases will be segregated by property.
- b. Property folders will contain all work orders, purchases and invoices together.
- c. Capital improvements will not be put on work orders and will be monitored.
- d. Utility payments will be paid on 1<sup>st</sup> of the month.
- e. Rent collection timeline will be followed.
- f. Recertifications will occur on prescribed timeline.
- g. All agreed to repayments are made by Kingwood to the Council.

Metro HRA currently meets biweekly with Kingwood staff to go over and address issues. These meetings have resulted in many of the improvements mentioned in the audit. It is imperative that Metro HRA hold Kingwood to the agreements they have made to ensure the success of the program.

***Management Response:***

*The Metro HRA will continue to meet with Kingwood biweekly to discuss ongoing issues. Metro HRA will also ensure the issues are addressed as follows:*

- a. *Purchases will be segregated by property*  
*addressed above*
- b. *Property folders will contain all work orders, purchases and invoices together*  
*addressed above*
- c. *Capital improvements will not be put on work orders and will be monitored*  
*Capital improvements items are no longer written on work order requests. Kingwood now keeps a separate list for capital improvements to ensure there is no duplication. This process is already in place.*
- d. *Utility payments will be paid on the 1<sup>st</sup> of the month*  
*Metro HRA will monitor to ensure utility reimbursements payments are made timely by the 1<sup>st</sup> of the month.*
- e. *Rent collection timeline will be followed*  
*Metro HRA will require Kingwood to send a written detailed explanation of delinquent rental accounts with monthly reports and will continue delinquent accounts on bi-weekly meeting agendas.*
- f. *Recertifications will occur on prescribed timelines*  
*Metro HRA will continue to review files and run bi-weekly reports to ensure recertifications are completed on time.*
- g. *All agreed to repayments are made by Kingwood to the Council*  
*Metro HRA will require all repayments are made by November 30, 2008 or window and cleaning supplies.*

**3. Metro HRA should have an annual inspection of all FAHP units conducted by either Council staff or an entity independent of Kingwood. (Essential)**

As the owner of the properties the Council has a responsibility to ensure that the properties are properly maintained. Metro HRA should have inspections of the FAHP units conducted annually as well as after capital projects have been completed to ensure that the Council's investment interest in the properties is being maintained to Council specifications. The inspections should be conducted by either Council staff or an entity independent of Kingwood.

***Management Response:***

*Metro HRA is in the process of gaining U.S. Department of Housing and Urban Development (HUD) approval to convert the FAHP units from Public Housing to Section 8 Project Based assistance. As part of this process, it is required that an independent entity conduct the annual FAHP inspections. The Metro HRA will ensure an annual inspection occurs, independent of Kingwood Management.*

*Metro HRA will inspect all completed capital improvement items prior to payment effective immediately rather than relying on Kingwood Management for inspection of items.*

**4. Metro HRA should consider competitive procurement for recurring services. (Consideration)**

Heating and air conditioning services exceeded \$27,000 for the first half of 2008. Metro HRA should consider conducting a competitive procurement for this service and any others that are needed on a recurring basis in order to reduce overall costs.

***Management Response:***

*Staff will consider requesting proposals for the heating and air conditioning services for FAHP units and will continue to monitor other services for the same issue.*

Appendix A  
 FAHP Survey Responses  
 July 28, 2008

1 Very dissatisfied- 5 Very satisfied

	1	2	3	4	5	Total
1. How would you rate your satisfaction with the condition of your home upon move in?	3	7	15	23	58	106

2. Did your move-in appointment include the following? (Check all that apply)	
Thorough explanation of lease agreement	93
Maintenance orientation – explanation of how to: shut off water, operate furnace, water softener, lawn mower, washing machine, dishwasher, etc	77
Unit Inspection/Move in checklist	98
Explanation of how to make a repair/maintenance request	92
Explanation of who to call for other issues with your home which may arise	90
Explanation of how and when to pay your rent	103
Explanation of what utilities you pay and who to call if you have utilities issues	97

