AUDIT REPORT

SAN FRANCISCO HOUSING AUTHORITY
SAN FRANCISCO, CALIFORNIA

FORCE ACCOUNT MODERNIZATION ACTIVITIES
COMPREHENSIVE GRANT PROGRAM

2001-SF-1001

March 30, 2001

OFFICE OF AUDIT, PACIFIC/HAWAII DISTRICT
SAN FRANCISCO, CALIFORNIA

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2001-SF-1001

TO: Gloria J. Cousar
Acting General Deputy Assistant Secretary
Office of Public and Indian Housing, P

SIGNED

FROM: Mimi Y. Lee
District Inspector General for Audit, 9AGA

SUBJECT: San Francisco Housing Authority
Force Account Modernization Activities
San Francisco, California

We conducted an audit of the San Francisco Housing Authority's force account modernization activities under the Comprehensive Grant Program. We identified serious problems with the program's effectiveness and with the related recording and tracking of assets and expenditures. This report contains two findings and applicable recommendations to improve the effectiveness of the program.

Within 60 days, please furnish us a status report on the corrective action taken, the proposed corrective action and the date to be completed, or why the action is not considered necessary for each recommendation. Also, please furnish us with copies of any correspondence issued because of the audit.

If you or you staff have any questions, please contact Mark Pierce, Assistant District Inspector General for Audit, or myself at (415) 436-8101.

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Executive Summary

We reviewed selected aspects of the San Francisco Housing Authority's (SFHA's) force account modernization activities under the Comprehensive Grant Program (CGP), generally covering the period January 1997 to June 30, 1999. We initiated the audit to address concerns expressed by the Director of Public Housing at the U.S. Department of Housing and Urban Development (HUD) office in San Francisco.

The objective of our review was to determine if the SFHA could improve its effectiveness of operations and compliance with federal requirements. Specifically, we determined whether the SFHA force account activities (1) operated effectively within HUD requirements and (2) included proper records for CGP assets and expenditures. We identified serious problems relating to both the force account operations and the record maintenance, requiring HUD's immediate attention to set the proper tone and perspective for improvements.

The Housing Authority Was Not Operating The Force Account Programs Effectively

The SFHA modernization activities were not cost effective. In addition, insufficient construction records were maintained to accurately identify and assess all modernization work performed, and there were indications of poor workmanship. Also, the program did not sufficiently emphasize high priority modernization, and some of the low priority work performed cannot be adequately maintained by the SFHA. These problems primarily occurred due to inadequate management. As a result, the level of potential modernization available under the grant funds has been reduced. The SFHA's neglect of high priority work resulted in emergency conditions requiring additional HUD funding. Finally, poor record maintenance made it impossible for inspectors to fully assess all the modernization performed.

We identified $18,186,844 of possibly excessive force account costs on the Clementina, Potrero Annex, and Sunnydale developments. However, due to deficient SFHA records, all modernization costs could not be estimated accurately. Nevertheless, we were able to establish $184,161 of excessive costs at the Clementina housing development, where the SFHA recorded costs that exceeded HUD Office of the Inspector General (OIG) estimates of what it should have cost for a contractor to perform the work.

The Housing Authority Was Not Maintaining Adequate Records Over Assets and Expenditures

The SFHA did not adequately record and track its assets and expenditures. The general ledger recording was inadequate to fully assess CGP force account expenditures. Expenditures were charged or moved to incorrect project accounts making the general ledger unreliable. The SFHA also did not consistently follow required procedures over the generation of its purchase orders relating to force account work. In addition, the inventory system over CGP purchased equipment was insufficient to accurately track all items. Finally, the SFHA was charging ineligible payroll to the CGP grant, while not maintaining adequate documentation to substantiate additional payroll attributed to the grants. These problems occurred because the SFHA did not develop sufficient procedures and controls, or was not following existing procedures. As a result, there was inadequate information to assure that all assets were accounted for and all expenditures were being legitimately used for CGP activities. In addition, $98,102 of ineligible and $73,210 of inadequately supported maintenance expenses were charged to the CGP, with additional amounts possible in other periods.

Auditee Comments

We provided the SFHA with a draft audit report and obtained its written comments. We also discussed the audit results with the SFHA's senior management on March 26, 2001 and received subsequent correspondence on March 28, 2001. Due to the voluminous nature of attachements included with the response, these additional documents were not included in this report. In addition, the subsequent correspondence was not included in the report, although its contents were reviewed and considered. These documents are available upon request.

In general, the SFHA disagreed with the reports conclusions and recommendations. It believed that issues raised in the draft report were unfounded and misleading. It also believed some audit conclusions did not adequately consider all relevant factors.

We considered the SFHA's comments and made revisions to the report when appropriate. Nevertheless, our conclusions did not change significantly. The SFHA did not provide sufficient substantive evidence to warrant changes to our recommendations. Each finding summarizes the SFHA's comments and our evaluation.

Recommendations

The findings include recommendations to avoid the continuance of the above problems and to lessen their effects. The more significant recommendations call for HUD to require the SFHA to terminate the use of force account for comprehensive modernization; stop using force account for non-routine maintenance until the SFHA can demonstrate that it is cost effective; require new procedures and controls to be put in place over record maintenance in the general ledger, inventory, and purchase order system; and return ineligible and excessive costs of $282,263.

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Abbreviations

ACC	Annual Contributions Contract
CCS	Creative Computer Solutions
CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
CIAP	Comprehensive Improvement Assistance Program
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
LBP	Lead Based Paint
LOCCS	Line of Credit Control System
MIS	Management Information System
MOH	Mayor’s Office of Housing
OHA	Oakland Housing Authority
OIG	HUD Office of the Inspector General
PHMAP	Public Housing Management Assessment Program
PO	Purchase Order
SFHA	San Francisco Housing Authority
SLUG	San Francisco League of Urban Gardeners
TARC	HUD Troubled Agency Recovery Center

Introduction

The major HUD programs funding the SFHA include Section 8 rental assistance, operating subsidy, modernization, HOPE VI, and drug elimination. Under Section 8, the SFHA subsidizes the cost of low-income families in privately owned housing. Operating subsidies, based on a regulatory formula, are provided to help the SFHA offset operating deficits in the maintenance and operation of the low-income housing it owns. The modernization program pays for capital improvements and related management improvements at the public housing developments. HOPE VI grants provide funds for innovative mixed-income housing to remedy the problem of distressed developments. Drug elimination grants are for addressing drug-related crime and its associated problems in and around public housing developments.

The Authority Was Created In 1938

The San Francisco board of supervisors established the Housing Authority of the City and County of San Francisco, commonly known as the San Francisco Housing Authority, in 1938. The city mayor appoints the members to the SFHA's governing body known as the board of commissioners.

In 1940, the SFHA opened the city's first low-income housing development for 188 families. The SFHA has grown to include about 40 developments with a total of nearly 6,000 housing units. Also, since the 1974 inception of the Section 8 program, the number of low-income families with subsidized rents at privately owned housing has risen to approximately 5,500.

For the fiscal year ended in 1997, the SFHA expended $128 million. Its largest programs consisted of Section 8 ($51 million), low-income housing operations ($33 million), modernization ($24 million), HOPE VI new development ($16 million), and drug elimination ($2.8 million).

HUD Assumed Temporary Control Of The Authority In March 1996

The SFHA was much criticized for its perceived lack of competent leadership, physical decay of its housing, poor performance in collecting rent, and the high level of crime existing at its housing developments. As a result, in March 1996, the city's newly elected mayor announced the firing of the SFHA's commissioners and executive director. The mayor invited HUD to temporarily run the SFHA and reorganize it, recruit new management, and establish new policies and procedures.

As a result, HUD sent a recovery team (consisting of HUD officials, consultants, and employees from other housing agencies) to assess the SFHA's operations and develop strategies to deal with the problems. This phase was concluded in November 1996. HUD contracted to fill several key management positions to continue the recovery efforts.

The City Regained Control In September 1997

As part of the recovery effort, the acting HUD Assistant Secretary for Public and Indian Housing functioned as the board of commissioners. In July 1997, the mayor appointed new board members, and in September 1997, HUD turned control over to the newly formed board.

At the time of our audit, the SFHA's executive director began working at the SFHA in November 1996, on loan from the Cuyahoga Metropolitan Housing Authority to serve as the acting executive director. The SFHA board of commissioners hired him on a permanent basis in November 1997.

SFHA Modernization Force Account Program

The SFHA's modernization program is funded under the CGP. Since fiscal year 1992, HUD has allocated CGP funds to the SFHA to fund its modernization efforts and other improvements. Prior to the CGP, the SFHA had been receiving funds under a similar program, the Comprehensive Improvement Assistance Program (CIAP). The CIAP and CGP grant programs allow, under certain restrictions, housing authorities the option of using their own in-house labor "force account" to perform modernization work, as opposed to independent contractors.

In 1996, the SFHA was performing modernization using a force account program. HUD's San Francisco Office of Public Housing instructed the SFHA to terminate all force account activity on May 29, 1996. This decision was reached because it was believed the force account program was not cost effective, there was mismanagement, and the quality of work was questionable. ***These observations are similar to the conclusions presented in this audit report covering subsequent modernization activities.***

By May 1997, HUD had allowed the SFHA to reinitiate its force account program. The program was split into two parts, the Family Sweep program and the Senior Sweep Program, performing modernization activities, respectively, on family and senior developments.

The Sweeps programs performed varying levels of modernization on 21 senior development and 20 family developments.

Upon resumption of the force account program in 1997, there were still CIAP funds available from the 1991 grant allocations. In addition, there were funds available under each subsequent year allocation of the CGP grant. Additional CGP funds were granted for 1997 and 1998. Between January 1997 and June 15, 1999, the SFHA had withdrawn approximately $98.6 million from the CIAP and CGP grants.

The City of San Francisco was not given formal control over the SFHA until September 1997. Force account activity had already been reinitiated by the Acting Executive Director. This included activity at three of the SFHA's developments within the scope of our review: Sunnydale, Potrero Annex, and Clementina. At Sunnydale, $3,007,507 of the total expenditures related to force account had already been spent by September 1997. This represents 17% of the $17,821,923 in total expenditures and encumbrances identified by the SFHA as of June 21, 1999. However, none of the amounts incurred related to the disability access work, which was the primary focus of our review. In addition, at Potrero Annex, the SFHA had already incurred $65,206 (less than 1%) of the total $6,225,711 in force account costs. Finally, at Clementina, the SFHA had already incurred $55,508 (5%) of the total $1,057,943 in force account costs.

Audit Objective And Scope

The audit was initiated as part of our local audit plan based on input from the Director of Public Housing at HUD's San Francisco office. The Director expressed concerns about sole source and non-competitive contracting, circumvention of waiting list policies, use of Section 8 reserves, and a request for a large release of CGP money. She also expressed specific concerns with consulting contracts.

Most areas of concern were reviewed and reported under a separate audit report. Our audit report number 00-SF-201-1001 issued in March 2000 covered the Public Housing Management Assessment Program (PHMAP), operating subsidy housing-unit-months-availability, contracting procedures, hiring and compensation procedures, and Section 8 receivables.

For this report, our audit objective was to determine if the SFHA effectively operated its force account modernization program in compliance with federal requirements. The audit generally covered the period of January 1, 1997 to June 30, 1999. We performed audit field work intermittently from June 1999 to October 2000.

The primary methodologies for the audit included:

- ✓ Considerations of the SFHA's management control structure and the assessments of risk.
- ✓ Interviews of various SFHA employees and HUD officials acquainted with the SFHA.
- ✓ Reviews of documentation related to the 1990 to 1998 CIAP and CGP grant programs, including planning documentation, procedures, and records on work performed.
- ✓ Reviews of force account modernization costs, including accounts payable, warehouse inventory draws, and payroll costs.
- ✓ On-site inspections of three sampled SFHA developments, including review of construction documentation and actual costs, to determine the reasonableness of the modernization costs. Overall, these three developments represented 36% of the total CGP expenditures of $69,270,842 for force account modernization as identified by the SFHA as of June 1999. These represented the largest and third largest Family Sweep developments, and the largest Senior

Sweep development. We chose them to maximize audit coverage of expenditures and review the most recently performed modernization.

- ✓ Comparisons of actual modernization costs to the costs of modernization performed by other entities.
- ✓ Reviews of inventory maintenance procedures and records, including on-site tests of sample inventory items.

We conducted the audit in accordance with generally accepted government auditing standards.

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The In-House Force Account Programs Were Not Operating Effectively

The SFHA force account programs were not cost effective. In addition, insufficient construction records were maintained to fully identify and assess all modernization work performed, and there was evidence of poor workmanship. Also, the program did not sufficiently emphasize high priority modernization, and some of the low priority work performed cannot be adequately maintained by the SFHA. These problems primarily occurred due to inadequate management. As a result, the level of potential modernization available under the grant funds has been reduced. The SFHA's neglect of high priority work has resulted in emergency conditions requiring additional HUD funding. Finally, poor record maintenance made it impossible for inspectors to fully assess all the modernization performed.

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Various Criteria Govern Force Account Activity

HUD Handbook 7485.3G, The Comprehensive Grant Program, states that a housing authority may undertake the modernization activities using force account labor, but only where specifically approved by HUD. The HUD field office shall approve the use of force account labor only where it is cost-effective and appropriate to the scope and type of physical improvements, and the housing authority has the capacity to serve as its own main contractor while still providing an adequate level of routine maintenance during force account activity.

CGP improvements and replacements need to ensure the long-term physical and social viability of the development at a reasonable cost. The guidebook also requires a physical needs assessment to be prepared and submitted to HUD ranking the priority of required modernization work.

HUD Handbook 7417.1 Rev-1, Public Housing Development, identifies the types of documentation and records required for contractors during a major development project. When the interior of a structure is to be gutted with structural modifications, complete drawings and details are required, similar to new construction. The drawings must clearly define the rehabilitation and replacement. Construction specifications call for describing the work to be done by each of the applicable trades, including a description of the scope of work, workmanship, materials, and equipment. It shall also include specific instructions for coordinating with other trades and descriptions of work not clearly evident from the drawings. The housing authority shall maintain records of delays in obtaining labor and materials, precipitation, and other causes for delays. Finally, the housing authority shall periodically take photographs to illustrate the progress of the construction work.

For work performed under contract, the handbook specifies a warranty period of at least 365 calendar days from the date specified on the certification of completion, or such longer period otherwise specified in the contract. The handbook requires construction contracts to be prepared to include Form HUD 5370. This form requires the contractor to provide at least a year warranty ensuring work performed conforms to contract requirements and is free of any defect in equipment, materials, or workmanship. The contractor shall remedy, at the contractor's expense, any failure to conform, or any defect.

HUD Handbook 7460.8 Rev-1, Procurement, Section 6-10 Contract Modifications, requires modernization contractors to maintain detailed documents for change orders, describing the proposed changes, references to drawing, prices for the work, time estimates, breakdowns of costs for material and labor, and any changes to the architectural drawings.

The SFHA Annual Contributions Contract (ACC) states that the mission of the housing authority is to operate each project solely for the purpose of providing decent, safe, and sanitary, housing for eligible families.

Title 24 of the Code of Federal Regulations (CFR) Section 882.109 defines housing quality standards (HQS) condition requirements for housing units.

The Force Account Justification Submitted to HUD Was Inaccurate

The SFHA began force account work around February 1997 without obtaining HUD's required advance approval, which was not granted until May 1997. Subsequently, on January 15, 1998, HUD's Office of Public Housing required the SFHA to supply information to demonstrate the force account program was cost-effective or HUD would withhold 1997 CGP funds. The SFHA responded to HUD on July 28, 1998. We found the SFHA's response inaccurate, with the resulting erroneous conclusion force account was cost effective in comparison to contracting.

The SFHA made three cost comparisons to justify its conclusion that force account was cost effective. This included comparing its Family Sweep comprehensive modernization work at Potrero Annex to similar work performed by contractors for the San Francisco City Mayor's Office of Housing (MOH), and comparing the cost of Senior Sweep costs for disability access conversion at several developments to comprehensive modernization performed by contractors for the MOH. Finally, lead based paint work performed at a Family Sweep development was compared to a contractor's cost to do the work at the same development.

The letter stated, "The average cost per unit for the Family Sweep work completed at Potrero Annex and roofing work that is construction is $78,500. By contrast, the average cost per unit of substantial rehabilitation projects funded by the Mayor's Office of Housing and done by private contractors ranges from $80,878 to $168,537. The most comparable family project, 2300 Van Ness which has 2 to 4 bedroom apartments, costs an average of $168,537 per unit."

