
AUDIT REPORT



DETROIT HOUSING COMMISSION
HOPE VI PROGRAM

DETROIT, MICHIGAN

2001-CH-1007

MAY 16, 2001

OFFICE OF AUDIT, MIDWEST
CHICAGO, ILLINOIS



Issue Date May 16, 2001
Audit Case Number 2001-CH-1007

TO: David Sowell, Director-Senior Advisor of Public Housing Investments, PI
Joann Adams, Director of Public Housing Hub, Michigan State Office

/signed/

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Detroit Housing Commission
HOPE VI Program
Detroit, Michigan

We completed an audit of the Detroit Housing Commission's HOPE VI Program. The objectives of our audit were to determine whether the Housing Commission administered its HOPE VI Program in an efficient, effective, and economical manner and in compliance with HUD's requirements. We performed the audit based upon our Fiscal Year 2000 annual audit plan.

The Housing Commission did not administer its HOPE VI Program in an efficient, effective, and economical manner and failed to comply with HUD's requirements. The Commission used an estimated \$740,790 of HUD funds (HOPE VI, Development, and Comprehensive Grant Program) to pay for construction work that was improperly performed or that was not provided. The work improperly performed or work not provided occurred in 95 of the 116 units (82 percent) and all 45 buildings inspected by our inspectors. Sixty-six units and 38 buildings did not meet HUD's Housing Quality Standards.

The Housing Commission also: paid \$11,245,351 and approved for payment an additional \$815,105 for change orders without sufficient supporting documentation; failed to obtain HUD's prior approval for 20 change orders, as required by the HOPE VI Grant Agreements; used \$568,548 to pay construction expenses for the Frankfort Sewer project that the City should have provided at no cost to the Commission; and paid \$3,643,031 and approved for payment an additional \$1,278,651 for unreasonable, unnecessary, and/or unsupported expenses. As a result, HUD lacks assurance that the Commission's HOPE VI Program resources were used to the maximum extent to benefit low and moderate income individuals.

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please have them contact me at (312) 353-7832 or Heath Wolfe, Assistant District Inspector General for Audit, at (312) 353-6236 extension 2677.

Executive Summary

We completed an audit of the Detroit Housing Commission's HOPE VI Program. The objectives of our audit were to determine whether the Housing Commission administered its HOPE VI Program in an efficient, effective, and economical manner and in compliance with HUD's requirements. We performed the audit based upon our Fiscal Year 2000 annual audit plan.

The Housing Commission did not administer its HOPE VI Program in an efficient, effective, and economical manner and failed to comply with HUD's requirements.

The Commission's
Administration Of The
HOPE VI Program Was
Very Poor

The Housing Commission and its former and current Executive Directors failed to follow Federal requirements, State of Michigan law, and the Commission's requirements regarding the administration of the HOPE VI Program. Specifically, the Commission used or approved for payment over \$18 million in HUD funds (HOPE VI, Development, and Comprehensive Grant Program) to pay for: construction work that was improperly performed or not provided; construction and professional services that were not supported with detailed work specifications; sewer construction work that the City of Detroit should have provided at no cost to the Commission; and unreasonable and unnecessary expenses, or expenses without documentation to support that they benefited the Commission's Jeffries Home or the Villages at Parkside HOPE VI Projects or were reasonable and necessary expenses.

The Commission Paid For
Revitalization Work To The
Villages At Parkside That
Was Improperly Performed
Or Not Provided

The Housing Commission did not follow the Annual Contributions Contract, HUD's regulations, and the HOPE VI Grant Agreement to ensure units at the Villages at Parkside II and IV were decent, safe, and sanitary after revitalization. The Commission used an estimated \$678,969 of HUD funds (HOPE VI, Development, and Comprehensive Grant Program) to pay for revitalization work that was improperly performed or that was not provided. The work improperly performed or work not provided occurred in all of the units and buildings (66 units and 43 buildings) inspected by our inspectors. Fifty-one units and 36 buildings did not meet HUD's Housing Quality Standards.

The Commission Paid For Modernization Work To Jeffries Homes That Was Improperly Performed Or Not Provided

The Housing Commission did not follow the Annual Contributions Contract, HUD's regulations, and the Commission's Revitalization Plan to ensure units at the Jeffries Homes HOPE VI Project were decent, safe, and sanitary after modernization. The Commission used an estimated \$61,821 of Comprehensive Grant Program funds to pay for modernization work that was improperly performed or that was not provided. The work improperly performed or work not provided occurred in 29 of the 50 units (58 percent) and the two buildings inspected by our inspector. Fifteen of the 29 units and the two buildings did not meet HUD's Housing Quality Standards.

The Housing Commission's Contracting Process Was Not Performed In An Efficient, Effective, And Economical Manner

The Housing Commission did not maintain an effective system of controls over its contracting process. Contrary to Federal requirements, State of Michigan law, and/or the Cooperation Agreement with the City of Detroit, the Commission improperly used HUD funds (HOPE VI, Development, and Comprehensive Grant Program) or inappropriately approved for payment \$13,181,214 for construction or professional services. The improper expenses included: (1) \$11,245,351 paid and an additional \$815,105 approved for payment for change orders without sufficient supporting documentation; (2) \$568,548 paid in construction expenses for the Frankfort Sewer project that the City should have provided at no cost to the Commission; and (3) \$550,980 paid and an additional \$1,230 approved for payment for excessive construction costs, interest expenses, and repair costs to correct contractor damages that were not reasonable and necessary expenses of the Commission. The Housing Commission failed to obtain HUD's prior approval for 20 change orders, as required by the HOPE VI Grant Agreements. The Commission also lacked documentation to support that HOPE VI construction or professional services contracts were awarded through full and open competition, or in an efficient and effective manner.

The Commission Lacked Control Over Funds For The Villages At Parkside HOPE VI Project

The Housing Commission did not maintain sufficient control over HUD funds (HOPE VI and Comprehensive Grant) for the Villages at Parkside HOPE VI Project. The Housing Commission: (1) lacked documentation to show that \$999,128 of HUD funds paid and an additional \$1,269,377 approved for payment benefited the Commission's Parkside HOPE VI Project or were reasonable and necessary expenses; and (2)

paid \$5,096 in interest expense from HUD funds and approved for payment another \$8,044 for interest expense that was not reasonable and necessary to the Parkside HOPE VI Project.

The Commission Paid
\$2,087,827 In Unsupported
Costs For The Jeffries
Homes HOPE VI Project

The Housing Commission did not follow the HOPE VI Grant Agreements, HUD's regulations, Office of Management and Budget Circular A-87, and State of Michigan law regarding the use of funds for the Jeffries Homes HOPE VI Project. The Commission lacked documentation to show that \$2,087,827 of HOPE VI funds paid benefited the Jeffries Homes Project or were reasonable and necessary expenses.

Recommendations

We recommend that HUD declare the Housing Commission in default of the HOPE VI Grant Agreements and take action to place the administration of the Commission's HOPE VI Program under a third party, acceptable to HUD, or HUD petition for the appointment of a receiver for the Program. We also recommend that HUD assure the Commission: implements controls to correct the weaknesses cited in this report; and takes appropriate action on all other concerns addressed in this report.

We presented our draft findings to the Housing Commission's Executive Director and HUD's staff during the audit. We held an exit conference with the Commission on April 26, 2001.

The Housing Commission disagreed with our draft findings. The Commission acknowledged that the Villages at Parkside and Jeffries Homes HOPE VI Projects experienced extraordinary construction delays, contractor disputes and performance issues, and cost overruns. However, the Commission indicated that its current administration had begun to implement operational enhancements and controls for the HOPE VI Program.

We included paraphrased excerpts of the Housing Commission's comments with each finding. The complete text of the comments is in Appendix B with the exception of 83 attachments that were not necessary for understanding the Commission's comments. A complete copy of the Commission's comments were provided to HUD's Director-Senior Advisor of Public Housing Investments and the Michigan State Office Director of Public Housing Hub.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Table Of Contents

Management Memorandum	i
-----------------------	---

Executive Summary	iii
-------------------	-----

Introduction	1
--------------	---

Findings

1	The Commission's Administration Of The HOPE VI Program Was Very Poor	5
2	The Commission Paid For Revitalization Work To The Villages At Parkside That Was Improperly Performed Or Not Provided	21
3	The Commission Paid For Modernization Work To Jeffries Homes That Was Improperly Performed Or Not Provided	39
4	The Housing Commission's Contracting Process Was Not Performed In An Efficient, Effective, And Economical Manner	53
5	The Commission Lacked Control Over Funds For The Villages At Parkside HOPE VI Project	79
6	The Commission Paid \$2,087,827 In Unsupported Costs For The Jeffries Homes HOPE VI Project	87

Management Controls	93
---------------------	----

Follow Up On Prior Audits	97
---------------------------	----

Appendices

A	Schedule Of Questioned Costs	99
B	Auditee Comments	101
C	Inspectors' Cost Estimates	131
D	Distribution	135

Introduction

The Detroit Housing Commission was established under State of Michigan law. The Housing Commission contracts with HUD to provide low and moderate-income persons with safe and sanitary housing through rent subsidies. In May 1996, the housing authority was changed from the Detroit Housing Department of the City of Detroit to the Detroit Housing Commission. The change resulted from a December 1995 agreement with HUD to provide the Housing Commission a greater amount of independence in such areas as personnel, procurement, finance, and human resources. The City Council needed to amend the City ordinance to create a completely independent housing entity and transfer all assets to the Housing Commission. However, as of April 2001, the City Council had not amended the ordinance.

The HOPE VI Program was developed as a result of recommendations contained in a report submitted to Congress on August 10, 1992 by the National Commission on Severely Distressed Public Housing. The Commission recommended revitalization in three general areas: physical improvements, management improvements, and social and community services to address resident needs. Congress responded immediately to the Commission's report and appropriated \$300 million on October 6, 1992.

The HOPE VI Program permits expenditures for the capital costs of demolition, construction, rehabilitation and other physical improvements, development of replacement housing, and community and supportive services. Public housing authorities are encouraged to seek new partnerships with private entities to create mixed-finance and mixed-income affordable housing that is different from traditional public housing projects. Housing authorities can use HOPE VI Program funds in conjunction with modernization funds or other HUD funds, as well as municipal and State contributions, public and private funds, and low-income housing tax credit equity. HUD awards HOPE VI grants to public housing authorities on a competitive basis based upon applications to a Notice of Funding Availability.

HUD awarded the Housing Commission eight HOPE VI Grants (Implementation, Planning, and Demolition) between August 1994 and September 1999. The eight Grants totaled \$126,346,651 and were to be used to revitalize three of the Housing Commission's severely distressed developments. The three developments are the Villages at Parkside, Jeffries Homes, and Herman Gardens. The following table shows the HOPE VI Grants awarded for each development.

Development	Implementation	Planning	Demolition	Total
Villages at Parkside	\$ 47,620,227	\$499,922	\$ 0	\$ 48,120,149
Jeffries Homes	39,807,342		10,000,000	49,807,342
Herman Gardens	24,224,160		3,795,000	28,019,160
Villages at Parkside/Herman Gardens	<u>0</u>	<u>400,000</u>	<u>0</u>	<u>400,000</u>
Totals	<u>\$111,651,729</u>	<u>\$899,922</u>	<u>\$13,795,000</u>	<u>\$126,346,651</u>

In addition to the HOPE VI Grants, over \$24 million in Development, Comprehensive Grant, and/or Low-Income Housing Tax Credit funds awarded to the Housing Commission were to fund its revitalization plans for the developments. The Commission had only received \$1,000 in Low-Income Housing Tax Credit funds as of June 2000. As of June 2000, the Commission had spent over \$103.1

million in HUD funds for the revitalization efforts to the Villages at Parkside (\$53.8 million), Jeffries Homes (\$32.1 million), and Herman Gardens (\$17.2 million).

The Parkside Project's revitalization efforts include four Villages with the objective of creating a mixed-income development, unit reconfiguration, providing resident homeownership, and reducing the Project's density. The Housing Commission has demolished over 20 buildings at the four Villages, and modernized 22 buildings and constructed 21 buildings at Villages II and IV. The Commission plans to construct an additional 64 buildings at Villages I and III. The number of units at Parkside will be reduced from 1,066 units before revitalization to 462 units after revitalization.

The revitalization efforts for Jeffries Homes and Herman Gardens Projects also include creating mixed-income developments, unit reconfiguration, providing resident homeownership, and/or reducing the Projects' density. The Housing Commission has demolished 28 buildings and modernized two senior high-rise buildings at Jeffries. The Commission plans to modernized two additional buildings and construct over 60 new buildings. The number of units at Jeffries will be reduced from 1,920 units before the revitalization to 750 units after revitalization. The Commission has demolished all 167 buildings at Herman Gardens and plans to construct 672 new units.

The Housing Commission's HOPE VI Program has experienced substantial problems since the award of the HOPE VI Grants. Specifically, the Commission's Villages at Parkside and Jeffries Homes HOPE VI Projects have suffered from extraordinary construction delays, contractor disputes and performance issues, cost overruns, numerous changes to construction plans, and unpaid invoices. Once HUD was aware of the cost overruns and the unpaid invoices, HUD suspended the Commission's ability to draw down funds for the HOPE VI Program in April 1999. In May 2000, HUD lifted the suspension because an agreement was executed with the Commission to settle the unpaid invoices. HUD provided the Commission an additional \$8.4 million as part of the agreement.

The Housing Commission's principal manager is an Executive Director. The Executive Director is responsible for carrying out the Housing Commission's policies and managing the day-to-day operations of the Commission. The Director is also responsible for maintaining the Housing Commission's compliance with Federal, State, and local laws, as well as the Commission's policies and procedures.

The Housing Commission has experienced a turnover at its Executive Director position during the past five years. Between July 1996 and April 1998, Carl Green was the Commission's Executive Director. After Mr. Green left the Commission, Irene Hannah was appointed Interim Executive Director until April 4, 1999. As of April 5, 1999, John Nelson, Jr. was appointed the Commission's Executive Director.

A five member Board of Commissioners governs the Housing Commission. The Mayor of the City of Detroit, currently Dennis Archer, appoints the Board members for two-year terms. The Chairperson of the Board is Lisa Webb Sharpe. The Commission's books and records are located at 2211 Orleans and 1301 East Jefferson in Detroit, Michigan.

Audit Objectives

The audit objectives were to determine whether the Housing Commission administered its HOPE VI Program in an efficient, effective, and economical manner and in compliance with HUD's requirements.

Audit Scope And Methodology

We conducted the audit at HUD's Office of Public Housing Investments, HUD's Michigan State Office, and the Housing Commission's offices. We performed our on-site audit work between March 2000 and March 2001. Since construction work had not commenced at the Commission's Herman Gardens HOPE VI Project, we limited our audit to the Villages at Parkside and Jeffries Homes HOPE VI Projects.

To accomplish our audit objectives, we interviewed: HUD's staff; City of Detroit officials; Army Corp of Engineers' employees; the Commission's current and former Executive Directors, Board members, staff, and current and former contractors/consultants; and 99 residents. We analyzed the following items: tenant files; cash disbursement reports, canceled checks, and bank statements; vendor files, contracts, invoices, and change orders; unit inspection reports; construction plans and specifications; Board meeting minutes; cash receipts and general ledgers; audited financial statements; Total Development Cost reports; Revitalization and Business Plans; certificates of occupancy; and the Authority's policies and procedures. We also reviewed: HUD's files for the Commission; Sections 201 and 209 of the Annual Contributions Contract between HUD and the Commission; Parts 24, 85, 882, and 968 of Title 24 of the Code of Federal Regulations; Office of Management and Budget Circular A-87; the Cooperation Agreement between the Commission and the City of Detroit; the Housing Facilities Act (Public Act 18) of the Michigan Compiled Laws Annotated Section 125.685; and the HOPE VI Grant Agreements for the Jeffries Homes and the Villages at Parkside.

We statistically selected 116 of the 481 units and all 45 buildings for inspection that were revitalized/modernized at the Housing Commission's Jeffries Homes and the Villages at Parkside HOPE VI Projects. The Army Corp of Engineers inspected the units and buildings to determine whether the Commission received the revitalization/modernization work

according to the construction contracts and whether the units and buildings were decent, safe, and sanitary after the work was completed. We also judgmentally selected 23 construction or professional services contracts and 88 change orders executed by the Housing Commission to determine whether the Commission procured the construction or professional services according to Federal requirements and the Commission's Procurement Policies. The Army Corp of Engineers assisted us in the review of the contracts and change orders.

The audit covered the period March 1, 1998 through February 29, 2000. This period was adjusted as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Mayor of the City of Detroit, and Housing Commission's Executive Director and to the Chairperson of the Board.

The Commission's Administration Of The HOPE VI Program Was Very Poor

The Detroit Housing Commission and its former and current Executive Directors failed to follow Federal requirements, State of Michigan law, and the Housing Commission's requirements regarding the administration of the HOPE VI Program. Specifically, the Housing Commission used or approved for payment over \$18 million in HUD funds (HOPE VI, Development, and Comprehensive Grant Program) to pay for: construction work that was improperly performed or not provided; construction and professional services that were not supported with detailed work specifications; sewer construction work that the City of Detroit should have provided at no cost to the Commission; and unreasonable and unnecessary expenses, or expenses without documentation to support that they benefited the Commission's Jeffries Home or the Villages at Parkside HOPE VI Projects or were reasonable and necessary expenses. Because the Housing Commission did not administer the HOPE VI Program properly, the Commission will exceed HUD's maximum development costs for the Jeffries Homes and the Villages at Parkside without a substantial capital contribution. The Commission's current and former Executive Directors did not exercise their responsibilities to ensure that the Commission complied with Federal, State, and local laws as well as the Commission's requirements. As a result, HUD lacks assurance that the Commission's HOPE VI Program resources were used to the maximum extent to benefit low and moderate income individuals.

Federal Requirements

The HOPE VI Implementation Grant Agreements, between HUD and the Detroit Housing Commission dated August 12, 1994 for the Jeffries Homes HOPE VI Project and February 8, 1995 for the Villages at Parkside HOPE VI Project, say HUD may impose special conditions or restrictions on the Commission due to unsatisfactory performance or default. The special conditions or restrictions include the following:

- Withholding authority to proceed to the next phase of activities until receipt of evidence of acceptable performance;
- Requiring additional, more detailed financial reports;
- Additional project monitoring;
- Requiring the Commission to obtain technical or management assistance; or
- Establishing additional prior approvals.

The HOPE VI Grant Agreements also say a default by the Housing Commission may be declared if one of the following events occur:

- Use of Grant funds for any purpose other than as authorized by the Grant Agreement;
- Failure to comply with the HOPE VI requirements or any other Federal, State, or local laws, regulations, or requirements; or
- Failure to comply with any covenants, conditions, or terms of the Grant Agreement.

The HOPE VI Grant Agreements provide HUD an option of requiring the Housing Commission to contract with an alternate administrator, acceptable to HUD, if it fails to cure all defaults within set time periods. HUD also has the option of taking any of the following remedial or enforcements actions upon written notice to the Commission:

- Petition for the appointment of a receiver for the HOPE VI Development;
- Terminate the HOPE VI Grant and initiate close-out procedures;
- Withdraw any unobligated balances of funding;
- Take action against the Commission under 24 CFR Part 24 with respect to future HUD or Federal grant awards; and
- Take any other available legal or equitable remedial action, including but not limited to any remedial actions available under the Commission's Annual Contributions Contract with HUD.

24 CFR Part 24.110 permits HUD to take administrative sanctions against employees of recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation which are authorized by 24 CFR Parts 300, 400, or 700, respectively. HUD may impose administrative sanctions based upon the following conditions:

- Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);
- Deficiencies in ongoing construction projects (limited denial of participation);
- Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance or

guarantee, or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee (limited denial of participation);

- Violation of the terms of a public agreement or transaction so serious as to that affect the integrity of an agency program such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment);
- Any other cause of so serious or compelling a nature that it affects the present responsibility of a person (debarment); or
- Material violation of a statutory or regulatory provision or program requirements applicable to a public agreement or transaction including applications for grants, financial assistance, insurance or guarantees, or to the performance of requirements under a grant, assistance award, or conditional or final commitment to insure or guarantee (debarment).

Executive Director’s Duties
And Responsibilities

An Executive Director’s duties include:

- Overseeing the development and implementation of organizational policies and procedures for attaining the Housing Commission’s objectives;
- Carrying out the Commissioners’ policies and managing the Commission’s day-to-day operations. In this capacity, the Executive Director is responsible for keeping the Commissioners informed of operational developments and to provide them with information for future policy and program guidance; and
- Maintaining overall compliance with Federal, State, and local laws, as well as the Commission’s policies and procedures.

The Commission
Improperly Administered
The HOPE VI Program

The Housing Commission and its current and former Executive Directors did not exercise their responsibilities to effectively manage the Commission’s HOPE VI Program. The Housing Commission and its Directors failed to follow the HOPE VI Grant Agreements, HUD’s regulations, State of Michigan law, the Annual Contributions Contract, Office of Management and Budget Circular A-87, and the Commission’s Agreements and Policies regarding the administration of the Jeffries Homes and

the Villages at Parkside HOPE VI Projects. The Commission's and the Directors' actions demonstrate a lack of management ability to administer the HOPE VI Program in an efficient, effective, and economical manner.

The Commission Paid For Construction Work That Was Improperly Performed Or Not Provided

Contrary to Federal requirements, the Housing Commission failed to ensure units at the Jeffries Homes and the Villages at Parkside HOPE VI Projects were decent, safe, and sanitary after receiving construction work. The Commission used HUD funds to pay for construction work that was improperly performed or that was not provided. The work improperly performed or work not provided occurred in 95 of the 116 units (82 percent) and all 45 buildings inspected by our inspectors. Of the 95 units and the 45 buildings with improper work or work not provided, 66 units and 38 buildings did not meet HUD's Housing Quality Standards. We projected it would cost over \$740,000 to repair the work that was not provided or improperly performed (see Findings 2 and 3).

Change Orders For Services Were Not Supported With Detailed Specifications

Contrary to Federal requirements, State of Michigan law, and the Commission's Procurement Policies, the Housing Commission used over \$11 million in HUD funds and approved for payment an additional \$815,105 for 46 change orders that were not sufficiently supported. The change orders were paid or approved for payment between June 1996 and March 2001 and related to construction or professional services at the Commission's Jeffries Homes or the Villages at Parkside HOPE VI Projects. The HOPE VI Grant Agreements required the Commission to obtain HUD's prior approval on all change orders in excess of \$100,000. However, the Commission's former and current Executive Directors failed to obtain HUD's prior approval for 20 orders that exceeded \$100,000 (see Finding 4).

The Commission lacked detailed work specifications identifying the construction or professional services provided for in the 46 change orders. The Commission also lacked documentation to support that a cost analysis was performed on the orders. The former and current Executive Directors for the Commission approved the unsupported change orders for payment (see Finding 4).

HUD Funds Were Used To Pay For Construction Work That The City Should Have Provided

Contrary to Federal requirements and the Cooperation Agreement with the City of Detroit, the Housing Commission improperly used over \$560,000 in HUD funds to pay for construction costs to the Frankfort Sewer project. The sewer construction costs were not reasonable and necessary expenses of the Housing Commission and should have been provided by the City at no cost to the Commission. Paragraph 5(b) of the Cooperation Agreement required the City to vacate such streets within the area of the Project that may be necessary in the development, and convey without charge to the Commission such interest as the City may have in such vacated area. The Agreement says the City will also cause to be removed from such vacated area all public or private utility lines and equipment without cost or charges to the Commission. The Commission's former Deputy Director/Interim Executive Director approved the sewer construction costs for payment (see Finding 4).

The Commission Used HUD Funds To Pay Unreasonable, Unnecessary, And Unsupported Expenses

Contrary to Federal requirements and the State of Michigan law, the Housing Commission paid or approved for payment over \$4.9 million in unreasonable, unnecessary, and unsupported expenses. The unreasonable and unnecessary expenses related to excessive construction costs, interest charges by contractors or vendors because of late payments, and repair of damages caused by contractors. The former and current Executive Directors for the Commission approved the unreasonable, unnecessary, and unsupported expenses (see Findings 4, 5, and 6).

The Commission's Poor Administration Resulted In Cost Overruns

Because of the Housing Commission's poor administration over the HOPE VI Program, the Commission was unable to maintain the cost of the Jeffries Homes and the Villages at Parkside HOPE VI Projects within budgeted limits.

The Housing Commission spent a total of \$30,596,740 in HUD funds (HOPE VI and Comprehensive Grant Program) for modernization of the Jeffries Homes HOPE VI Project as of June 2000. The Commission modernized 205 units and two buildings at the Jeffries Homes. Based upon the number of units modernized, the Commission's actual development cost per unit for Jeffries Homes is \$149,252. However, the Commission's maximum development cost per unit for Jeffries is limited to \$130,779. Therefore, the Commission's actual cost per unit

exceeded the maximum development cost by \$18,473 per unit as of June 2000.

According to the Housing Commission's 1998 Business Plan, the Commission planned to modernize or construct a total of 718 units at the Jeffries Homes HOPE VI Project. The Commission's former General Manager of Modernization said the Commission plans to reduce the number of units at Jeffries Homes by at least 112 units. Based upon the Commission's plan to reduce the number of units at Jeffries Homes, the Commission will be unable to meet HUD's maximum development cost per unit unless cost adjustments are made and/or additional capital contributions are received.