3. Did you sign and/or receive copies of the following documents at your move-in appointment?	
Lease agreement	104
Association rules and regulations (if you live in a townhome)	55
Resident handbook	76
Lawn mower agreement (if applicable)	24
New resident information for the city or neighborhood you live in	52
Move-in condition checklist	82

4. In the past 30 or 90 days have you made a request to Kingwood Management for maintenance or repair to your home?	30	90	No
	52	28	26

a. If yes, how long did it take to get your maintenance issue resolved?			
1-2 Days	26	8	
3-5 Days	5	5	
6-10 Days	1	4	
10-20 Days	6	1	
20 + Days	13	10	

	30 Days					90 Days				
	1	2	3	4	5	1	2	3	4	5
<b>b.</b> How would you rate the courtesy of the staff who took your request?	5	2	7	8	30	2	1	3	8	14
<b>c.</b> How would you rate the courtesy of the on-site staff who completed your request?	3	1	4	10	29	2	0	2	3	16
<b>d.</b> How would you rate general upkeep of your home on the part of Kingwood Management?	4	6	7	13	21	1	1	4	9	13

<b>e.</b> If you have made more than one request for maintenance in the last year, how would you rate the level of service?	30	90
Getting Better	21	6
Staying the Same	21	16
Getting Worse	7	0
Not Applicable		

<b>5.</b> In the past 30 or 90 days have you requested information or service (other than maintenance or repair) from Kingwood Management?	30	90	No
	27	16	

<b>a.</b> What was the request?	30	90
Information regarding rent	12	6
Information regarding lease	6	1
Information regarding a correspondence you received from Kingwood Management or Council	2	2
Other	7	5

<b>b.</b> How long did it take to get a response?	30	90
1-2 Days	6	5
3-5 Days	10	2
6-10 Days	4	1
10-20 Days	1	1
20 + Days	5	6

	30					90				
	1	2	3	4	5	1	2	3	4	5
<b>c.</b> How satisfied with Kingwood Management's response time were you?	4	3	7	5	7	1	3	3	3	5
<b>d.</b> How would you rate the courtesy of the staff who completed your request?	1	1	3	7	12	1	0	3	6	5

e. If you have made more than one request for information or service in the last year, how would you rate the level of service?	30	90	No	Total
Getting Better	6	4		
Staying the Same	14	6		
Getting Worse	4	4		
Not Applicable				

6. If you have any other concerns at this time please write them in the space below:
Windows are broken from last year, outside damage that has not been fixed, bathroom problems/ water leaks into basement, when they moved kingwood got worse, suggested that because there is a language barrier they may have an issue
More than 30 days, need storm door replaced, wood on side needs to be replaced, received letter about replacing steps, took bricks out of steps, wants to know why they stopped doing maintenance on washer and dryer
Have heater issues
Need larger bathroom and a 4th bedroom
Trying to find out about move out, stove doesn't work
Siding and light blown in the garage
Property Manager doesn't answer or call back for 3 or 4 days, needs work on stove
Proper Manager is difficult to get ahold of left 2 messages, utility allowance checks are late
No storm window, not immediately pressing
Wants new windows, new carpeting
She has issues with the association, not with Kingwood, wants garage door keypad and why her unit doesn't have AC
No busses
said that she violated association rules
Said they don't fix washing machines.
Feels like it takes forever to get things done.
Property Manager never returns phone calls, has to write letter to get answers.
Property Manager is polite Head mtnc is rude Lots of requests
Mgmt is not answering my request
Don't come for a week, don't call, just show up.
Respect the yards, wear clean shoes, respect customers
Getting worse requests take a long time
Staff friendly and knowledgeable If they don't know they followup with a call and the answer
Need repair on time
Just moved in waiting for rent response
Difficulty contacting Mgmt/not timely.