In addition, the letter compared the MOH contractor costs to its Senior Sweep costs. The SFHA claimed "total gut rehabilitation of studio units funded through the Mayor's Office of Housing costs between $80,878 and $104,621." This cost was compared to the Senior Sweep average per unit cost of $41,243 performed on several different buildings, not including roofing, waterproofing, and elevator modernization.

Force Account Costs Higher Than Reported to HUD

The figures SFHA recorded in its general ledger were significantly higher than the force account costs reported to HUD. This included the costs for the Family Sweep development Potrero Annex and the Senior Sweep modernization

Our review of the Potrero Annex cost as of June 30, 1999, showed the actual average cost per unit was approximately $113,841. This amount represented the construction costs charged to dwelling structure and site improvement accounts in the general ledger for Potrero Annex. The actual cost was 145% of the $78,500 reported costs by the SFHA to HUD. The SFHA could not demonstrate how it calculated the $78,500 reported in the July 1998 justification letter. The actual cost in the general ledger around July 1998 was approximately $3,709,641, or $123,655 per unit. In addition, projecting this $35,341 ($113,841 - $78,500) per unit difference to all 137 Potrero Annex units planned for renovation, results in an actual modernization cost $4,841,717 higher than reported to HUD. For the 57 units actually complete as of June 30, 1999, the modernization cost was $2,014,437 higher.

The Senior Sweep modernization costs were also higher than reported to HUD. Senior Sweep work included the modernization of 90 units in 17 housing developments by converting them to 504 disability access. (The SFHA designated modernization to make buildings and units accessible to the handicapped as "504" work.) The SFHA had identified a cost of $41,243 per unit for the Senior Sweep units modernized. However, general ledger disability access 504 costs were $48,488 per unit on average, not including roofing and other unrelated common area work. The costs ranged from $18,913 to $96,233 per unit, varying between housing developments. The average cost was $7,245 (17.5%) higher per unit than the applicable cost shown in the letter. Projected to all 90 units, the difference would represent additional costs of $652,050. The Senior Sweep work was still in-progress as of June 30, 1999, so additional costs would still be incurred.

The Mayor's Office of Housing Costs Were Lower Than Reported to HUD

MOH per unit construction costs were significantly lower than the SFHA reported. This included the costs for 2300 Van Ness, Lyric, and Apollo. This occurred because the SFHA included unrelated costs not applicable to its cost comparisons.

The SFHA reported $168,537 as the average cost per unit for 2300 Van Ness. This figure included the purchase of the property, financing costs, and reserves. These costs were not comparable to the SFHA modernization work since the SFHA already owned the property and had no financial cost. The CGP funded the SFHA force account work so no borrowing was required. The contract construction costs for 2300 Van Ness were only approximately $55,651 average per unit, based on information provided by the Mayor's Office of Housing. The actual MOH construction costs of $55,651 were less than one-third the MOH costs $168,537 the SFHA reported to HUD.

Similarly, the actual construction costs of Apollo and Lyric were $41,782 and $47,837 per unit respectively, versus the $80,878 to $104,621 reported by the SFHA. The actual costs were approximately half of the amount reported to HUD in the justification letter.

Lead Based Paint Costs Could Not Be Confirmed

We cannot rely on the SFHA's assessment over the lead based paint (LBP) work because the cost reported by the SFHA for its own work could not be confirmed, and problems had been previously noted by HUD with the LBP work in question.

The SFHA compared its costs for LBP hazard abatement to the costs charged by a contractor to perform the work at the same development. The SFHA listed its costs to perform LBP costs at $281,568, or $841 per unit. This was lower than the contractor cost of $1,709 per unit.

However, the SFHA was not able to demonstrate how it arrived at its unit cost of $841 per unit, or produce information to verify these amounts were accurate. The June 1999 balances in the general ledger did not support the SFHA's figures. Further, it is not certain whether the current general ledger balance represents the true LBP cost at the development, or whether costs were distributed to non-LBP accounts.

In addition, a HUD inspection showed problems with the quality and controls over some of the SFHA's force account LBP work. These issues were reported in a June 13, 1997 letter from HUD. HUD had performed an on-site LBP review and noted poor quality of LBP work and inaccurate records at different developments worked on by the force account, including Potrero Terrace. The SFHA was unable to provide documentation demonstrating how these issues were resolved to ensure a sufficient level of quality.

No Analysis of Other Types of Modernization Activities

The letter submitted to HUD provided no information to show whether other types of activities performed by the force account were cost effective. For example:

- The letter provides no evidence the SFHA force account was more effective in performing landscaping then a contractor. Since the SFHA spent several million dollars to perform landscaping work, an analysis to determine whether it could do quality work at a lower cost should have been performed.

- The letter also does not analyze any of the non-routine maintenance tasks the SFHA was performing. The non-routine maintenance work generally consisted of various tasks performed on unit interiors, such as interior painting, floor tile replacement, shower tiles, etc. A significant majority of the funding spent at Clementina and Sunnydale consisted of this type of activity.

Force Account Costs Exceeded Cost to Have a Contractor Perform the Work

We attempted to determine whether the SFHA force account costs were reasonable by comparing SFHA costs to OIG inspector estimates of what costs should have been for a contractor to perform the work. In addition, we compared the actual SFHA costs to actual MOH and OHA modernization costs, both performed by contractors. In each case, the SFHA force account costs appeared excessive.

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Force Account Costs Were Excessive and Questionable Based On OIG Inspections

We were unable to verify all costs for work performed on the Family and Senior Sweep developments due to the SFHA's deficient records. The OIG inspectors' estimates of costs to perform the work were generally significantly lower than the actual costs incurred by the Sweep programs. We were able to compare estimated to actual Senior Sweep costs for two activities. Although Senior Sweep HQS non-routine maintenance work did not appear excessive, common space modernization was. However, other comprehensive modernization and non-routine maintenance costs could not be determined due to the lack of available documentation on modernization work performed. As a result, the SFHA modernization costs were excessive by $184,161[1] and $18,186,844 was questionable.

We attempted to verify whether the SFHA's force account costs to perform modernization work were reasonable. The OIG sent its inspectors on-site to three sample developments to develop cost estimates for modernization work performed. We also requested documentation from the SFHA specifically identifying the modernization work actually performed on each unit. However, there was inadequate documentation available to adequately assess the Family Sweep costs. The Senior Sweep records were inadequate for only one of three areas reviewed.

The Sweeps programs were primarily performing work of differing scope on different units and developments. In some instances, the Sweeps programs were performing comprehensive 'gut' modernization on units. This type of work generally involved significant construction work that included the repair or replacement of all interior items, where tenants had to vacate the unit during the modernization. We expected the same level of construction documentation for this type of work a contractor would maintain if contracted by the SFHA. These records should detail what work was to be performed and identify changes in scope though change orders.

[1] The total excessive amount was $191,132. However, approximately $6,971 of the excessive amount was incurred prior to September 1997, before HUD formally returned control of the SFHA to the City of San Francisco appointed board of commissioners.

The Sweeps programs were also performing non-routine maintenance work on unit interiors that was not complete and mainly involved addressing housing quality standards violations within the units. The scope of work was not always consistent between units. Maintenance employees could ordinarily have performed several of these work items. These items were also designated in the CIAP handbook as being non-routine maintenance related, such as replacing sinks, appliances, plumbing fixtures and equipment, wall tile, interior painting, space heating equipment, minor electrical, minor replacement of floors, etc. In general, tenants did not vacate the units when this non-routine maintenance was performed. At a minimum, the SFHA should have recorded which work items were performed in each unit, and the scope or quantity of the work, using a work order.

We selected the Sunnydale, Potrero Annex, and Clementina developments for inspection. The work reviewed at Sunnydale included comprehensive interior modernization on disability access units in four buildings and non-routine maintenance type modernization performed on 28 other buildings. At Potrero Annex, modernization was done on nine buildings while another building was in process of modernization during the inspection. At Clementina, there were two high-rise buildings with common area work in progress, 10 units converted for disability access, and 266 units with various non-routine maintenance.

Sunnydale

There were inadequate construction records to properly assess all the cost of work performed at Sunnydale. The costs that could be estimated were substantially below the actual cost in the Sunnydale general ledger accounts. It was not certain whether this actually demonstrated excessive Family Sweep costs. As a result, $13,358,264 attributed to Sunnydale HQS accounts and $801,093 attributed to Sunnydale (504) accounts are questionable.

The OIG inspectors reviewed the interior work in 12 of the 28 units that received comprehensive modernization when four buildings were converted to disability access. This included all 11 units converted to disability access. The inspectors also reviewed the interior work in 19 of the 248

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units that received selective non-routine maintenance modernization.

The Family Sweep program maintained no records to identify interior non-routine maintenance work performed on the 28 buildings. The only information available was a generalized listing of work that would be done on an as needed basis. The types of work that may have been performed included floor tile, interior painting, wall tile in bathrooms, new plumbing fixtures, wall heater, hot water heaters, and electrical fixtures. Each unit inspected had different amounts of work performed. Units had tile or paint in different areas. The extent of bathroom work was not certain, and some buildings did not have new heaters installed yet. There were no work orders or other documentation showing work done to each unit. As a result, the OIG inspectors were unable to accurately estimate work performed.

Four buildings received comprehensive modernization to convert 11 of the 28 units for disability access. The modernization included a reconfiguration of the building units to make a portion of the units accessible to the disabled. The SFHA included the costs attributed to the non-disability access units within these buildings into the same general ledger HQS accounts as the non-routine maintenance work. The comprehensive modernization costs could not be distinguished or separated from the non-routine maintenance costs. The Family Sweep department had not separately tracked the costs of the two different types of work. The OIG inspectors were unable to assess the costs without inspecting every unit at Sunnydale. Also, due to the lack of records concerning what had been performed, the OIG inspector could not prepare accurate estimates. Since accurate estimates could not be prepared for this modernization and compared to actual costs, the entire $13,222,789 attributed to the HQS accounts as of June 21, 1999, along with $135,475 of June 1999 payroll charged the following month, was questionable.

The SFHA did attribute the costs of performing the disability access 504 work on the 11 units into separate general ledger accounts. The average per unit costs in the accounts, as of June 30, 1999, was $99,370. However, the SFHA did not have plans showing how and where new

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plumbing and electrical were placed into the buildings for the unit conversions. There was no information to show where and if concrete sawcutting, coring, or grading had been performed, or how ceilings were filled when staircases were removed from the building's design. As a result, the OIG inspector could not provide accurate cost estimates for this work either.

The general ledger cost was close to the original SFHA estimates for the planned disability access work: $94,088 average per unit. However, there were no breakdowns available to show the basis of this estimate. Also, cost breakdowns for the Sunnydale 'mothball' units did not include all work items planned for the 504 units.

The costs that the OIG inspector could confirm as performed, with any degree of certainty based on the information available, should not have exceeded $291,973, or $26,543 average per unit (including an adjustment of 25% added to OIG base estimate figures for overhead, general conditions, and mobilization). However, this estimate cannot be accurately compared to the actual costs since all work possibly performed could not be assessed. As a result, the $801,093 difference between the SFHA actual costs $1,093,066 and the OIG estimate of $291,973 is questionable.

Potrero Annex

The OIG modernization cost estimates were substantially below the actual cost in the Potrero Annex general ledger accounts; however, there were inadequate construction records to accurately assess all the work performed at Potrero Annex. As a result, $3,865,018 of the Potrero Annex cost attributed to the HQS account was questionable.

At Potrero Annex, the OIG inspected 29 of the 57 units completed by the force account. Nine buildings had been completed at the time and one was underway. The OIG inspectors attempted to estimate costs for all the interior modernization work performed at the development, based on review of the SFHA estimates and plans, and an on-site inspection. However, there was inadequate documentation available to demonstrate the actual level of drywall replacement, wood frame replacement, and floor repair. The OIG estimated the confirmable work at $1,344,015, or $22,780 average per unit (adjusted 25% for overhead costs).

In addition, the general ledger cost of $5,209,033, or per unit average of $88,289, for HQS work included interior and exterior work performed on the development as of June 29, 1999. The HQS accounts did not include costs for lead based paint abatement, roofing, exterior paint, and some electrical costs allocated to different accounts in the general ledger.

The SFHA had prepared initial plan estimates by August 1998 for the work at Potrero Annex. The interior costs ranged from $31,045 for one-bedroom units to $83,946 for five bedroom units. Based on the units actually modernized, the average cost would have been $44,199 per unit. Plans also listed balcony costs of approximately $2,480. These costs were also charged to HQS accounts. However, no description was provided indicating what exactly was going to be done to the balconies. In addition, there were no change orders to identify how the planned HQS work went from $46,680 to the actual $88,289 average per unit. It is not certain how the scope of work changed between the initial plans and the actual work performed.

The SFHA cannot distinguish the different costs for different work items within the HQS account. The Family Sweep department had not separately tracked these costs. Therefore, the SFHA cannot separate the exterior work costs in the general ledger from interior work, including items such as balcony repairs. It also cannot identify what its costs were to perform one interior work item, such as painting, versus another interior work item, such as plumbing. As a result, the OIG estimate could not confirm the propriety of all costs in the SFHA's general ledger. The $3,865,018 difference between the Potrero Annex HQS costs $5,209,033 and the OIG estimate $1,344,015 was questionable.

Clementina

Due to the inadequacy of SFHA records, we also could not arrive at a conclusive estimate of work performed for the disability-access units at Clementina. However, we were able to generate estimates for common space and HQS non-routine maintenance. While the non-routine unit maintenance actual cost did not appear excessive, the common area work was not cost-effective. As a result, $184,161 appeared excessive and $162,469 was questionable.

The OIG inspected 32 of the 266 Clementina units that had non-routine maintenance, reviewed common area work identified during the inspection, and inspected all ten disability access (504) units. The Senior Sweep department maintained work orders for non-routine maintenance performed on the Clementina units. As a result, the OIG was able to prepare estimates. The actual general ledger costs of $364,240 were comparable to the OIG estimates.

Nevertheless, the actual costs for common space work were excessive compared to the OIG estimates. The common space work was still in-progress during the OIG inspections. The common space work as of the inspection was estimated at $100,099, including a 20% adjustment for overhead. This amount was significantly below the $291,231 in the general ledger. (We removed $73,431 from the actual general ledger balance for comparison purposes because these costs such as for furniture were not included in the OIG estimate.) Based on the estimates of the OIG inspector, it appears that the SFHA overspent $191,132. Of this amount, $6,971 was incurred by the SFHA prior to September 1997.

The actual costs for disability access work appeared excessive compared to the OIG estimates; however, an accurate comparison could not be made. The OIG estimate, adjusted 20% for overhead and including another 20% allowance for appliances and 'buffet cabinets', was $157,527 for the 10 disability access units and public restrooms converted to disability access. This was far below the actual cost in the general ledger of $329,040 as of June 30, 1999.

Due to the lack of SFHA documentation, the OIG inspectors could not produce estimates for all work items charged to the general ledger account. As a result, we could not confirm additional SFHA costs. The level of plumbing, electrical, and asbestos work performed in each unit was not certain due to the lack of documentation identifying what exactly was performed to complete these items. In addition, the Senior Sweep staff stated asbestos had been removed from unspecified flooring areas within units. However, we could not identify any hazard abatement costs in the general ledger detail reports. Finally, the general ledger included expenses for common area doorknobs, an item not assessed by the OIG inspectors. The materials costs were confirmed to invoices as $9,044, but the associated labor cost was unknown. As a result, the difference of $162,469 was questionable, representing the difference between the general ledger costs and the OIG estimate, less the doorknob material costs.

MOH Modernization Costs Were Lower than SFHA Force Account Costs

As previously mentioned, the SFHA used MOH modernization costs to justify its use of force account. However, the SFHA misrepresented both the MOH costs and its own costs. The actual MOH contractor costs were lower than the force account costs to perform similar work. The MOH used contractors to perform its modernization.

The actual SFHA Potrero Annex modernization costs were approximately $113,841 per unit for the 57 units completed as of June 30, 1999. The MOH performed similar modernization to a development at 2300 Van Ness. The MOH contract cost to perform the modernization was approximately $55,651 average per unit. The average size of the 2300 Van Ness units modernized, 2.4 bedrooms, was fairly close to the 2.6 average bedrooms for units completed by the force account at Potrero Annex. The SFHA force account was over double the cost of the MOH to perform similar work.