The Housing Commission spent a total of \$57,866,369 in HUD funds (HOPE VI, Development, and Comprehensive Grant Program) for construction or revitalization work at the Villages at Parkside HOPE VI Project as of June 2000. The Commission constructed or revitalized 276 units and 43 buildings at Parkside. Based upon the number of constructed or revitalized units, the Commission's actual development cost per unit for Parkside is \$209,661. However, the Housing Commission's average maximum development cost per unit for the Villages at Parkside Project is limited to \$137,416 because HUD authorized the Commission an increase of \$8,410,297 in the Project's development cost. Therefore, the Commission's actual cost per unit exceeded the maximum development cost by \$72,245 per unit as of June 2000.

The Housing Commission's plans for the construction and revitalization work at the Villages at Parkside HOPE VI Project have changed at least three times since the original proposal to HUD. For example, the Commission's May 8, 1995 Revitalization Plan for Parkside showed a total of 495 revitalized or newly constructed units. However, the Commission's April 3, 2000 Total Development Cost Analysis report shows a total of 462 units planned for Parkside. As the Commission continues to reduce the number of planned units at the Villages at Parkside HOPE VI Project, the Commission will be unable to meet HUD's maximum development cost per unit unless cost adjustments are made and/or additional capital contributions are received.

Auditee Comments

[Excerpts paraphrased from the Housing Commission's comments on our draft finding follow. Appendix B, pages 101 to 106, contains the complete text of the comments for this finding.]

In an effort to prepare a response within the time frame required, the Housing Commission conducted only a preliminary review of the five draft findings and the associated documentation identified as supporting of the finding. It is important to note that the on-site OIG auditor's fieldwork took one year and involved thousands of documents. By way of example, draft finding four's [The Commission Paid For Revitalization Work To The Villages At Parkside That Was Improperly Performed Or Not Provided] supporting documentation included 18 binders of inspection reports. A comprehensive response by the Commission would require a review of each document represented as supporting documentation for the draft findings. This is particularly true in consideration of the extraordinary recommendations presented regarding the management of the HOPE VI Program and the imposition of sanctions against the Commission's Executive Directors.

The Housing Commission disagrees with this draft audit finding because it lacks due care or balance in its sweeping and misleading generalizations regarding the ability of the Commission's current administration to manage the HOPE VI process. The finding fails to provide a balanced context regarding the circumstances confronting the current administration when it took over. The April 1999 appointment of the Commission's current administration was amidst public disclosure over the lack of progress and cost overruns estimated at \$7 million at two HOPE VI sites [Jeffries Homes and the Villages at Parkside].

The Housing Commission's historical files reveal that over \$200 million was awarded to the Commission over a seven-year period. Both Jeffries Homes and the Villages at Parkside HOPE VI Projects were experiencing extraordinary construction delays, contractor disputes and performance issues, cost overruns, and program administration. Also, prior to April 1999, HUD accelerated its oversight role through the

issuance of several corrective action orders and suspended the Commission's ability to requisition Federal funds for the Projects. It was against this backdrop that the Housing Commission's current administration began to implement operational enhancements and internal controls over the Commission's HOPE VI Program. The current administration also sought to liquidate millions in outstanding contractor claims and overdue invoices against the Program.

OIG Evaluation Of Auditee Comments

The Housing Commission's administration of its HOPE VI Program was very poor and deficiencies occurred during the administration of the Commission's two former Executive Directors and the current Director. The Commission's poor administration resulted in the use or approval for payment of over \$18 million in HUD funds for improper construction or professional services for the Jeffries Homes or the Villages at Parkside HOPE VI Projects. The Commission's former and current Executive Directors authorized the improper use of HUD funds for the Projects. The Director's failed to ensure that HUD funds for the HOPE VI Program were used according to Federal requirements, State of Michigan law, and the Commission's requirements.

While the Housing Commission's two former Executive Directors were responsible for a number of improper payments, the Commission's current Director continued to authorize the improper use of HUD funds. Executive Directors are required to maintain overall compliance with Federal, State, and local laws, as well as the Commission's policies and procedures. However, this was not done. The Commission's Directors either: authorized the payment of construction work that was not performed or improperly provided; approved change orders that lacked sufficient detail to determine the work performed or the reasonableness of the associated costs; failed to submit change orders to HUD for approval; permitted the payment of sewer construction work that the City of Detroit should have provided at no cost to the Commission; and/or authorized the payment of unreasonable, unnecessary, and unsupported expenses.

Auditee Comments

The draft finding's failure to clarify that virtually all change order and contract deficiencies resulted from actions or inaction over a seven-year period by the Housing Commission's prior

administrations. The deficiencies predated the April 1999 appointment of the Commission's current administration. The finding failed, beyond a cursory mention, to analyze the prior administrations' actions or inactions over the HOPE VI funded contractors/consultants and the impact of those actions or inactions upon the HOPE VI Program's progress.

The Housing Commission embraces the ultimate responsibility to resolve the long-standing issues by program enhancements and internal controls. The Housing Commission takes exception to the draft finding's failure to acknowledge the progress made by the Commission's current administration over the last two years. The program enhancements and internal controls include:

1. The reorganization of the Commission's development and modernization activities under the Development General Manager in addition to the hiring of experienced housing, construction, and finance senior managers;
2. The implementation of policy enhancements in the Commission's procurement, development, and finance operations. Effective April 1999, procurement actions are coordinated through the Commission's Procurement Division for the Parkside and Jeffries HOPE VI Projects. Effective September 1999, the Commission's Procurement Policy was updated to clarify prior HUD approval of change orders;
3. The development of standard operating procedures for the Commission's procurement and finance operations. The standard operating procedures are specific to the draft findings include:
 - Construction Contracts: Administration & Monitoring;
 - Construction Contracts: Progress Payments;
 - Construction Contracts: Time Extensions;
 - Construction Contracts: Construction Logs;
 - Construction Contracts: Warranties;
 - Construction Contracts: Final Inspections; and
 - Construction Contracts: Acceptance.

4. The implementation of an extensive training program for the Commission's development and finance staff in the areas of HOPE VI Program administration and Federal procurement regulations. Currently, the Housing Commission's Procurement and Development General Managers have met HUD's requirements and are qualified to certify the Commission's procurement actions;
5. The establishment of an internal auditing function with the Management Analysis and Planning Division; and
6. The establishment of a monthly reporting process to the Commission's Board of Commissioners for all development activities including Parkside.

OIG Evaluation Of Auditee Comments

We amended Finding 4 to specifically identify the improper actions of the Housing Commission's former and current Executive Directors. Similarly, we identified the responsible Housing Commission administrator in the other Findings where appropriate.

While several of the deficiencies related to contracting and change orders cited in Finding 4 occurred prior to the Commission's current Executive Director, the Director also failed to ensure that the Commission carried out its contracting process according to Federal, State, and local laws.

The Housing Commission did not provide detailed work specifications with its comments to support the unsupported change orders approved by the Commission's current Executive Director. The current Director approved eight unsupported change orders that totaled \$1,682,917 cited in Finding 4.

In regards to the Housing Commission's request that we amend Finding 4 to reflect that the Commission approved the change orders in accordance with the applicable HOPE VI Grant Agreements and its Procurement Policy, the documentation submitted by the Commission provided no basis to do so.

While the Housing Commission embraces the responsibility to address the deficiencies in the HOPE VI Program and instituted

changes in Program administration, the Commission has historically been extremely resistant and slow to take corrective action. HUD classified the Commission as operationally and financially troubled in 1979. The Commission remained troubled until 1997. The Commission executed a Memorandum of Understanding with HUD in 1997 in order to address long-standing problems.

As detailed in this report, the Commission failed to properly administer the HOPE VI Program. As a result, we believe that HUD should take the necessary steps to remove the Program from the Commission's administration.

While the Housing Commission updated its Procurement Policy in 1999, we disagree that the Policy clarified the need for HUD's prior approval of change orders. In fact, the Commission's 1999 Policy established a higher threshold for HUD's approval than that specified in the HOPE VI Grant Agreements. The Policy requires that change orders that exceed the greater of either \$100,000 or 25 percent of the original contract price will be submitted to HUD for prior approval before executing the orders. However, the HOPE VI Grant Agreements require HUD approval of change orders that exceed \$100,000. The Commission's Policy cannot be used as a basis to supercede the requirements of the Grant Agreements.

Auditee Comments

The draft finding reflects only cursory attempts to interview or the conduct of cursory interviews of the Housing Commission's former Executive Directors or principal staff; contractors; City of Detroit officials; and HUD's and the Army Corp of Engineers' staff. These parties are essential to a balanced, comprehensive presentation of the historical record. Especially, in light of the extraordinary and ultimate recommendations proposed for the Commission's HOPE VI Program. The finding lacks any assessment of or comment upon HUD's oversight responsibilities including the extent to which HUD provided technical assistance. There have been assessments and audits conducted by HUD and OIG that cited HOPE VI related procurement and program management issues as far back as 1996. It is the Housing Commission's position that the finding should include an assessment of HUD's actions or inactions in monitoring and assisting the Commission in reference to the assessments and audits.

Given the inflammatory nature of the draft finding's recommendations and their impact upon the Housing Commission, the Commission requests that the recommendations be held in abeyance until OIG has an opportunity to fully review the Commission's responses to all of the draft findings. The Housing Commission also requests that the draft findings be re-released and include the OIG's evaluations of the Commission's comments. The Commission contends that once the responses are examined, the recommendation regarding the termination and/or contracting out the HOPE VI Program will be rescinded in favor of a cooperative work out plan with HUD and OIG.

The Housing Commission contends that the current Executive Director was denied the opportunity to fully confront and respond to the underlying allegations and the administrative action recommendation. Accordingly, the Commission requests that a memorandum specific to the Executive Director be issued outlining the alleged violations that OIG contends give rise to the administrative action recommendation. Additionally, the Commission requests an explanation as to basis that OIG recommended the same level of administrative action for all the Executive Directors without regard to proportionality and due process considerations.

OIG Evaluation Of Auditee Comments

During the audit of the Housing Commission's HOPE VI Program, we interviewed over 160 individuals. The interviews included the Housing Commission's current and former Executive Directors, Board members, staff, contractors, and residents. We also interviewed officials from the City of Detroit, HUD's staff, and employees of the Army Corp of Engineers. The interviews along with the inspection of units and buildings by the Army Corp of Engineers, the review of disbursements, and the Commission's contracting process revealed that the Commission's administration of the HOPE VI Program was very poor. Our audit objectives did not include an assessment of HUD's oversight of the Commission's Program. However, an assessment of HUD's actions does not relieve the Commission of the responsibility to administer the Program according to Federal, State, and local laws.

The HOPE VI Grant Agreements say HUD may impose special conditions or restrictions on the Commission due to

unsatisfactory performance or default. The Grant Agreements also say a default by the Housing Commission may be declared if one of the following events occur: use of Grant funds for any purpose other than as authorized by the Grant Agreement; failure to comply with the HOPE VI requirements or any other Federal, State, or local laws, regulations, or requirements; or failure to comply with any covenants, conditions, or terms of the Grant Agreement. Our audit revealed that the Commission violated the terms of the Grant Agreements. Therefore, we recommended that HUD declare the Commission in default of the Agreements and recommended the HOPE VI Program be placed under a third party, acceptable to HUD, or HUD petition for the appointment of a receiver for the Program. The Housing Commission's comments and documentation did not provide any justification to reverse our recommendation of removing the Program from the Commission.

The Housing Commission's current Executive Director was provided all of the draft audit findings, the Army Corp of Engineers' inspection reports and change orders analysis, and schedules of the unsupported and ineligible disbursements. We requested the Director to provide written comments with supporting documents for any facts or conclusions that he or the Commission disagreed. However, the Commission's responses did not change the material facts in the findings.

The Commission was the subject of the audit, not the Executive Director. Therefore, a memorandum specific to the Director was not required. The findings identify the former and current Directors' failure to follow Federal requirements, State of Michigan law, and the Commission's requirements.

We recommended that HUD consider taking appropriate administrative action against the Commission's former and current Executive Directors as permitted by 24 CFR Part 24 since the Directors failed to follow Federal, State, and local requirements. The basis for the administrative action is included in Recommendation 1D of this finding. We did not recommend any specific level of administration action to HUD regarding the Directors.

Recommendations

We recommend that the Director-Senior Advisor of Public Housing Investments, in conjunction with the Michigan State Office Director of Public Housing Hub:

- 1A. Declares the Detroit Housing Commission in default of the HOPE VI Grant Agreements. We believe the following conditions warrant such a declaration:
 - Payment of \$740,790 in projected construction work that was not performed or improperly performed;
 - Approval of \$12,060,456 in change orders that lacked sufficient detail to determine the work performed or the reasonableness of the associated costs;
 - Failure to submit 20 change orders to HUD for approval, as required by the HOPE VI Grant Agreements;
 - Payment of \$560,548 in sewer construction work that the City of Detroit should have provided at no cost to the Housing Commission; and
 - Payment of \$3,643,031 in unreasonable, unnecessary, and/or unsupported expenses.
- 1B. Takes action to place the administration of the Detroit Housing Commission's HOPE VI Program under a third party, acceptable to HUD, or HUD petition for the appointment of a receiver for the Program.
- 1C. Assigns a HUD employee or employees with the principal responsibility for monitoring the Detroit Housing Commission's HOPE VI Program, and the third party contractor or receiver approved to administer the Program.
- 1D. Considers taking appropriate administrative action against the Detroit Housing Commission's former and current Executive Directors as permitted by 24 CFR Part 24. We believe the following conditions warrant such an action:

- The former Executive Director approved: four change orders totaling \$4,557,122 without sufficient supporting documentation; one change order for \$107,607 without HUD's prior approval, as required by the HOPE VI Grant Agreements; and \$1,775,250 in unreasonable, unnecessary, and/or unsupported expenses.
- The former Deputy Director/Interim Executive Director approved: 34 change orders for \$5,820,417 without sufficient supporting documentation; six change orders totaling \$568,548 in construction work that the City of Detroit should have provided at no cost to the Commission; 17 change orders totaling \$6,618,998 without HUD's prior approval, as required by the HOPE VI Grant Agreements; and \$1,172,919 in unreasonable, unnecessary, and/or unsupported expenses.
- The current Director approved: eight change orders totaling \$1,682,917 without sufficient supporting documentation; two change orders totaling \$603,856 without HUD's prior approval, as required by the HOPE VI Grant Agreements; and \$1,973,513 in unreasonable, unnecessary, and/or unsupported expenses.

(THIS PAGE LEFT BLANK INTENTIONALLY)

The Commission Paid For Revitalization Work To The Villages At Parkside That Was Improperly Performed Or Not Provided

The Detroit Housing Commission did not follow the Annual Contributions Contract, HUD's regulations, and the HOPE VI Grant Agreement to ensure units at the Villages at Parkside II and IV were decent, safe, and sanitary after revitalization. The Housing Commission used an estimated \$678,969 of HUD funds (HOPE VI, Development, and Comprehensive Grant Program) to pay for revitalization work that was improperly performed or that was not provided. The work improperly performed or work not provided occurred in all of the units and buildings (66 units and 43 buildings) inspected by our inspectors. Fifty-one units and 36 buildings did not meet HUD's Housing Quality Standards. The Housing Commission lacked sufficient controls to ensure the work was completed correctly or that the units and buildings were decent, safe, and sanitary after revitalization. As a result, HUD funds were not efficiently and effectively used. HUD also lacks assurance that the units and buildings at the Villages at Parkside HOPE VI Project met HUD's Housing Quality Standards.

Annual Contributions
Contract

Section 209 of the Annual Contributions Contract, between the Detroit Housing Commission and HUD, states the Commission will maintain each public housing project in good repair, order, and condition.

HUD's Regulations

24 CFR Part 968.115(d) requires that once revitalization improvements are completed, housing commission owned or operated public housing units will provide decent, safe, and sanitary living conditions. Decent, safe, and sanitary living conditions are defined as meeting HUD's Housing Quality Standards.

24 CFR Part 882.102 states that public housing units are considered decent, safe, and sanitary if all the requirements of the Housing Quality Standards in 24 CFR Part 882.109 are met. However, a unit that does not comply with the Standards is not necessarily uninhabitable. The Standards include both performance and acceptability criteria requirements. The performance requirements relate to certain minimum facilities each unit must have. The acceptability criteria relate to the minimum standards the facilities must meet. These standards generally address the condition of sanitary facilities, food preparation areas, space and security, electrical, plumbing and

heating systems, site and neighborhood, and structure and materials.

HOPE VI Grant Agreement

The HOPE VI Implementation Grant Agreement dated February 8, 1995, between HUD and the Detroit Housing Commission, required the Housing Commission to comply with HUD's regulations, Handbooks, and Notices. The Agreement also required the Housing Commission to carry out its revitalization of the Villages at Parkside with the objective of developing units that are sustainable over the long-term.

Sample Selection And
Inspection Results

We statistically selected a sample of 66 of the 276 units (24 percent) and all 43 buildings that were revitalized at the Villages at Parkside II and IV. For the statistical analysis, a confidence level of 97 percent was used.

The Villages at Parkside II and IV are located at the junctions of Warren, Conner, and Gray Avenues and Frankfort Road. The Housing Commission revitalized the units and the buildings using HOPE VI, Development, and Comprehensive Grant Program funds. We selected the 66 units and the 43 buildings to determine whether the Commission properly paid for revitalization work and whether the units and buildings were decent, safe, and sanitary after the work was completed. The revitalization work occurred between 1997 and 1999. Our inspectors inspected the 66 units and the 43 buildings between July 7, 2000 and November 2, 2000.

We provided the inspection results to HUD's Director-Senior Advisor of Public Housing Investments, HUD's Michigan State Office Director of Public Housing Hub, and the Housing Commission's Executive Director.

HUD Funds Were Used To
Pay For Revitalization
Work That Was Improperly
Performed Or Not
Provided

The Housing Commission used HUD funds (HOPE VI, Development, and Comprehensive Grant Program) to pay for revitalization work that was improperly performed or that was not provided. The improper work and/or the work that was not provided occurred in all of the units and buildings (66 units and 43 buildings) that we inspected. The Commission used \$49,233,875 in HUD funds to revitalize the 43 buildings that contained 276 units.

The Housing Commission's contracts for the revitalization work at the Villages at Parkside II and IV showed the total cost of the work. Our inspectors provided cost estimates to repair the work that was improperly performed or not provided.

Our inspectors estimated it would cost \$387,260 to repair the work that was not provided or improperly performed. Appendix C, pages 131 to 133, of this report shows our inspectors' cost estimates to correct the revitalization work that was improperly performed or not provided for each building and unit inspected including the landscaping work. As previously mentioned, the units inspected were statistically selected for inspection. Using that analysis, we are 97 percent confident that the cost to correct or complete the repair work for all 276 units, the 43 buildings, and the landscaping work at the Villages at Parkside II and IV totals \$678,969. Our projection has a possible error rate of plus or minus four percent.

The Commission Wanted To Revitalize Parkside

One of the goals of the Housing Commission's HOPE VI Project for the Villages at Parkside II and IV was to construct new buildings or modernize existing buildings. The revitalization work was to include such items as unit reconfiguration, replacement of all plumbing and electrical systems, installation of new heating and domestic hot water systems, and new windows and doors.

Improper Revitalization Work

The revitalization work that was performed incorrectly or that was not provided related to such items as: improperly installed cabinetry and entranceways; drywall cracking or the drywall tape separating from the walls; exposed electrical wiring; missing or inoperable electrical outlets; inoperable light switches; handrails not properly secured to walls; missing joist braces; vinyl molding missing or not properly installed; floors buckling and/or spongy; carpet not secured to floors; floor tiles loose, missing, cracked, and/or missing grout; missing doorstops; interior doors not fitting properly and/or door lock fixtures not functioning; vents not operating or improperly installed; smoke detectors missing or improperly installed; water standing and/or leaking through basement walls and/or windows; windows misaligned, not sealed, and/or mechanics of the windows not operating properly; screens missing and/or not fitting properly; missing light fixtures; window blinds not

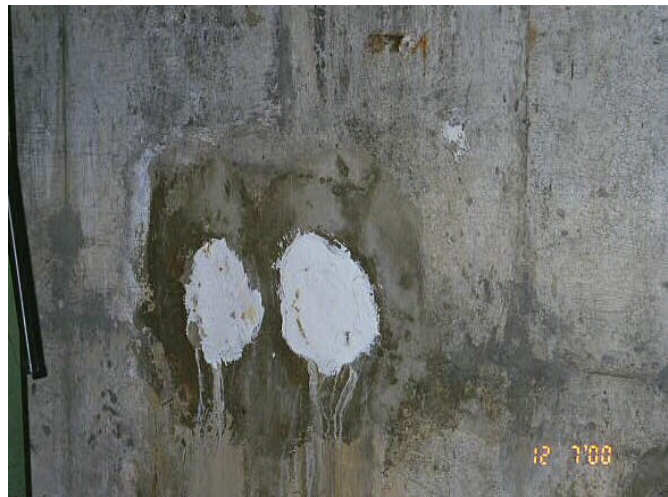
Finding 2

properly installed; furnace and/or air conditioner units were not functioning properly; furnace plenum opening and/or bonnet not sealed properly; refrigerators and stoves not working properly; basement walls and stairs not finished; circuit breaker panels not labeled; insulation for attics insufficient; a unit was not set-up with a security alarm; and a handicapped unit lacked accessible plumbing fixtures. The following pictures show examples of revitalization work that was improperly performed or not provided.

The drywall tape for the unit at 12818 Frankfort was separating from the wall.



Water is leaking through the wall where the former steam pipes were located in the basement for Building 308.



The window was not finished and no aluminum channel was installed for Building 304.



An electrical conduit was improperly installed and was crossing over the patio at Building 301.



A rebar was extending up from the ground, which presented a hazardous condition near Building 501.



Finding 2

A drain was not working and construction debris was not removed near Building 205.



The Commission
Contracted For The
Oversight Of The Work

The Housing Commission contracted with Capital Needs Unlimited, a consulting company, in December 1994 to represent the Commission during the revitalization work. Capital Needs Unlimited subcontracted with Nathan Johnson and Associates, a professional architectural firm, to assure that the work was provided in accordance with the revitalization contracts and the work met HUD's Housing Quality Standards. The Commission's Board of Commissioners approved the subcontract on June 12, 1997. An architect from Nathan Johnson and Associates was responsible for the construction administration at the Villages at Parkside II and IV, which included the approval of contractor invoices and ensuring that deficiencies identified during the "pre-acceptance" and "final" inspections were corrected.

The Pre-Acceptance
Inspections Performed By
The Commission's
Contractors Were Poor

Starting in September 1998, "pre-acceptance" inspections of 191 units and three buildings were conducted to ensure the revitalization work was performed correctly. Staff from Capital Needs Unlimited, Nathan Johnson and Associates, and The Formidable Group performed the inspections for the Housing Commission. The Formidable Group, a professional management company, was contracted to manage the Villages at Parkside II and IV effective February 10, 1998. The "pre-acceptance" inspection reports did not always show the date of the inspections; however, they did show that deficient work existed.

The Housing Commission did not ensure that deficient work identified during the "pre-acceptance" inspections was

corrected. Thirty of the 66 units we inspected contained work identified during the “pre-acceptance” inspection as improperly performed or not provided. However, our inspections revealed that the deficient work was not corrected for 27 of the 30 units. The following table shows the number of units and the deficient work that was not corrected for the 27 units.

<i>Deficient Work Not Corrected</i>	<i>Number Of Units</i>
Entranceway Not Properly Sealed	11
Carpet/Vinyl Cove Tile Not Properly Installed	8
Drywall Tape Separating/Cracking	6
Window(s) Not Locking	5
Plumbing/Plumbing Fixtures Improperly Installed	5
Interior Doorway(s) Misaligned And Knobs Loose	5
Cabinet Shelves And Vanity Base Not Secured	3
Basement Stairs Not Completed	2
HVAC Not Properly Sealed	1
Electrical Wiring Exposed	1
Handrail Not Secured To Wall	1

The Commission lacked documentation to support that a “pre-acceptance” inspection was performed for 36 of the 66 units we inspected.

The following picture shows an example of the deficient work that was cited during the “pre-acceptance” inspection that still existed at the time of our inspection.

The entranceway was not properly sealed for the unit at 12122 Stringham Court.



The Final Inspections Performed By The Commission’s Contractors Were Also Poor

Between February 1999 and April 1999, staff from the Housing Commission’s contractors conducted “final” inspections of 199 units and three buildings. The purpose of the “final” inspections was to determine whether the revitalization work was

completed in accordance with the contracts’ specifications and the applicable construction codes. The “final” inspections were also to determine whether the deficient work cited during the “pre-acceptance” inspections was corrected. The “final” inspection reports did not always identify which unit/building was inspected or who performed the inspection. The Commission lacked documentation to support that a “final” inspection of 77 units and 40 buildings was performed.

Of the 66 units we inspected, the Housing Commission’s “final” inspection reports for 40 units did not identify all of the improperly completed work or work not performed that was noted during our inspections. The Commission’s “final” inspections also did not identify previously cited work from the “pre-acceptance” inspections. The pictures cited on pages 24, 25, and 26 of this report are examples of the improper revitalization work that was not identified during the “final” inspections. The following table shows the number of units that had improperly completed work or work not performed that was not identified in the “final” inspection reports for the 40 units.

<i>Improper Work Or Work Not Performed</i>	<i>Number Of Units</i>
Drywall Tape Separating/Cracking	39
Entranceways Not Properly Sealed	30
Carpet/Vinyl Cove Tile Not Properly Installed	29
Plumbing/Plumbing Fixtures Improperly Installed	28
Electrical Wiring Exposed	27
Bathroom/Kitchen Cabinet(s) Improperly Installed	21
Interior Doors Misaligned	20
Window(s) Will Not Stay Open	15
HVAC Improperly Sealed/Balanced	9
Smoke Detector(s) Improperly Mounted/Missing	7
Handrail(s) Not Secured To Wall(s)	7
Construction Debris Not Removed/Infestation	5
Basement Leaks	4
Interior Stairway(s) Improperly Completed	4
Appliance(s) Not Functioning Properly	2

The Commission lacked documentation of a “final” inspection for 26 of the 66 units we inspected.

The following picture shows an example of the improperly completed work or work not provided for one of the 40 units.

The doorbell wiring was exposed at the transformer for the unit at 12064 Stringham Court.



Units And Buildings Did Not Meet Housing Quality Standards Due To Imrroner Work

Fifty-one of the 66 units (77 percent) and 36 of the 43 buildings (84 percent) we inspected at the Villages at Parkside II and IV did not meet HUD’s Housing Quality Standards. The units and buildings had 197 Housing Quality Standards violations. The violations existed because the revitalization work was improperly performed or not provided.

The Housing Quality Standards violations related to such items as: exposed wiring; inoperable electrical outlets and light switches; carpet not secured to floors which presented a tripping hazard; missing smoke detector; windows not operating properly; and refrigerators and stoves not working properly. The following table shows the number of units and buildings that had violations.

<i>Housing Quality Standards Violations</i>	<i>Number Of Units/Buildings</i>
Construction Debris Not Removed/Site Hazards	41
Electrical Wiring Exposed/Outlet Inoperable	32
Insect/Rodent Infestation	29
Drywall Tape Separating/Cracking	24
Stairways, Handrails, Or Porches Not Secured	15
Floors With Tripping Hazards/Foundations Cracked	12
Heating And/Or Plumbing Inoperable	11
Windows Not Locking/Will Not Stay Up	10
Roofs Or Gutters Leaking/Improperly Secured	8
Exterior Surfaces Cracked	7
Basement Leaking/Not Sealed	4
Refrigerators/Stoves Improperly Operating	2
Ventilation Not Sufficient	1
Smoke Detector Missing	1

The Commission Lacked
Sufficient Controls Over
The Inspections

According to the President of Capital Needs Unlimited, the quality of the revitalization work at the Villages at Parkside II and IV was average for Detroit. The Housing Commission's Urban Revitalization Demonstration Administrator said the Commission did not follow-up or review the results of the "pre-acceptance" or "final" inspections. She said Capital Needs Unlimited was responsible for accepting or rejecting the revitalization work.

The work that was improperly performed or not provided occurred because the Housing Commission lacked sufficient controls over the inspection process to ensure the work was completed correctly or that units were decent, safe, and sanitary after the work was completed. The "pre-acceptance" and "final" inspection reports were not complete or were not accurate. The reports did not consistently show who performed the inspections and/or who re-inspected the improperly completed work cited during the "pre-acceptance" inspections. As a result, HUD funds were not efficiently and effectively used. HUD also lacks assurance that units at the Villages at Parkside HOPE VI Project met HUD's Housing Quality Standards after the revitalization work was accepted.

Auditee Comments

[Excerpts paraphrased from the Housing Commission's comments on our draft finding follow. Appendix B, pages 107 to 111, contains the complete text of the comments for this finding.]

The Housing Commission received the draft finding and the 16 binders of the Army Corp of Engineers' inspection reports. In an effort to prepare a timely response to the finding, the Housing Commission reviewed in limited detail the Corp's voluminous inspection reports, researched the Commission's and the Villages at Parkside's records (including past inspection reports), and conducted interviews with residents, contractors, and staff directly or indirectly engaged in the implementation of the program. It is noteworthy to point out that the OIG auditors spent over eight months reviewing the Corp's reports and drafting the finding. The preparation of a comprehensive response by the Commission would require more time than granted by OIG.

The Housing Commission disagrees that an estimated \$678,969 of revitalization work was improperly performed or not provided. The Detroit Housing Commission Parkside, Inc. by and through its development entity, Parkside Development Company, completed the comprehensive revitalization of two of the four planned Villages, as well as, necessary site planning, remediation costs, and 98 percent of the infrastructure for all four Villages utilizing approximately \$53,000,00 in HOPE VI, Development, and Comprehensive Grant Program funds. All of the work noted was substantially completed effective December 31, 1998. The units were leased up by June 1, 1999. The OIG finding is based on the July 2000 Army Corp of Engineers' inspections performed more than 18 months after the buildings were completed and a year after being occupied by residents.

The Housing Commission does not dispute the Army Corp of Engineer's assessment that the Villages at Parkside's building exterior and interior, and landscape are in need of repair. However, the cause and cost of several of the cited deficiencies is disputed.

Examples of deficiencies cited by the OIG that were not construction related and were not present when the site was turned over include:

- Refrigerators and stoves not working. It is unreasonable to assert that residents leased the units for over a year without working appliances;
- Furnaces and/or air conditioner units not working. Again, it is unreasonable to assert that residents leased the units for over a year without heat and air; and
- Missing or improperly installed smoke detectors, door lock fixtures not functioning, screens missing and broken, missing door stops, and missing light fixtures are all example of deficiencies caused by resident wear and tear.

OIG Evaluation Of Auditee Comments

Our draft finding indicated that refrigerators, stoves, furnaces, and/or air conditioners were inoperable or not working. We

adjusted the finding to indicate that the appliances and HVAC units were not functioning properly. The Commission indicated that missing or improperly installed smoke detectors, door lock fixtures not functioning, screens missing or broken, missing door stops, and missing light fixtures are all examples of deficiencies caused by resident wear and tear. We disagree. We based the cause of the improperly performed work or work not provided on the Commission's "pre-acceptance" and/or "final" inspections, the Corp's inspections, and interviews we conducted with the residents, when available.

Auditee Comments

The Army Corp of Engineers' cost estimates to correct the noted non-construction as well as other legitimate construction related deficiencies are flawed. For each and every repair item cited, the Corp factored in labor and gas for travel time as if a labor/tradesman would come out and make only one repair per trip. It is prudent to plan for and more realistic to expect that multiple repairs can and will be made in one trip. Therefore, to have a carpenter come out to the job site and adjust interior closet doors in one unit then return to the office (as is assumed in the Corp's estimate) would be a foolish waste of tax dollars. Instead, for example, a carpenter would come to the job site and adjust all interior doors in the 276 units. The Corp's report has well over a 1,000 pages of repairs cited at Parkside. If the report lists 1,000 repairs, the report also has at least 2,000 hours of travel time included in the cost. If the average tradesman's wage is \$40 per hour, then the Corp's report has nearly \$80,000 or 10 percent of the projected repair cost associated with travel and gas to the site and then back to the office for each item requiring repairs. Based on this promise, further reductions in the Corp's estimate can be made by eliminating overlapping equipment costs, truck usage.

OIG Evaluation Of Auditee Comments

The Army Corp of Engineers provided cost estimates to repair the revitalization work that was improperly performed or not provided. While we agree that it is more prudent to have multiple repairs performed per trip, the Corp cannot assume this when preparing the cost estimates because access to units may not be permitted and the number of repairs that can be completed per trip is unknown. Therefore, the Corp provided cost estimates for each item.

Auditee Comments

Deficiencies in work items cited by the Army Corp of Engineers and referenced in the OIG finding were not in the work scope of the contracts administered by the Parkside Development Corporation. Examples of these items are carpet, vinyl base, blind, and appliance installation. As well, installation of the underground cabling and terminations inside the units for the cable TV systems was contracted and managed by the operations managing member to The Villages after the developments was turned over for lease up.

OIG Evaluation Of Auditee Comments

The Housing Commission is required by the Annual Contributions Contract, HUD's regulations, and the HOPE VI Grant Agreement to ensure all revitalization work to the Villages at Parkside was completed correctly and that units meet HUD's Housing Quality Standards when completed. Whether work was completed after units were turned over for lease up does not relieve the Commission of its obligations.

Auditee Comments

There are a number of deficiencies in the work completed during the Housing Commission's previous administration that legitimately should have been corrected during the construction phase and/or could have been corrected during the warranty period. In fact, the Commission's current administration has already charged and held the responsible contractors liable for correction of many of the deficiencies. For example, repairs to the walls cited in the Army Corp of Engineers' report as fire but specified in the contract documents as draft stopping were made as required at the direction of the Commission's current administration. An attachment to this response is a list of construction related deficiencies and associated estimate of repairs. Per this work scope and estimate, the cost of corrective work is approximately \$250,000, which represents less than one percent of the total development costs and not the \$679,000, which still represents less than 1.5 percent of the cost quoted in the finding.

OIG Evaluation Of Auditee Comments

HUD should ensure that the deficient revitalization work cited in this finding is completed correctly using non-Federal funds.

Auditee Comments

As is noted in the OIG finding, oversight of the project was contracted out to a program management firm. This practice is acceptable to, encouraged by, and often times required by HUD. When a program manager is procured, housing

authorities are expected to utilize the services as an extension of staff and a form of staff augmentation. In fact, in the case of the Jeffries Project, a former HUD grant manager required (in spite of strong objection by current DHC administration) the Housing Commission to allow the manager the authority to act on its behalf, and engage HUD in oversight discussion without the prior approval or presence of the Commission to the activity. In the case of Parkside, the chosen program manager was highly revered in the public housing industry and was contracted by HUD as an expediter to troubled and older HOPE VI grants around the country. The manager was allowed (by both HUD and the Commission) to act in the capacity of a program manager/developer without any provision of guarantees or assumption of risk. In fact, Parkside was not provided an expediter because of the confidence and professional trust in the capacity and expertise of the manager under contract. Given these standard operating procedures, it is not unreasonable to see why the Commission's previous administration erroneously allowed the manager control of the project with minimal oversight.

OIG Evaluation Of Auditee Comments

The Annual Contributions Contract, HUD's regulations, and the HOPE VI Grant Agreement require the Housing Commission to ensure that all of the revitalization work to the Villages at Parkside HOPE VI Project was completed correctly. The Commission was also required to ensure that revitalized units met HUD's Housing Quality Standards when completed. While the Commission contracted with Capital Needs Unlimited for the oversight of the work, the Commission was required to maintain sufficient oversight over the Project and Capital Needs Unlimited to ensure the revitalization work was completed correctly. We believe the Commission failed to do this.

Auditee Comments

The operating procedure of the Housing Commission's current administration requires regular oversight of the HOPE VI activities by a team of experts inclusive of staff internal to the Commission. A construction management firm has been contracted to provide technical expertise for all of the Commission's modernization and development activities including HOPE VI. The HOPE VI, modernization, and development activities were consolidated under the General Manager of Modernization and Development Division to provide continuity and economy in operating the programs.

Developers are procured to provide funding leverage, guarantees, and assume the risk of development. Program managers are contracted to provide technical assistance to the internal staff responsible and accountable for the day-to-day oversight of the revitalization efforts. Internal modernization/development staff capacity includes professional licensed architects, engineers, experienced construction inspectors, degreed construction project coordinators, certified property and maintenance managers, and licensed real estate agents. The Commission's Executive Director has direct oversight of the HOPE VI activities and regular monthly reporting is provided to the Board of Commissioners. Additionally, the Commission instituted the following:

1. The reorganization of the Commission's development and modernization activities under the Development General Manager in addition to the hiring of experienced housing, construction, and finance senior managers;
2. The implementation of policy enhancements in the Commission's procurement, development, and finance operations. Effective April 1999, procurement actions are coordinated through the Commission's procurement division at Parkside and Jeffries. Effective September 1999, the Commission's Procurement Policy was updated to clarify prior HUD approval of change orders;
3. The development of standard operating procedures for the Commission's procurement and finance operations. The standard operating procedures are specific to the draft findings as follows:
 - Construction Contracts: Administration and Monitoring;
 - Construction Contracts: Progress Payments;
 - Construction Contracts: Time Extensions;
 - Construction Contracts: Construction Logs;
 - Construction Contracts: Warranties;
 - Construction Contracts: Completion of Work;
 - Construction Contracts: Final Inspection; and
 - Construction Contracts: Acceptance.

4. The implementation of an intensive training program for the Commission's development and finance staff in the areas of HOPE VI Program administration and Federal procurement regulations. Currently, the Housing Commission's Procurement and Development General Managers have met HUD's requirements and are deemed qualified to certify the Commission's procurement actions;
5. The establishment of an internal auditing function with the creation of the Management Analysis and Planning Division; and
6. The establishment of a monthly reporting process to the Commission's Board of Commissioners for all development activity including the Villages at Parkside.

OIG Evaluation Of Auditee Comments

The actions being taken by the Housing Commission, if fully implemented, should improve its oversight of the HOPE VI Program if the procedures include sufficient controls over inspections to ensure that constructed and/or revitalized units, buildings, and landscaping are decent, safe, and sanitary after receiving revitalization work as required by the Annual Contributions Contract, HUD's regulations, and the HOPE VI Grant Agreement. However, in response to prior OIG audit reports (OIG report #96-CH-201-1809 dated April 30, 1996 and OIG audit memorandum #98-CH-201-1804), the Commission promised that procedures would be developed and/or were developed to improve its inspections. As indicated by this report, the Commission has continued to fail to implement sufficient controls and oversight of its inspections. This allowed improper revitalization work to go undetected or failed to ensure that improper work was corrected properly.

Recommendations

We recommend that the Director-Senior Advisor of Public Housing Investments, in conjunction with the Michigan State Office Director of Public Housing Hub, assure that the Detroit Housing Commission:

- 2A. Ensures that the revitalization work cited in this finding is completed correctly using non-Federal funds.

- 2B. Implements sufficient controls over its inspections to ensure that constructed and/or revitalized units, buildings, and landscaping are decent, safe, and sanitary after receiving revitalization work as required by the Annual Contributions Contract, HUD's regulations, and the HOPE VI Grant Agreement.

(THIS PAGE LEFT BLANK INTENTIONALLY)

The Commission Paid For Modernization Work To Jeffries Homes That Was Improperly Performed Or Not Provided

The Detroit Housing Commission did not follow the Annual Contributions Contract, HUD's regulations, and the Housing Commission's Revitalization Plan to ensure units at the Jeffries Homes HOPE VI Project were decent, safe, and sanitary after modernization. The Housing Commission used an estimated \$61,821 of Comprehensive Grant Program funds to pay for modernization work that was improperly performed or that was not provided. The work improperly performed or work not provided occurred in 29 of the 50 units (58 percent) and the two buildings inspected by our inspector. Fifteen of the 29 units and the two buildings did not meet HUD's Housing Quality Standards. The improperly completed modernization work occurred because the Housing Commission lacked sufficient controls to ensure the modernization work was completed correctly or that units were decent, safe, and sanitary after rehabilitation. As a result, Comprehensive Grant Program funds were not efficiently and effectively used. HUD also lacks assurance that units at the Jeffries Homes HOPE VI Project met HUD's Housing Quality Standards after modernization.

Annual Contributions Contract

Section 209 of the Annual Contributions Contract, between the Detroit Housing Commission and HUD, requires the Commission to maintain each public housing project in good repair, order, and condition.

HUD's Regulations

24 CFR Part 968.115(d) says modernization improvements will provide decent, safe, and sanitary living conditions in housing commission owned or operated public housing.

24 CFR Part 882.102 states that public housing units are considered decent, safe, and sanitary if all the requirements of the Housing Quality Standards in 24 CFR Part 882.109 are met. However, a unit that does not comply with the Standards is not necessarily uninhabitable. The Standards include both performance and acceptability criteria requirements. The performance requirements relate to certain minimum facilities each unit must have. The acceptability criteria relate to the minimum standards the facilities must meet. These standards generally address the condition of sanitary facilities, food preparation areas, space and security, electrical, plumbing and heating systems, site and neighborhood, and structure and materials.

Revitalization Plan For
Jeffries Homes HOPE VI
Project

Page 3-8 of the Detroit Housing Commission's March 1996 Revitalization Plan says the goal of the Jeffries Homes HOPE VI Project is to provide a safe and secure environment for the residents of Jeffries Homes.

Sample Selection And
Inspection Results

We statistically selected a sample of 50 of the 205 units (24 percent) that were modernized at the Jeffries Homes HOPE VI Project. For the statistical analysis, a confidence level of 95 percent was used.

The units are located in two senior high-rise buildings, 3521 John C. Lodge and 1231 Selden. The Housing Commission modernized the units and the two buildings using Comprehensive Grant Program funds. We selected the 50 units and the two buildings to determine whether the Housing Commission properly paid for modernization work and whether the units and buildings were decent, safe, and sanitary after rehabilitation. The modernization work occurred between October 23, 1995 and October 14, 1999. Our inspector inspected the 50 units and the two buildings between June 26, 2000 and July 6, 2000.

We provided the inspection results to HUD's Director-Senior Advisor of Public Housing Investments, HUD's Michigan State Office Director of Public Housing Hub, and the Housing Commission's Executive Director.

HUD Funds Were Used To
Pay For Modernization
Work That Was Improperly
Performed Or Not
Provided

The Detroit Housing Commission used Comprehensive Grant Program funds to pay for modernization work that was improperly performed or was not provided. The improper work and/or the work that was not provided occurred in 29 of the 50 units and the two senior high-rise buildings that we inspected. Fifteen of the 29 units and the two buildings did not meet HUD's Housing Quality Standards. The Commission used \$4,899,375 in Comprehensive Grant Program funds to modernize the two buildings that contained 205 units.

The Housing Commission's contracts for the modernization work at the Jeffries Homes HOPE VI Project showed the total cost of the work. The contracts did not provide a break down of each work item. Therefore, our inspector provided cost estimates to repair the work that was improperly performed or not provided.

The following table shows our inspector’s cost estimates to correct the modernization work that was improperly performed or not provided for each building and unit inspected.

<i>Jeffries Homes’ Buildings/Units Inspected</i>	<i>Cost To Repair Improper Modernization Work</i>
3521 John C. Lodge Building	\$12,250
3521 John C. Lodge #206	320
3521 John C. Lodge #303	640
3521 John C. Lodge #304	550
3521 John C. Lodge #504	240
3521 John C. Lodge #605	220
3521 John C. Lodge #702	850
3521 John C. Lodge #807	220
3521 John C. Lodge #905	520
3521 John C. Lodge #1004	330
3521 John C. Lodge #1006	550
3521 John C. Lodge #1101	190
3521 John C. Lodge #1102	330
3521 John C. Lodge #1203	320
3521 John C. Lodge #1308	600
1231 Selden Building	7,300
1231 Selden #203	490
1231 Selden #204	720
1231 Selden #206	300
1231 Selden #207	190
1231 Selden #402	390
1231 Selden #407	200
1231 Selden #502	420
1231 Selden #505	200
1231 Selden #601	200
1231 Selden #603	200
1231 Selden #604	200
1231 Selden #607	200
1231 Selden #1004	200
1231 Selden #1202	200
1231 Selden #1306	320
Total	<u>\$29,860</u>

Our inspector estimated it would cost \$29,860 to repair the work that was not provided or improperly performed. As previously mentioned, the units inspected were statistically selected for inspection. Using that analysis, we are 97 percent confident that the costs to correct or complete the repair work for all 205 units and the two senior high-rise buildings at the Jeffries Homes totals \$61,821. Our projection has a possible error rate of plus or minus 18 percent.

Finding 3

The Commission Wanted To Modernize Jeffries

One of the goals of the Housing Commission's HOPE VI Project for Jeffries Homes was to modernize three existing high-rises. As of October 1999, two high-rise buildings were modernized. The modernization work was to include such items as new elevators, windows, roofs, and heating and hot water systems. The work was intended to redevelop Jeffries Homes and correct items that did not meet HUD's Housing Quality Standards.

Improper Modernization Work

The modernization work that was performed incorrectly or that was not provided, and the Housing Quality Standards violations related to such items as improperly installed kitchen cabinets, peeling paint or paint separating from drywall surfaces, electrical outlets not working, inoperable windows, refrigerators not keeping the proper temperature, garbage disposals not working, and exposed electrical wiring. The following pictures show examples of modernization work that was improperly performed or not provided.

The kitchen cabinet shelves were improperly braced and separating in unit number 402 at 1231 Selden.



The kitchen wall was not completely painted in unit number 603 at 1231 Selden.



The electrical wiring for an exterior security light was exposed and not properly installed for the building at 3521 John C. Lodge.



Finding 3

The paint on the vestibule at the 1231 Selden building was peeling.



The Commission
Contracted For Oversight
Of The Work

The Housing Commission contracted with Ghafari Association, Incorporated, a professional architectural firm, and Walbridge-Jenkins, a construction management company, to assure that the modernization work was provided in accordance with the modernization contracts and the work met HUD's Housing Quality Standards. Walbridge-Jenkins performed inspections of seven units at 1231 Selden on February 17, 1999. The inspection reports showed that Filmore Construction Company's modernization work was not performed correctly. Our inspector inspected three of the seven units that were inspected by Walbridge-Jenkins. The three units were 204, 206, and 207 at 1231 Selden. All three units had work that was improperly performed or not provided.

The Commission's
Inspections Were Poor

The Housing Commission's staff assumed full responsibility for ensuring that the work was completed correctly after the contracts with Ghafari Association and Walbridge-Jenkins expired in September 1998 and March 1999, respectively. A Construction Project Coordinator for the Housing Commission said she, along with the former Housing Rehabilitation/Improvement Specialist and the Project Manager for Jeffries Homes, conducted "final" inspections of the Jeffries Homes' units at 3521 John C. Lodge and 1231 Selden between April 1999 and October 1999. The purpose of the "final" inspections was to determine whether the modernization work was completed in accordance with the contracts' specifications and the applicable construction codes. The

inspections were also to determine whether Filmore Construction Company corrected the deficient work cited by Walbridge-Jenkins on February 17, 1999. When the Housing Commission's staff identified modernization work that was incomplete, the Construction Project Coordinator said a "re-inspection" was performed to determine whether Filmore Construction made the necessary repairs.

Walbridge-Jenkins' inspection report for unit 206 at 1231 Selden noted that the living room ceiling's paint was peeling. The Housing Commission's "re-inspection" showed the peeling paint was corrected. However, our inspection revealed that the peeling paint was not corrected. The following picture shows the condition of the living room ceiling at the time of our inspection.

The paint on the living room ceiling was peeling in unit 206 at 1231 Selden.



In addition to unit 206 at 1231 Selden, the Housing Commission performed "final" inspections of 14 units in which our inspector noted improperly completed modernization work. The Commission's "final" inspection reports also showed that the 14 units had modernization work that was improperly performed. However, the Commission's "final" inspections did not identify all of the improperly completed modernization work that was noted during our inspections. The following table shows the number of units that had improperly completed modernization work that was not identified in the Commission's "final" inspections reports for the 14 units.

<i>Improper Modernization Work</i>	<i>Number Of Units</i>
Peeling/Blistering Paint	5
GFI's Not Functional	2
Kitchen Cabinets Not Secured	2
Cracks In Drywall	2
Blinds Not Installed	1
Gaps In Floor Tile	1

The Housing Commission lacked any documentary evidence that it assured the improper work in nine of the 15 units was corrected. However, the Commission’s reports showed the improperly performed work was corrected in the remaining six units.

The Commission’s reports were not correct. Unit 206 (cited on page 45) was one of the six units. The Commission’s “final” inspection noted that peeling paint existed on the unit’s living room ceiling. The Commission said the improper modernization work was corrected, but, as shown by the picture, the peeling paint was not corrected.

The Commission Lacked Sufficient Controls Over Inspections

The modernization work that was improperly performed or not provided occurred because the Housing Commission lacked sufficient controls over its inspection process to ensure the work was completed correctly or that units were decent, safe, and sanitary after rehabilitation. The Commission’s “final” inspection reports were not complete or were not accurate. The reports did not consistently show: who performed the “final” inspections; when the “final” inspections were performed; who re-inspected the improperly completed modernization work cited during the “final” inspections and/or by Walbridge-Jenkins was corrected; or when the “re-inspection” was conducted. In addition, the Commission’s former General Manager of Modernization said she did not perform a supervisory review of the “final” inspection reports to ensure they were completed correctly or to verify that the deficient modernization work was corrected. As a result, HUD funds were not efficiently and effectively used. HUD also lacks assurance that units at the Jeffries Homes HOPE VI Project met HUD’s Housing Quality Standards after modernization.

Auditee Comments

[Excerpts paraphrased from the Housing Commission’s comments on our draft finding follow. Appendix B, pages 112

to 115, contains the complete text of the comments for this finding.]

The Housing Commission disagrees with this finding that modernization work in the amount of \$62,969 was improperly performed or not provided.

The Commission completed the comprehensive modernization of Jeffries Homes' buildings 404 and 503 located at 3521 John C. Lodge and 1231 Selden, respectively. The modernization work was funded through the Comprehensive Grant Program using approximately \$4,899,375 and was completed effective June 1999 and October 1999, respectively.

The Army Corp of Engineers' inspection reports and cost projections were based on an inaccurate unit count, 205 units versus 198 units, and should be adjusted.

The Corp's inspection reports dated July 2000 were conducted, in one instance, more than a year after the completion of the modernization work and the buildings reoccupied. The Housing Commission contends that several of the work items cited in the inspection reports were consistent with normal wear and tear due to: re-occupancy and usage of the units; work performed by the Commission's maintenance staff; and latent defects not discovered during final inspection and/or not reported during the warranty period.

OIG Evaluation Of Auditee Comments

Our draft finding reported that an estimated \$62,969 of modernization work was improperly performed or not provided. However, unit 501 at 1231 Selden was removed from the finding. The unit was removed because \$280 of improper modernization work cited in our draft finding was accepted by the Army Corp of Engineers during its inspections for HUD. Therefore, we adjusted the estimated amount of improper modernization work to \$61,821.