Similarly, the average cost to modernize a Sunnydale disability access a 504 unit was $99,370. The average size of the 11 units modernized was 1.9 bedrooms, smaller than the average 2300 Van Ness unit. However, the force account cost were $43,719 per unit higher than the MOH

2300 Van Ness costs. This difference totals $480,909 for all 11 units converted.

Force Account Costs Excessive Compared to Oakland Housing Authority Contract Costs

The SFHA force account Family Sweep costs also appeared excessive when compared to similar work performed by contractors for the Oakland Housing Authority (OHA), even after locality rate adjustments were considered. We compared the costs of modernization work performed at Potrero Annex to comprehensive modernization performed at two OHA developments, Peralta and Campbell. Based on this comparison, $2,244,301 of the Potrero Annex modernization was questionable compared to the total recorded force account costs of $6,529,825.

We reviewed the costs associated with comprehensive modernization performed by contractors on OHA developments, selecting two developments that had work done similar to that performed by the SFHA at Potrero Annex: Campbell and Peralta developments. These developments were composed of scattered site dwellings and the work had been performed between 1998 and 2000. We reviewed records to identify the scope and costs of the modernization, interviewed key OHA staff, and visited the development sites.

OHA - Campbell

An independent contractor performed the phase II comprehensive modernization on 77 Campbell units between March 1998 and November 1999. The scattered site development was built in 1936. The comprehensive modernization work included, but not limited to, gutting units, installing all new mechanical systems, hazard abatement, converting and replacing the roofs, converting units for new entry and laundry areas, landscaping, and exterior fencing. Units were two to three bedrooms and averaged 900 square feet.

The average per unit cost was $83,085, including costs relating to the modernization in addition to the contract and change orders identified by the OHA. For comparison purposes, we removed construction costs unrelated to the work performed at Potrero Annex, such as: fencing, drainage, landscaping, play areas, and the related overhead and profit for those items. This dropped per-unit costs

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down to approximately $74,677. In addition, removing the costs attributable to the roof conversion and replacement would further reduce the cost down to $69,007 per unit. Roofing costs were eliminated for comparison purposes because contractors performed the SFHA roofing.

OHA – Peralta

Modernization was performed on 140 units, starting around May 1998. At the time of our review in July 2000, the work was 99.9% completed. The scattered site development required comprehensive modernization. Work included unit gutting, landscaping, roof conversion, hazard abatement, structural upgrading, unit layout, exterior reconfiguration, exterior wall rebuilding, new utilities, drainage, and new mechanical systems. The units were one to three bedrooms and approximately 600 to 900 square feet. The average size of units at the development was 1.77 bedrooms.

The average per unit cost was $74,236, including additional costs identified by the OHA in addition to the contract and change orders. We removed costs unrelated to the SFHA modernization, such as: landscaping, drainage, and exterior fencing. This dropped the unit costs down to around $66,033. In addition, removing the costs attributable to the roof conversion and replacement would further reduce the costs to $56,945 per unit.

Locality Rate Adjustment

We noted that for comparison purposes the San Francisco construction rates are higher than the Oakland rates, despite the two cities' close proximity. We reviewed local construction cost index information to determine whether a factor should be applied to the OHA modernization to make it more comparable to the SFHA work.

The Saylor construction cost index for 1999 listed that the construction rates for Oakland were 5% lower than the San Francisco rates. The Saylor cost index used San Francisco rates as its base for determining costs, and appeared to be a reliable cost index guide. We adjusted the Campbell and Peralta rates by 5% to more accurately compare the OHA costs to the SFHA. Campbell was adjusted to $72,639 and Peralta $59,942 average per unit for comparison purposes.

<u>SFHA – Potrero Annex</u>

Potrero Annex average per unit cost was $113,841 as of June 30, 1999. At this point, 57 units were completed in 9 buildings and one building was under way. The SFHA could not identify the level of completion of the work on the in-progress building. Based on our site review, we allowed credit for approximately 2 units completed, since Family Sweep could not arrive at a figure. We also included Potrero Annex cabinet costs of $26,597 the SFHA attributed to the wrong project, noted during a disbursement review. The average size of the first 57 units completed was 2.6 bedrooms. Based on discussions with the Family Sweep personnel and review of consultant reports, the Potrero Annex units averaged no more than 900 square feet.

Comprehensive modernization work at Potrero Annex included hazard abatement, roof replacement, and interior and exterior repairs. A contractor replaced the roof, and the general ledger reported this cost. Since the purpose of our review was to analyze force account related costs, the roofing costs were removed for comparison purposes. The resulting average per unit cost would be reduced to $110,675.

Potrero Annex Costs Higher Than Campbell

Even after the OHA contract costs for modernization were adjusted for the difference in locality rates, they were still significantly lower than the SFHA rates. The Peralta costs were lower than the Campbell costs because the average unit size was smaller. As a result, we will only consider the Campbell unit costs in comparison to the Potrero Annex costs. After adjusting for these factors, we concluded the Potrero Annex cost was approximately 152% of the Campbell per unit costs, or higher by $38,036 per unit.

The SFHA attributed its increased cost to more dry-rot work. However, there were insufficient records to document the extent of the dry-rot work. The OHA work did include dry-rot repairs. This work was evidenced by detailed change orders, which documented additional work, the reasons requiring the additional work, and often included a photograph to justify the additional work. We were not presented with sufficient information to suggest the SFHA had to correct significantly more dry-rot than the OHA. As a result, we could not accept the SFHA's argument.

The difference between the Potrero Annex costs and the Campbell costs was 34.37% of the total Potrero Annex costs. Applying this rate to the total Potrero Annex costs (less roofing) would result in possible overspending of $2,244,301.

The Family Sweep Did Not Maintain Adequate Progress Records

The Family Sweep progress reports were inadequate in contrast to those produced by the Senior Sweep program. The Family Sweep department did not emphasize tracking its work performed. As a result, that department was unable to identify the level of completion on work in progress.

Partially responding to our request, the Family Sweep department prepared one incomplete progress report from July 2, 1999. The progress report only listed the three main sites in-progress. The report did not show the status of other Family Sweep developments. The report did not list any information about units in progress, when programs started, or their duration. The Family Sweep progress report misreported the number of units complete at Potrero Annex at 62. On-site inspection and review of the SFHA's unit completion report showed that there were only 57 units actually complete. The Family Sweep department could not identify the level of completion on the in-progress Potrero Annex building as of June 1999.

The only other progress report the Family Sweeps department could provide had been produced on September 15, 1999 using untimely data from December 4, 1998. According to Family Sweep management, this report was prepared for HUD. The SFHA was not tracking progress for its own use to assist with the management of the program.

The reports did not have the same level of information available on the Senior Sweep progress report reviewed. The Senior Sweep report kept track of the number of non-routine maintenance modernization work orders outstanding and complete, work dates, status or level of

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completion of modernization at the different developments, and the identification of costs.

The SFHA Was Not Adequately Inspecting Work

The SFHA did not obtain or perform adequate inspections of its modernization work. The SFHA was exempt from obtaining permits and inspections from the City of San Francisco. As a result, the SFHA had its own inspectors perform all inspections over force account work. The primary Family Sweep inspector did not appear fully qualified to properly review the extensive modernization work.

No City Permits and Inspections Required For Force Account Modernization

The SFHA obtained a legal determination from the City of San Francisco stating that the SFHA did not have to obtain city permits and inspections for in-house work. This was documented in a May 17, 1995 letter between the Deputy City Attorney and the Director of the Department of Building Inspections. Based on this letter, the SFHA has not been obtaining permits and inspections for its force account work. HUD was notified of the inapplicability of permits in August 1999, as part of a response to a HUD TARC (Troubled Agency Recovery Center) review.

Family Sweep Inspector Not Adequately Qualified to Review All Modernization Work

Since city inspectors are not required, the SFHA used its own inspectors to review force account work. This included all comprehensive modernization work, electrical work, unit gutting, plumbing replacement, carpentry, flooring, and painting performed by the force account. The primary inspector was not independent or qualified to oversee the modernization work.

The SFHA Family Sweep program had only one inspector sign-off that units were complete at Potrero Annex and Sunnydale. This inspector was under the supervision of the Family Sweep managers. We believe this compromised his independence in objectively reviewing the work performed, which was also the responsibility of the same Family Sweep managers.

We reviewed the personnel file of the Family Sweep inspector. The SFHA employed the inspector previously to inspect heating systems and boiler repairs. There was no information available to show he had sufficient experience to ensure all the different modernization crafts were conducted to code requirements. In addition, he did not have the same level of expertise as City of San Francisco inspectors, who would normally inspect construction in the city.

We obtained information relating to the requirements for the City of San Francisco's inspection positions. The plumbing and electrical inspectors for the City of San Francisco require completion of an apprenticeship and four years of journeyman experience in their field. In addition, they must have been responsible for a major construction project in the field during one of those years. Building inspectors require four years of journeyman level work that includes construction and inspection experience, and one year in charge of a major building construction project. There is no information available to demonstrate that the Family Sweep inspector had comparable experience, including apprenticeships and journeyman level experience in each field, combined with being in charge of a major construction project.

Housing Quality Standards Deficiencies Noted During Inspections

The HUD OIG inspectors reported conditions with completed units that showed problems with the Family Sweep force account workmanship and recording. These problems appeared directly related to the inadequate inspections, therefore, the quality of work not reviewed is open to question.

We performed on-site inspections of the Sunnydale and Potrero Annex developments between August and October 1999. The objective of the OIG inspectors was to assess the cost of work performed at the development, and not to perform a HQS review. However, our inspectors noted problems with the force account work. These problems showed all needed modernization work was either not done or not performed adequately. Since an actual HQS inspection was not performed, the OIG inspectors advised us that there might be additional conditions or problems not identified and recorded during the he review. The following schedule lists problems identified during the inspection.

Development	Unit #	Problem
Sunnydale	230	Pocket door inoperable, missing grab bar, unfinished window
Sunnydale	1502	Excessively peeling paint and damaged sills

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Development	Unit #	Problem
Sunnydale	1620	Bath fans not working
Sunnydale	1752	Improperly installed water heater vent
Sunnydale	1759	Water heater not working adequately (T)
Sunnydale	1806	Exposed wiring, improperly installed water heater
Sunnydale	1807	Improperly installed water heater, space heater vent not adequately sealed
Sunnydale	1827	Damaged flooring
Sunnydale	1868	Problems with water heater vent and interior paint
Sunnydale	1555	GFI outlet not grounded, sink leaking, water heater strap and sink pipe insulation inadequately installed
Sunnydale	1551-1565	Excessive pooling of water outside building
Sunnydale	Building 26E	Sidewalk in front of building led to drop-off
Potrero Annex	1	Windows of occupied unit boarded up, laundry facilities not operable
Potrero Annex	5	Laundry facilities not operable
Potrero Annex	9	Improperly installed closet light, laundry facilities not operable
Potrero Annex	19	Vent covers missing
Potrero Annex	23	Inadequate exterior door weather stripping, vent covers missing
Potrero Annex	35	Laundry facilities not operable
Potrero Annex	53	Vent covers missing
Potrero Annex	57	Vent covers missing, laundry facilities not operable (T)
Potrero Annex	59	Vent covers missing
Potrero Annex	61	Vent covers missing
Potrero Annex	85	Leak in ceiling (T), unfinished door missing lockset
Potrero Annex	97	Window boarded on occupied unit
Potrero Annex	853	Ceiling damaged where closet tracks removed
Potrero Annex	855	Ceiling damaged where closet tracks removed (T)
Potrero Annex	879	Staircase floor covering falling apart
Potrero Annex	901	Ceiling leaks (T), and vent covers missing
Potrero Annex	909	Bath wall had water damage, vent covers missing
Potrero Annex	911	Vent covers missing
Potrero Annex	915	Leak in ceiling (T) and vent covers missing

(T): Based on Tenant complaint, accuracy of issue not confirmed.

In addition, during an October 1999 inspection of Sunnydale building 28F, we observed minor work in progress to make units ready for occupancy. However, the final inspection reports had already listed the entire building as complete. The inspection reports had been signed-off by the Family Sweep inspector on June 15, 1999. The following picture gives an example of the uncompleted work.

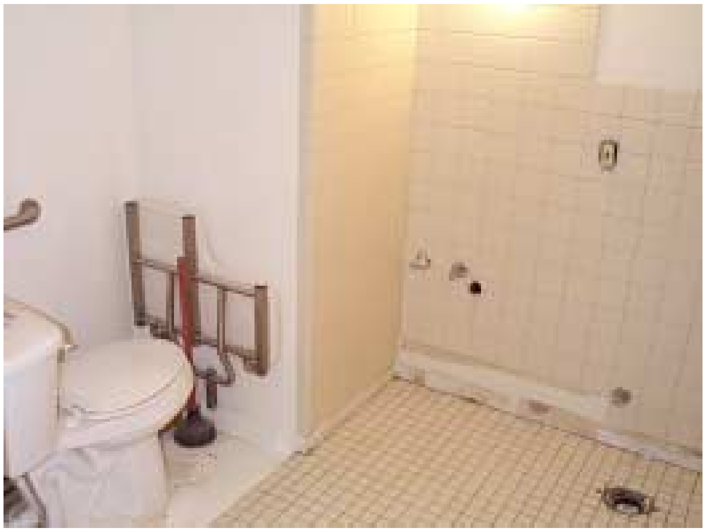

Photo of 220 Hahn Street bathroom, demonstrating bathroom of unit was not complete even though reported as complete on final inspection report. Additional work was in progress at the time of the inspection.

In addition, the SFHA still had not placed permanent railing outside the building along the disability access ramps, even though the unit was occupied.

Due to the problems noted, there is no assurance other force account work was performed adequately. Since an HQS review was not conducted, there is no assurance units inspected do not have additional problems. Units not inspected may have similar problems that could affect the health and safety of the residents. In addition, some modernization, such as work within walls, can no longer be checked to determine if it conformed with local codes. However, there was also no information to suggest this work did not meet local code requirements.

Emphasis On Low-Priority Modernization Delayed Work On Emergency Situations

The SFHA emphasized several lower priority modernization work items over more serious items. This resulted in conditions at several SFHA developments claimed to have become emergency conditions, requiring additional HUD funding to correct the problems within a year. In addition, some of this lower priority work, which cost over $2.5 million to perform, was not adequately maintained by the SFHA.

The SFHA submitted a physical needs assessment, HUD Form 52832, to HUD on June 10, 1997. This form rated the urgency of need of the different types of modernization required by the SFHA for the Sunnydale development. The SFHA reported conversion of units to disability access as a number one priority. Roofing repairs and replacement were a number two priority item, estimated to cost $1,800,000 at the time. The lowest items on the urgency scale were landscaping, irrigation, and office space modification.

Adequate funding was available to address the high priority work items. At the re-initiation of the force account program in 1997, the SFHA had accumulated over $69 million of CIAP and CGP funding from the 1991 CIAP grant, and the 1992 to 1997 CGP grants.

At the time the HUD Form 52832 was prepared, the landscaping was actually already under way, despite its low priority. The landscaping began in February 1997[2] under the San Francisco League of Urban Gardeners (SLUG), before the force account work started in 1997. In August 1997, the SFHA began charging force account payroll to landscaping accounts before lead based paint abatement began in October 1997 and exterior painting began in December 1997. Payroll was not attributed to disability access work until March 1998.

Between 1997 and June 21, 1999, the SFHA spent $2,565,013 on landscaping at Sunnydale. During this period, only one roof was replaced at the development out of the 92 buildings. The cost ultimately attributed to the landscaping exceeded the SFHA’s original estimate of $1.8 million to replace the roofing. Likewise, at Potrero Terrace, the SFHA had spent $1,620,538 of CGP funds for landscaping work, instead of replacing roofing.

The SFHA also did low priority office space work before roofing. Newspaper articles reported Sunnydale office/

[2] HUD did not formally turn over formal control of the SFHA to City of San Francisco appointed board of commissioners until September 1997.

community center renovations were performed by March 1998.

In addition, critical roofing needs were not emphasized at senior developments. At Clementina, the SFHA was performing modernization on units and common area interiors. By June 21, 1999, the SFHA had spent $669,930 and encumbered $58,972 on this work. This included interior painting, floor replacement, lighting replacement, etc. HUD inspections of Woodside Gardens, 2698 California Street, and John F. Kennedy Towers showed the SFHA was emphasizing common areas interior work as opposed to roof replacement.