The Housing Commission contracted for modernization work at Jeffries Homes' buildings 404 and 503. The Commission's Master List dated May 11, 2000 showed the two buildings contained 205 units. The 205 units included 198 dwelling units and seven non-dwelling units. The Housing Commission was required by the Annual Contributions Contract, HUD's

regulations, and the Commission's requirement(s) to ensure the modernization work was performed correctly to all of the dwelling and non-dwelling units. Therefore, no adjustments are necessary to the Army Corp of Engineers' inspection reports or the cost estimates for the repair of the modernization work that was improperly performed or was not provided since the total number of units was 205.

The Commission's modernization work to Jeffries Homes' buildings 404 and 503 was completed in October 1999. We inspected 50 of the 205 units and the two buildings between June 26, 2000 and July 6, 2000. Our inspections were performed less than a year after the Commission accepted the modernization work. The Commission should ensure that the modernization work that was improperly performed or not provided is completed correctly using non-Federal funds.

Auditee Comments

The following are three examples where the Army Corp of Engineers' inspection reports inaccurately cited deficiencies as evidence of the Housing Commission's failure to provide sufficient oversight with the subject modernization work at Jeffries Homes:

1. Unit 603 at 1231 Selden-The kitchen wall was not completely painted;

The Housing Commission's review disclosed that the cited work item was due to work in process by the Commission's maintenance staff. The item was not a result of modernization work or improper modernization oversight. The existence of the item is not in dispute and accordingly, the Commission has taken steps to repair the item. It is important to also note that the item was not cited by the Army Corp of Engineers in their ongoing oversight of the modernization work and final inspections for the local HUD office.

2. Unit 206 at 1231 Selden-The paint on the living room ceiling is peeling; and

The audit finding asserts that the occurrence of improperly performed modernization work or work not provided resulted because the Commission lacked sufficient controls over the inspection process. The finding cites the Army Corp of

Engineer's inspection that asserts that this deficiency is the same peeling paint identified in the 1999 final inspection performed by the Commission's construction administrator. The Commission's re-inspection report cited that the contractor satisfactorily completed the modernization work. Although the Corp found that the same condition existed in this unit, it is reasonable and likely that this condition occurred in another area of the ceiling.

3. Building 404 at 3521 John C. Lodge-The exposed electrical wiring for an exterior security light as not properly installed.

While the Housing Commission does not dispute the existence of the condition, the draft finding inaccurately attributes the work to the modernization contractor under the Commission's supervision. The Commission's maintenance staff installed the temporary electrical wiring for lighting necessary for on-site demolition.

OIG Evaluation Of Auditee Comments

The Army Corp of Engineers' inspection of unit 603 at 1231 Selden identified that the kitchen wall was not completely painted. The Housing Commission indicated that the improper painting was not the result of modernization work improperly performed or work not provided. The Commission's modernization contracts included the painting of all units. The resident of unit 603 informed us that the improper painting had existed since July 1999.

Walbridge-Jenkins' inspection report for unit 206 at 1231 Selden noted that the living room ceiling's paint was peeling. The Housing Commission's "re-inspection" showed the peeling paint was corrected. However, our inspection revealed that the peeling paint was not corrected. While the Housing Commission may be correct that the peeling paint may have occurred in another area, the inspections by Walbridge-Jenkins, the Commission, and the Army Corp of Engineers all cited that the unit's ceiling had peeling paint. Based upon the documentation, we concluded the peeling paint resulted from improper modernization work and a lack of sufficient controls by the Commission to ensure the work was completed correctly.

The Army Corp of Engineers' inspection of the Jeffries Homes' building 404, 3521 John C. Lodge, revealed that the electrical wiring for an exterior security light was exposed and not properly installed. The Housing Commission did not provide any supporting documentation, such as a work order, to show that the Commission's maintenance staff installed the security light. In fact, the Commission executed change order number 4 in February 1996 with Filmore Construction, the modernization contractor. The Commission required Filmore to install exterior security lights at Jeffries Homes. Based upon the change order and the Corp's inspections, we believe the Commission failed to ensure that Filmore Construction properly installed the security light for building 304.

Auditee Comments

The Housing Commission agrees that the work cited must be corrected. However, the Commission strongly disagrees that the deficiencies are the result of improper modernization oversight. Deficiencies found by the Army Corp of Engineers are the result of normal resident wear and tear, maintenance repairs, and latent defects attributable to the method of construction, which are not structural in nature. The Corp provided quarterly and final inspections on behalf of the local HUD office.

The Commission agrees that policies and procedures in effect during the Jeffries Homes modernization work could have been strengthened. The Commission disagrees that controls were so deficient as to warrant an audit finding.

The Housing Commission recognizes that proper controls are critical to the future success of the Commission's Hope VI Program as well as any other programs. The Commission has either repaired or is scheduled to repair all of the cited work. Standard operating procedures were drafted to provide guidance in program administration and monitoring for the Commission's Modernization/ Development Division.

OIG Evaluation Of Auditee Comments

The Housing Commission did not provide the Army Corp of Engineers' quarterly and final inspection reports with its comments. Therefore, we were unable to evaluate the reports. However, we obtained the Corp's January 2000 final inspection report of buildings 404 and 503 at Jeffries Homes. The final report showed that the Corp only inspected four units.

Our inspections of Jeffries Homes included 50 units and identified that modernization work was improperly performed or not provided.

The procedures drafted by the Housing Commission, if fully implemented, should improve its oversight of the HOPE VI Program if the procedures include sufficient controls over inspections to ensure that modernized units and buildings are decent, safe, and sanitary after receiving modernization work as required by the Annual Contributions Contract, HUD's regulations, and the Housing Commission's requirement(s). However, in response to prior OIG audit reports (OIG report #96-CH-201-1809 dated April 30, 1996 and OIG audit memorandum #98-CH-201-1804), the Commission promised that procedures would be developed and/or were developed to improve its inspections. As indicated by this report, the Commission has continued to fail to implement sufficient controls and oversight of its inspections. This allowed improper modernization work to go undetected or failed to ensure that improper work was corrected properly.

Recommendations

We recommend that the Director-Senior Advisor of Public Housing Investments, in conjunction with the Michigan State Office Director of Public Housing Hub, assure that the Detroit Housing Commission:

- 3A. Ensures that the modernization work cited in this finding is completed correctly using non-Federal funds.
- 3B. Implements sufficient controls over its inspections to ensure that modernized units and buildings are decent, safe, and sanitary after receiving modernization work as required by the Annual Contributions Contract, HUD's regulations, and the Housing Commission's requirement(s).

(THIS PAGE LEFT BLANK INTENTIONALLY)

The Housing Commission's Contracting Process Was Not Performed In An Efficient, Effective, And Economical Manner

The Detroit Housing Commission did not maintain an effective system of controls over its contracting process. Contrary to Federal requirements, State of Michigan law, and/or the Cooperation Agreement with the City of Detroit, the Commission improperly used HUD funds (HOPE VI, Development, and Comprehensive Grant Program) or inappropriately approved for payment \$13,181,214 for construction or professional services. The improper expenses included: (1) \$11,245,351 paid and an additional \$815,105 approved for payment for change orders without sufficient supporting documentation; (2) \$568,548 paid in construction expenses for the Frankfort Sewer project that the City should have provided at no cost to the Commission; and (3) \$550,980 paid and an additional \$1,230 approved for payment for excessive construction costs, interest expenses, and repair costs to correct contractor damages that were not reasonable and necessary expenses of the Commission. The Housing Commission failed to obtain HUD's prior approval for 20 change orders, as required by the HOPE VI Grant Agreements. The Commission also lacked documentation to support that HOPE VI construction or professional services contracts were awarded through full and open competition, or in an efficient and effective manner. The Commission's Board of Commissioners and former and current top management did not exercise their responsibilities to implement effective contracting controls. As a result, HUD funds were not used efficiently and effectively. HUD lacks assurance that the Commission's procurement transactions were subject to full and open competition, or were conducted in an efficient, effective, or economical manner.

Federal Requirements

The HOPE VI Implementation Grant Agreements, between HUD and the Detroit Housing Commission dated August 12, 1994 for the Jeffries Homes HOPE VI Project and February 8, 1995 for the Villages at Parkside HOPE VI Project, required the Housing Commission to comply with HUD's regulations, Handbooks, and Notices, and Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. The Grant Agreements also required the Commission to obtain HUD's approval on change orders in excess of \$100,000.

The Annual Contributions Contract, Section 201, requires the Detroit Housing Commission to operate each Project in such a manner to promote efficiency and economy.

24 CFR Part 85.36(b)(9) requires grantees and subgrantees to maintain records sufficient to detail the significant history of a procurement, such as the rationale for the method of procurement and the basis for the contract price. Part 85.36(c)(1) requires that all procurement transactions be conducted in a manner providing full and open competition.

24 CFR Part 85.36(d)(2) requires that when the sealed bid method is used, bids are to be publicly solicited and a firm-fixed-price contract awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest price. The sealed bid method is the preferred method for procuring construction services.

24 CFR Part 85.36(d)(3) says the technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. If this method is used: requests for proposals will be publicized; proposals will be solicited from a sufficient number of qualified sources; and awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered. Grantees are required to: have a method for conducting technical evaluations of the proposals; and notify the responsible firm in writing regarding the contract award.

24 CFR Part 85.36(f)(1) requires a cost or price analysis be conducted in connection with every procurement action including change orders. Independent estimates should be conducted before receiving bids or proposals in order to determine the reasonableness of proposed contract price.

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, paragraph C(1)(j) requires that all costs be sufficiently documented. Attachment B, Section 26, of the Circular says interest expense is not an allowable cost except for financing provided by a third party used to support Federal awards. Section 23(a)(5) of Attachment B says the general costs of government services normally provided to the general public, such as water and sewer, are not allowable expenses.

Commission's Procurement Policies

The Detroit Housing Commission's August 19, 1993, September 4, 1997, and September 2, 1999 Procurement Policies say the Policies apply to all contracts for the procurement of supplies, services, and change orders executed by the Commission. The Policies required the Commission's Executive Director to ensure that all contracts and change orders be clearly specified in writing and supported by sufficient documentation regarding the procurement history. The Policies also required the Commission to: comply with 24 CFR Part 85.36; prepare an independent cost estimate before bid solicitation; conduct a cost or price analysis on responses received; and notify unsuccessful firms after contract award.

The Commission's 1993, 1997, and 1999 Procurement Policies required that: sealed bids be utilized for construction contracts under the Comprehensive Grant Program and all other Federal construction/development programs which exceed \$100,000; and all bids be time stamped and stored in a secure place. The Policies say awards will be made by written notice to the lowest responsive and responsible bidder and that unsuccessful bidders be notified of the solicitation results.

The Commission's 1993, 1997, and 1999 Procurement Policies required that a cost or price analysis be performed for all procurement actions including change orders.

The 1997 Procurement Policy says that change orders exceeding either \$100,000 or 25 percent of the original contract price will be submitted to HUD for prior approval before executing the orders. This Policy was approved by HUD, and was more stringent than the HUD approval requirement in the HOPE VI Grant Agreements. The 1999 Procurement Policy requires that change orders that exceed the greater of either \$100,000 or 25 percent of the original contract price will be submitted to HUD for prior approval before executing the orders. The 1999 Policy was not approved by HUD, and was less stringent than the HUD approval requirement in the Grant Agreements. The Commission's 1999 Policy cannot be used as a basis to supercede the requirements in the Grant Agreements.

State Of Michigan Law

The Housing Facilities Act (Public Act 18), Michigan Compiled Laws Annotated Section 125.685, requires housing

commissions to maintain and keep proper books of record and account in relation to its properties, business, and affairs.

Cooperation Agreement

Paragraph 5(a) of the Cooperation Agreement, between the Detroit Housing Commission and the City of Detroit, required the Housing Commission's residents to receive the same services as other City residents at no additional cost to the Commission or its residents. Paragraph 5(b) of the Agreement required the City to vacate such streets within the area of the Commission's Projects that may be necessary in the development, and convey without charge to the Commission such interest as the City may have in such vacated areas. The City will also cause to be removed from such vacated areas all public or private utility lines and equipment without cost or charges to the Commission.

Responsibilities Of Board
Of Commissioners And
Management Staff

Public Housing Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Commission's management staff and employees to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

The responsibility for carrying out the Commissioners' policies and managing the Housing Commission's day-to-day operations rests with the Commission's principal management staff. In particular, the management staff must maintain the Commission's overall compliance with its policies and procedures and Federal, State, and local laws.

Sample Selection And
Review Results

We judgmentally selected a sample of 23 of the 40 construction or professional service contracts awarded by the Housing Commission for the Jeffries Homes or the Villages at Parkside HOPE VI Projects. The 23 contracts totaled over \$80 million and were awarded between November 1995 and May 1999. We also judgmentally selected 88 of the 105 change orders approved by the Commission for the Jeffries Homes or the Villages at Parkside HOPE VI Projects. The 88 change orders totaled \$13,262,782 and were approved by the Commission between June 1996 and November 1999.

We selected the 23 contracts and the 88 change orders to determine whether the Commission properly procured the construction or professional services according to Federal requirements and the Commission's Procurement Policies. The Army Corp of Engineers assisted in the review of the contracts and change orders to determine whether: the Commission properly procured the services; and the services were reasonable and necessary to the Jeffries Homes or the Villages at Parkside HOPE VI Projects.

We provided our detailed review results of the contracts and change orders to HUD's Director-Senior Advisor of Public Housing Investments, HUD's Michigan State Office Director of Public Housing Hub, and the Housing Commission's Executive Director.

The Commission Lacked
Sufficient Documentation To
Support Over \$12 Million
In Change Orders

The Housing Commission improperly used \$11,245,351 in HUD funds (HOPE VI, Development, and Comprehensive Grant Program) and approved for payment an additional \$815,105 for 46 change orders that were not sufficiently supported. The change orders were paid or approved for payment between June 1996 and March 2001 and related to construction or professional services at the Jeffries Homes or the Villages at Parkside HOPE VI Projects.

The HOPE VI Grant Agreements for Jeffries Homes and the Villages at Parkside, HUD's regulation, Office of Management and Budget Circular A-87, and State of Michigan law require housing commissions to maintain records that sufficiently identify the use of funds by the commissions. Housing commissions must ensure funds are expended for costs that are reasonable and necessary to their operations.

The following table shows the 46 unsupported change orders and when the Commission approved the orders for payment.

Finding 4

<i>Contractor</i>	<i>Change Order Number</i>	<i>Change Order Amount</i>	<i>Unsupported Amount</i>	<i>Date Approved</i>
Certified Abatement Services	1	\$738,858	\$738,858	8/1/96
Certified Abatement Services	2	557,699	557,699	10/22/96
A-MAC Sales & Builders	1	2,250,000	2,250,000	6/25/96
Filmore Construction Company	1	1,010,565	1,010,565	6/25/96
M&M Contracting	1	32,307	32,307	2/16/99
M&M Contracting	2	15,046	15,046	3/11/99
DeMaria Building Company	2	25,028	8,500	4/9/98
DeMaria Building Company	3	153,637	153,637	4/9/98
DeMaria Building Company	4	89,332	32,552	6/11/98
DeMaria Building Company	6	194,690	194,690	6/22/98
DeMaria Building Company	8	18,194	6,504	10/8/98
DeMaria Building Company	9	585,469	448,651	10/8/98
DeMaria Building Company	12	402,661	402,661	12/9/98
DeMaria Building Company	13	603,815	603,815	1/8/99
DeMaria Building Company	14	29,523	29,523	1/13/99
DeMaria Building Company	15	168,666	168,666	2/16/99
DeMaria Building Company	16	36,103	36,103	3/11/99
DeMaria Building Company	1	97,810	15,960	2/13/99
ABC Paving Company	5	70,871	70,871	5/14/98
ABC Paving Company	7	175,387	99,614	8/17/98
ABC Paving Company	10	67,137	67,137	10/8/98
ABC Paving Company	12	12,653	12,653	12/9/98
ABC Paving Company	14	6,563	6,563	1/13/99
ABC Paving Company	15	29,753	29,753	3/11/98
A-MAC Sales & Builders	2	158,483	158,483	12/15/98
Filmore Construction Company	2	33,981	33,981	6/11/98
Filmore Construction Company	4	122,772	56,447	8/17/98
Filmore Construction Company	5	449,215	449,215	10/13/98
Filmore Construction Company	8	18,000	18,000	1/13/99
Filmore Construction Company	9	488,910	488,910	2/13/99
ABC Paving Company	5	64,211	64,211	5/14/98
ABC Paving Company	7	171,913	171,913	8/17/98
ABC Paving Company	9	60,152	60,152	10/8/98
ABC Paving Company	10	90,196	90,196	11/18/98
ABC Paving Company	12	22,782	22,782	12/9/98
ABC Paving Company	13	13,593	13,593	1/13/99
A-MAC Sales & Builders	1	1,698,334	1,698,334	7/20/98
A-MAC Sales & Builders	2	58,994	58,994	11/18/98
DeMaria Building Company	2	31,660	31,660	7/14/99
ABC Paving Company	16	(32,357)	28,913	7/14/99
ABC Paving Company	17	129,545	129,545	7/14/99
Filmore Construction Company	11	72,215	72,215	6/28/99
ABC Paving Company	15	29,603	29,603	7/14/99
A-MAC Sales & Builders	4	99,296	99,296	6/10/98
A-MAC Sales & Builders	5	474,311	474,311	11/4/99
Filmore Construction Company	4	817,374	817,374	8/19/99
Total			<u>\$12,060,456</u>	

In order to determine whether the Housing Commission used HUD funds for reasonable and necessary expenses regarding change orders, we reviewed such items as the Commission's change orders, construction or professional services contracts related to the change orders, and contract payment forms. The Commission lacked detailed work specifications identifying the construction or professional services provided for the 46

change orders. Consequently, we could not determine whether HUD funds were used for only reasonable and necessary expenses of the Jeffries Homes or the Villages at Parkside HOPE VI Projects. The Commission also lacked documentation to support that a cost analysis was performed on the 46 change orders.

A Commissioner for the Housing Commission’s Board said the Board relied on the former and current principal management staff to ensure that HUD funds were used correctly. She said the Board relied on the Commission’s management staff to maintain sufficient documentation to support change orders. The former Executive Director, the former Deputy Director/Interim Executive Director, and the current Executive Director were the Commission’s principal management staff. They were responsible for the oversight of the HOPE VI Program, and were required to ensure that the Commission complied with its policies and procedures and Federal, State, and local laws. However, this was not done.

The following table shows the number and amount of unsupported change orders that were paid or approved for payment by the former or current Executive Directors.

Approved Change Order	Number Of Orders	Amount Of Unsupported Orders
Former Director	4	\$4,557,122
Former Interim Director	34	5,820,417
Current Director	8	1,682,917

In addition to the approval of the unsupported change orders by the Housing Commission’s former or current Executive Directors, Capital Needs Unlimited approved 40 of the 46 unsupported change orders. The 40 orders totaled \$6,211,649 and related to construction or professional services for the Villages at Parkside HOPE VI Project. Capital Needs Unlimited was not required to approve the remaining six change orders because the orders did not relate to construction work at Parkside. The Commission contracted with Capital Needs Unlimited, a consulting company, in December 1994 to represent the Commission during the revitalization work at Parkside. The approval by Capital Needs Unlimited meant that it reviewed the change orders, and the recommended changes were reasonable and necessary to the Parkside HOPE VI

Project. However, the 40 change orders lacked sufficient detail to validate that the orders were reasonable and necessary.

Unsupported change orders for construction services were also approved by three of the Commission’s architectural firms. The three architectural firms were: Nathan Johnson & Associates; Hamilton Anderson & Associates; and Ghafari Associates. The Commission contracted with the firms to monitor the construction work at the Jeffries Homes or the Villages at Parkside HOPE VI Projects. The firms’ approvals meant they reviewed the change orders and the recommended changes were reasonable and necessary to the HOPE VI Projects. Since the approved change orders did not include detailed work specifications, the architectural firms lacked documentation on which to base their approval.

The following table shows the number and amount of unsupported change orders that were approved by the three architectural firms.

<i>Approved Change Order</i>	<i>Number Of Orders</i>	<i>Amount Of Unsupported Orders</i>
<i>Nathan Johnson & Associates</i>	37	\$7,143,813
<i>Hamilton Anderson & Associates</i>	1	58,994
<i>Ghafari Associates</i>	<u>4</u>	<u>4,552,250</u>
<i>Totals</i>	<u>42</u>	<u>\$11,755,057</u>

The three architectural firms approved 42 of the 46 unsupported change orders approved by the Housing Commission’s former or current Executive Directors. The 42 change orders totaled \$11,755,057 and related to construction work at the Jeffries Home or the Villages at Parkside HOPE VI Projects. The three firms were not required to approve the remaining four change orders because the orders related to construction work that was outside of the scope of the firms’ services.

The \$12,060,456 for the 46 unsupported change orders represents 81 percent of the total change orders for the Housing Commission’s Jeffries Homes and the Villages at Parkside HOPE VI Projects. Given the large percentage of unsupported change orders, the Housing Commission’s Board of

The Commission Paid For Expenses Of The Frankfort Sewer Project That The City Should Have Paid

Commissioners, principal management, contracted representative, and the three architectural firms failed to ensure that the Commission operated its HOPE VI Projects in an efficient, effective, and economical manner.

Contrary to the HOPE VI Grant Agreement for the Villages at Parkside, HUD’s regulation, Office of Management and Budget Circular A-87, and the Cooperation Agreement with the City of Detroit, the Housing Commission used HUD funds to pay for construction costs to the Frankfort Sewer project. The construction costs were not reasonable and necessary expenses of the Housing Commission and should have been provided by the City at no cost to the Commission.

Between June 1998 and March 2001, the Housing Commission spent \$568,548 in HUD funds to pay two contractors for construction services to the Frankfort Sewer project. The contractors performed the construction services and submitted change orders to the Commission for payment. The Commission’s former Deputy Director/Interim Executive Director approved the change orders and the orders were paid. The following table shows the change orders and the HUD funds paid to the contractors for the Frankfort Sewer project.

<i>Contractor</i>	<i>Change Order Number</i>	<i>Amount Paid</i>
DeMaria Building Company	5, 7, 8, and 11	\$463,491
ABC Paving Company	11 and 14	<u>105,057</u>
Total		<u>\$568,548</u>

The City of Detroit provided a land easement to the Housing Commission to accommodate the Commission’s redevelopment plans for the Villages at Parkside. Title to the land remained with the City. Construction services were required by the City to reroute the Frankfort Sewer. However, paragraph 5(b) of the Cooperation Agreement required the City to vacate such streets within the area of Parkside that may be necessary in the development, and convey without charge to the Commission such interest as the City may have in such vacated area. The Agreement says the City will also cause to be removed from

such vacated area all public or private utility lines and equipment without cost or charges to the Commission.

The Housing Commission's change orders showed that the City would reimburse the Commission for the construction expenses. A January 15, 1998 memorandum from the President of Capital Needs Unlimited, the Commission's former representative for the Villages at Parkside HOPE VI Project, also showed that the City's Assistant Director of Water and Sewer agreed that the construction services would be paid by the City.

The City of Detroit's Assistant Director of Water and Sewer said he did not remember any agreement that the City would reimburse the Housing Commission for the construction services to the Frankfort Sewer project. We found no written agreement between the City and the Commission that required the City to pay for the services. However, the Housing Commission's Cooperation Agreement says the City should have removed all public or private utility lines and equipment without cost or charges to the Commission. Therefore, the City should have paid for the sewer construction services. As a result, HUD funds were not efficiently and effectively used.

The Commission
Improperly Paid Excessive
Construction Costs, Interest
Expense, And Repair Costs
For Contractor Damages

Contrary to the Villages at Parkside HOPE VI Grant Agreement, HUD's regulation, and Office of Management Budget Circular A-87, the Housing Commission improperly paid or approved for payment unreasonable and unnecessary expenses. The improper expenses included: (1) \$294,663 paid and an additional \$1,230 approved for payment for excessive construction costs; (2) \$128,802 used to pay two contractors for interest charges; and (3) \$127,515 paid to repair damages caused by contractors at the Villages at Parkside.

As previously mentioned, the Army Corp of Engineers reviewed 88 of the 105 change orders approved by the Housing Commission for the Jeffries Homes or the Villages at Parkside HOPE VI Projects to determine whether the orders were reasonable and necessary. Of the 88 change orders reviewed: 16 included excessive construction costs; two had improper interest charges; and another two were for construction costs to repair damages caused by contractors. These 20 change orders related to construction services at the Villages at Parkside HOPE VI Project. The following table

shows: the change orders with excessive construction costs that were paid or approved for payment by the Commission; the change orders the Commission paid that had interest charges; and the change orders the Commission paid to repair damages caused by contractors.

Contractor	Change Order Number	Excessive Construction Costs Paid	Approved Excessive Costs	Paid Interest Charges	Paid Repairs For Damages
DeMaria Building Company	1, 4, and 8	\$55,931	\$0	\$0	\$0
DeMaria Building Company	1	37,300	0	0	0
ABC Paving Company	4, 6, 7, 8, and 9	69,095	0	0	0
ABC Paving Company	16	0	1,230	0	0
ABC Paving Company	4, 6, 8, and 14	49,377	0	0	0
Filmore Construction Company	1 and 3	82,960	0	0	0
DeMaria Building Company	7	0	0	62,477	0
Filmore Construction Company	4	0	0	66,325	0
Filmore Construction Company	10 and 12	0	0	0	127,515
Totals		<u>\$294,663</u>	<u>\$1,230</u>	<u>\$128,802</u>	<u>\$127,515</u>

The following table shows the amount of unreasonable and unnecessary expenses that were paid or approved for payment by the former or current Executive Directors.