Force account management stated it was the Executive Director's decision to perform the exterior landscaping and other low priority work first. The rationale was to make tenants proud to live at the developments and show the SFHA cared.

Emergency Grant

While the landscaping was in progress, the SFHA was asking for additional Emergency Grant Funds to perform roofing and waterproofing work. The first request was made in March 1998 and another in September 1998. A final request was made in June 1999. This included Sunnydale, Potrero Terrace, and Clementina. Between the initial requests for additional funds and the final request, over a year later, no significant work was performed using available CGP funding to address the emergency conditions.

The Emergency Grant Fund requirements contained in 24 CFR 968 designate that funds may not be provided if they are available under the CGP. The emergency work has to present an immediate threat to the health or safety of the residents.

Part of the SFHA's justification for having the roofing and waterproofing performed was the threat to interior rehabilitation performed at the developments. The SFHA stated that since 1996 it had invested $94 million in CGP funding. The objective of the emergency request was to finance emergency infrastructure work and protect its $94

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million investment in the most critical capital improvements while meeting minimum life safety standards and thwart unsanitary and unhealthy conditions.

However, by June 1999, the SFHA had fully drawn down the available funding left under the two CIAP grants, and the 1992 to 1996 CGP grants. There was approximately $3.5 million available in the 1997 and 1998 CGP grant. At this point, there were insufficient funds for the emergency work.

HUD subsequently accepted the SFHA's request, and was to provide $22 million of emergency funding, of which $14,794,004 was for roofing replacements and $3,031,592 for other waterproofing. Overall, roofing and waterproofing costs were available to 19 developments: 8 family and 11 senior developments. These costs included $3,043,000 for Sunnydale, $2,500,000 for Potrero Terrace, and $1,179,000 to Clementina for roofing and waterproofing.

There is no conflict under the grant requirements to install new landscaping and perform other modernization to improve the cosmetic appearance of the developments. However, it was not prudent to perform cosmetic work instead of high priority items considered emergency conditions threatening the health and welfare of the tenants. There was also no assurance that HUD would provide additional funds, and the roofing and waterproofing should have been corrected before tenants and interior modernization were put at risk. If the SFHA had emphasized roofing and waterproofing as opposed to landscaping or common area interior modernization using its CGP and CIAP funds, the need for emergency grant funds may not have been warranted and certainly would have been significantly reduced. In addition, tenants would not have been put at risk of living in units with inadequate roofing and waterproofing.

Significant Modernization Work Was Not Maintained

The SFHA did not adequately maintain some of the modernization work, despite its having been performed in preference to emergency work. Newly installed sprinkler systems were not used fully, which resulted in the death of wide sections of recently planted lawns. These issues apparently occurred due to the lack of management

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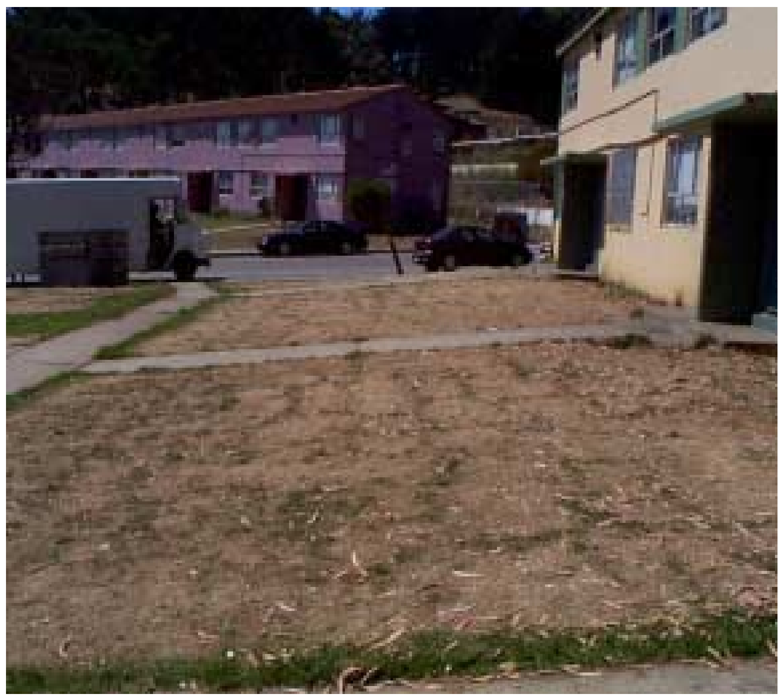
planning over potential problems. These practices jeopardized up to $4,185,551 of landscaping.

Landscaping at Sunnydale and Potrero Terrace included installation of new sprinkler systems and lawns throughout. The OIG inspected Sunnydale landscaping in August 1999. We observed most of the lawns had died. In some areas, it was difficult to discern where the new landscaping had been since it was in such bad condition. Only the areas close to the community center/office building were maintained. The SFHA blamed the poor condition of the lawns on tenant abuse.



Dying lawns outside Sunnydale buildings that were not being watered despite the installation of an underground sprinkler system.

Sunnydale lawns

In addition, a site visit in July 2000 showed most of the lawns at Potrero Terrance had died. At Sunnydale, the SFHA had resorted to hoses to water the lawns in several areas.

Central Service Maintenance confirmed that there was a tenant abuse problem, with tenants damaging sprinkler heads. The sprinkler system often lost pressure. As a result, lawns were watered manually. However, without sufficient maintenance staff for this purpose, the SFHA could not maintain much of the landscaping. Staff also stated the force account workers may have installed the wrong type of sprinkler system, which was not vandal resistant.

The SFHA did not sufficiently assess and plan for the potential difficulty of maintaining the landscaping. The expensive sprinkler system was not fully used, representing CGP funds that may have been better spent elsewhere. Much of the landscaping may be unrecoverable at this point without replanting. If the SFHA was unable to maintain the landscaping, then it should not have been installed. If the purpose of putting in the landscaping was to make the tenants proud to live at the developments and show the SFHA cared, then this benefit was temporary.

Family Sweep Management Inadequate

We believe the principal cause of the noted conditions was that Family Sweep management was not qualified to operate a comprehensive modernization program, particularly one with force account. This includes the General Manager, Assistant General Manager, the Construction Project Manager, and possibly the Assistant Construction Project Manager. This apparently occurred because the SFHA did not emphasize obtaining qualified management.

<u>General Manager</u>

As described in our March 2000 report, we had earlier reviewed the SFHA hiring practices. We had found the General Manager of the Family Sweep program not qualified to head the force account program. He lacked sufficient educational background and did not have the necessary experience.

Due to problems noted with the modernization program, particularly with the Family Sweep program, we ascertained the prior construction and management experience of other key Family Sweep personnel.

<u>Assistant General Manager / Principal Administrative Planner</u>

The Assistant General Manager of the Family Sweep program did not appear qualified to run a comprehensive modernization program. In addition, we do not believe she was qualified to receive the initial planning position prior to her Assistant General Manager role. She did not have experience in construction work, planning, or record maintenance relating to comprehensive modernization programs.

The Assistant General Manager previously worked for the SFHA in a secretarial position as an Office Manager and then briefly as an accountant for eight months. The individual then was moved to the newly created Family Sweep Principal Administrative Planner position in April 1997. This position was eliminated and her title was changed to the newly created Family Sweep Assistant General Manager position in April 1999.

The duties of the Assistant General Manager included:

- Conducting on-site review of construction activities;
- Ensuring compliance with craft performance standards;
- Monitoring work progress;
- Ensuring work is completed correctly and in a timely manner;
- Exercising functional supervision over construction foremen, consultants, professional, technical, administrative, and clerical personnel;
- Providing supervision and direction to trades and crafts forepersons;
- Assigning work activities and projects; evaluating work performance, and
- Reviewing personnel training needs.

The individual became Assistant General Manager on April 12, 1999, before the position description was finalized on April 19, 1999. As of November 2000, she still held this position. The Assistant General Manager position required an associates degree matching her actual educational background. The position also required four years of experience in construction, budget development, administration, and rehabilitation. The individual had no prior construction experience or experience managing a modernization program. She also informed us that she lacked education and training in the construction field. The only related experience was as a Family Sweep Principal Planner, a position she did not appear qualified for either.

The Principal Administrative Planner position for the Family Sweep program required someone with a thorough, experience-based understanding of the principles associated with the development and implementation of residential modernization and reconstruction projects, including the development and administration of modernization budgets, local state and federal laws, and techniques for preparing funding applications. The position also required a bachelors degree from an accredited college.

There was no information available in her personnel file to establish she met the experience requirement. The only college degree listed on the résumé was from Heald Business College. Only Associate degrees are available at the college.

Construction Project Manager

The Construction Project Manager, primarily in-charge of the on-site modernization work at Potrero Terrace and Annex, also did not meet the qualifications to manage a comprehensive modernization project. Discussions with the Construction Project Manager and review of his personnel file showed he had no prior experience in construction or modernization work. His education background had been in political science and law. Between 1990 and 1996, he was an assistant to the San Francisco mayor. The SFHA initially hired him as the executive assistant in July 1996. The individual stated he did not seek the Construction Project Manager position, but was assigned to the role in August 1997. The individual told us he had no previous construction knowledge, so he attempted to learn as much as he could on the job.

Assistant Construction Project Manager

Finally, it is not evident the Assistant Construction Project Manager met all qualifications. He was primarily in charge of the extensive Sunnydale modernization.

The Assistant Construction Project Manager position required a thorough understanding of modernization construction programs, including advance principles and practices of purchasing, inventory control, equipment management, supervision, personnel management, and budgeting. Applicant should have a bachelors degree with work in architectural design, construction engineering, public administration, or related fields. He should also have two years of responsible experience in public facilities construction, including one year of supervisory experience.

The individual's personnel file showed he had an education in construction inspection and accounting, although a bachelors degree was not evident. He had primarily worked as an ironworker, so he did have some experience in the construction field. He became an inspector for the SFHA in 1990. The only training reported in his file was for a two-day course in Uniform Plumbing Code in 1994. There was no indication he was adequately experienced in supervising a comprehensive modernization program.

SFHA Provided Unreliable Estimates to Counter OIG Claims

The SFHA obtained its own cost study from its consultant Hanscomb to counter our claim costs were excessive. The costs listed on these reports tended to support the SFHA's high cost of force account modernization. However, we noted several problems with the estimates. When questionable items are removed, such as estimates for work performed subsequent to the period reviewed, they no longer supported the high cost estimates

Per Unit Cost

The Hanscomb estimate for the Family Sweep developments included all costs to modernize the buildings, except for roofing work not performed by force account. Hanscomb's estimate for Potrero Annex was $113,164 per unit. This included two buildings in addition to the nine buildings completed by June 30, 1999. This estimate amount was somewhat higher than the Potrero Annex general ledger costs of $110,675 average per unit. Without further review, the estimate would appear to justify the use of force account at Potrero Annex, but not Sunnydale.

The estimated Sunnydale per unit cost for the 11 units converted to disability access was $90,558. This was lower than unit costs in the general ledger of $99,370, despite the inclusion of profit and subcontractor cost in the estimate.

The estimate for Clementina Senior Sweep only centered on the actual interior unit modernization, not including any common areas of the high-rise buildings or non-routine maintenance work. The estimated Clementina per unit cost for the 10 units modernized for disability access was reported as $36,102. As described earlier, the Clementina disability access general ledger account lumped the unit conversion with disability access work performed on common areas throughout the development. The common area work was not assessed by Hanscomb, and the actual costs for common area work cannot be separated from the unit cost in the general ledger. As of June 30, 1999, the total force account related cost attributed to the Clementina disability access 504 accounts was $329,040, or $32,904 per unit. On its face, the estimate would appear to justify the use of force account at Clementina.

Consultant Not Provided Sufficient Information or Time To Prepare Estimates

Discussions with a Hanscomb representative in charge of the estimate preparation showed the SFHA did not allow sufficient time to put together accurate estimates. The firm did not have an opportunity to visit the Clementina development, and site visits to Potrero Annex and Sunnydale were brief. Hanscomb stated it only entered one unit at each Family Sweep development. Hanscomb also stated insufficient documentation was provided to demonstrate all work the SFHA had performed at the developments. As a result, the consultant had to mainly rely on the building diagrams, the verbal assertions of the SFHA, and make assumptions concerning the level of work performed. According to Hanscomb, the SFHA was given the benefit of the doubt on any questionable items. Based on these limitions, we do not believe a complete and objective assessment of the SFHA modernization costs could be made.

Rates Applied By Consultant Were Not Consistent

Due to the limited time available, Hanscomb used year 2000 prices for Sunnydale and Potrero Annex and 'de-escalated' them down to 1998 prices. This de-escalation rate was loosely based on documentation showing changes in construction prices in the area over the last two years. The year 2000 prices were divided by 1.09 to arrive at the de-escalated 1998 prices. We believe the use of actual 1998 documented rates, possibly obtained from a documented rate index, would have been more reliable.

On the other hand, Clementina prices were not de-escalated. Hanscomb informed us the price rates used were what was believed to be the actual 1998 rates, with no additional conversion necessary. Hanscomb determined each price rate based on documented rates and then individually adjusted each price based on its memory and judgment of 1998 market conditions.

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However, the construction rates applied to the two family projects did not consistently match the rates applied to the Clementina senior development. In several cases, the Clementina rates were the same as the family rates prior to de-escalation, indicating that the Clementina rates also should have been de-escalated and that the estimate provided overstates Clementina costs.

The following are examples of differences in price rates we identified by comparing the senior Clementina estimate to the family Potrero Annex and Sunnydale rates after the de-escalation rate was applied:

Work Item	Senior Rates	Family Rates (before de-escalation)	Family Rates (de-escalated)	Differences (Senior less de-escalated Family)
Interior Walls	$7 / SF	$7 / SF	$6.24 / SF	$0.76 / SF
Ceramic Wall Tile	$10 / SF	$10 / SF	9.17 / SF	$0.83 / SF
Cabinets Install	$200 / LF base & $125 / LF wall	$200 / LF base & $125 / LF wall	$183.49 / LF base & $114.68 / LF wall	$16.51 / LF base & $10.32 / LF wall
Interior Door	$500 Each	$500 Each	$458.72 Each	$41.28 Each
Cabinet Demo	$6.50 / LF	$10 / LF	$9.17 / LF	$(2.67) / LF
Int. Door Demo	$50 Each	$50 Each	$45.87 Each	$4.13 Each
Interior Painting	$1 / SF ceiling & wall	$3.50 / SF ceiling & $1 / SF wall	$3.21 / SF ceiling & $0.92 / SF wall	$(2.21) / SF Ceiling & $0.08 / SF wall

Consultant's Estimate Included Unreasonable Factors

Hanscomb included factors in the estimate that would not be reflected in the SFHA general ledger. We eliminated these items to the extent practical to make the estimate comparable to the general ledger amounts. Once the additional factors were removed, the estimate costs were below the recorded general ledger costs.

According to a HANCOMB representative, the estimates included subcontractor profit and overhead of approximately 10%, along with SFHA profit of 10% for Family Sweep and 4% for Senior Sweep. These costs would not be applicable to the SFHA actual costs for force account modernization.

Hanscomb also included a significant additional factor of 16.5% on top of its estimate as additional costs to hire residents to perform force account work. Hanscomb's percentage was based on the assumption labor represented 70% of the modernization costs. The SFHA required 25% of its work force to be comprised of residents. Therefore, Hanscomb computed approximately 25% of 70% would be 17.5% (0.25 x 0.70 = 0.175). Hanscomb adjusted the 17.5% to 16.5% unexplainably. This 16.5% resident factor was then added on top of the total modernization costs on the Clementina, Sunnydale, and Potrero Annex estimates, significantly increasing the overall cost estimate. Hanscomb stated it assumed the residents hired would be 100% inefficient from a productivity standpoint. The consultant could provide no evidence to demonstrate this was reasonable.

OIG inspectors had never heard of such a rate being included in a cost estimate. We also believe unskilled residents should be hired at lower apprentice rates. Only skilled residents should be hired at journeyman rates, and if they cannot perform its craft adequately, they should not be used. In addition, Clementina did not have residents performing the modernization work, so no resident rates would be applicable.

The adjusted estimate per unit costs would be significantly lower if contractor profit, contractor overhead, SFHA profit, and SFHA resident hiring costs were eliminated from the modernization costs. The resulting per unit average cost was lower than the general ledger costs reported by the SFHA.