Approved Change Order	Amount Of Unreasonable And Unnecessary Costs
Former Director	\$ 54,562
Former Interim Director	368,903
Current Director	128,745

Housing Commissions and Executive Directors are not permitted to use HUD funds to pay unreasonable and unnecessary expenses. Interest charges and repairs for damages are not reasonable and necessary expenses because commissions are required to ensure invoices are paid promptly and contractors that cause damages are held responsible for the repair costs.

The Commission Approved Change Orders Without HUD Approval

The Housing Commission failed to obtain HUD’s prior approval on 20 change orders that exceeded \$100,000. The 20 change orders were for construction services to the Jeffries Homes or the Villages at Parkside HOPE VI Projects. The change orders were paid or approved for payment between January 1998 and March 2001. The HOPE VI Grant Agreements for the Jeffries Homes and the Villages at Parkside

required the Commission to obtain HUD’s prior approval on change orders that exceeded \$100,000. However, this was not done.

The following table shows the 20 change orders and when the orders were approved for payment.

Contractor	Change Order Number	Change Order Amount	Date Approved
DeMaria Building Company	1	\$107,607	1/8/98
DeMaria Building Company	3	153,637	4/9/98
DeMaria Building Company	5	350,000	6/22/98
DeMaria Building Company	6	194,690	6/22/98
DeMaria Building Company	9	585,649	10/12/98
DeMaria Building Company	11	104,503	11/18/98
DeMaria Building Company	12	402,661	12/9/98
DeMaria Building Company	13	603,815	1/8/99
DeMaria Building Company	15	168,666	2/16/99
DeMaria Building Company	17	619,843	4/1/99
ABC Paving Company	7	175,387	8/17/98
A-MAC Sales & Builders	2	158,483	12/15/98
Filmore Construction Company	3	170,700	6/22/98
Filmore Construction Company	4	122,772	8/17/98
Filmore Construction Company	5	449,215	10/13/98
Filmore Construction Company	9	488,910	2/13/99
ABC Paving Company	7	171,913	8/17/98
A-MAC Sales & Builders	1	1,698,334	7/20/98
ABC Paving Company	17	129,545	7/14/99
A-MAC Sales & Builders	5	474,311	11/4/99

The Housing Commission was cited in prior HUD reviews and OIG audits for approving change orders with excessive costs or for services that were outside the scope of the original contract. Based upon the reviews and audits, the Commission changed its Procurement Policy effective September 4, 1997 to include change orders that either exceeded \$100,000 or 25 percent of the original contract price required HUD’s prior approval. This Policy was more stringent than the approval requirement in the HOPE VI Grant Agreements. The Housing Commission’s former and current Executive Directors disregarded the HOPE VI Grant Agreements and the Commission’s 1997 Procurement Policy and approved the change orders. Nineteen of the 20 change orders were executed while the Housing Commission’s 1997 Policy was in effect.

The Housing Commission amended its Procurement Policy in 1999 to require that change orders that exceed the greater of either \$100,000 or 25 percent of the original contract price will be submitted to HUD for prior approval before executing the orders. The 1999 Policy was not approved by HUD, and was less stringent than the HUD approval requirement in the HOPE VI Grant Agreements. The Commission’s 1999 Policy cannot be used as a basis to supercede the requirements in the Grant Agreements. Only one of the 20 change orders was executed after the 1999 Policy was effective.

The following table shows the number and the amount of change orders that were approved for payment by the former and current Executive Directors without HUD’s required prior approval.

Approved Change Order	<i>Number Of Orders</i>	<i>Amount Of Change Orders</i>
Former Director	1	\$ 107,607
Former Interim Director	17	6,618,998
Current Director	2	603,856

The Army Corp of Engineers determined that five of the 20 change orders that were approved by the Housing Commission but were not approved by HUD included excessive construction costs or expenses related to the Frankfort Sewer project that the City should have paid. The Corp could not make a determination whether the costs were reasonable and necessary on 14 other change orders they reviewed. The remaining change order was not reviewed by the Corp. HUD’s prior review of change orders is an essential part to the Commission’s contracting process to ensure the process is conducted in an efficient, effective, and economical manner.

HUD’s Office of Public Housing Investments was responsible for reviewing the Housing Commission’s change orders related to the HOPE VI Program. The Director-Senior Advisor of Public Housing Investments said his Office was not aware that the Commission executed change orders that required HUD’s approval since the Commission failed to submit the orders to HUD. Once HUD was aware of cost overruns and outstanding invoices against the Commission’s Villages at Parkside HOPE VI Project, the Director said he suspended the Commission’s

ability to draw down funds. In May 2000, HUD lifted the suspension because an agreement was executed with the Commission to settle the outstanding invoices. The Commission's current Executive Director said he believed the Commission received HUD's approval on the two change orders he approved. However, the Commission lacked documentation to support HUD's prior approval was requested or granted for the two orders.

The Commission Lacked
Documentation To Support
Its Contract Awards

Contrary to the HOPE VI Grant Agreements, the Annual Contributions Contract, HUD's regulations, and/or the Housing Commission's Procurement Policies, the Commission lacked documentation to support that its HOPE VI construction or professional services contracts for the Jeffries Homes or the Villages at Parkside were awarded through full and open competition or in an efficient and effective manner. The Commission awarded 40 construction or professional services contracts for the Jeffries Homes or the Villages at Parkside HOPE VI Projects. We reviewed 23 of the 40 contracts to determine whether the Commission properly procured the services according to Federal requirements and the Commission's Procurement Policies.

The 23 contracts we reviewed totaled over \$80 million and were awarded between November 1995 and May 1999. The Commission lacked documentation to support that: 12 bid solicitations were properly advertised; nine solicitations received a sufficient number of bids; 22 solicitations had an independent cost analysis prior to receiving bids; 15 bids were date stamped at the time of receipt; six bids received technical evaluations to determine whether the contractors were qualified to perform the services; three contractors were notified of the contract awards; and five contractors received notices to proceed on the contracted services. The following table shows the 23 contracts and which contracts lacked documentation regarding the contract award process.

Contractor	Contract Amount	Improper Advertisement	Insufficient Bids	No Cost Analysis	No Date Stamp	No Technical Evaluation	No Notice Of Award	No Notice To Proceed
Hamilton Anderson & Associates, Inc.	\$ 750,000	X	X	X	X	X		
G. Fisher Construction Company	12,400,000			X				
M & M Contracting	800,992			X	X			
ABC Paving Company	1,635,900	X	X	X	X			
Industrial Waste Cleanup, Inc.	212,148	X		X	X			
A-MAC Sales & Builders	3,741,380	X	X	X	X			
DeMaria Building Company	9,274,200			X				
DeMaria Building Company	18,168,979							
DeMaria Building Company	336,371		X	X	X			
A-MAC Sales & Builders	3,120,000	X	X	X	X			
ABC Paving Company	1,136,600	X	X	X	X	X		
Filmore Construction Company	9,650,316			X				
Diamond Dismantling	779,319			X				
Filmore Construction	2,284,000			X				
DeMaria Building Company	1,428,367		X	X	X			
Capital Needs Unlimited	3,560,310	X		X	X			
Nathan Johnson & Associates, Inc.	4,206,312	X	X	X	X	X		X
Team/Ace Joint Venture	5,000,000	X		X	X		X	X
EBH Design Inc.	1,000,000	X	X	X		X		
Burns International Security Services	486,598			X	X			X
Abbott, Nicholson, Quilter, Eshaki & Youngblood	200,000			X		X	X	X
Fidelity Title Company	\$200 per draw	X		X	X		X	X
Segue, Fair, Adams & Pope	100,000	<u>X</u>	<u>—</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>—</u>	<u>—</u>
Totals		<u>12</u>	<u>2</u>	<u>22</u>	<u>15</u>	<u>6</u>	<u>3</u>	<u>5</u>

The HOPE VI Grant Agreements, the Annual Contributions Contract, HUD's regulations, and/or the Housing Commission's Procurement Policies required the Commission to award the Jeffries Homes or the Villages at Parkside HOPE VI contracts through full and open competition, and in an efficient and

effective manner. In the 23 contracts we reviewed, the Commission did not always ensure that documentation was maintained to support the contracting process. The contract to Abbott, Nicholson, Quilter, Eshaki, & Youngblood was awarded during the administration of the Commission's current Executive Director. The remaining 22 contracts were awarded under the Commission's former Directors. As a result, HUD lacks assurance that the Commission's procurement transactions were subject to full and open competition, or were conducted in an efficient, effective, or economical manner.

Contracting Problems
Existed Because The
Commission Lacked
Controls Over The Program

The Housing Commission's failure to adhere to required contracting requirements occurred because the Commission lacked controls over the HOPE VI Program. The General Manager of the Commission's Purchasing Department said his Department was generally not involved in the contracting process at the Villages at Parkside HOPE VI Project. Instead, the Commission allowed Capital Needs Unlimited virtually full control over Parkside's contracting process. The Commission did not sufficiently monitor Capital Needs Unlimited to ensure it followed HUD's or the Commission's contracting requirements. While the Housing Commission administered the contracting process for the Jeffries Homes HOPE VI Project, the Commission's staff relied on the recommendations of the architectural and engineering firm regarding Jeffries' contracting process.

Auditee Comments

[Excerpts paraphrased from the Housing Commission's comments on our draft finding follow. Appendix B, pages 116 to 125, contains the complete text of the comments for this finding.]

This finding chronicles the Housing Commission's HOPE VI Program over a seven-year period and four Executive Directors. The finding confirms the Program facts as the Commission's current administration, HUD, and the public knew them as of April 1999. However, the finding fails to distinguish between actions and inactions attributable to the Commission's current and former administrations. Therefore, the finding is misleading and unbalanced. The finding is unbalanced and misleading since it fails to acknowledge the baseline environment confronting the Commission's current

administration nor does it acknowledge the progress made by the current administration with aggressive HUD oversight over the last two years.

The Housing Commission's current administration appointment in April 1999 was amidst public disclosure over the lack of progress and cost overruns at two HOPE VI sites estimated at \$7 million. Over \$200 million was awarded to the Commission over a seven-year period and both HOPE VI Projects were experiencing extraordinary construction delays, contractor disputes, cost overruns, and program administration issues. Prior to April 1999, HUD accelerated its oversight role through the issuance of several corrective action orders and suspended the Commission's ability to requisition funds for the Projects. It was against this backdrop that the current administration began to implement operational enhancements and internal controls necessary for the HOPE VI Program. It was also against this backdrop that the current administration sought to liquidate the millions in outstanding contractor claims and overdue invoices arising from the Projects.

OIG Evaluation Of Auditee Comments

We agree that prior to the Housing Commission's current Executive Director that public disclosure identified a lack of progress and cost overruns in the Commission's HOPE VI Projects. However, the Housing Commission's current Director also failed to ensure that the Commission's procurement transactions were conducted in accordance with Federal requirements, State of Michigan law, and the Commission's Procurement Policies. The Director improperly approved eight change orders without detailed work specifications, one change order with interest charges, and two orders without HUD's prior approval. While we agree that the current Director implemented changes to the administration of the Commission's HOPE VI Program, the Director failed to ensure that his actions were according to the Program's requirements.

Auditee Comments

The Housing Commission strongly disagrees with the draft finding's conclusions for the following reasons:

- The finding fails to sufficiently distinguish between actions and inactions attributable to the Commission's former and current administrations. The finding

inaccurately concludes that the current administration approved change orders in the amount of \$1.6 million. With the documentation provided, the Housing Commission requests that the finding be revised to reflect that the Commission approved the change orders in accordance with the applicable HOPE VI Grant Agreements and its Procurement Policy;

- The finding fails to clarify that virtually all change orders and contract deficiencies resulted from actions or inactions over a seven-year period by the Commission's prior administrations that predates the April 1999 appointment of the current administration; and
- The finding fails, beyond a cursory mention, to analyze the management of the Commission's former administration of the HOPE VI funded contractors/consultants and the impact of their actions or inactions upon the progress of the HOPE VI Program.

Starting in 1999, the Housing Commission admits that it had the ultimate responsibility for resolving the long-standing issues found with the Commission's HOPE VI Program. However, the Commission takes exception to the finding's failure to acknowledge the progress made over the last two years that include:

1. The reorganization of the Commission's development and modernization activities under the Development General Manager in addition to the hiring of experienced housing, construction, and finance senior managers;
2. The implementation of policy enhancements in the Commission's procurement, development, and finance operations. Effective April 1999, procurement actions are coordinated through the Commission's Procurement Division for the Parkside and Jeffries HOPE VI Projects. Effective September 1999, the Commission's Procurement Policy was updated to clarify prior HUD approval of change orders;

3. The development of standard operating procedures for the Commission's procurement and finance operations. The standard operating procedures are specific to the draft findings include:
 - Construction Contracts: Administration and Monitoring;
 - Construction Contracts: Progress Payments;
 - Construction Contracts: Time Extensions;
 - Construction Contracts: Construction Logs;
 - Construction Contracts: Warranties;
 - Construction Contracts: Final Inspections; and
 - Construction Contracts: Acceptance.
4. The implementation of an extensive training program for Commission's development and finance staff in the areas of HOPE VI Program administration and Federal procurement regulations. Currently, the Housing Commission's Procurement and Development General Managers have met HUD's requirements and are qualified to certify the Commission's procurement actions;
5. The establishment of an internal auditing function with the Management Analysis and Planning Division; and
6. The establishment of a monthly reporting process to the Commission's Board of Commissioners for all development activities including Parkside.

OIG Evaluation Of Auditee Comments

We amended the finding to specifically identify the improper actions of the Housing Commission's former and current Executive Directors. While several of the deficiencies related to contracting and change orders that occurred prior to the Commission's current Executive Director, the Director also failed to ensure that the Commission carried out its contracting process according to Federal, State, and local laws.

The Housing Commission did not provide detailed work specifications with its comments to support the \$1,682,917 in unsupported change orders approved by the Commission's current Executive Director. The Director improperly approved 14 percent of the unsupported change orders cited in this finding.

In regards to the Housing Commission's request that we amend the finding to reflect that the Commission approved the change orders in accordance with the applicable HOPE VI Grant Agreements and its Procurement Policy, the documentation submitted by the Commission provided no basis to do so.

Auditee Comments

The finding reflects only cursory attempts to interview or the conduct of cursory interviews of the Housing Commission's former Executive Directors or principal staff, contractors, City of Detroit officials, HUD, and the Army Corp of Engineers. These parties are essential to a balanced, comprehensive presentation of the historical record. The finding lacks any assessment of or comment on HUD's oversight responsibilities including the extent to which HUD provided technical assistance over the period in question.

There were assessments and audits conducted by HUD and the OIG citing HOPE VI related procurement and program management issues as far back as 1996. It is the Commission's position that the finding should have included an assessment of HUD's actions or inactions in monitoring and assisting the Commission in reference to the assessments and audits.

OIG Evaluation Of Auditee Comments

We interviewed over 160 individuals during the audit of the Housing Commission's HOPE VI Program. The interviews included the Commission's former Executive Directors, Board members, principal management staff, employees, and contractors. We also interviewed officials from the City of Detroit, HUD's staff, and the Army Corp of Engineers. The information obtained through our interviews and documentation we reviewed provides the basis for our conclusions cited in this report.

We agree that prior HUD reviews and OIG audits identified long-standing deficiencies in the Housing Commission's overall administration and the management of the HOPE VI Program. Specifically, OIG audit report #96-CH-201-1809 issued on April 30, 1996 showed that the Commission failed to prepare cost estimates for contract awards. OIG audit report #98-CH-201-1804 issued on December 11, 1997 showed that the Commission failed to execute change orders properly. The 1997 OIG report recommended the Commission follow its September 1997 Procurement Policy and obtain HUD's

approval for all change orders over \$100,000 or 25 percent of the original contract price. However, the Housing Commission's former and current Executive Directors continued to not follow the HOPE VI Grant Agreements and its 1997 Procurement Policy. In fact, the Commission amended its 1999 Procurement Policy to one that was less restrictive than required by the HOPE VI Grant Agreements.

Auditee Comments

The draft finding is factually inaccurate and should be revised to reflect the record regarding the Housing Commission's current administration. The finding inaccurately concludes that the Commission's current administration approved eight change orders in the amount of \$1.6 million. The Commission recommends that the finding be revised to state that the change orders were supported by documentation that included applicable Board resolutions, specifications, costs analysis, and where applicable, HUD approval.

In September 1999, change orders were approved by the Housing Commission's Board of Commissioners and forwarded for HUD's approval. Under the Housing Commission's 1999 Procurement Policy, the Commission was not required to submit two change orders for HUD's prior review as the orders were below 25 percent of base contract price. However, the Commission submitted the change orders for HUD's approval as an October 2, 2000 letter reflects. While taking issue with prior 1996 change orders, HUD approved payment to two contractors. Please note that the Commission did not pay the contractors until receipt of HUD's approval.

With regards to the Villages at Parkside change orders, attached is documentation that discloses the orders represented outstanding contractor claims. The resolution of the change orders by the Commission's current administration facilitated Parkside's HOPE VI efforts and was coordinated with HUD.

OIG Evaluation Of Auditee Comments

The documentation provided with the Housing Commission's comments did not include detailed work specifications to support the unsupported change orders. The Commission's documentation also did not support HUD's approval of the change orders. Therefore, no changes are necessary to this finding.

We agree that the Housing Commission's Board of Commissioners approved the change orders. However, as reported in this finding, the Commission failed to obtain HUD's prior approval as required by the HOPE VI Grant Agreements and the Commission's 1997 Procurement Policy. While the Commission's citation of its September 1999 Procurement Policy is correct, the Policy established a higher threshold than the HOPE VI Grant Agreements. The Policy requires that change orders that exceed the greater of either \$100,000 or 25 percent of the original contract price will be submitted to HUD for prior approval before executing the orders. The 1999 Policy was not approved by HUD and cannot supercede the requirements of the Grant Agreements. The 20 change orders cited in this finding each exceeded \$100,000. Therefore, the Commission was required to obtain HUD's approval on the orders.

Auditee Comments

The Housing Commission supports the following recommendations and instituted standard operating procedures and operational enhancements to improve its ability to manage the procurement and program management aspects of the HOPE VI Program:

- Provide detailed work specifications supporting the work included in the 46 unsupported change orders;
- Conduct a review (using HUD staff or contractors) of the work specifications submitted to determine whether the work specified was included in the original contract. The Commission should reimburse HUD from non-Federal funds for the cost of any change orders that duplicate work in the original contract; and
- Conduct a review (using HUD staff or contractors) to ascertain the reasonableness of the change order costs based upon the specifications provided. The Commission should reimburse HUD from non-Federal funds for any unreasonable costs.

The Housing Commission will also work with HUD to implement any additional Program enhancements deemed necessary.

OIG Evaluation Of
Auditee Comments

HUD needs to assure that the Housing Commission fully implements the recommendation in this report.

Auditee Comments

This finding is factually inaccurate and should be revised that the Housing Commission paid \$568,548 in expenses for the Frankfort Sewer project that the City of Detroit was required to pay. The change orders for the construction work to the Frankfort project were approved between January 1998 and January 1999, prior to the Commission's current administration. Regarding the eligibility of the expenses, the City provided an easement to the Villages at Parkside. Thereafter, any improvements become the responsibility of Parkside.

The Housing Commission disagrees with the following recommendation and will, with HUD, assess the eligibility of the funds:

- Require the City of Detroit to reimburse the Housing Commission \$568,548 for the Frankfort Sewer project construction expenses that were improperly paid. If the City does not reimburse the Housing Commission, then the Commission should reimburse its Villages at Parkside HOPE VI Project \$568,548 from non-Federal funds.

If appropriate, the Housing Commission will reimburse HUD and seek to recover the funds from the City of Detroit.

OIG Evaluation Of
Auditee Comments

Contrary to the HOPE VI Grant Agreement for the Villages at Parkside, HUD's regulation, Office of Management and Budget Circular A-87, and the Cooperation Agreement with the City of Detroit, the Housing Commission used HUD funds to pay for construction costs to the Frankfort Sewer project. The construction costs were not reasonable and necessary expenses of the Housing Commission and should have been paid by the City at no cost to the Commission.

Paragraph 5(b) of the Cooperation Agreement required the City to vacate such streets within the area of the Parkside that may be necessary in the development, and convey without charge to the Commission such interest as the City may have in such vacated area. The Agreement says the City will also cause to be removed from such vacated area all public or private

utility lines and equipment without cost or charges to the Commission. Construction costs for water and sewer services are costs that the local government should provide to the Commission and its residents at no cost. Therefore, the Commission should require the City to reimburse for the expenses related to the Frankfort Sewer project or reimburse its HOPE VI Program from non-Federal funds. The finding shows that the Commission's former Deputy Director/Interim Executive Director approved the Frankfort Sewer project change orders, not the current Executive Director.

Auditee Comments

The Housing Commission disagrees that the Commission improperly paid excessive construction costs, interest expense, and repair costs for contractor damages. The Commission also disagrees with the following recommendation:

- Reimburse its Villages at Parkside HOPE VI Project \$550,980 from non-Federal funds for the improper payment of excessive construction costs, interest expense, and repair costs to correct contractor damages. The Housing Commission should not use HUD funds to pay the \$1,230 in excessive construction costs cited in this finding.

The Commission will, with HUD, conduct a review to determine the appropriateness of reimbursement to HUD. If applicable, the Commission will reimburse HUD and seek to recover from responsible firms any excessive costs.

**OIG Evaluation Of
Auditee Comments**

The Housing Commission provided no basis for its disagreement regarding our conclusions on excessive costs, interest expenses, and contractor damages. Consequently, we have no reason to revise the finding or the recommendation.

Auditee Comments

The Housing Commission requests that the finding be revised to clearly state that the procurement issues regarding the lack of documentation to support the contract awards occurred prior to the Commission's current administration. The Commission disagrees with the following recommendation, in general, and instituted policy enhancements, internal controls, and standard operating procedures to ensure the efficiency and effectiveness of the procurement process:

- Establish controls to ensure that HOPE VI contract awards are conducted in accordance with the: Grant Agreement(s); HUD's regulations; the Annual Contributions Contract; and/or the Commission's Procurement Policy.

OIG Evaluation Of Auditee Comments

We amended the finding to include information on which Housing Commission administration was responsible for the lack of documentation. As indicated in the finding, the Commission's current administration as well as the two former administrations were responsible. The finding also shows that the Commission does not currently have effective controls to ensure compliance with HOPE VI requirements. Thus our recommendation is appropriate.

Recommendation

We recommend that the Director-Senior Advisor of Public Housing Investments, in conjunction with the Michigan State Office Director of Public Housing Hub, assure that the Detroit Housing Commission:

- 4A. Provides detailed work specifications supporting the work included in the 46 unsupported change orders totaling \$12,060,456 identified in this finding. The Housing Commission should reimburse HUD from non-Federal funds for the cost of any change orders it cannot provide sufficient support (see Recommendations 4B and 4C).
- 4B. Conducts a review (using HUD staff or contractors) of the work specifications submitted to determine whether the work specified was included in the original contract. The Housing Commission should reimburse HUD from non-Federal funds for the cost of any change orders that duplicate work in the original contract(s).
- 4C. Conducts a review (using HUD staff or contractors) to ascertain the reasonableness of the change order costs based upon the specifications provided. The Housing Commission should reimburse HUD from non-Federal funds for any unreasonable costs.

- 4D. Conducts a review (using HUD staff or contractors) to determine whether the work specified by the change orders were properly completed. The Housing Commission should seek completion/correction of any work using non-Federal funds.
- 4E. Requires the City of Detroit to reimburse the Housing Commission \$568,548 for the Frankfort Sewer project construction expenses that were improperly paid. If the City does not reimburse the Housing Commission, then the Commission should reimburse its Villages at Parkside HOPE VI Project \$568,548 from non-Federal funds.
- 4F. Reimburses its Villages at Parkside HOPE VI Project \$550,980 from non-Federal funds for the improper payment of excessive construction costs, interest expense, and repair costs to correct contractor damages. The Housing Commission should not use HUD funds to pay the \$1,230 in excessive construction costs cited in this finding.
- 4G. Implements controls to ensure that HUD's prior approval is obtained on change orders in excess of \$100,000 as required by the Jeffries Homes and the Villages at Parkside HOPE VI Grant Agreements.
- 4H. Implements controls to ensure that HOPE VI contract awards are conducted in accordance with: the Grant Agreement(s); HUD's regulations; the Annual Contributions Contract; and/or the Commission's Procurement Policy.

The Commission Lacked Control Over Funds For The Villages At Parkside HOPE VI Project

The Detroit Housing Commission did not maintain sufficient control over HUD funds (HOPE VI and Comprehensive Grant) for the Villages at Parkside HOPE VI Project. The Housing Commission: (1) lacked documentation to show that \$999,128 of HUD funds paid and an additional \$1,269,377 approved for payment benefited the Commission's Parkside HOPE VI Project or were reasonable and necessary expenses; and (2) paid \$5,096 in interest expense from HUD funds and approved for payment another \$8,044 for interest expense that was not reasonable and necessary to the Parkside HOPE VI Project. The Housing Commission's former and current top management and its Board of Commissioners failed to exercise their duties to ensure that controls over disbursements were sufficient. As a result, HUD had no assurance that the Housing Commission paid only reasonable and necessary operating costs.

HOPE VI Grant Agreement

The HOPE VI Implementation Grant Agreement dated February 8, 1995, between HUD and the Detroit Housing Commission, required the Housing Commission to comply with the cost principles of Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. The Grant Agreement also required the Housing Commission to keep records that are sufficient to document the reasonableness and necessity of expenditures.

HUD's Regulations

24 CFR Part 85.20 requires the Housing Commission to maintain accounting records that sufficiently identify the application of funds as well as expenditures. 24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office Of Management And Budget's Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, paragraph C(1)(j) requires that all costs be documented. Attachment B, Section 26, of the Circular says interest expense is not an

allowable cost except for financing provided by a third party used to support Federal awards.

State Of Michigan Law

The Housing Facilities Act (Public Act 18), Michigan Compiled Laws Annotated Section 125.685, requires housing commissions to maintain and keep proper books of record and account in relation to its properties, business, and affairs.

Responsibilities Of Board
Of Commissioners And
Management Staff

Public Housing Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Commission's management staff and employees to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

The responsibility for carrying out the Commissioners' policies and managing the Housing Commission's day-to-day operations rests with the Commission's principal management staff. In particular, the management staff must maintain the Housing Commission's overall compliance with its policies and procedures and Federal, State, and local laws.

Disbursements/Invoices
Reviewed And Schedule
Provided

We reviewed 100 percent of the Housing Commission's disbursements from HUD funds (HOPE VI, Comprehensive Grant, and Development) for the Villages at Parkside HOPE VI Project. We also reviewed the Commission's invoices for the Parkside Project that were not paid as of June 26, 2000. The disbursements occurred between April 9, 1996 and June 26, 2000. We reviewed the disbursements and invoices to determine whether the costs were reasonable and necessary to the Housing Commission's Villages at Parkside HOPE VI Project. The Commission paid \$53,817,577 in HUD funds for the time period reviewed. In addition, the Commission had \$4,267,034 in unpaid invoices as of June 26, 2000.

We determined that the Housing Commission paid and was in the process of paying unsupported and ineligible costs from HUD funds for the Villages at Parkside HOPE VI Project. A schedule was prepared showing the payments and invoices not paid. We provided the schedule of the unsupported and ineligible costs to HUD's Director-Senior Advisor of Public Housing Investments, HUD's Michigan State Office Director of

The Commission Lacked Documentation To Support Payments And Invoices

Public Housing Hub, and the Housing Commission’s Executive Director.

The Detroit Housing Commission used \$999,128 in HUD funds (HOPE VI and Comprehensive Grant) and was in the process of paying another \$1,269,377 in invoices for the Villages at Parkside HOPE VI Project without sufficient supporting documentation.

In order to determine whether the Housing Commission used HUD funds for reasonable and necessary expenses, we reviewed such items as the Commission’s Expenditure Listing Reports, check register, canceled checks, bank statements, contractors’ invoices, and payment reports from HUD’s Line of Credit Control System.

The \$999,128 of unsupported payments represents two percent of the total HUD funds spent as of June 26, 2000. The following table shows the amount of unsupported payments per year.

<i>Year</i>	<i>Unsupported Payments</i>
1996	\$225,900
1997	34,074
1998	188,842
1999	0
2000	<u>550,312</u>
Total	<u>\$999,128</u>

A Commissioner for the Housing Commission’s Board said the Board relied on the former and current principal management staff to ensure funds were used correctly. She said the Board relied on the Commission’s management staff to maintain documentation to support disbursements. The current and former Executive Directors, the former Urban Revitalization Coordinator, and the former General Manager of Management Information Systems/General Manager of Finance were the Commission’s principal management staff over the Villages at Parkside HOPE VI Project. They were responsible for the oversight of the Parkside Project, and were required to ensure that the Commission complied with its policies and procedures and Federal, State, and local laws. However, this was not done.

The following table shows the \$999,128 of unsupported expenses that were paid during the former or current Executive Directors' administration of the Parkside HOPE VI Project.

<i>Administration</i>	<i>Amount Of Unsupported Payments</i>
<i>Former Director</i>	\$412,692
<i>Former Interim Director</i>	36,124
<i>Current Director</i>	550,312

The \$1,269,377 of unsupported, unpaid invoices represents 30 percent of the invoices on hand at June 26, 2000 for the Villages at Parkside HOPE VI Project. The invoices were approved for payment under the administration of the Housing Commission's current Executive Director.

The Commission Paid And Was Invoiced For Interest Expense That Was Not Permitted

The Housing Commission paid \$5,096 from HUD funds on June 3, 1998 for interest expenses related to late payments. The interest expenses were paid during the administration of the Commission's former Deputy Director/Interim Executive Director. The Housing Commission had another \$8,044 worth of interest charges invoiced but not yet paid as of June 26, 2000. The \$8,044 of interest charges was approved for payment under the administration of the Commission's current Executive Director.

The HOPE VI Implementation Grant Agreement and HUD's regulation required the Housing Commission to follow Office of Management Budget Circular A-87. The Circular does not permit the Housing Commission to pay interest expense for late charges.

The Housing Commission's General Manager of Modernization/Development (formerly Urban Revitalization Administrator) said when HUD suspended its funding for the Villages at Parkside HOPE VI Project, the Commission felt obligated to pay contractors and vendors from its operating funds. However, she said there were not sufficient funds to pay all the contractors and vendors. The Housing Commission's contractors and vendors charged interest expense for late payments.

The General Manager of Modernization/Development's comments; however, do not explain the \$5,096 in interest payments made on June 3, 1998. HUD did not suspend the Commission's funding for the Parkside HOPE VI Project until April 1999.

Auditee Comments

[Excerpts paraphrased from the Housing Commission's comments on our draft finding follow. Appendix B, pages 126 to 130, contains the complete text of the comments for this finding.]

The Housing Commission has experienced a transition in its senior management over the past five years, covering the period in question with regard to the finding of unsupported costs. The Commission's current administration was appointed April 5, 1999. With the appointment came operational and financial assessments to determine the state of the Commission and specifically the status of the HOPE VI Program. The assessments described numerous operational and financial management deficiencies causing the Commission's new administration to take corrective action, including the implementation of new procedures.

One of the Housing Commission's most glaring deficiencies noted were problems related to the lack of an effective administrative and financial infrastructure to support the program operations of the Commission. Equally important was the need to recruit qualified and experienced managers to oversee the Commission's programs and operations. Recruitment efforts resulted in several newly appointed General Managers, among them a new General Manager of Finance appointed June 19, 2000.

With the advent of these and other personnel changes, and the Housing Commission's implementation of a new computer system designed to support the Commission's complex transactions, the Commission is beginning to make significant progress to correct the systemic deficiencies discovered 18 months ago. In addition, the Commission's newly established Management Analysis & Planning Division has begun to develop sorely needed policies and procedures, for all divisions, agency-wide. This will ensure that the Commission continues to

strengthen its internal controls and will provide for acceptable financial management practices.

OIG Evaluation Of Auditee Comments

The Housing Commission did not provide any procedures with its comments; therefore, we are unable to evaluate them. The Commission was cited in prior OIG audit reports (96-CH-201-1809 issued April 30, 1996 and 98-CH-201-1804 issued December 11, 1997) for failing to have sufficient procedures over its vendor payments. The Commission agreed to implement procedures and controls to ensure the timely payment of invoices. As cited in this finding, the Commission failed to implement the procedures and controls over its disbursements for the Villages at Parkside HOPE VI Project. The Commission needs to implements procedures and controls to ensure that disbursements from HUD funds for the Parkside HOPE VI Project meet the HOPE VI Grant Agreement, HUD's regulations, Office of Management and Budget Circular A-87, and State of Michigan law.

Auditee Comments

The Housing Commission's current administration reviewed the HOPE VI Grant Agreement, the program management contract between the Detroit Housing Commission Parkside and Capital Needs Unlimited, and 24 CFR Part 85.42 to review the requirements for the administration of the Grant, record keeping, and the program manager's scope of work. While it is clear that Capital Needs Unlimited was permitted to exercise considerable control over the Villages at Parkside HOPE VI Project, the Housing Commission's current administration cannot provide comments or speculate on the decision making process of the Commission's former administration and its contractor, or provide documentation not originally requested when disbursements were made. Upon close assessment and review of the status of Parkside HOPE VI Project, the Housing Commission's newly appointed Executive Director terminated the program management contract shortly after his arrival to the Commission in April 1999.

A significant amount of documents were located in response to requests for documentation from the on-site OIG staff. It should be noted that in spite of the obstacles facing a new administration to locate and recreate transactions incurred by a previous administration, exhaustive efforts were made to comply with all requests for documents. Further, the Housing

Commission addressed a certified letter to the President of Capital Needs Unlimited. The letter requested that the President search his records and provide the Commission with additional documentation. While the President of Capital Needs Unlimited responded, he did not forward any additional documents.

The Housing Commission believes it was successful in locating additional documents regarding disbursements originally alleged to be unsupported or ineligible that should reduce the amount of alleged unsupported payments. As a result of the Commission's search, we respectfully request that the alleged amount of unsupported/ineligible payments documented by the OIG be reduced by \$2,989,663.

OIG Evaluation Of Auditee Comments

The Housing Commission was required by the HOPE VI Grant Agreement, HUD's regulations, Office of Management and Budget Circular A-87, and State of Michigan law to maintain documentation to support the disbursements for the Villages at Parkside HOPE VI Project. While the Commission contracted with Capital Needs Unlimited for the oversight of the Project, the Commission was still required to ensure that disbursements were supported with documentation.

Our draft finding originally cited \$1,705,117 of HUD funds paid and \$1,405,948 invoiced for payment that lacked documentation to support they benefited the Commission's Parkside HOPE VI Project or were reasonable and necessary expenses. Based upon the documentation provided by the Commission, we adjusted the finding to reflect the Commission paid \$999,128 (\$1,705,117 less \$705,989) in unsupported invoices and approved for payment \$1,269,377 (\$1,405,948 less \$136,571) in unsupported invoices. The Commission's search did not support all of the unsupported payments or invoices approved for payment. The Commission's documentation also did not support the ineligible interest payments or interest expenses approved for payment.

The Housing Commission: (1) should provide sufficient documentation to support the unsupported payments cited in this finding; (2) reimburse its Villages at Parkside HOPE VI Project for the ineligible, interest payments cited in this finding; and (3) should not use HUD funds to pay the ineligible, interest

expense or the unsupported invoices cited in this finding unless sufficient documentation is obtained.

Recommendations

We recommend that the Director-Senior Advisor of Public Housing Investments, in conjunction with the Michigan State Office Director of Public Housing Hub, assure that the Detroit Housing Commission:

- 5A. Provides documentation to support the \$999,128 of unsupported payments cited in this finding. If documentation cannot be provided, then the Housing Commission should reimburse the Villages at Parkside HOPE VI Project for the amount that cannot be supported from non-Federal funds.
- 5B. Does not use HUD funds to pay the \$1,269,377 in unsupported invoices cited in this finding unless sufficient documentation is obtained.
- 5C. Reimburses the Villages at Parkside HOPE VI Project \$5,096 from non-Federal funds for the ineligible, interest expense payments cited in this finding.
- 5D. Does not use HUD funds to pay the \$8,044 in ineligible, interest expense cited in this finding.
- 5E. Implements procedures and controls to ensure that disbursements from HUD funds for the Villages at Parkside HOPE VI Project meet the HOPE VI Implementation Grant Agreement, HUD's regulations, Office of Management and Budget Circular A-87, and State of Michigan law.

The Commission Paid \$2,087,827 In Unsupported Costs For The Jeffries Homes HOPE VI Project

The Detroit Housing Commission did not follow the HOPE VI Grant Agreements, HUD's regulations, Office of Management and Budget Circular A-87, and State of Michigan law regarding the use of funds for the Jeffries Homes HOPE VI Project. The Housing Commission lacked documentation to show that \$2,087,827 of HOPE VI funds paid benefited the Jeffries Homes Project or were reasonable and necessary expenses. The Housing Commission's former and current top management and its Board of Commissioners failed to exercise their duties to ensure that controls over payments were sufficient. As a result, HUD had no assurance that the Housing Commission paid only reasonable and necessary operating costs.

HOPE VI Grant Agreements

The HOPE VI Implementation Grant Agreement dated August 12, 1994 and the Demolition Grant Agreement dated October 8, 1996, between HUD and the Detroit Housing Commission, required the Housing Commission to comply with the cost principles of Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. The Grant Agreement also required the Housing Commission to keep records that are sufficient to document the reasonableness and necessity of expenditures.

HUD's Regulations

24 CFR Part 85.20 requires the Housing Commission to maintain accounting records that sufficiently identify the application of funds as well as expenditures. 24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office Of Management And Budget's Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, paragraph C(1)(j) requires that all costs be documented.

State Of Michigan Law

The Housing Facilities Act (Public Act 18), Michigan Compiled Laws Annotated Section 125.685, requires housing

Responsibilities Of Board
Of Commissioners And
Management Staff

commissions to maintain and keep proper books of record and account in relation to its properties, business, and affairs.

Public Housing Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Commission's management staff and employees to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

The responsibility for carrying out the Commissioners' policies and managing the Housing Commission's day-to-day operations rests with the Commission's principal management staff. In particular, the management staff must maintain the Housing Commission's overall compliance with its policies and procedures and Federal, State, and local laws.

Disbursements/Invoices
Reviewed And Schedule
Provided

We reviewed 100 percent of the Housing Commission's disbursements from HOPE VI funds for the Jeffries Homes Project. We also reviewed \$3,281,678 of the \$18,341,430 (18 percent) paid from the Commission's Comprehensive Grant Program funds for the Jeffries Project. The disbursements occurred between May 11, 1995 and April 17, 2000. We reviewed the disbursements to determine whether the costs were reasonable and necessary to the Housing Commission's Jeffries Home HOPE VI Project. The Commission paid \$32,142,303 in HUD funds (HOPE VI and Comprehensive Grant) for the time period reviewed.

We determined that the Housing Commission paid unsupported costs from HOPE VI funds for the Jeffries Homes Project. A schedule was prepared showing the payments. We provided the schedule of unsupported costs to HUD's Director-Senior Advisor of Public Housing Investments, HUD's Michigan State Office Director of Public Housing Hub, and the Housing Commission's Executive Director.

The Commission Lacked
Documentation To Support
Payments

The Detroit Housing Commission used \$2,087,827 in HOPE VI funds for the Jeffries Homes HOPE VI Project without sufficient supporting documentation.

In order to determine whether the Housing Commission used HUD funds for reasonable and necessary expenses, we reviewed such items as the Commission's contractors' invoices, and payment reports from HUD's Line of Credit Control System.

The \$2,087,827 of unsupported payments represents six percent of the total HUD funds (HOPE VI and Comprehensive Grant) spent as of April 17, 2000. The following table shows the amount of unsupported payments per year.

<i>Year</i>	<i>Unsupported Payments</i>
1995	\$ 32,187
1996	224,088
1997	1,051,721
1998	762,796
1999	17,035
2000	0
Total	<u>\$2,087,827</u>

A Commissioner for the Housing Commission's Board said the Board relied on the former and current principal management staff to ensure funds were used correctly. She said the Board relied on the Commission's management staff to maintain documentation to support disbursements. The current and former Executive Directors, the former Urban Revitalization Coordinator, and the former General Manager of Management Information Systems/General Manager of Finance were the Commission's principal management staff over the Jeffries Homes HOPE VI Project. They were responsible for the oversight of the Jeffries Project, and were required to ensure that the Commission complied with its policies and procedures and Federal, State, and local laws. However, this was not done.

The following table shows the \$2,087,827 of unsupported expenses that were paid during the former or current Executive Directors' administration of the Jeffries Homes HOPE VI Project.

Administration	Amount Of Unsupported Payments
Former Director	\$1,307,996
Former Interim Director	762,796
Current Director	17,035

Auditee Comments

[Excerpts paraphrased from the Housing Commission’s comments on our draft finding follow. Appendix B, pages 126 to 130, contains the complete text of the comments for this finding.]

The Housing Commission has experienced a transition in its senior management over the past five years, covering the period in question with regard to the finding of unsupported costs. The Commission’s current administration was appointed April 5, 1999. With the appointment came operational and financial assessments to determine the state of the Commission and specifically the status of the HOPE VI Program. The assessments described numerous operational and financial management deficiencies causing the Commission’s new administration to take corrective action, including the implementation of new procedures.

One of the Housing Commission’s most glaring deficiencies noted were problems related to the lack of an effective administrative and financial infrastructure to support the program operations of the Commission. Equally important was the need to recruit qualified and experienced managers to oversee the Commission’s programs and operations. Recruitment efforts resulted in several newly appointed General Managers, among them a new General Manager of Finance appointed June 19, 2000.

With the advent of these and other personnel changes, and the Housing Commission’s implementation of a new computer system designed to support the Commission’s complex transactions, the Commission is beginning to make significant progress to correct the systemic deficiencies discovered 18 months ago. In addition, the Commission’s newly established Management Analysis & Planning Division has begun to develop sorely needed policies and procedures, for all divisions, agency-wide. This will ensure that the Commission continues to

strengthen its internal controls and will provide for acceptable financial management practices.

OIG Evaluation Of Auditee Comments

The Housing Commission did not provide any procedures with its comments; therefore, we are unable to evaluate them. The Commission was cited in prior OIG audit reports (96-CH-201-1809 issued April 30, 1996 and 98-CH-201-1804 issued December 11, 1997) for failing to have sufficient procedures over its vendor payments. The Commission agreed to implement procedures and controls to ensure the timely payment of invoices. As cited in this finding, the Commission failed to implement the procedures and controls over its disbursements for the Jeffries Homes HOPE VI Project. The Commission needs to implement procedures and controls to ensure that disbursements from HUD funds for the Jeffries HOPE VI Project meet the HOPE VI Grant Agreements, HUD's regulations, Office of Management and Budget Circular A-87, and State of Michigan law.

Auditee Comments

The Housing Commission reviewed all payment documentation presented to HUD to obtain Grant disbursements during the period in question. The Housing Commission does not agree that the Commission used \$2,087,827 in HOPE VI funds for Jeffries Homes HOPE VI Project without sufficient supporting documentation. A significant amount of documents were located in response to requests for documentation from the on-site OIG staff. The documentation spanned a period of five years. In many instances, the OIG on-site staff recognized that documentation was submitted and determined to be insufficient or unsatisfactory. It should be noted that in spite of the obstacles facing the Commission's new administration to locate and recreate transactions incurred by a previous administration, exhaustive efforts were made to comply with all requests for documents.

The Housing Commission's current administration was not in place during the majority of the period in question and; therefore, had no responsibility for the Program or financial management practices and procedures or for the approval of payments identified in the OIG schedule of unsupported costs. The Housing Commission's current administration cannot defend or offer any explanation on behalf of the Commission's

previous administration and its consultants for the alleged deficiencies.

The Housing Commission's current administration believes it was successful in locating additional documentation for \$1,006,398 in disbursements originally alleged to be unsupported that should reduce the amount of alleged unsupported payments. The Commission respectfully requests that the amount of alleged unsupported payments be reduced.

OIG Evaluation Of Auditee Comments

The documentation provided with the Housing Commission's comments to support \$1,006,398 of the \$2,087,827 either was not sufficient (\$124,505) or included invoices (\$881,893) that did not relate to the unsupported payments. The documentation was insufficient because it did not include invoices to support the payment or did not show how the payment related to the Jeffries Homes HOPE VI Project. Therefore, we did not adjust the amount of unsupported payment cited in this finding for Jeffries Homes.

The Housing Commission should submit documentation to support the \$2,087,827 of unsupported payments or reimburse the Jeffries Homes HOPE VI Project for the amount that cannot be supported from non-Federal funds.

Recommendations

We recommend that the Director-Senior Advisor of Public Housing Investments, in conjunction with the Michigan State Office Director of Public Housing Hub, assure that the Detroit Housing Commission:

- 6A. Provides documentation to support the \$2,087,827 of unsupported payments cited in this finding. If documentation cannot be provided, then the Housing Commission should reimburse the Jeffries Homes HOPE VI Project for the amount that cannot be supported from non-Federal funds.
- 6B. Implements procedures and controls to ensure that disbursements from HUD funds for the Jeffries Homes HOPE VI Project meet the HOPE VI Grant Agreements, HUD's regulations, Office of Management and Budget Circular A-87, and State of Michigan law.

Management Controls

In planning and performing our audit, we considered the management controls of the Detroit Housing Commission in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- Program Operations.

The Housing Commission was not operated according to program requirements. Specifically, the Commission used over \$15 million in HUD funds (HOPE VI, Development, and Comprehensive Grant Program) to pay for: construction work that was improperly performed or not provided; construction and professional services that were not supported with detailed work specifications; sewer construction work that the City of Detroit should have provided at no cost to the Commission; and unreasonable and unnecessary expenses, or expenses without documentation to support that they benefited the Commission's Jeffries Home or the Villages at Parkside HOPE VI Projects or were reasonable and necessary expenses (see Findings 1, 2, 3, 4, 5, and 6).

- Compliance with Laws and Regulations.

The Housing Commission did not follow HUD's regulations, Office of Management and Budget Circular A-87, and/or State of Michigan law regarding revitalization/modernization work, construction or professional services, and payment of contractor/vendor invoices (see Findings 2, 3, 4, 5, and 6).

- Safeguarding Resources.

The Housing Commission improperly: used an estimated \$740,790 in HUD funds to pay for construction work that was improperly performed or not provided; paid \$11,245,351 and approved for payment an additional \$815,105 for change orders without sufficient supporting documentation; used \$568,548 in HUD funds to pay for construction expenses for the Frankfort Sewer project that the City should have provided at no cost to the Commission; paid \$550,980 and approved for payment an additional \$1,230 for excessive construction costs, interest expense, and repair costs to correct contractor damages that were not reasonable and necessary expenses of the Commission; used \$999,128 of HUD funds and was invoiced \$1,269,377 for expenses without sufficient documentation to show the expenses benefited the Commission's Parkside HOPE VI Project or were reasonable and necessary expenses; paid \$5,096 in interest

expense from HUD funds and was invoiced another \$8,044 for interest expense that was not reasonable and necessary to the Parkside HOPE VI Project; and used \$2,087,827 for expenses without sufficient supporting documentation to show the expenses benefited the Commission's Jeffries Homes Project or were reasonable and necessary expenses (see Findings 2, 3, 4, 5, and 6).

(THIS PAGE LEFT BLANK INTENTIONALLY)

Follow Up On Prior Audits

This is the first audit by HUD's Office of Inspector General specifically of the Detroit Housing Commission's HOPE VI Program. The Office of Inspector General issued an audit memorandum (#98-CH-201-1804) on December 11, 1997 updating the Detroit Housing Commission's progress on agreements made with HUD. That report did not include the HOPE VI Program. However, it did include issues related to the Housing Commission's use of modernization funds at the Villages at Parkside and Jeffries Homes. The report contained 16 Chapters. The recommendations for the 16 Chapters are all closed except 13B, 14A, and 15A. Conditions cited in three Chapters are repeated in this report:

Audit Memorandum 98-CH-201-1804

This Report

Inspections (Chapter 5).

The Commission Paid For Revitalization Work To The Villages At Parkside That Was Improperly Performed Or Not Provided (Finding 2), and The Commission Paid For Modernization Work To Jeffries Homes That Was Improperly Performed Or Not Provided (Finding 3).

Contract Award Procedures (Chapter 8).

The Housing Commission's Contracting Process Was Not Performed In An Efficient, Effective, And Economical Manner (Finding 4).

Untimely Payments to Vendors (Chapter 11).

The Commission Lacked Control Over Funds For The Villages At Parkside (Finding 5).

The latest single audit report for the City of Detroit, which includes the Detroit Housing Commission, covered the fiscal year ended June 30, 1999. The report contained two findings regarding the Housing Commission. None of the findings related to the Commission's HOPE VI Program.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Schedule Of Questioned Costs

<u>Recommendation</u> <u>Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible</u> <u>1/</u>	<u>Unsupported</u> <u>2/</u>
4A		\$12,060,456
4E	\$568,548	
4F	552,210	
5A		999,128
5B		1,269,377
5C	5,096	
5D	8,044	
6A		<u>2,087,827</u>
Total	<u>\$1,133,898</u>	<u>\$16,416,788</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by sufficient documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Auditee Comments

April 19, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
77 West Jackson Blvd. Room 2646
Chicago, Illinois 60604

**RE: OIG DRAFT FINDING SIX: THE HOUSING COMMISSION'S
ADMINISTRATION OF THE HOPE VI PROGRAM
WAS VERY POOR**

Dear Mr. Wolfe,

We are in receipt of Draft Finding Six and welcome the opportunity to respond to the conclusions and recommendations presenting herein.

With regards to Draft Finding Six, the DHC, in an effort to prepare this response within time frame required, the DHC conducted only a preliminary review of the five (5) Draft Findings and associated documentation identified as supporting of finding. It is important to note your on-site auditor's fieldwork took one year and involved thousands of documents. By way of example, Draft Finding Four's supporting documentation included 18 binders of inspection reports. A comprehensive DHC response would require a review of each document represented as supporting documentation for the Draft Findings. This is particularly true in consideration of the extraordinary recommendations presented herein regarding the management of the HOPE VI program and the imposition of sanctions against DHC Executive Directors.

As set forth in the DHC's responses to the five Draft Findings, the DHC disagrees with the whole of this Draft Audit Report because it lacks due care or balance in its sweeping and misleading generalizations regarding the current administration's ability to manage the HOPE VI process.

This Draft Finding fails to provide a balanced context regarding the circumstances confronting the current administration in April 1999. The DHC's current administration's April, 1999 appointment was amidst public disclosure over lack of progress and cost overruns at two HOPE VI sites estimated at seven million dollars. As you are aware, the DHC's historical files reveal that over \$ 200 millions dollars had been awarded to the Agency over a seven year period and that both HOPE VI sites were experiencing extraordinary construction delays, contractor disputes and performance issues, cost overruns and program administration. Also, prior to April, 1999, the Department of Housing and Urban Development (HUD) accelerated its oversight role through the issuance of several corrective action orders and suspending the DHC's ability to requisition federal funds for the sites. It was against this backdrop that the current administration began to implement operational enhancements and operationalize internal controls necessary for the DHC's HOPE VI Program.