The following schedule shows the overall estimated cost would be significantly reduced if the disputed cost factors were removed from the estimates. If the subcontractor, profit, and resident hiring cost factors were eliminated from Hanscomb's estimates, the Sunnydale per unit cost estimate would be reduced from $90,558 to $64,362, Potrero Annex would be reduced from $113,164 to $80,429, and Clementina would be reduced from $36,102 to $26,857 per unit.

Adjusted Hanscomb Estimate	Sunnydale 504 Per Unit Total Cost	Potrero Annex Per Unit Total Cost	Clementina Per Unit Total Cost
Original Hanscomb Total Costs	$90,558	$113,164	$36,102
Total after Remove De-escalation Factor	$98,708	$123,348	N/A
Remove SFHA Profit	$ 7,897	$ 9,868	$ 1,337
Remove Change in General Conditions and Overhead (1)	$ 2,694	$ 3,367	$ 304
Remove Change in Mobilization (1)	$ 352	$ 440	$ 149
Remove Resident Hiring	$10,965	$13,702	$ 4,642
Remove Sub-contractor Profit and Overhead	$ 6,645	$ 8,304	$ 2,813
Adjusted Total Costs	$70,155	$87,667	**$26,857**
De-escalated Costs	**$64,362**	**$80,429**	N/A

(1) Amount represents difference between the original Hanscomb figures and the adjusted figures after subcontractor and resident hiring costs were removed. Adjusted calculations based on rates reported by Hanscomb.

Significant Inaccuracies Detected on Consultant's Estimates

The Hanscomb report also appears unreliable because there were inaccuracies on work performed, including work not actually done, questionable work, inaccurate quantities, and assumptions on work performed.

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The Clementina estimate included material costs for ‘furring’ the units ($30,994) and raising balconies ($1,887). The furring and balcony raising was not done. According to Hanscomb, the furring assumed drywall and wood framing over the outer concrete wall of each unit. There were no such walls in any units we inspected. The Senior Sweep department and our observations also confirmed balconies were not raised.

The cabinet cost Hanscomb attributed to the disability access units did not take into account the fact that the base cabinets, listed as 8 linear feet per unit, were smaller than anticipated: the area beneath the sink was primarily empty space to allow wheelchair access. The representative acknowledged more accurate cost figures could have been provided if actual cabinet configuration and measurements were known.

The SFHA had instructed Hanscomb to cost out the replacement of wood balconies at Potrero Annex. As a result, the Hanscomb estimate for Potrero Annex included costs for balcony deck, balustrade, and stair replacement ($451,020 de-escalated to $413,780, not including related overhead). However, our on-site review in September 1999 and re-visit in September 2000 showed the deck had not been replaced, and the repair work was indeterminable. In addition, the estimate included the cost to replace balcony deck stairs on building A-3 (de-escalated amount of $2,698). On-site observation showed there were no stairs leading to the deck. A resident living in one of the A-3 units stated there never were any stairs. The tenant had requested the SFHA to install them, and he believed the balcony deck had only been repainted.

The SFHA also instructed Hanscomb to cost out the replacement of all interior walls at Potrero Annex. As a result, the Potrero Annex estimate included substantial costs to replace all interior walls within each building, including the wooden frames (de-escalated to $273,583). This is not an accurate assessment. In September 1999, we observed interior wall frames repaired only in certain areas and were not fully demolished and replaced. New electrical was already being run through the walls, making any future wall removal highly unlikely. In addition, not all interior drywall was actually removed as Hanscomb had priced out.

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After reviewing photographs of the work, the Hanscomb representative agreed not all interior walls were removed.

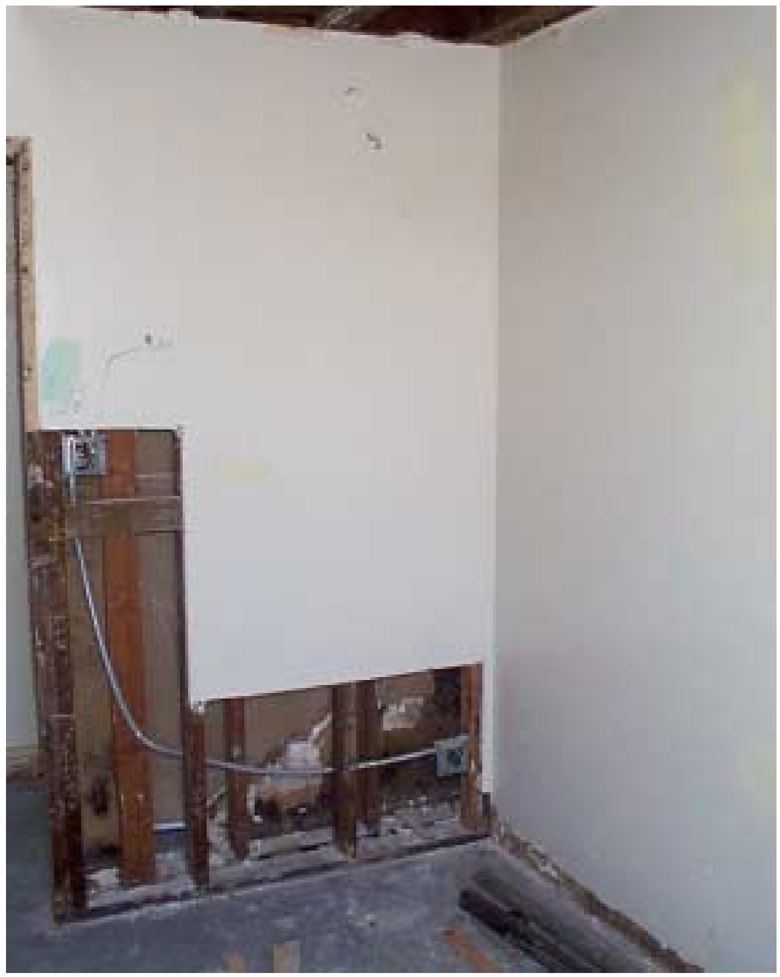

Photo of Potrero Annex building with modernization in-progress. Photo showed that section of interior wall drywall cut out to install new electrical, as opposed to complete demolition.

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Photo of Potrero Annex building with modernization in-progress. Photo showed only section of interior drywall removed and replaced.

Hanscomb also assumed ceramic tiles were placed on the bathroom floors at Sunnydale, and carpet in the bedrooms. Our unit inspections did not reveal carpet in any units or ceramic tiles on any bathroom floors. The Hanscomb representative said this was probably an error on its part.

The Hanscomb unit measurements and quantity reported exceeded those identified during OIG on-site review and review of building plans. There were significant questionable quantity differences for vinyl floor tile, interior paint, countertop size, receptacles, kitchen hoods, doors, appliances, and additional items. It appears that Hanscomb used plans for a Potrero Annex ‘A’ type building with five small units, instead of the actual plans for two large five-bedroom units occupying the entire building. This exaggerated the number of appliances and fixtures, and resulted in Hanscomb estimating those units as costing $251,246 each. Finally, Hanscomb provided a cost for intercoms in the family units that were not installed. These items appear to have overestimated Potrero Annex costs by $411,407, or $5,714 per unit.

Similarly, the Hanscomb estimate for Sunnydale also overestimated the quantity of outlets, switches, smoke detectors, plumbing rough-in, and ceramic tiles. Overall, these items added an additional $27,133, or $2,467 per unit.

Additional questionable costs related to Hanscomb making assumptions and overly relying on the SFHA's representations concerning the level of modernization work performed at all three developments. This included assumptions on miscellaneous coring, miscellaneous demolition, hazard abatement, door fill-in, staircases, saw cutting, coring, electrical, plumbing, joists, and floors. Hanscomb applied lump-sum estimates that were not based on knowledge of the extent of actual work performed.

Hanscomb's Clementina asbestos abatement estimate included cost for acoustical ceiling and complete tile floor removal totaling $18,700. Based on discussions with the SFHA, only selected areas of the floor tile had been removed and the locations could not be identified since they were undocumented. There was also no acoustical ceiling to remove. In addition, actual coring and additional demolition was not known.

Hanscomb estimated the asbestos abatement for all floors in the Sunnydale units. A document obtained from the Family Sweep department concerning work completed at Sunnydale, however, only reported one of the 504 disability access units had asbestos work.

The Sunnydale estimate included a very large allowance for saw cutting on six of the disability access conversion units in three buildings, totaling $60,000 ($55,046 de-escalated). Meanwhile, five other disability access units in a different building had only $2,600 ($2,385 de-escalated) for saw cutting combined. Hanscomb could not explain the size of the allowances, and the representative affirmed this might have been an error.

The total questionable cost included in the Hanscomb estimates totaled $22,945 for Sunnydale, $26,309 for Potrero Annex, $9,332 for Clementina. If questionable

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items were removed from the Hanscomb estimates, they would be significantly lower as listed in the following chart.

Removal of Questionable Costs From Estimate

Adjusted Estimate	Sunnydale 504 Per Unit Total Cost	Potrero Annex Per Unit Total Cost	Clementina Per Unit Total Cost
Total Direct Modernization Costs (1)	$66,453	$83,042	$28,131
Interior Wall Demolition and Installation	-	$(4,142)	$(1,891)
Furring	-	-	$(3,099)
Infill Exterior Walls	$(818)	-	-
Balconies	-	$(6,264)	$(189)
Asbestos	$(2,066)	-	$(1,870)
Sheet Vinyl at Stairs	-	$(150)	-
Repair Wood Flooring	-	$(2,729)	-
Base Cabinets	$(2,573)	-	$(1,600)
Floor joists	-	$(5,205)	-
Stair Work	$(6,732)	-	-
Scrabble Floor	$(245)	-	-
Sawcutting Allowance	$(5,691)	$(489)	-
Overestimated Quantity	$(2,689)	$(6,228)	-
Floor Demolition	$(313)	$(420)	$(183)
Stucco wall Pod		$(682)	
Coring Allowance	$(909)	-	$(250)
Misc. Demo	$(909)	-	$(250)
Total Questionable	**$(22,945)**	**$(26,309)**	**$(9,332)**
Direct Cost Less Questioned Cost	$43,508	$56,733	$18,800
Less 10% Sub-contractor Profit & Overhead (2)	$ 4,351	$5,673	$1,880
Total Direct Less Subcontractor costs	$39,157	$51,060	$16,920
Include Mobilization (2)	$ 783	$ 1,021	$ 338
Include SFHA General Conditions and Overhead (2)	$ 5,991	$7,812	$ 690

Adjusted Estimate	Sunnydale 504 Per Unit Total Cost	Potrero Annex Per Unit Total Cost	Clementina Per Unit Total Cost
Total Costs	$45,931	$59,893	**$17,948**
De-escalate Costs (2)	**$42,138**	**$54,948**	N/A
Original Hanscomb Estimate	$90,558	$113,164	$36,102
Difference	**$(48,420)**	**$(58,216)**	**$(18,154)**

(1) Direct costs only, no resident hiring, overhead, or profit included. See prior chart on page 39 above to reconcile direct costs to Hanscomb total estimate costs.
(2) Computations based on rates reported by Hanscomb.

The adjusted estimate amounts are far below actual costs in the general ledger. However, due to the lack of information indicating the level of work actually performed, the true cost to modernize the units at the three developments remains uncertain.

Additional Cost Estimates Were Unreliable

Additional estimates were provided by the SFHA for modernization work performed at Clementina. However, these estimates could not be accurately compared to the actual costs incurred up to June 30, 1999, the cut-off date of our scope.

The SFHA provided additional estimate information related to common areas work performed at Clementina. This included a cost projection for planned 504 common space modernization prepared by a consultant in 1998 and an estimate of non-504 common space modernization prepared by a different consultant on August 31, 2000. These estimates included costs for work not yet performed as of OIG inspections and these costs were not included in the recorded costs as of June 1999 that were used in our cost analysis. During the OIG September 1999 and November 1999 on-site inspections, the SFHA had only partially completed the common area flooring. Likewise, the common area disability access bathrooms were not all complete, and carpet had not been laid in the social room. The consultant's estimates provided costs for all work items completed. Other items described in the estimates had not been claimed during the inspection as having been accomplished, such as a concrete floor-slab, installing plastic laminate on wall, and lowering light switches and fire alarm pull stations. In fact, the Senior Sweep progress report from August 4, 1999 showed Clementina common area work was only 50% complete, with painting, flooring, and lighting still in progress. In addition, 504 public space work was only 10% complete. As a result, we cannot rely on any listings that would claim all work as being completed by our cut off date of June 30, 1999.

Auditee Comments

The SFHA disagreed with our conclusions and recommendations. We have summarized its response below into 11 issues. The SFHA also discussed other issues during the March 26, 2001 exit conference and in subsequent correspondence.

(1) It believed the OIG misrepresented information presented in the July 28, 1998 cost justification letter provided to HUD. It stated the OIG misrepresented the costs to convert a senior disability access unit, and OIG data was not substantiated by the general ledger. The SFHA response stated the letter did not address and justify each type of work to be performed by force account, since the SFHA was only trying to show work that could be completed.

The SFHA also did not agree with warrantee issues identified by the OIG.

(2) The SFHA asserted the MOH costs were higher than the SFHA modernization cost when considering average square foot costs. It stated the use of per unit modernization costs was not an accurate method for determining costs, and square footage methods were preferable. It also asserted other benefits, such as the employment of residents, were a significant part of the force account program the OIG did not consider. When these factors were all considered, the use of force account was justifiable.

(3) Similarly, the SFHA expressed problems with the OHA analysis. The SFHA did not believe the OIG comparison of OHA units to its Potrero Annex modernization was valid. It stated the average per unit size was 106 feet larger than an OHA Campbell unit. As a result, force account costs at Potrero Annex should be higher.

(4) The SFHA also believed the Senior Sweep force account work was reasonable. The SFHA referenced an insurance estimate to repair one fire-damaged unit at Clementina, and compared it with average unit cost. Since the actual costs were lower than the insurance estimate, the force account work was cost effective.

(5) The SFHA stated it maintained a sufficient level of documentation on how it spent the force account funds and the work performed. The SFHA stated it was not required to maintain a specific level of progress reports, and it maintained sufficient documents. It added that a force account checklist was established in January 2000, which provided progress information.

(6) Regarding the inspection process, the SFHA believed it did not have to obtain city inspections. The SFHA also argued its inspectors were independent and had sufficient experience. The independence problem was resolved by reassigning the inspectors to the Modernization department in August 1999. The response cited the SFHA had three qualified inspectors and provided information on their backgrounds and additional training obtained.

(7) The SFHA beleived unit deficiencies identified in the report should be considered maintenance problems and not modernization issues. It pointed out three examples where the modernization work was completed a significant period before problems were identified by the OIG.

(8) The SFHA stated emergency conditions existed at its developments for some time, before it started using resources for other improvements. It stated it weighed resolving the emergency conditions compared to performing other improvements, such as landscaping. It believed the other improvements would raise the quality of life for the residents. It excused not addressing the emergency conditions by stating available CGP funds were not adequate to resolve the emergency work and all other priority needs of its public housing stock.

(9) The SFHA stated there were sprinkler problems, but they were resolved and landscaping is now healthy.

(10) The SFHA believed the Family Sweep managers were qualified.

(11) The SFHA stated the OIG did not provide enough time to provide accurate cost estimates. The SFHA referenced statements made by Hanscomb. The SFHA points out Hanscomb asserted differences in unit rates between the Family and Senior Sweep was due to difficult working conditions at Clementina, which would increase costs. Hanscomb also provided some additional information related to discrepancies in estimate rates.

OIG Evaluation of SFHA's Response

Our evaluation of the SFHA's comments parallels the 11 SFHA issues.

(1) We considered the SFHA's position, and removed the warrantee issue from the audit report.

Senior Sweep costs were taken from the general ledger and Senior Sweep progress report data. We were aware disability access conversion cost for 504 units included unit modernization and additional 504 work performed on common spaces. However, the SFHA did not separate the 504 unit work from the 504 common area work in either the general ledger or any other documentation. Back up was not available to demonstrate how the SFHA calculated the figures in the July 1998 letter. We have not been presented with support to suggest our comparison was invalid, a more accurate determination was possible, or that the figures in the letter did not include common area work.

When the letter was issued to HUD, the SFHA had already begun the use of force account, including landscaping work, and was not simply referencing possible modernization.

(2) The initial cost comparison provided by the SFHA to HUD in the July 28, 1998 letter, compared per unit cost of modernization work performed by the MOH to the SFHA force account. The OIG review showed the figures presented to HUD were inaccurate, misrepresenting the MOH costs as being higher than the SFHA costs. Instead

of addressing this fact in the response, the SFHA stated the average cost per square foot should be used instead. The OIG used per unit costs comparisons to remain consistent to these unit cost comparisons.