DRAFT FINDING

PAGE TWO

It was also against this backdrop that the current administration sought to liquidate the millions of dollars in outstanding contractor claims and overdue invoices arising from the HOPE VI sites.

This Draft Finding's failure to clarify that virtually all change orders and contracts deficiencies cited resulted from actions or inaction occurred over a seven-year period by prior administrations predating the April 1999 appointment of the current administration.

This Draft Finding's failure, beyond a cursory mention, to analyze the prior administrations' actions or inactions in the management of the many different HOPE VI funded contractors/consultants over the period in question and the impact of those actions or inactions upon HOPE VI program progress.

The DHC embraces the ultimate responsibility to resolve long standing issues by program enhancements and internal controls and take exception to this Draft Finding's failure to acknowledge the progress made by the DHC's current administration over the last two years including:

1. The reorganization of the DHC's development and modernization activities under the Development General Manager in addition to the hiring of experienced housing, construction and finance senior managers.
2. The implementation of policy enhancements in the DHC's procurement, development, and finance operations. Effective April 1999, procurement actions are coordinated through the DHC's procurement division at Parkside and Jeffries. Effective September 1999, the Procurement policy was updated to clarify prior HUD approval with change orders.
3. The development of standard operating procedures for the DHC's procurement, and finance operations. As the draft copy provided to you reflects, the standard operating procedures are specific to the Draft Findings as follows:

Construction Contracts: Administration & Monitoring
Construction Contracts: Progress Payments
Construction Contracts: Time Extensions
Construction Contracts: Construction Logs
Construction Contracts: Warranties
Construction Contracts: Final Inspections
Construction Contracts: Acceptance.

4. The implementation of an extensive training program for DHC's development and finance staff in the areas of HOPE VI program administration and federal procurement regulations. Currently, the DHC Procurement and Development General Managers have met HUD requirements and are qualified to certify DHC procurement actions

**DRAFT FINDING
PAGE THREE**

5. The establishment of an internal auditing function with the Management Analysis and Planning Division.
6. The establishment of monthly reporting process to the DHC Board of Commissioners for all development activity including Parkside

Of note, this Draft Finding reflects only cursory attempts to interview or the conduct of cursory interviews of former DHC Executive Directors or principal staff; contractors; City of Detroit officials; HUD including the Army Corp of Engineers. These parties are essential to a balanced, comprehensive presentation of the historical record. Especially, in light of the extraordinary and ultimate recommendations proposed for the DHC's HOPE VI program. As it is written, the Draft Finding lacks any assessment of or comment upon HUD's oversight responsibilities including the extent to which HUD provided technical assistance over the period in question. As you are aware, there has been assessments and audits conducted by HUD and the OIG citing HOPE VI related procurement and program management issues as far back as 1996. It is the DHC's position that this Draft Finding should have included an assessment of HUD's actions or inactions in monitoring and assisting the DHC in reference to those assessments and audits.

Given the draft recommendation's inflammatory nature and its impact upon the DHC community, this represent a formal request that this Draft recommendation is held in abeyance until your office has an opportunity to fully review the DHC's responses to all Draft Findings. We also request that Findings One through Five be re-released in draft form including the OIG comments to the responses. It is the DHC's contention that once the enclosed responses and supporting documentation are examined critically, the recommendation regarding termination and/or contracting out the HOPE VI program will be rescinded in favor of a cooperative work out plan with HUD and your office.

Lastly, it is the DHC's contention that the current Executive Director has been denied the opportunity to fully confront and respond to the underlying allegations and associated sanctions' recommendation. Accordingly, this represents a formal request for an Executive Director-specific memorandum outlining alleged violations that your office contends give rise to the administrative sanctions' recommendation. Additionally, the DHC requests an explanation as to basis for which your office has proceeded to recommend the same level of administrative sanctions for all Executive Directors without regard to proportionality and due process considerations. Until the clarification is provided, the DHC request that this Draft recommendation is held in abeyance given its inflammatory nature and its impact upon the DHC community. Upon your review of the enclosed and if your office elects not to revise this report, the DHC respectfully requests that the responses, in their entirety, are attached and hereby incorporated in the Final Report. If you have any questions and concerns, please contact me at (313) 877-8639.

Respectfully,

/signed/

John Nelson, Jr.
Executive Director

DRAFT FINDING
PAGE FOUR

**DRAFT FINDING: THE COMMISSION IMPROPERLY ADMINISTERED THE HOPE
VI PROGRAM**

DHC RESPONSE

As set forth in the DHC's responses to the five Draft Findings, the DHC disagrees with the whole of this Draft Audit Report because it lacks due care or balance in its sweeping and misleading generalizations regarding the current administration's ability to manage the HOPE VI program. Also it fails to acknowledge that virtually every Draft Findings arose from actions or inactions that occurred over a seven-year period by prior administrations predating the April 1999 appointment of the current administration.

Given the extraordinary nature of the recommendations associated this Draft Finding, this DHC has requested that the Office of the Inspector General hold the Draft recommendation in abeyance until the OIG's office has had an opportunity to fully review the DHC's responses to all Draft Findings. We also request that Findings One through Five are re-released in draft form including the OIG comments to the responses.

It is the DHC's contention that once the enclosed responses and supporting documentation are examined critically, the recommendation regarding termination and/or contracting out the HOPE VI program will be rescinded in favor of a cooperative work out plan with HUD and your office.

Secondly, regarding, recommendations regarding administrative sanctions against the current and former administration, the DHC has requested a detailed and specific iteration for each Executive Director. This iteration must set forth with specificity the basis for which your office has proceeded to recommend the same level of administrative sanctions for all Executive directors without regard for their due process rights and proportionality.

DRAFT FINDING

Page Five

DRAFT FINDING CHANGE ORDERS FOR SERVICES WERE NOT SUPPORTED WITH DETAILED SPECIFICATIONS**DHC RESPONSE**

Based upon the DHC review, this is factually inaccurate and should be revised to reflect the current administration's record. See Finding Five

DRAFT FINDING: BETWEEN JUNE, 1998 AND MARCH 2001 THE DHC PAID \$568,548 FOR THE EXPENSES OF THE FRANKFORT SEWER PROJECT THAT THE CITY WAS REQUIRED TO PAY**DHC RESPONSE**

The DHC disagrees with this Draft Finding as set forth in Finding Five. This finding is factually inaccurate and should be revised. As your data analysis reflects the subject change orders were approved between January, 1998 and January 1999-- prior to the current administration.

DRAFT FINDING: THE COMMISSION PAID FOR CONSTRUCTION WORK THAT WAS IMPROPERLY PERFORMED OR NOT PROVIDED**DHC RESPONSE**

The DHC disagrees with this Draft Finding and request that it is revised and amended to conform with the DHC responses to Finding Three, Four Five.

DRAFT FINDING: THE COMMISSION USED HUD FUNDS TO PAY UNREASONABLE, NECESSARY AND UNSUPPORTED EXPENSES.

The DHC disagrees with this Draft Finding and request that this Draft Report is revised and amended to conform with the DHC responses to Findings One, Two Three, Four Five

DRAFT FINDING: THE DHC POOR ADMINISTRATION RESULTED IN COST OVERRUNS**DHC RESPONSE**

The DHC disagrees with this Draft Finding for the reasons set forth in this cover memorandum and associated Draft Findings 1-5.

DRAFT FINDING
PAGE SIX

RECOMMENDATIONS

- A. Declare the Detroit Housing Commission in Default of the HOPE VI Grant Agreements.

- B. Take action to place the administration of the DHC's HOPE VI Program under a third party, acceptable to HUD.

- C. Assigns a HUD employee to monitor full time the DHC's HOPE VI program and the third party contractor approved to administer the program

- D. Take appropriate administrative action against the DHC's former and current Executive Directors

DHC RESPONSE

The DHC disagrees with these recommendations and request revisions in consideration of the enclosed responses to the Draft Findings. The DHC recommends in the alternative that HUD, the City of Detroit, and the Detroit Housing Commission develop a HOPE VI Operational Work out Plan incorporating all recommendations contained in Draft Findings One-Five.

April 19, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
77 West Jackson Blvd. Room 2646
Chicago, Illinois 60604

Re: DHC Response to OIG Draft Audit Finding - Performance of Revitalization
Work to the Villages at Parkside

Dear Mr. Wolfe,

We are in receipt of the above mentioned draft finding and the 16 binders of Army Corp of Engineers inspection reports provided as attachment. In an effort to prepare a timely response to this finding, we reviewed in limited detail the voluminous Army Corp inspection report, researched the DHC, and The Villages records (including past inspection reports), and conducted interviews with residents, contractors, and staff directly or indirectly engaged in the implementation of the program in question. It is noteworthy to point out that the Auditors spent over 8 months reviewing the Army Corps reports and drafting the related finding. It follows that preparation of a comprehensive DHC response would require more time than has been granted by the OIG. Following provides DHC's response to the finding.

Draft Audit Finding – “The Commission paid For Modernization Work to the Villages at Parkside That Was Improperly Performed or Not Provided”

The Detroit Housing Commission disagrees that an estimated \$678,969 worth of revitalization work was improperly performed or not provided.

The DHCP, Inc. by and through its development entity, Parkside Development Company (PDC) completed the comprehensive revitalization of (2) two of (4) four planned Villages, as well as, necessary site planning, remediation costs, and 98% of infrastructure for all (4) four Villages utilizing approximately \$53,000,00 in HOPE VI, Development, and Comprehensive Grant Program funds. All of the work noted was substantially completed effective December 31, 1998. The units were leased up by June 1, 1999. The OIG finding is based on the July 2000 Army Corps of Engineers (Corps) inspections performed more than eighteen months after the buildings were completed and a year after being occupied by residents

Page 2, Mr. Heath Wolfe
Response to OIG Draft Audit Finding -
Performance of Revitalization Work to The Villages at Parkside

As a result of the research performed as noted above, the DHC does not dispute the Corp's assessment that the development's building exterior and interior, and landscape are in need of repair. **The cause and cost of several-of the cited deficiencies is however disputed.** Many of the repair items cited by the Corp were not present when the development was turned over to the owners and general operations partner in December 1998 and May 1999. The cost of repairs has been artificially inflated by the Corps method of implementing the repairs. Examples of deficiencies cited by the auditors that are not construction related and were not present when the site was turned over to management are:

- Refrigerators and stoves not working (it is unreasonable to assert that residents have leased the units for over a year without working appliances.)
- Furnaces and/or Air Condition units not working (again, it is unreasonable to assert that residents have leased the units for over a year without heat and air)
- Missing or improperly installed smoke detectors, door lock fixtures not functioning, screens missing and broken, missing door stops, missing light fixtures are all example of repairs necessitated as a result of resident wear and tear.

Additionally, the Corps cost estimates to correct the above noted non-construction as *well* as other legitimate construction related deficiencies is flawed. For each and every repair item cited, the Corp factored in labor and gas associated with travel time as if a labor/tradesman will come out and make only one repair per trip. It is prudent to plan for and more realistic to expect that multiple repairs can and will be made in one trip. Therefore, to have a carpenter come out to the job site and adjust interior closet doors in one unit then return to the office (as is assumed in the Corp estimate) would be a foolish waste of tax payers dollars. Instead, for example, a carpenter would come to the job site and adjust all interior doors, in the 276 units. The Corps report has well over a thousand pages of repairs cited at Parkside. If the report lists 1000 repairs the report also has at least 2000 hours of travel time included in the cost. If the average tradesman's wage is \$40.00 per hour then the Corps report has nearly \$80,000.00 or 10% of the projected repair cost associated with travel and gas to the site and then back to the office for each item requiring repairs. Based on this promise, further reductions in the Corp estimate can be made by eliminating overlapping equipment costs, truck usage.

Page 3, Mr. Heath Wolfe
Response to OIG Draft Audit Finding -
Performance of Revitalization Work to the Villages at Parkside

Further, deficiencies in work items cited by the Army Corp and referenced in the OIG finding were not in the work scope of the contracts administered by the PDC. Examples of these items are carpet, vinyl base, blind, and appliance installation. As well, installation of the underground cabling and terminations inside the units for the cable TV systems was contracted and managed by the operations managing member to The Villages after the developments was turned over for lease up.

There are a number of deficiencies in the work completed during the previous DHC administration that legitimately should have been corrected during the construction phase and/or could have been corrected during the warranty period. In fact, the current DHC administration has already charged and held the responsible contractors liable for correction of many of the deficiencies. In example, repairs to the walls sited in the Corps report as "fire" but specified in the contract documents as "draft stopping" have been made as required at the direction of current DHC administration. Included, as an attachment to this response is a list of construction related deficiencies and associated estimate of repairs. Per this work scope and estimate, **the cost of corrective work is approximately \$250,000 (which represents less than 1% of the total development costs)** and not the \$679,000 (which still represents less than 1.5% of the TDC) quoted in the finding,

The OIG report cites as a deficiency **"Poorly performed pre-acceptance and final inspections by contractors."**

As is noted in the OIG finding oversight of the project was contracted out to a program management (PM) firm. This practice is acceptable to, encouraged by, and oft times required by HUD, the grantor of the funds. When a PM is procured, housing authorities are expected to utilize the services as an extension of staff and a form of staff augmentation. In fact, in the case of the Jeffries project, former HUD grant manager required (in spite of strong objection by current DHC administration) the agency to allow the PM the authority to act on its behalf, and engage HUD in oversight discussion without the prior approval or presence of DHC to the activity. In the case of Parkside, the chosen program manager was highly revered in the public housing industry and was contracted by HUD as an expediter to troubled and older HOPE VI grants around the country. The PM was allowed (by both HUD and the DHC) to act in the capacity of a PM/CM/Developer without any provision of guarantees or assumption of risk. In fact, Parkside was not provided an expediter because of confidence and professional trust in the capacity and expertise of the PM under contract. Given the above noted standard operating procedures for HLJD and HOPE VI, it is not unreasonable to see why the previous DHC administration erroneously allowed the PM control of the project with minimal oversight.

Page 4, Mr. Heath Wolfe
Response to OIG Draft Audit Finding -
Performance of Revitalization Work to the Villages at Parkside

Nevertheless, the operating procedure of the current administration requires regular oversight of the HOPE VI activities by a team of experts inclusive of staff internal to the DHC. A construction management firm has been contracted to provide technical expertise for all DHC modernization and development activities including HOPE VI. The HOPE VI, modernization and development activities have been consolidated under one General Manager (GM - Modernization and Development Division [Mod/Dev] to provide continuity and economy in operating the programs. Developers are procured to provide funding leverage, guarantees, and assume the risk of development. Program managers are contracted to provide technical assistance to the internal staff responsible and accountable for day to day oversight of the revitalization efforts. Internal mod/dev staff capacity includes professional licensed architects, engineers, experienced construction inspectors, degreed construction project coordinators, certified property and maintenance managers and licensed real estate agents. The Executive Director has direct oversight of the HOPE VI activities and regular monthly reporting is provided to the Board of Commissioners. As additional to the aforementioned, the DHC has instituted the following:

1. The reorganization of the DHC's development and modernization activities under the Development General Manager in addition to the hiring of experienced housing, construction and finance senior managers.
2. The implementation of policy enhancements in the DHC's procurement, development, and finance operations. Effective April 1999, procurement actions are coordinated through the DHC's procurement division at Parkside and Jeffries. Effective September 1999, the Procurement policy was updated to clarify prior HUD approval with change orders.
4. The development of standard operating procedures for the DHC's procurement, and finance operations. As the draft copy provided to you reflects, the standard operating procedures are specific to the Draft Findings as follows:

Construction Contracts: Administration & Monitoring
Construction Contracts: Progress Payments
Construction Contracts: Time Extensions
Construction Contracts: Construction Logs
Construction Contracts: Warranties
Construction Contracts: Completion of Work
Construction Contracts: Final Inspection
Construction Contracts: Acceptance

Page 5, Mr. Heath Wolfe
Response to OIG Draft Audit Finding -
Performance of Revitalization Work to The Villages at Parkside

4. The implementation of an intensive training program for DHC's development and finance staff in the areas of HOPE VI program administration and federal procurement regulations. Currently, the DHC Procurement and Development General Managers have met HUD requirements and are deemed qualified to certify DHC procurement actions
5. The establishment of an internal auditing function with the creation a of Management Analysis and Planning (MAP) Division.
6. The establishment of monthly reporting process to the DHC Board of Commissioners for all development activity including the Parkside villages.

The following responses are offered to the recommendations made by the OIG:

OIG Recommendation:

- A. Ensure that revitalization work cited in this finding is completed correctly using non-federal funds.

DHC Response:

- A. The DHC agrees that the work cited must be completed. As discussed above, the DHC has either repaired or will repair all work items. As noted contractors will be held accountable for appropriate deficiencies.

Upon your review of the responses, the DHC requests that this Draft-Finding Four is revised to conform to documentation provided herein. If you chose not to revise this report, the DHC respectfully requests that the DHC's response, in its entirety, is attached and hereby incorporated in the Final Report. If you have any questions and concerns, please contact me at (313) 877-8639

Sincerely,

/signed/

John Nelson, Jr.
Executive Director

Attachments

March 12, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
77 West Jackson Blvd. Room 2646
Chicago, Illinois 60604

**Re: The Detroit Housing Commission's (DHC) Response to OIG Draft Audit Finding -
Performance of Modernization Work to Jeffries Homes**

Dear Mr. Wolfe,

The Detroit Housing Commission (DHC) is in receipt of the subject draft finding and has reviewed the Army Corps (Corps) of Engineers inspection reports provided. In an effort to prepare a response to the subject finding, the DHC researched applicable records including past inspection reports and maintenance logs. Also, informal interviews conducted with affected residents and internal DHC Staff. The following sets forth the DHC's response:

Draft Audit Finding - "The Commission Paid For Modernization Work to Jeffries Homes That Was Improperly Performed Or Not Provided"

The DHC disagrees with the subject finding that modernization work in the amount of sixty two thousand, nine hundred sixty nine dollars (\$62,969) was improperly performed or not provided.

The DHC completed the comprehensive rehabilitation of Jeffries Homes Development (Buildings 404 and 503) located at 3521 John C. Lodge and 1231 Selden, respectively. The referenced rehabilitation was funded through the Comprehensive Grant Program in the amount of approximately \$4,899,375 and completed effective June 1999 and October 1999.

First, the Corp's inspection report and resulting cost projections were based upon an inaccurate unit count (205 vs. 198) and should be adjusted accordingly.

Page 2, Mr. Heath Wolfe
Response to OIG Draft Audit Finding –
Performance of Modernization Work to Jeffries Homes

Further, the Corp's inspections, dated July 2000, were conducted, in one instance, more than a year after the completion of the rehabilitation work and buildings reoccupied.

The DHC contends that several of the work items cited in the inspection report were consistent with normal wear and tear due to re-occupancy and usage of the units; work performed by DHC maintenance staff; latent defects not discovered during final inspection and/or not reported during the warranty period.

Provided below are three examples wherein the Corps inspection report inaccurately cited deficiencies as evidence of the DHC's failure to provide adequate oversight with the subject modernization work at Jeffries Homes:

I. Unit 603 “the kitchen wall was not completely painted in unit 603 at 1231 Selden”

The DHC's review disclosed that the cited work items was due to work in process by DHC maintenance staff and not a result of modernization work nor improper modernization oversight. The existence of the condition is not in dispute and accordingly, the DHC has undertaken necessary repairs. Find at “Attached A” work order report to evidence the repairs already made and/or on the list to be made. It is important to also note that the subject repair item was not cited by the Army Corps of Engineers in their ongoing oversight of this project (quarterly reviews) and conducted the final inspections on behalf of the local HUD office.

II. Unit 206: “the paint on the living room ceiling is peeling in unit 206 at 1231 Selden.”

The Audit finding asserts that the occurrence of improperly performed or not provided modernization work resulted because DHC lacked sufficient controls over the inspection process. As evidence, the finding cites the Army Corp of Engineers inspection that asserts that this deficiency is the same peeling paint identified in the 1999 final inspection performed by the DHC construction administrator. The DHC re-inspection report declared that the contractor satisfactorily completed the work. Although the Corps found that the same condition existed in this unit, it is reasonable and likely that this condition occurred in another area of the ceiling.

Page 3, Mr. Heath Wolfe
Response to OIG Draft Audit Finding –
Performance of Modernization Work to Jeffries Homes

III. Building 404: “exposed electrical wiring for an exterior security light as not properly installed for the building at 3521 John C. Lodge.”

While the DHC does not dispute the existence of the condition, the draft finding inaccurately attributes the work to contractor under the modernization supervision. The DHC maintenance staff installed the temporary electrical wiring for lighting necessary for on-site demolition.

In summary, the DHC has experienced a transition in its senior management over the past five years, covering the period in question with regards to the renovations at Jeffries Homes. The current administration was appointed April 5, 1999 and commissioned operational and financial assessments as to the state of the DHC’s HOPE VI Program. To this end, the DHC have enhanced staff capacity and put in place proper controls through Standard Operating Procedures (SOPs) that govern the Modernization/Development Division. Find at “Attachment B” the Standard Operating Procedures.

The following responses are offered to the recommendations made by the OIG:

OIG Recommendations:

- A. Ensure modernization work cited in this finding is completed correctly using non-federal funds.
- B. Establish sufficient controls over inspections.

DHC Response:

The DHC agrees that the work cited must be corrected. However, we strongly disagree that the deficiencies are the result of improper modernization oversight. As stated in the text of this response, deficiencies found by the Corp are the result of normal resident wear and tear, maintenance repairs, and latent defects attributable to the method of construction, which are not structural in nature. As noted the Army Corp provided regular quarterly and final inspections on behalf of the local HUD office.

Page 4, Mr. Heath Wolfe
Response to OIG Draft Audit Finding –
Performance of Modernization Work to Jeffries Homes

The DHC agree that policies and procedures in effect during the Jeffries Homes rehabilitation work could have been strengthened. The DHC disagrees that the controls were so deficient as to warrant audit findings

We do recognize that proper controls are critical to the future success of the DHC's Hope VI Program as well as any and all other Agency programs. Attachment A" to this response provides evidence that the DHC has either repaired or is scheduled to repair all noted repairs. Attachment B reflects Standard Operating Procedures that have been drafted to provide guidance in program administration and monitoring for the Modernization/ Development Division

If you have any questions, please contact me at 313-877-8639, should you have questions.

Sincerely,

/signed/

John Nelson, Jr., Executive Director
Detroit Housing Commission

Attachments

April 19, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
77 West Jackson Blvd. Room 2646
Chicago, Illinois 60604

**RE: OIG DRAFT FINDING FIVE: THE HOUSING COMMISSION'S CONTRACTING
PROCESS WAS NOT PERFORMED IN AN
EFFICIENT, EFFECTIVE AND ECONOMICAL
MANNER**

Dear Mr. Wolfe:

We are in receipt of Draft Finding Five and welcome the opportunity to respond to the conclusions and recommendations presenting herein.

In an effort to prepare this response within the time frame required, the DHC could conduct only a preliminary review of documentation cited by this Draft Finding as supportive. It is important to note that your on-site auditors and inspectors conducted fieldwork over the course of one (1) year. A comprehensive DHC response would also require a review of each document cited in this Draft Finding, however time did not allow for that level of review. This is particularly true given the extraordinary recommendations presented herein regarding the management of the HOPE VI program and the imposition of sanctions against DHC Executive Directors.

As a general matter, this Draft Finding chronicles the DHC's HOPE VI program over a seven year period, four Executive Directors and confirms the program facts as the current administration, the Department of Housing and Urban Development (HUD) and the public knew them as of April, 1999. As written, however, this Draft Finding fails to distinguish between actions and inaction attributable to the current and prior administrations and is therefore, misleading and unbalanced. This Draft Finding is unbalanced and misleading in that it fails to acknowledge the baseline environment confronting the current administration nor does it acknowledge the progress made by the DHC's current administration with aggressive HUD oversight over the last two (2) years.

DRAFT FINDING FIVE**PAGE TWO**

As background, the DHC's current administration's April, 1999 appointment was amidst public disclosure over lack of progress and cost overruns at two HOPE VI sites estimated at seven million dollars. As you are aware, over \$ 200 millions dollars had been awarded to the DHC over a seven year period and both HOPE VI sites were experiencing extraordinary construction delays, contractor disputes, cost overruns and program administration issues. Also, prior to April, 1999, HUD accelerated its oversight role through the issuance of several corrective action orders and suspending the DHC's ability to requisition funds for the subject HOPE VI sites. It was against this backdrop that the current administration began to implement operational enhancements and operationalize internal controls necessary for the DHC's HOPE VI Program. It was also against this backdrop that the current administration sought to liquidate the millions of dollars in outstanding contractor claims and overdue invoices arising from the HOPE VI sites.

Regarding Draft Finding Five, as written, the DHC is forced to strongly disagree with its conclusions for the following reasons:

This Draft Finding fails to adequately distinguish between actions and inaction attributable to past and current DHC administrations is misleading and gives rise to unbalanced characterizations. This Draft Finding inaccurately concludes that the current administration approved change orders in the amount of 1.6 million or 11% of the 12 million dollars cited. With the documentation provided, we request that this Draft Finding be revised to reflect that the DHC approved the subject change orders in accordance with the applicable HOPE VI Grant Agreements and its procurement policy.

This Draft Finding fails to clarify that virtually all change orders and contracts deficiencies cited resulted from actions or inaction occurred over a seven-year period by prior administrations predating the April 1999 appointment of the current administration.

This Draft Finding fails, beyond a cursory mention, to analyze the prior administrations' management of the many different HOPE VI funded contractors/consultants over the period in question and the impact of those actions or inactions upon HOPE VI program progress.

The DHC admits that it had the ultimate responsibility for resolving the long standing issues found with the DHC's HOPE VI program in 1999. However, the DHC takes exception to this Draft Finding's failure to acknowledge the progress made over the last two years including:

1. The reorganization of the DHC's development and modernization activities under the Development General Manager in addition to the hiring of experienced housing, construction and finance senior managers.
2. The implementation of policy enhancements in the DHC's procurement, development, and finance operations. Effective April, 1999, procurement actions are coordinated through the DHC's procurement division at Parkside and Jeffries. Effective September 1999, the Procurement policy was updated to clarify prior HUD approval with change orders.

DRAFT FINDING FIVE

PAGE THREE

3. The development of standard operating procedures for the DHC's procurement, and finance operations. As the draft copy provided to you reflects, the standard operating procedures are specific to the Draft Findings as follows:

Construction Contracts: Administration & Monitoring

Construction Contracts: Progress Payments

Construction Contracts: Time Extensions

Construction Contracts: Construction Logs

Construction Contracts: Warranties

Construction Contracts: Completion of Work

Construction Contracts: Final Inspection

Construction Contracts: Acceptance

4. The implementation of an intensive training program for DHC's development and finance staff in the areas of HOPE VI program administration and federal procurement regulations. Currently, the DHC Procurement and Development General Managers have met HUD requirements and are deemed qualified to certify DHC procurement actions
5. The establishment of an internal auditing function with the creation a of Management Analysis and Planning (MAP) Division.
6. The establishment of monthly reporting process to the DHC Board of Commissioners for all development activity including the Parkside villages.

Of note, this Draft Finding reflects only cursory attempts to interview or the conduct of cursory interviews of former DHC Executive Directors or principal staff; contractors; City of Detroit officials; HUD including the Army Corp of Engineers. These parties are essential to a balanced, comprehensive presentation of the historical record. Especially, in light of the extraordinary and ultimate recommendations proposed for the DHC's HOPE VI program. As it is written, the Draft Finding lacks any assessment of or comment upon HUD's oversight responsibilities including the extent to which HUD provided technical assistance over the period in question. As you are aware, there has been well documented assessments and audits conducted by HUD (Washington & State Office) and the OIG citing HOPE VI related procurement and program management issues as far back as 1996. It is the DHC's position that this Draft Finding should have included an assessment of HUD's actions or inactions in monitoring and assisting the DHC in reference to those assessments and audits.

**DRAFT FINDING
PAGE FOUR**

Upon your review of the responses, the DHC requests that this Draft-Finding Five is revised to conform to documentation provided herein and revised to reflect the current administration's progress with the HOPE VI program. If you chose not to revise this report, the DHC respectfully requests that the DHC's response, in its entirety, is attached and hereby incorporated in the Final Report.

If you have any questions and concerns, please contact me at (313) 877-8639

Respectfully,

/signed/

John Nelson, Jr.
Executive Director

DRAFT FINDING
PAGE FIVE

DRAFT FINDING: THE COMMISSION LACKED SUFFICIENT DOCUMENTATION TO SUPPORT OVER \$12 MILLION IN CHANGE ORDERS.

DHC RESPONSE

Based upon our review of the record, this Draft finding is factually inaccurate and should be revised to reflect the current administration's factual record. This Draft Finding inaccurately concludes that the current administration approved (8) eight change orders in the amount of 1.6 million or 11% of the 12 million dollars cited. We recommend that it be revised to state that the change orders attributed to the current administration were supported by documentation that include applicable Board Resolutions, specifications, costs analysis and where, applicable, HUD approval. The supporting documentation is enclosed under Attachment One.

The Draft Finding fails to state that two of the cited change orders represent 70% of the change order dollars cited as approved by the current administration. As you were advised, the scope of work for the two Jeffries' change orders was the extension of general conditions for the site after a 1996 construction halt.

In September 1999, the subject change orders were approved by the DHC Board of Commissioners and forwarded for HUD's approval. Please note that under the DHC's s revised policy, the agency was not required to submit the two change orders for HUD's prior review as they are both below the 25% of base contract price. However, the DHC submitted the change orders for HUD's approval as the enclosed October 2, 2000 letter reflects. While taking issue with prior 1996 change orders, HUD approved payment to the two contractors. Please note that the DHC did not pay the subject contractors until receipt of this approval communication from HUD. See supporting documentation provided under Attachment One

With regards to the Parkside change orders, the Attachment One documentation discloses that they represented outstanding contractor claims, some as long standing as mid-1998. The current administration's resolution of the subject change orders facilitated Parkside's HOPE VI efforts and, as the enclosed documentation reflects, was coordinated with HUD (See May 2, 2000 HUD letter). For your reconsideration, The DHC has enclosed supporting documentation for each of the change orders and recommends that this Draft Finding be revised.

RECOMMENDATIONS

Provide detailed work specifications supporting the work included in the 46 unsupported change orders identified in this finding.

Conducts a review (using HUD staff or contractors) of the work specifications submitted to determine whether the work specified was included in the original contract.

The Housing Commission should reimburse HUD from non-Federal funds for the cost of any change orders that duplicate work in the original contract.

DRAFT FINDING
PAGE SIX

RECOMMENDATIONS – Cont'd

Conduct a review (using HUD staff or contractors) to ascertain the reasonableness of the change order costs based upon the specifications provided. The Housing Commission should reimburse HUD from non-Federal funds for any unreasonable costs.

DHC RESPONSE

The DHC supports the recommendations presented and have instituted standard operating procedures and operational enhancement to improve our ability to manage the procurement and program management aspects of the HOPE VI program and will work with HUD to implement any additional program enhancements deemed necessary.

DRAFT FINDING: THE COMMISSION LACKED DETAILED WORK SPECIFICATIONS IDENTIFYING THE CONSTRUCTION OR PROFESSIONAL SERVICES PROVIDED FOR 46 CHANGE ORDERS.

DHC RESPONSE:

The DHC disagrees with this Draft Finding and request that it is revised to reflect that change orders approved and paid since April 1999 included detailed work specifications.

RECOMMENDATION

Provides detailed work specifications supporting the work included in the 46 unsupported change orders identified in this finding.

DHC RESPONSE

With the exception as noted above, the DHC is in general agreement with this recommendation and has begun the process of reviewing all change orders and related work specifications.

DRAFT FINDING
PAGE SEVEN

DRAFT FINDING: UNSUPPORTED CHANGE ORDERS FOR CONSTRUCTION SERVICES WERE ALSO APPROVED BY THREE OF THE COMMISSION'S ARCHITECTURAL FIRMS.

DHC RESPONSE

The DHC disagrees with this Draft Finding in that the change orders executed under the current administration include supporting documentation provided in Attachment One. All three (3) A/E firms contracts have expired and the DHC has contracted with a new firm. The DHC has continued to improve its construction and professional services contracting process and has established standard operating procedures and internal controls to monitor performance.

RECOMMENDATION

Conduct a review (using HUD staff or contractors) to ascertain the reasonableness of the change order costs based upon the specifications provided. The Housing Commission should reimburse HUD from non- Federal funds for any unreasonable costs.

DHC RESPONSE

The DHC agrees with the intent of the recommendation and will, with HUD, conduct a reasonableness review. If appropriate, the DHC will reimburse HUD and seek to recover from responsible firms any unreasonable costs.

DRAFT FINDING: BETWEEN JUNE, 1998 AND MARCH 2001 THE DHC PAID \$568,548 FOR THE EXPENSES OF THE FRANKFORT SEWER PROJECT THAT THE CITY WAS REQUIRED TO PAY

DHC RESPONSE

This finding is factually inaccurate and should be revised. As your data analysis reflects, the subject change orders were approved between January, 1998 and January 1999-- prior to the current administration.

Regarding the eligibility of the expenses, you have been advised that the City of Detroit transferred the applicable easement to Parkside Villages. Thereafter, any improvements made become the responsibility of Parkside Villages.

RECOMMENDATION

Reimburse its Villages at Parkside HOPE VI Project \$550,980 from non- Federal funds for the improper payment of excessive construction costs, interest expense, and costs to correct contractor damages. Housing Commission should not use HUD funds to pay the \$1,230 in excessive construction costs cited in this finding.

DRAFT FINDING
PAGE EIGHT

DHC RESPONSE

The DHC disagrees with this recommendation and will, with HUD, assess the eligibility of the subject funds. If appropriate, the DHC will reimburse HUD and seek to recover the subject funds from the City of Detroit.

DRAFT FINDING: THE COMMISSION IMPROPERLY PAID EXCESSIVE CONSTRUCTION COSTS, INTEREST EXPENSES AND REPAIR COSTS FOR CONTRACTOR DAMAGES.

DHC RESPONSE

The DHC disagrees with the conclusion reached with regards to change orders after April 1999 and request that this Draft Finding be revised to reflect documentation provided in Draft Findings One -Five.

RECOMMENDATION

The Housing Commission should reimburse HUD from non-Federal funds for the cost of any change orders that duplicate work in the original contract.

DHC RESPONSE

The DHC disagrees with this recommendation and will, with HUD, conduct a review to determine the appropriateness of reimbursement to HUD. If applicable, the DHC will reimburse HUD and seek to recover from responsible firms any excessive costs.

DRAFT FINDING
PAGE NINE

DRAFT FINDING: THE HOUSING COMMISSION APPROVED CHANGE ORDERS WITHOUT HUD APPROVAL

DHC RESPONSE

The DHC disagrees with the Draft Finding that the current administration approved two change orders without prior HUD approval.

Payment under both change orders contracts in questions were approved by HUD and in accordance with the DHC Procurement policy that provide for HUD's prior approval for modifications to a contract that exceed the greater **of either: \$100,000 or twenty five (25%) of the original contract ...** DHC Procurement Policy, Section E page 20

Under this revised policy, the DHC was not required to submit the two change orders for HUD review as they are both below the 25% of base contract price provision of DHC's Procurement policy. However, the two change orders were submitted and payment approved by HUD. See supporting documentation provided under Attachment One

RECOMMENDATIONS

Establishes controls to ensure that HUDS prior approval is obtained on change orders of either \$100,000 or 25 percent of the original contract amount as required by the Jeffries Homes and the Villages at Parkside HOPE VI Grant Agreements and the Commission's Procurement Policy

DHC RESPONSE

The DHC disagrees with this recommendation, in general, and have instituted policy enhancements, internal controls and standard operating procedures to ensure the efficiency and effectiveness of the procurement process

DRAFT FINDING

PAGE TEN

DRAFT FINDING: THE COMMISSION LACKED DOCUMENTATION TO SUPPORT ITS CONTRACT AWARDS. CONTRACTING PROBLEMS EXISTED BECAUSE THE DHC LACKED CONTROLS OVER THE PROGRAM

DHC RESPONSE

The DHC requests that this Finding is revised to clearly state that the procurement issues cited occurred prior to the current administration and to acknowledge progress made by the current administration as set forth above.

RECOMMENDATIONS

Establishes controls to ensure that HOPE VI contract awards are conducted in accordance with the Grant Agreement(s); HUD's regulations; the Annual Contributions Contract, and/or the Commission's Procurement Policy.

DHC RESPONSE

The DHC disagrees with this recommendation, in general, and have instituted policy enhancements, internal controls and standard operating procedures to ensure the efficiency and effectiveness of the procurement process

March 12, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
77 West Jackson Blvd. Room 2646
Chicago, Illinois 60604

**Re: DHC Response to OIG Draft Finding - Jeffries Homes HOPE VI Project -
Unsupported Costs**

Villages of Parkside HOPE VI Project - The Commission Lacked Control Over Funds

Dear Mr. Wolfe,

We are in receipt of the above-mentioned draft finding and have reviewed the detail schedule of unsupported cost provided. In an effort to prepare this response, the DHC conducted a thorough search of its books and records including a review of the primary documentation originally provided to your on-site auditors.

Background

The DHC has experienced a transition in its senior management over the past five years, covering the period in question with regard to your finding of unsupported costs (May 11, 1995 to April 17, 2000). The current administration was appointed April 5, 1999. With the advent of this appointment, operational and financial assessments were commissioned to determine the state of the agency and specifically the status of the HOPE VI program. These assessments described numerous operational and financial management deficiencies causing the new administration to take corrective action, including the implementation of new procedures. One of the most glaring deficiencies noted were problems related to the lack of an effective administrative and financial infrastructure to support the program operations of the housing commission. Equally important was the need to recruit qualified and experienced managers to oversee the

Page 2, Mr. Heath Wolfe
Response to OIG Draft Audit Finding:
Jeffries Unsupported Costs & Parkside Lacked Control Over Funds

commission's programs and operations. Recruitment efforts have resulted in several newly appointed General Managers, among them a new General Manager of Finance, appointed June 19, 2000.

With the advent of these and other personnel changes and the current implementation of a new computer system designed to support the complex transactions of the commission, we are beginning to make significant progress and to correct the inherent systemic deficiencies discovered eighteen months ago. In addition, our newly established Management Analysis & Planning (MAP) division has begun to develop sorely needed policies and procedures, for all divisions, agency-wide. This management improvement will ensure that the commission continues to strengthen its internal controls and will provide the underpinnings for acceptable financial management practices.

**Draft Audit Finding – “The Commission Lacked Documentation to Support Payments” –
Jeffries Homes HOPE VI Project**

The DHC reviewed all payment documentation presented to HUD to obtain grant disbursements during the period in question. **The DHC does not agree that the DHC used \$2,087,827 in HOPE VI funds for Jeffries Homes HOPE VI project without sufficient supporting documentation for each payment cited related to the amount alleged as unsupported.** A significant amount of documents were located in response to requests for documentation from on-site OIG staff. The documentation requested spanned a period of five years. In many instances, as noted in the OIG schedule of unsupported costs, the on-site staff recognizes that documentation was submitted and determined to be insufficient or unsatisfactory. It should be noted that in spite of the obstacles facing a new administration to locate and recreate transactions incurred by a previous administration, exhaustive efforts were made to comply with all requests for documents.

The current administration was not in place during the majority of the period in question and therefore, had no responsibility for the program or financial management practices and procedures or for the approval of payments identified in the OIG schedule of unsupported costs. We therefore cannot defend or offer any explanation on behalf of the previous DHC administration and its consultants for the alleged deficiencies.

Results of the DHC search:

We believe we have been successful in locating additional documentation regarding disbursements originally alleged unsupported that should reduce the amount of alleged unsupported payments.

The following schedule represents a description of the results of our search and the additional documents are attached for your review and consideration:

Schedule of Additional Documentation

Date	Payee	Description	Amount	Notes
5/11/95	DHC labor distribution	Payroll Expense	\$25,459.48	Located invoices
7/15/95	TTR/Jeffries	Travel to HOPE VI Conference	\$6,727.53	Located Invoices & Other related docs
12/6/96	TTR/Jeffries	URD Program Coordinator	\$170,648.00	Located invoices; & Letter dated 8/19/96 from TTR/Jeffries
4/12/97	Commercial Flooring	Carpet	\$ 4,034.00	Located invoice
6/10/97	Board of Water Commissions	Service disconnection Fee	\$27,829.66	Located invoices
9/16/97	TTR/Jeffries URD Team	Disallowed expenses	\$60,454.42	Located Invoices
6/6/98	Quality Storage	Relocation Expense	\$4,590.00	Located invoices
6/12/98	Diamond Dismantling, Inv. 04, contract #1705	Demolition	\$127,434.70	Located invoices
6/12/98	DeMaria Building Co., Inv. 38 Contract # 74657	Underground Demolition	\$543,357.97	Located invoices
6/12/98	DeMaria Building Co., Inv. 35, Contract #74657	Steamline Modifications	\$35,862.59	Located invoices
	<i>Total amount of additional invoices</i>		<i>\$1,006,398.35</i>	

The DHC does respectfully request that the amount of alleged unsupported payments represented in the original schedule provided as an attachment to the draft finding be reduced by the amount represented in the above schedule as indicated below:

OIG Schedule of alleged unsupported payments	\$2,087,826.59
Less: additional documentation	<u>\$1,006,398.35</u>
Remaining Balance	<u>\$1,081,428.24</u>

Page 4, Mr. Heath Wolfe
Response to OIG Draft Audit Finding:
Jeffries Unsupported Costs & Parkside Lacked Control Over Funds

Draft Audit Finding –“The Commission Lacked Control Over the Funds”
The Villages of Parkside HOPE VI Project

The current administration reviewed the HOPE VI grant agreement, Program Management contract between the DHCP and the CNU and 24 CFR part 85.42 to review the requirements for the administration of the grant, record keeping and the program manager’s scope of work. While it is clear that the HOPE VI Program Manager, Capital Needs Unlimited (CNU), was permitted to exercise considerable control over the project, this administration cannot provide comments or speculate on the decision making process of the previous DHC administration and its contractor or provide documentation, not originally requested when disbursements were made. Upon close assessment and review of the status of Parkside HOPE VI project, the newly appointed Executive Director terminated the program management contract shortly after his arrival to the DHC in April 1999.

A significant amount of documents were located in response to requests for documentation from on-site OIG staff. It should be noted that in spite of the obstacles facing a new administration to locate and recreate transactions incurred by a previous administration, exhaustive efforts were made to comply with all requests for documents. Further, the DHC addressed a certified letter to Mr. Tom Nutt Powell of CNU. The letter requested that he search his records and provide the DHC with additional documentation on behalf of the audit process. While he responded, he did not forward any additional documents toward this effort. The DHC letter and his response are included as attachments for your review.

Results of the DHC search:

We believe we have been successful in locating additional documents regarding disbursements originally alleged unsupported or ineligible that should reduce the amount of alleged unsupported payments. A separate detailed schedule is included as an attachment along with the additional documents.

As a result of our search, we respectfully request that the alleged amount of unsupported/ineligible payments documented by the OIG be reduced by \$2,989,663.

Page 5, Mr. Heath Wolfe
Response to OIG Draft Audit Finding:
Jeffries Unsupported Costs & Parkside Lacked Control Over Funds

I am available to discuss this response with you or your representatives and may be reached at 313-877-8639.

Sincerely,

/signed/

John Nelson, Jr., Executive Director
City of Detroit Housing Commission

Inspectors' Cost Estimates

<i>Villages at Parkside Units/Buildings/Landscaping Inspected</i>	<i>Cost To Repair Improper Revitalization Work</i>
5029 Stringham Court	\$2,480
12711 Stringham Court	2,400
12707 Stringham Court	2,310
12823 Rudolph Circle	2,170
12713 Stringham Court	2,150
12714 Ailey Court	2,000
12647 McCoy Circle	1,990
12202 Stringham Court.	1,960
12539 McCoy Circle	1,900
5018 Anderdon	1,840
12640 Woodson Court	1,810
12541 McCoy Circle	1,740
12818 Frankfort	1,730
12212 Stringham Court	1,690
5065 Stringham Court	1,680
12323 Drew Court	1,640
12666 Woodson Court	1,640
12644 Woodson Court	1,590
12305 Stringham Court	1,580
12209 Stringham Court	1,570
12413 Matzelliger Court	1,570
12624 Gillespie Court	1,570
12804 Frankfort	1,570
12815 Rudolph Circle	1,560
12252 Frankfort Court	1,550
12431 Matzelliger Court	1,510
12705 Stringham Court	1,510
12377 Drew Court	1,500
5026 Anderdon	1,460
5013 Gray	1,430
12810 Frankfort	1,420
12421 Matzelliger Court	1,400
12646 Woodson Court	1,380
12760 Ailey Court	1,340
12629 McCoy Circle	1,300
12122 Stringham Court	1,290
12130 Frankfort Court	1,260
12383 Drew Court	1,250
12385 Drew Court	1,250
12502 Stringham Court	1,250
12242 Frankfort Court	1,240
12353 Drew Court	1,230
12654 Woodson Court	1,200

12254 Frankfort Ct	1,190
12658 Woodson Court	1,180
12356 Drew Court	1,170
12419 Matzelliger Court	1,170
5030 Anderdon	1,100
12210 Stringham Court	1,080
12809 Stringham Court	1,080
12631 McCoy Circle	1,070
12602 Stringham Court	1,030
12343 Drew Court	1,020
12553 McCoy Circle	980
12240 Frankfort Court	970
5009 Anderson	970
12510 Stringham Court	960
12200 Stringham Court	950
12757 Rudolph Circle	910
12064 Stringham Court	900
12318 Banneker Court	900
12743 Stringham Court	900
12368 Drew Court	800
12635 McCoy Circle	680
12066 Stringham Court	380
12637 McCoy Circle	380
Building 206	21,830
Building 706	12,450
Building 812	10,940
Building 310	8,490
Building 304	7,420
Building 211	7,350
Building 804	7,290
Building 210	6,210
Building 208	5,970
Building 303	5,780
Building 705	5,610
Building 704	5,490
Building 801	5,270
Building 805	5,080
Building 808	4,640
Building 308	4,560
Building 204	4,540
Building 309	4,460
Building 207	4,350
Building 305	4,310
Building 503	4,280
Building 306	4,210
Building 501	4,200
Building 104	4,160

Building 807	4,140
Building 806	4,060
Building 105	4,020
Building 307	4,000
Building 301	3,990
Building 803	3,680
Building 813	3,660
Building 302	3,430
Building 811	3,360
Building 802	3,330
Building 702	3,150
Building 810	2,400
Building 814	2,190
Building 205	2,140
Building 209	1,930
Community Building II	980
Building 701	970
Community Building IV	800
Building 809	620
Landscaping	<u>83,840</u>
Total	<u>\$387,260</u>

(THIS PAGE LEFT BLANK INTENTIONALLY)

Distribution

Acting Secretary's Representative, Midwest (2)
 Senior Community Builder/State Coordinator, Michigan State Office
 Director of Public Housing Hub, Michigan State Office (2)
 Director-Senior Advisor of Public Housing Investments, PI (2)
 Secretary, S (Room 10000)
 Chief of Staff, S (Room 10000)
 Acting Assistant Secretary for Administration, A (Room 10110)
 Deputy Assistant Secretary for Administrative Services, Office of the Executive
 Secretariat, AX (Room 10139)
 Acting Assistant Secretary for Congressional and Intergovernmental Relations, J (Room
 10120)
 Director of Departmental Equal Employment Opportunity, U (Room 2112)
 Senior Advisor to the Secretary, Office of Public Affairs, W (Room 10132)
 Deputy Chief of Staff for Policy and Program, S (Room 10226)
 Deputy Chief of Staff for Intergovernmental Affairs, S (Room 10226)
 Deputy Assistant Secretary of Public Affairs, W (Room 10222)
 Special Assistant for Inter-Faith Community Outreach, S (Room 10222)
 Executive Officer for Administrative Operations and Management, S (Room 10220)
 General Counsel, C (Room 10214)
 Deputy General Counsel for Housing, Finance, and Operations, CA (Room 10240)
 Assistant General Counsel, Midwest
 Assistant Secretary for Housing-Federal Housing Commissioner, H (Room 9100)
 General Deputy Assistant Secretary for Housing-Deputy Federal Housing Commissioner, H
 (Room 9100)
 Assistant Secretary for Policy Development and Research, R (Room 8100)
 Assistant Secretary for Community Planning and Development, D (Room 7100)
 Executive Vice President of Government National Mortgage Association, T (Room 6100)
 Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)
 Chief Procurement Officer, N (Room 5184)
 Acting Assistant Secretary for Public and Indian Housing, P (Room 4100)
 General Deputy Assistant Secretary for Public and Indian Housing, P (Room 4100)
 Deputy Assistant CFO for Financial Management, FM (Room 2206)
 Acting Deputy Assistant Secretary for Public Housing Investments (Room 4138)
 Deputy Assistant Secretary for Administration and Budget/CFO, PC (Room 4234)
 Audit Liaison Officer for Public and Indian Housing, PF (Room 5156)
 Chief Information Officer, Q (Room 8206)
 Director of Departmental Operations and Coordination, I (Room 2124)
 Acting Chief Financial Officer, F (Room 2202)
 Deputy Chief Financial Officer, F (Room 2202)
 Director of Audit Coordination/Departmental Audit Liaison Officer, FMA (Room 2206)
 Director of Risk Management, FMR (Room 2214)

CFO Audit Liaison Officer, FMA (Room 2206)
Audit Liaison Officer, 3AFI (2)
Acting Director of Enforcement Center, V (200 Portals Building)
Acting Director of Real Estate Assessment Center, X (1280 Maryland Avenue, SW,
Suite 800)
Director of Multifamily Assistance Restructuring, Y (4000 Portals Building)
Acting Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)
Acquisitions Librarian, Library, AS (Room 8141)
Director, Office of Federal Housing Enterprise Oversight, 1700 G Street, NW Room 4011,
Washington, DC 20552
Staff Director, Subcommittee on Criminal Justice, Drug Policy & Human
Resources, B 373 Rayburn House Office Building, Washington DC 20515
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340
Dirksen Senate Office Building, United States Senate, Washington DC 20510
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,
706 Hart Senate Office Building, United States Senate, Washington DC 20510
Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn
Building, United States House of Representatives, Washington DC 20515
Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn
Building, United States House of Representatives, Washington DC 20515
Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil
House Office Building, Washington DC 20515
Associated Director of Resources, Community, and Economic Development Division,
United States General Accounting Office, 441 G Street N.W., Room 2T23, Washington
DC 20548 (Attention: Stanley Czerwinski)
Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17th
Street, N.W., Room 9226, New Executive Office Building, Washington DC 20503
Executive Director, Detroit Housing Commission (7)
Chairperson of the Board of Commissioners, Detroit Housing Commission
Mayor, City of Detroit