The SFHA averaged the three MOH projects and compared this figure to the average square footage costs of three SFHA developments. We do not believe it is appropriate to compare the figures in this manner, because they do not provide a reliable cost comparison. Our OIG inspector stated square footage cost of modernizing smaller units should not be compared directly to dramatically larger units. This is because the smaller units can have higher relative costs since the same number of expensive fixtures and plumbing are placed into a smaller overall space. As a result, the studios of Apollo and Lyric should not be directly compared to the larger units of Potrero Annex. However, 2300 Van Ness units were similar to Potrero Annex. The SFHA Potrero Annex square foot costs of $113.16 are still significantly higher than the MOH Van Ness costs of $70.46.

The Clementina per square foot costs appeared low compared to the MOH costs to modernize similar units at Apollo and Lyric. However, a direct comparison of these is not reliable. This is why we did not include this comparison into the audit report. The MOH modernization costs included complete renovation throughout the buildings, including seismic upgrades, roof replacement, upgrades to sprinkler systems, window replacement, the installation of an elevator at Apollo, etc. On the other hand, the Clementina cost presented show the cost to modernize the interior of the ten disability access units and partially completed disability access work on common areas. As a result, the rates were not comparable because the scope of work was significantly different.

The SFHA stated other benefits of force account should be reviewed, such as resident employment. We did not look into this area, and therefore cannot provide an opinion on the actual benefits obtained, or whether they could have been more effectively conducted through contractors. Nevertheless, the SFHA did not identify what extra costs were attributable to using resident as workers or explain why their use would necessarily increase costs significantly.

(3) The OHA units were reasonably close in size to the Potrero Annex units. If we use the square footages provided in the response, Potrero Annex units would be an average of 106 square feet or 12% larger than Campbell. However, if we use data provided on the Hanscomb estimates, the average per unit size of the completed Potrero Annex units was 945 square feet, only 45 feet larger than the average unit size identified by the OHA. In either case, the increase in size does not justify the SFHA's high modernization costs, which were approximately 150% the OHA costs.

(4) The SFHA did not provide detail of how the insurance estimate was calculated, the scope of work identified by the insurance carrier, or the modernization work done earlier on the unit. As a result, we cannot rely on this estimate as justification for the use of force account.

(5) The level of documentation over the work performed by the force account was inadequate for the OIG inspectors to determine the full extent of all modernization, so cost estimates could be produced and accurately compared to actual costs. The SFHA's cost tracking methods did not allow for sufficient analysis to determine whether the force account was operating cost effectively. This information would have been beneficial for the SFHA's own needs assessments, program monitoring, cost analysis, and budgeting.

The other documents identified in the response by the SFHA did not provide sufficient information for the Family Sweep program to adequately track the level of completion. The fact that Senior Sweep maintained more extensive data showed the two programs were not consistent, and also demonstrated the information could have been developed for the Family Sweep program if it chose to establish a system to do so.

The type of information listed on the checklist does not appear to be any more useful than the final inspection reports. The checklist does not identify percentages of completion or the scope of modernization. In addition, since only a blank version of the checklist was included as

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support to the response, we have no evidence these documents were used.

(6) We considered the SFHA's position, and removed the issue concerning inspections from the City of San Francisco from the audit report.

While Family Sweep inspectors may have been reassigned to the Modernization department to add to their independence, all completion reports prepared for the work reviewed at Sunnydale and Potrero Annex were signed off when the inspector was still under the Family Sweep program. In addition, since the manager of the Senior Sweep program also became the head of the Modernization department, the inspectors were still reporting to the management in charge of the force account work. Finally, no information was provided to show the three inspectors identified by the SFHA were the inspectors actually reviewing the force account work. The information was inconsistent with that of the inspector who signed off on the inspection reports we examined.

(7) The SFHA has a valid point relating to the unit deficiencies. We reviewed completion reports provided by the SFHA and agree several of the items listed in the OIG audit report do appear likely to be maintenance related issues. We adjusted the report accordingly. However, since there were still a number of problems related to the force account work, our overall opinion has not changed.

(8) We were not presented with any information to show the conditions were already emergencies as asserted by the SFHA. In addition, the SFHA's argument did not provide a reasonable explanation for not addressing emergency conditions. If emergency conditions existed while resources were limited, then it was not reasonable to first address other non-emergency needs of the projects. The SFHA should have tried to resolve known emergencies immediately with available funding, as opposed to allowing the health and safety of residents to be threatened. Resolving emergency conditions quickly would also prevent further deterioration and increased costs of repairs, such as from leaking roofs.

(9) There was no information available to show sprinkler systems problems were resolved or can be fully utilized in the future. The irrigation system and condition of the lawns were observed at several points over the course of our review. Of course, in March, after months of rain, the area should green on its own. However, if the sprinkler system is not maintained during the dry months of the year, the landscaping will degrade.

(10) Overall, the Family Sweep Management did not have sufficient experience over construction and implementation of an extensive modernization program.

The Assistant General manager now lists 14 year of experience with a private sector general contractor. However, we were previously informed this related to the fact that the manager's husband was a general contractor. There is no certainty of what experience may have been gained. In addition, a previous résumé in the manager's file did not identify prior experience with a contractor. It also showed the position at the Alabama Power Company was as an office representative / account clerk, where she assisted the office manager.

Whether or not the SFHA required the Construction Project Manager position to have experience in construction, the employee had no experience or training in this area, making his appointment questionable. It is not clear how a background in political science aided in the on-site management of a comprehensive modernization construction project. The employee stated he had to learn about construction while on the job.

The SFHA claimed an additional five years of experience for the Assistant Construction Project Manager, the nature of which was not specified on the employee's resume. As a result, we have no information this provided additional experience that would make the employee more qualified.

(11) The SFHA's argument does not change the fact that inaccurate estimates were provided to our office to justify high force account costs. The OIG did not require the SFHA to obtain costs estimates from its consultant, Hanscomb. The SFHA had opportunity to produce estimates at any time it chose, either before or during the

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course of the audit. The force account management only volunteered to have this done after results were discussed.

We informed the SFHA we would review any information presented, but needed it before we concluded our review and prepared the draft report. The SFHA was told it would also have an opportunity to provide information as part of its response to the draft audit. The SFHA's consultants, Hanscomb, produced the Clementina estimate on August 15, 2000, five days after Senior Sweep issues were initially discussed with the SFHA. The estimates for Family Sweep developments were provided by September 1, 2000, approximately two weeks after the issues were discussed with the SFHA. The SFHA never mentioned the information could be subject to significant error due to the short timeframe in which the information was generated. We discussed the estimates with Hanscomb, and only then determined it could have provided more detailed and accurate information if additional time had been available.

Although the reasons Hanscomb identified for the discrepancies may be reasonable, the actual reason still appears to be due to an error. We spoke to one of the OIG inspectors and she agreed the types of conditions identified by Hanscomb could result in increased cost. However, we noted the difference in costs matches the de-escalation rate listed on the estimates for the Potrero Annex and Sunnydale. In addition, when we inquired into an example of how Hanscomb determined its Clementina costs, the representative did not mention any additional conditions or factors.

We accept Hanscomb's position on the fixture rough-in and have made appropriate changes to the audit report finding.

Recommendations

As described in the Prior Audits section of this report, a previous OIG audit raised concerns over key SFHA staff, including Family Sweep management. ***Three*** personnel hiring practices recommendations from that audit remain open because HUD does not yet have assurance that the SFHA has successfully implemented them. While the full implementation of those recommendations will partly address the problems described in the current report, additional actions are necessary.

We recommend the Assistant Secretary for Public and Indian Housing require the SFHA to:

1A. Terminate the use of force account for comprehensive modernization work and obtain independent contractors, selected through required procurement practices, to complete remaining comprehensive modernization.

1B. Terminate non-routine maintenance until it can sufficiently justify the use of force account employees is more effective than contracting out the non-routine maintenance. If practical, require the SFHA to obtain bids from independent contractors as part of its analysis.

1C. Obtain qualified management for any force account activity allowed to continue.

1D. Establish procedures to ensure adequate record maintenance over modernization activities, including detailed specifications of work actually performed at the developments.

1E. Reassess the priority of modernization work remaining to be performed, and ensure that high priority items are consistently addressed before low priority improvements.

1F. Establish maintenance procedures to ensure that the CGP funded landscaping is adequately maintained, and the sprinkler system is operational.

1G. Correct the HQS violations and problems noted during the OIG inspections.

1H. Ensure SFHA Modernization department has fully qualified and trained inspectors review all aspects of force account modernization. In addition, require the SFHA modernization department to have its inspectors re-inspect buildings and units modernized by the force account program to ensure work was adequately performed. The modernization inspectors should be independent from the force account program.

1I. Return the $184,161 of excessive modernization funds to the CGP, to be used for future modernization.

The SFHA Was Not Adequate Recording and Tracking Assets and Expenditures Under the CGP

The SFHA did not adequately record and track its assets and expenditures. The general ledger recording was inadequate to accurately assess CGP force account expenditures. Expenditures were charged or moved to incorrect project accounts making the general ledger unreliable. The SFHA also did not consistently follow adequate procedures over the generation of its purchase orders relating to force account work. In addition, the inventory system over CGP purchased equipment was insufficient to track all items. Finally, the SFHA was charging ineligible payroll to the CGP grant, while not maintaining adequate documentation to substantiate additional payroll attributed to the grants. These problems occurred because the SFHA did not develop sufficient procedures and controls, or did not follow established procedures. As a result, there was inadequate information to assure that that all assets were accounted for and all expenditures were legitimate for CGP activities. In addition, $98,102 of ineligible and $73,210 of inadequately supported maintenance expenses were charged to the CGP, with possibly additional amounts in other periods.

Various Rules Govern Recording and Accounting Requirements

HUD's ACC with the SFHA required the SFHA to maintain records to identify the source and application of funds in such a manner as to allow HUD to determine that all funds have been expended in accordance with each specific program regulation and requirement. The SFHA must maintain complete and accurate books of account for the projects of the SFHA in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit. Books and records of the SFHA shall be maintained in such a manner as will at all times show the operating receipts, expenditures, and reserves for the project separate and distinct from all other projects under the ACC.

Title 24 of the CFR, Section 85, Standards for Financial Management Systems, requires grantees to maintain records that adequately identify the source and application of funds provided for financial-assisted activities. Unit cost information should be developed whenever appropriate.

HUD Guidebook 7485.3G, Comprehensive Grant Program, requires force account labor costs for carrying out physical improvements to be charged to the appropriate development account for hard costs.

HUD Handbook 7460.8 Rev 1, Procurement, states that small purchases up to $25,000[3] may use simplified procedures, such as purchase orders. The housing authority shall maintain proper records of its small purchases. It is crucial that the purchase order clearly specify the purchased items, services, and the terms and conditions of the purchase.

24 CFR Sub-Section 84.34 includes standards for property management for equipment acquired with Federal funds. These standards require:

(1) Equipment records shall be maintained accurately and shall include the following information: a description of the equipment; manufacturer's serial number, model number, federal stock number, national stock number, or other identification number; source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; information from which one can calculate the percentage of federal participation in the cost of the equipment; location and condition of the equipment and the date the information was reported; unit acquisition cost; and ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates HUD for its share.

(2) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

[3] The current small purchase threshold has been increased to $100,000 under 24 CFR 85.36.

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SFHA Policies Over Inventory

The SFHA Policies and Procedures also contain requirements for the maintenance of the inventory system. This includes an assignment of individuals' responsible for inventory. SFHA procedures hold the manager of each project/location responsible for the assets at the location, including any unexplained discrepancies. The manager will also be responsible for monthly inventory reconciliation.

In addition, the Fixed Asset Accountant has several inventory responsibilities. They include:

- Reconciling the Fixed Assets subsidiary ledger to the general ledger,
- Arranging and conducting periodic fixed assets counts, and
- Tag control.

The managers of each project/location also hold additional responsibility for inventory items. These responsibilities include:

- Ensuring that all assets received are appropriately tagged,
- Reconciling fixed assets listing received from the Fixed Assets Accountant on a quarterly basis, and
- Documenting all transaction (receipts, transfer and disposals) of Fixed Assets on a transaction basis and transmission of the information to the Fixed Assets Accountant.

The Warehouse Manager also has inventory responsibilities that include:

- Preparing and distributing tags for new assets/assets transferred from inventory,
- Transferring of inventory to fixed assets, and
- Preparing fixed assets documentation and the transmission thereof to the Fixed Assets Accountant.

According to the SFHA policies and procedures, dwelling personal property includes ranges, refrigerators, washers, and dryers, is always capitalized no matter the cost of the item. All capitalized and expendable equipment items are to be assigned an inventory number and tagged at time of receipt or transfer from inventory. According to these policies, all equipment costing at least $100 should have a tag number.

The SFHA policies and procedures also include information on periodic inventory counts:

- Periodic inventory counts will be conducted under the supervision of the Fixed Assets Accountant,
- The assets counted will be compared to the assets on hand per the fixed assets system,
- The development/department manager will be responsible for explaining any discrepancies, and
- Records will be maintained related to discrepancies by respective departments.

CGP Criteria on Ineligible Costs

HUD CGP Guidebook 7485.3G, states that non-routine maintenance is an allowable expense, but routine maintenance is not.

Inadequate General Ledger Reporting

The SFHA had an inadequate general ledger tracking and reporting system over its CGP expenditures. The system did not accurately identify, track, and report all force account modernization expenditures. The SFHA had difficulty producing reports, transfers were arbitrarily made to match budget, general ledger descriptions were inadequate, and allocations to accounts were inconsistent and some could not be adequately justified. Expenditures could be reviewed on an individual basis to determine what they were. However, with the numerous lump sum transfers, it was difficult to determine what account the amount eventually ended up in. As a result, there was no assurance that all expenditures were properly accounted for and classified in the general ledger. In addition, management did not have adequate financial information to oversee activities.

Comprehensive General Ledger Reports Not Generated In Timely Manner

The SFHA Finance department was not able to produce general ledger reports from its system that would show comprehensive detail concerning force account expenditures charged to CGP accounts. We had to obtain this information from Management Information System (MIS) department, which resulted in considerable delays and limitations on the number of developments that could be reviewed.

We requested the Finance department to provide comprehensive general ledger reports detailing CGP expenditures. This included listing expenditures attributed to all CGP grants for all projects between October 1996 and June 1999. The Finance department did not have hardcopies of the documentation available. Finance stated it would have to spend considerable time generating this documentation from its system, producing a separate report for each account number for each fiscal year requested, possibly requiring a month of intensive effort. This information would also not include related vendor names, invoice numbers, check numbers, and purchase order information. These reports would need to be produced on an individual basis for each transaction.

As a result, we requested SFHA's MIS computer department to provide the necessary data. It took a week for the department to provide the data for a single development. A subsequent request for additional data resulted in over a four-month wait for documentation, between November 1999 and March 2000. The data files provided also required extensive adjustment to provide accurate expenditure information. As a result, we could only review general ledger information for three sample projects.

General Ledger Descriptions of Expenditures Inadequate

The SFHA entered inadequate descriptions in the general ledger to describe the purposes of CGP expenditures. In many cases, the only way to sufficiently identify the expenditure was through examination of supporting documents of individual transactions. As a result, we have no assurance that ineligible expenditures were not charged to the grants, without an unreasonably extensive effort to check each material transaction.

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We reviewed general ledger reports the Finance department could produce and determined they would be inadequate to assess force account expenditures. As mentioned above, the reports did not include vendor names, invoice numbers, check numbers, or purchase order numbers. Many disbursements from accounts payable did not provide detailed descriptions of the expenditures. This included line item descriptions such as “TRANSFER CLOSED PO 11”, “3/26/98 8/18/98 3/25/”, “4WV x 12” (4 X 12 OVAL)”, “PROVIDE PURCHASE ORDE[R]”, “Request to increase p”, “UNFORSEEN CONSTRUCTIO[N] *(sic)*.” (Note: PO stands for purchase order). Items obtained from the SFHA inventory warehouse did not include a description, but did list either a claim or warehouse identification number. Finally, material general ledger transfers between accounts often only included vague descriptions such as “ADJ OVERAGE ADJ LINE ITEM OVERAGE” or “RECLASS BUDG RECLASS EXPS; BUDGET” *(sic)*. Each line item would have to be checked individually in the system to obtain the additional information. There were over 11,000 expenditure and transfer debits and credits under the Sunnydale CGP accounts alone. No other reports available from the SFHA’s general ledger system could provide the comprehensive data needed.

Information provided by MIS was more comprehensive. Invoice, check, vendor name, and other information could be linked to the line item expenditures in the database. However, the descriptions of the expenditures were still inadequate to review expenditures.

Transfers and Allocations Make General Ledger Unreliable

The general ledger included many large transfers of funds between CGP funds and accounts, made primarily to move expenditures where funds had been budgeted. In addition, allocations of expenditures to projects were not always consistent or reliable. As a result, there is no assurance that general ledger accounts for CGP modernization reflect accurate costs.

The SFHA Finance department was responsible for establishing the account numbers in the general ledger. The account numbers distinguished the fund, the type of work the expenditure was applicable to, whether it was labor or materials, and the applicable project. The force account

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departments were responsible for identifying which account an expenditure was attributable to before being entered into the system.

Finance prepared transfers so actual expenditures would match its budget. We noted for a single project, Sunnydale, there were 131 non-payroll related transfers between Sunnydale general ledger CGP accounts totaling $18.2 million, between May 31, 1997 and July 31, 1999. Finance stated these transfers were primarily expenditures entered into the general ledger in excess of the amount budgeted for the account. It would then transfer the overage either to a different general ledger account under the same fund or to another CGP fund. These lump sum transfers could not be matched to specific expenditures in the general ledger. Finance further stated it did not have the ability to charge expenditures to the next CGP grant fund timely, when the current grant fund budget is fully expended. This occurred because it was difficult for Finance to track and determine the actual expenditures amount balances under a line item. In some instances, Finance transferred amounts back if too much had been transferred earlier.

As a result, costs were not consistently charged to the correct accounts, and were often transferred to accounts that did not incur expenditure. Transfers included moving funds between labor and materials accounts. Finance could not substantiate whether transfer amounts were actually labor or materials. These transfers make the designation of labor and material accounts useless and reduce the effectiveness of budgeting. Budgeted amounts cannot be adequately compared to actual costs if actuals are moved within the general ledger to reflect budget. Overall, we identified transfers of $5,238,176 between Sunnydale general ledger accounts that appeared to misrepresent the expenditures, as listed in the following schedule.

Transferred From	Transferred To	Amount
Lead Abatement general	HQS Labor	$47,104
Landscaping Materials	Landscaping Labor	$34,399
Exterior Painting Labor	Exterior Painting Materials	$17,942
HQS Labor	Administrative Salaries	$47,104
504 Materials	504 General	$2,590
HQS Materials	HQS Labor	$349,245
Landscaping Materials	Landscaping General	$102,718
HQS Labor	HQS General	$905,188
Landscaping Labor	Landscaping General	$534,083
504 General	504 Labor	$38,526
HQS General	HQS Labor	$1,326,946
HQS General	HQS Materials	$1,828,852
Landscaping General	Landscaping Materials	$3,480
TOTAL:		**$5,238,176**

The SFHA was also attributing significant expenditures to general CGP accounts with no project designated, called ‘PHA-Wide’ accounts. These amounts were then transferred to the individual projects at a later point in time instead of initially recording the expenditures under the project account in question.

We identified two significant allocations of expenditures from the ‘PHA-Wide’ accounts to projects that were not based on where the expenses were actually incurred. In one instance, $601,413 was allocated evenly to four different Family Sweep developments. Finance could not produce information to establish whether all the expenses actually pertained specifically to these projects in the ratio applied. In another case, $160,228 was allocated to various family and senior developments based on its budget percentages for the year. In the latter case, the expenditures could not be identified by Finance within a reasonable timeframe to determine whether they were overhead or direct construction expenses that had not been tracked by the SFHA to specific developments.

There were 69 allocations to the senior projects from the ‘PHA-Wide’ accounts for force account expenditures between January 1997 and July 1999. These expenditures totaled $403,922 and included various materials for force account work, and were not simply overhead. Although the Senior Sweep department apparently tracked these expenditures individually, it was not readily apparent, based on invoice review, whether they all were actually applicable to the projects transferred. While it was not practical to review all 14,000 debit and credit entries in the PHA-Wide accounts, we noted no instances of any amounts having been allocated to an incorrect development. Nevertheless, the result of these transfers to the senior projects' general ledger accounts was lack of detailed descriptions of purchases. The accounts only showed the transfer entries for these expenditures and did not specifically identify the individual expenditures.

Method of Recording Costs Insufficient To Identify Costs of Different Activities

The SFHA did not have the ability to fully identify the actual costs of different modernization work items. Finance did not track expenditures to this level of detail and neither did the Family and Senior Sweep programs. This makes it difficult for the SFHA to assess the costs of different crafts and determine whether it was performing work in a cost effective manner.

At Sunnydale, the cost of non-routine maintenance could not be separated from the cost of performing comprehensive modernization on non-504 units. It was impossible to determine what work was attributed to these accounts. At Potrero Annex, work performed to rehabilitate the exterior balconies cannot be separated from the interior work or other exterior work performed. Thus, management could not compare its actual costs directly to the planned costs.

The Senior Sweep program also could not separate the costs of work performed on disability access work on common areas from disability access work performed directly to the units. In addition, the Senior Sweep progress report significantly misreported the cost of its work performed on Clementina 504 disability access units. Senior Sweeps had not been able to distinguish its own 504 costs from work charged to the accounts from prior periods. This prior period work was performed on other units by the previous modernization program, and was not representative of Senior Sweep costs or activity. These additional costs would significantly increase and misrepresent the overall modernization costs of the Senior Sweep program. As a result, it is not certain whether progress reports accurately reflected modernization.

SFHA Was Not Consistently Following Proper Purchase Order Procedures

The SFHA was not consistently following established purchase order procedures relating to its force account expenditures charged to the CGP. Force account purchase orders were frequently prepared after the expenses were incurred and invoices were submitted by the vendor. In addition, the purchase orders did not consistently identify items purchased and the quantity. Some invoices were also not charged to the correct purchase order. This occurred because there were inadequate controls to assure that Procurement and Finance knew and approved of purchases before they were incurred.

Purchase Orders Prepared After Invoices Received

A significant number of purchase orders were prepared after the expenditures had been incurred and invoices were submitted to the SFHA. Nine of 21 purchase orders reviewed for force account materials had an invoice date earlier than the purchase order. The differences ranged from several days to several months.

Purchase Order Descriptions Inadequate

Descriptions on the purchase orders were inadequate. Twenty-one of 34 purchase orders reviewed had inadequate descriptions of the items and quantity to be purchased. They included descriptions such as "Transfer Closed PO#11442", "Increase encumbrance to PO 7321 for flooring materials and supplies", "Increase encumbrance to open PO 6867", and "Open purchase order for electrical materials and supplies for Sunnydale." These purchase orders did not identify item purchased, the individual prices, or the quantities.

Invoices Applied To Incorrect Purchase Orders

In addition, the project reported on the purchase order was not always consistent with the project reported on the invoice. We selected a sample of 10 invoices where the applicable development was reported on the document. Two of the purchase orders attached and referenced in writing on the invoice specified they had been created for a different development. In one case, invoice number 5640 for Sunnydale was attached to purchase order number 8225 for Westbrook. In the other instance, a Potrero Annex invoice was attached to Alice Griffith purchase order 12635.

These problems occurred because SFHA policies did not prevent the creation of 'open' orders identifying specific items purchased. These purchase orders often had arbitrary set amounts, under which force account staff could purchase whatever materials required. However, the force account frequently purchased more materials than the purchase order allowed, which was apparently not recognized until the invoices were submitted to the SFHA. As a result, another purchase order would be generated to cover the expense, after the fact.

The SFHA Did Not Have an Adequate Inventory System

The SFHA did not maintain an adequate inventory system to allow for the accurate tracking and recording of SFHA equipment and supplies. The SFHA did not consistently track and update all items, perform inventory counts, or maintain logs for supplies and equipment stored on-site. The SFHA did not place an emphasis on tracking and confirming assets. As a result, there was no assurance that equipment and other materials were all accounted for and were used for CGP activities.

The SFHA implemented its present Creative Computer Solutions (CCS) system in 1995. According to the Finance department, it considered the fixed asset element of the system to be unimportant and did not implement it. In addition, the SFHA maintained a manual system that did not have accurate information.

Appliance Inventory Reports Inaccurate

Appliance inventory listings did not have accurate information. A significant number of identification numbers listed on the reports did not match the actual items in the units We selected 61 appliances from the Sunnydale, Potrero Terrace, Pine Street, and Valencia developments for on-site inspections. Eighteen of 52 appliances did not match the appliances actually in the units. We could not confirm the remaining nine appliances because the identification numbers could not be observed.

There was some confusion among the SFHA departments as to which department could provide the most accurate inventory information. Property managers believed the warehouse had the information. The warehouse department stated the information was all submitted to Finance for record maintenance. Finance believed the Customer Service department may have had more accurate information. However, Customer Service was unable to generate the information because it had not been entered into the computer system.

All Equipment Could Not Be Confirmed

We attempted to locate a sample of equipment that should have been tracked through the SFHA's inventory system. This included Family and Senior Sweep force account equipment and some additional Modernization, Finance, and Central Service items charged to the CGP grant. Equipment logs from the force account programs were insufficient to adequately confirm items. We generally sampled expensive items reported in the CGP general ledger accounts, such as vehicles, computers, tractors, and other equipment and attempted to obtain identification numbers to track the items and then check the items on-site. However, due to the SFHA's inadequate inventory system, all equipment could not be confirmed.

Assets were not consistently tagged for tracking. We did note all 35 vehicles checked had fleet numbers assigned to them, and we were able to obtain the vehicles' serial numbers. However, several other assets examined during our sample inspection did not have a tag number or the tag number could not be confirmed.

There was also inconsistency between SFHA practice and written procedures. SFHA policy required the tagging of all items costing over $100. However, the Finance office advised that only items of $500 or more were tagged and tracked. Based on items within our sample, of the 164 other assets sampled that should have been tagged, costing $129,768, 128 items had no tag number. These untagged sample items had a cost of $88,833.

We confirmed a sample of eight tagged items of equipment costing $75,579 and 11 vehicles from the SFHA records to the items on-site. All vehicles were located and accounted for. Of the remaining non-vehicle items, three items totaling $12,109 could not be adequately confirmed on-site. This included computers totaling $5,273 and one $6,836 electric bender.

We noted a material exception relating to Finance department computer equipment charged to the CGP. Of three laptop computers purchased by the SFHA, only one could be located. The Executive Office had ordered the computers and their location was unknown. The employee initially assigned to the computers no longer worked for the

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SFHA. The Executive Office was unable to provide any additional information concerning where the two computers totaling $5,273 computers were located.

An electric bender did not match to inventory information available. The electric bender observed on-site had different identification numbers than shown by the Finance department. The Family Sweep department stated the vendor had replaced the item. The vendor did confirm a replacement. Nevertheless, neither the vendor nor the Family Sweep department could provide information indicating the identification number of the new item. Thus, there is not assurance additional electric benders were not purchased, which might account for the item on hand.

Insufficient Force Account Inventory Practices

The SFHA did not sufficiently identify and track equipment because it was not consistently applying established inventory procedures. The SFHA was not taking regular physical inventory to confirm recorded assets to actual items on hand. In addition, the Sweeps programs were not adequately generating or updating their inventory lists. The information presented on the lists was also insufficient. These issues arose because the SFHA placed little priority over tracking and confirming inventory records over its assets and equipment, so there was no assurance items purchased had been accounted.

The SFHA written inventory procedures required project managers to perform monthly inventory reconciliations, and department managers to reconcile with the Fixed Asset Accountant on a quarterly basis. In addition, SFHA procedures required periodic inventory counts under the supervision of the Fixed Assets Accountant, but do not specify the frequency. However, 24 CFR Sub-Section 84.34 required a physical inspection and reconciliation of equipment inventory every two years.

We requested tools and equipment inventory listings from the Senior and Family Sweep departments on two occasions. Updated listings were not available from either office when new listings were later requested the following year. This demonstrated the Senior Sweep department performed no inventory tracking for at least eight months. Likewise, there was no tracking performed by the Family Sweep department for at least ten months.

There was no consistency between the Family and Senior Sweep vehicle listings. In general, the list prepared by the Senior Sweep department provided more information than the Family Sweep list. The Family Sweep list was updated based on our request for inventory information. However, it still did not provide an identification number for one of its vehicles. The list did not contain the same useful information as the Senior Sweep list, such as the vehicles license plate number, make, model, year, or mileage. Updated vehicle lists were later requested before our on-site confirmation. The Family Sweep did not prepare or supply updated vehicle listings.

Both Sweeps' equipment lists were incomplete and did not have enough information available to track the expenditure. The Family Sweep list contained 320 items, of which 126 had no identification number. In addition, 288 of the items did not specify which employee the item was assigned. Likewise, the Senior Sweep equipment list contained 147 items, of which 77 had inadequate identification. The lists did not include the price of the items; therefore, one cannot determine whether the items required a SFHA assigned tag number. These items are not traceable to the general ledger due to lack of the vendor name, invoice number, or the purchase order number. There was no distinction between which items were obtained from the warehouse and which were purchased directly.

The Senior Sweep equipment inventories were prepared by the foremen in-charge of each department, who were also responsible for the items in question. The equipment listings were prepared specifically based on our request for inventory information. The Senior Sweep department stated that old equipment lists were not maintained.

There was no information on the Family Sweep report to establish when and if a physical inventory was performed to confirm items on hand. Family Sweep department had no documented inventory procedures available when requested. The Family Sweep department said inventory lists were created as part of surprise inspections performed approximately every two months. However, the department did not provide subsequent listings when requested to confirm this process actually occurred.

There was no evidence to show the force account departments were performing quarterly inventory reconciliations with the Fixed Asset Accountant. Sweeps staff stated they did not take a physical inventory to compare tools and equipment on hand to the items purchased to determine if discrepancies exist, or confirm whether these items were officially disposed or retired. There were also no comparisons to previously generated lists to identify discrepancies.

Inadequate Tracking of On-Site Materials and Supplies

The SFHA also did not maintain logs over its force account materials and supplies stored at the project sites. During site visits, we noted storage containers used to keep various materials and equipment for the force account programs. In addition, at the Sunnydale development, large amounts of materials and supplies were stored in an entire building. Items observed in the Sunnydale storage area included water heaters, sinks, plumbing accessories, wall heaters, etc. The number of items in storage was not certain.

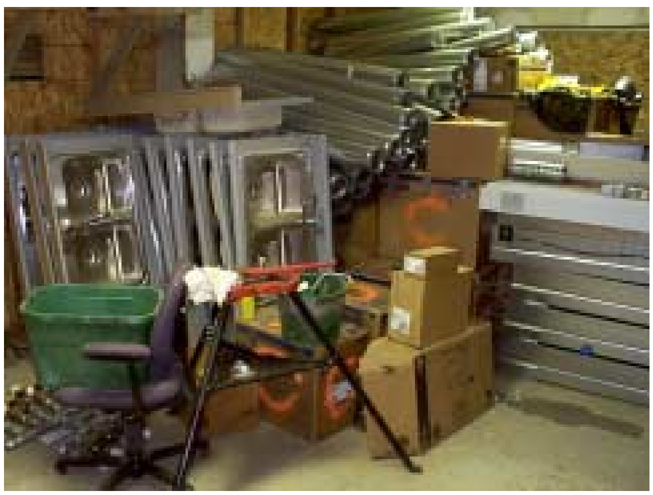

Photo of Sunnydale storage building showing a small portion of the supplies maintained, including sinks and wall heaters.

The Family Sweep department initially informed us that logs were maintained on-site to show materials going in and out of the storage areas. However, Sunnydale could not provide these logs requested in August 1999. The Assistant Construction Project Manager stated that an employee had maintained a log until she left in March 1999. The logs she maintained were missing and no subsequent logs had been kept. A Family Sweep staff member also advised that logs for items in storage at Potrero Hill were not maintained

Due to the inadequate accounting and inventory records as well as physical inventories, the SFHA has no assurance that important assets were properly used or had not been misappropriated.

Lack of Controls Over Maintenance Cost Charged to Grant

The SFHA charged routine maintenance costs to the CGP grant, despite the CGP guidelines making routine maintenance ineligible. In addition, inadequate records were maintained to designate why the Maintenance employees charged to the CGP changed over time. A lack of procedures and controls over which employees should be charged to the grants resulted in ineligible costs of $98,102 and unsupported costs of $73,210.

The CGP guidebook criteria only allowed non-routine maintenance or more comprehensive modernization to be charged to the grant. Routine maintenance was specifically disallowed.

We identified several Central Service Maintenance employees charged to the CGP. Between October 1, 1998 and September 30, 1999, the SFHA charged $552,716 to the CGP grant for 24 Maintenance employees, 18 of which were painters. The number of employees varied from month to month as shown in the following table.

Month	Central Service Employees to CGP	Payroll Amount
October 1998	15	$63,740
November 1998	7	$32,468
December 1998	15	$65,786
January 1999	13	$94,687
February 1999	13	$66,648
March 1999	14	$69,064
April 1999	1	$1,797
May 1999	0	$0
June 1999	5	$2,935
July 1999	10	$65,136
August 1999	12	$68,082
September 1999	5	$22,372
TOTAL:		$552,716

The SFHA Finance department was unable to provide information why these persons were charged to the grant, and why the employees changed from month to month. The Central Service department stated that persons charged to the grant should perform non-routine maintenance on long outstanding work orders. However, Central Service was also unable to explain why the persons charged varied from month to month. In addition, Central Service did not believe some staff charged to the grants performed non-routine maintenance.

Payroll records for a sample of five employees showed they had previously worked for the force account program, and were transferred to the Central Service Maintenance department. Nevertheless, their payroll continued to be charged the CGP.

Ineligible Costs of $98,102 Charged to CGP

Review of work orders for the 18 Maintenance painters charged to the CGP showed three were primarily working on standard interior painting of vacant units with work orders outstanding for less than 30 days. Other Maintenance employees who assisted to complete many of the same work orders were not charged to the CGP. The total payroll for these three employees charged to the CGP was $98,102 for fiscal year 1999.

Finance did not know who was supposed to be charged to the grant, and Central Service did not know who was actually being charged to the grant.

We did not have sufficient time available to review additional fiscal years and confirm that only non-routine maintenance cost were charged to the CGP grants. Likewise, insufficient time was available to confirm $73,210 of questionable payroll costs for additional Central Service staff charged to the CGP. This included four of the Central Service painters charged to the CGP during the year, but not during the sample periods reviewed. Their contested payroll charged to the CGP was $42,009 for that year. We also did not have sufficient time to confirm the five Central Service laborers and a Central Service administrative clerk charged to the CGP in fiscal year 1999. The total cost of these additional employees was $31,201, and they were not charged to the grant on a consistent basis. It was not readily evident what activities the Maintenance laborers and administrative clerk were performing that were non-routine maintenance related. As a result, there is no assurance that routine maintenance costs were not charged in other periods and for other employees not reviewed.

Auditee Comments

The SFHA indicated general disagreement with our conclusions and recommendations. We have summarized its response below into four issues.

(1) The SFHA did not agree with the OIG conclusions on the general ledger and other force account tracking documentation, although it did agree the general ledger system had limitations. It stated the Senior Sweep program was able to adequately distinguish and separate work performed in prior periods. It argued all expenses could be tracked to documentation, and its general ledger accounting system was therefore sufficiently maintained. Timely manually prepared project reports were generated for each development to show detailed actual expenditures. In addition, it stated cumulative project expenditures were not transferred in lump sums to balance budgets, but were merely period or fungible charges brought forward for budgeted line items. The SFHA also believed its system for tracking expenditures was adequate because it produced

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project reports for cumulative expenditures. It stated the reports requested from MIS were duplication of data available through documents referenced in the general ledger. In addition, the SFHA excused problems with general ledger descriptions by noting they were prepared by various staff with different writing abilities. Project expenditures were not moved from one project to another in the general ledger unless a journal entry explaining the correcting adjustment was prepared. It also compared its method for charging funds to a first-in, first-out system. Finally, the SFHA proposed implementing additional tracking through general ledger account numbers.

(2) The SFHA accepted that procurement procedures should be followed in all cases, in advance of purchases. It stated it would provide future procurement training to staff. However, the SFHA excused other issues identified in the OIG finding. The SFHA did note HUD Handbook 7460.8 Rev-1 has an outdated $25,000 threshold on small purchases, since 24 CFR Part 85.36 changed it to $100,000. In addition, the SFHA stated purchases may have to be made that do not follow required procurement practices due to construction job conditions. It also concluded instances of actual purchases exceeding the purchase order amount were isolated.

(3) The SFHA did not agree with the OIG position over the inventory. It argued enough information was available to confirm the electric bender as part of the inventory review. It also stated the issue of Family Sweep not maintaining sufficient vehicle inventory data was unclear since they accounted for all vehicles. In addition, it concluded Family Sweep did maintain adequate inventory documentation. Nevertheless, Family Sweep stopped maintaining inventory on site and will only obtain materials for jobs in progress.

(4) The SFHA appeared to argue the maintenance employees charged to the CGP were all working on eligible work orders. It questioned how we were able to arrive at ineligible and unsupported costs amounts if its records were inadequate. In subsequent correspondence, the SFHA stated it may have charged employees to the wrong account and would perform a reconciliation.

OIG Evaluation of SFHA's Response

Our evaluation of the SFHA's comments parallels the four issues.

(1) The Director of Modernization was able to separate costs from prior periods in the disability access accounts, since the ledger entries were dated. However, this distinction was not made until August 2000 after further cost analysis. Progress reports previously provided by the Senior Sweep program incorrectly included this prior period costs in determining its per unit cost of Senior Sweep modernizing units.

We did not question the SFHA's ability to track a general ledger line item expense to a hardcopy purchase order or invoice. The issue with the general ledger system was that information could not be presented in a manner to sufficiently evaluate the force account costs. The response referred to timely manually prepared project reports generated for each development to show detailed actual expenditures. However, no examples were provided.

We agree the SFHA had reports showing the cumulative total expenditures. However, these reports do not identify what individual expenditures made up the totals.

We had no argument that the expenditures were fungible and could be charged to the subsequent CGP funds in the general ledger. However, Finance staff could not adequately determine when CGP fund limits had been reached. Overcharged amounts then had to be moved in lump sums to subsequent grants, and these entries did not designate which individual expenditures were included. In addition, amounts were transferred to project accounts based on questionable allocation methods. The general ledger descriptions were also inadequate to consistently determine why the transfers had been made. This made it difficult to determine which expenditures were applicable to the different accounts.

The staffs' writing abilities was not a valid excuse for a lack of information that should have been available in the general ledger.

It was also not clear what the SFHA meant when it stated the reports requested from MIS were duplication of data available through documents referenced in the general ledger. The general ledger referenced invoices and purchase orders. We agree these documents were available. However, to determine exactly what the SFHA had been purchasing, a review of general ledger line item expenditure detail was necessary. The SFHA was unable to produce this type of data in a reasonable fashion.

The SFHA proposed increased tracking of expenditures. This should be helpful as long as it does not lead to an increased level of transfers between accounts, making the general ledger more difficult to review. Currently, it is not clear whether the SFHA's application of this method would allow for significant improvement in its ability to track costs.

(2) We agree the HUD handbook does not reflect the higher threshold. We have added a footnote to the report regarding this fact. However, this amount has no bearing on the audit conclusions.

The problem with the open purchase order system was that the instances when purchases exceeded purchase order amounts did not appear isolated since a significant number of purchase orders were prepared after the invoice dates. In addition, if managers of force account programs are allowed to make purchases without following procurement procedures, there is no assurance this will not become common practice. Finally, the practice of not identifying materials to be purchased violates the requirements of HUD Handbook 7460.8, requiring records over small purchases to clearly specify items purchased on the purchase order.

(3) The SFHA did not accept it had a problem with its inventory system. The fact that the electric bender's serial number in available records was not adjusted, and support of its replacement was not maintained, was an example of a control problem with the inventory recording system.

Even though the Family Sweep program was able to account for all sample vehicles inspected, a control problem still existed relating to the tracking of vehicles because records were incomplete and not updated. Inadequate controls may lead to the misuse of assets purchased with CGP funds.

The SFHA was not able to show Family Sweep maintained logs for storage areas on site, since none of these records could be provided. While the new practice of not storing materials on project sites makes control easier, we have not confirmed how this practice is followed. Inventory records are still necessary to track items to the site locations.

(4) We did not disallow any costs relating to central service employees performing non-routine maintenance activities. The employees cited were performing routine maintenance activities during the periods in question.

We did not question the SFHA's ability to track where employee payroll was charged. However, records identifying reasons the employees were charged to the CGP were unavailable. While the SFHA provided a list of work orders charged to the CGP grant as part of its response, none of these were involved with the 45 sample work orders reviewed.

Recommendations

We recommend the Assistant Secretary for Public and Indian Housing require the SFHA to:

2A. Update its accounting software so that Finance can adequately monitor force account related costs in the general ledger and produce comprehensive detailed reports in a timely manner.

2B. Implement procedures to ensure that costs are adequately reported in the general ledger (via description), including the quantity if multiple items are purchased.

2C. Implement procedures and controls to ensure that transfers are no longer made to incorrect accounts, simply to match budget.

2D. Develop procedures and controls relating to purchase order generation to ensure purchase orders are prepared before expenditures are made, and sufficiently identify the items and quantities to be purchased.

2E. Consistently record the applicable project on each invoice, and charge direct cost expenditures directly to the project accounts instead of to 'PHA-Wide' accounts. Also, require the SFHA to establish controls to ensure invoices and purchase orders are properly charged to the correct project account numbers.

2F. Develop procedures to ensure allocations from general accounts to project accounts are performed in a consistent manner, as close to actual as possible. The reasons and basis for the allocation method used should be documented. In addition, only actual indirect overhead costs, indistinguishable between developments, should be charged to the 'PHA-wide' accounts.

2G. Implement the inventory procedures required in its own policies and procedures manual, requiring the tagging and tracking of inventory and the implementation of a computerized fixed asset system.

2H. Maintain complete logs over on-site inventory of materials and supplies for any continuing force account program. These logs should be compared with purchase and use information on a routine basis to ensure accurate accounting over all items.

2I. Perform periodic physical inventory counts over equipment and appliances and reconcile back to fixed asset records no less than every two years.

2J. Develop procedures relating to charging non-routine maintenance to the CGP grant, including the identification of the employees.

2K. Return the ineligible routine maintenance payroll costs of $98,102 to the CGP grant.

2L. Provide support for $73,210 in questionable Central

Service payroll to demonstrate that these expenditures were allowable activity.

2M. Identify all central service employees charged to the CGP grants during fiscal year 1998 and 2000. Provide documentation to support the charges were for allowable activity.

Management Controls

In planning and performing the audit, we considered the management control systems used by the SFHA to determine the audit procedures and not to provide assurance on management control. Management control is the process effected by an entity's board, management, and other personnel, designed to provide reasonable assurance for achieving program operations objectives, validity and reliability of data, compliance with applicable laws and regulations, and safeguarding resources.

Relevant Management Controls Were Considered

The following control systems were relevant to the audit objective:

- Force account management and reporting,
- General ledger system reporting,
- Equipment and appliance inventory recording, tracking, and maintenance,
- Employee hiring practices, and
- Purchase order generation

We obtained an understanding of the control structure for the above systems and determined the risk exposure to design audit procedures. We concluded the audit would be performed more efficiently by doing substantive tests without reliance on management control due to the SFHA's control environment. Therefore, we did not necessarily make a complete assessment of control design or determine whether all policies and procedures had been placed in operation.

Significant Weaknesses Were Noted

A significant weakness exists if management control does not give reasonable assurance that control objectives are met. We observed significant weaknesses with general ledger maintenance (*Finding 2*), employee hiring practices (*Finding 1*), purchase order generation *(Finding 2)*, force account management and record maintenance *(Finding 1)*, and inventory system (*Finding 2*).

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Follow Up On Prior Audit Reports

The HUD OIG previously audited the SFHA's contracting procedures, Public Housing Management Assessment Program (PHMAP), operating subsidy housing-unit-months-available, contracting procedures, hiring and compensation, and Section 8 receivables programs for the period of March 1, 1996 to September 30, 1999. The audit report (number 00-SF-201-1001) was issued March 31, 2000.

The Prior Report Contained Similar Issues

In the area of hiring and compensation, that audit raised similar issues to those problems identified in this report. The SFHA selected employees without considering other candidates, their qualifications were questionable, and they were overcompensated. Specifically, the OIG found the General Manager of the Family Sweep program was not qualified to head the force account program. He also did not meet the educational requirement and did not have the necessary prior experience for the position.

Prior Recommendations Remain Open

The prior audit's recommendations for the above issues are still open. These include recommendations:

2B. Closely monitor the SFHA's employment and personnel practices until there is confidence that the use of sound methods are in effect and will continue.

2C. Have an independent, HUD-approved expert in personnel classification and compensation review the qualifications and salaries of the questioned personnel.

2D. As a result of recommendation 2C, require the SFHA to reimburse its federal programs for all excessive salaries.

HUD has received and evaluated the results of an expert's review of personnel activities and has tentatively identified amounts to be returned. OIG is currently evaluating these matters.

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Schedule of Questioned Costs

ISSUE	INELIGIBLE A/	UNNECESSARY/ UNREASONABLE B/	UNSUPPORTED C/
Finding 1 -- Clementina Common Area Costs		$184,161[4]	
Finding 2 – Routine Maintenance Charged to CGP	$98,102		$73,210

A/ Ineligible amounts are those that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of funds, or are otherwise prohibited.

B/ Unnecessary amounts are those not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable amounts exceed those that would be incurred by the ordinarily prudent person in the conduct of a competitive business. Costs must be necessary and reasonable to be eligible under federal cost principles.

C/ Unsupported amounts are those whose eligibility or reasonableness cannot be clearly determined during the audit since they were not supported by adequate documentation or due to other circumstances. Under federal cost principles, a cost must be adequately supported to be eligible.

[4] The total unreasonable amount was $191,132. However, approximately $6,971 of the unreasonable amount was incurred prior to September 1997, when HUD formally returned control over the SFHA to the City of San Francisco appointed Board of Commissioners.

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Auditee Comments

AUDITEE COMMENTS TO DRAFT REPORT - SAN FRANCISCO HOUSING AUTHORITY FORCE ACCOUNT MODERNIZATION PROGRAM

This response is the Auditee Comments for the EXECUTIVE SUMMARY and should be incorporated into the HUD-OIG report in full and as submitted.

EXECUTIVE SUMMARY

The OIG concludes in its draft report that the SFHA use of in-house force account construction was not cost effective or managed effectively. The SFHA disagrees with this conclusion for the following reasons:

- The result of the SFHA's analysis indicates that the average cost per square foot for the SFHA force account work was **$101.67 per square foot** while the average cost per square foot for the MOH/IG work was **$103.60 per square foot** or, in other words, the cost of the **MOH/IG work was 1.9% higher than the work performed by the SFHA**, as follows:

Development	Number of Units	Total Hard Costs		Total Average Square Feet	Cost Per Square Feet
	Figures Furnished by IG				
MOH / IG OUTSIDE					
2300 Van Ness	22	$1,300,000	*	18,449	$70.46
Apollo	80	$3,342,560		24,895	$134.27
Lyric	58	$2,774,546		26,157	$106.07
		MOH / IG Outside Average			$103.60
SFHA					
Potrero Annex	57	$6,488,937		57,342	$113.16
Clementina	10	$329,040		4,210	$78.16
Sunnydale	11	$1,093,066		9,614	$113.70
		SFHA Average			$101.67
	SFHA Average			$101.67	

	IG Outside Average	$103.60	
	Difference	-$1.93	
	Percent Variance	-1.9%	

Therefore, this would demonstrate that the SFHA force account work was cost effective and economically beneficial while meeting Congressional mandates to build economic self sufficiency for public housing residents in an effort to move public housing residents from Welfare to Work. Indeed, since, as the IG notes, the SFHA spent approximately $18.2 million on Clemintina, Potrero and Sunnydale, the SFHA accomplished 1.9% or $345,550.00 more in improvements than the IG comparators would have accomplished.

- The OIG analysis of construction costs for SFHA force account work compared SFHA average per unit costs against average per unit costs of rehabilitation work performed through the Mayor's Office on Housing (MOH).
- The square footage of SFHA units are generally larger than the units rehabilitated by MOH.
- As a result, a comparison of average unit costs resulted in higher costs for SFHA units and inaccurate conclusions on the part of the auditor.
- Industry standard in real estate for construction estimates, appraisals, etc. is to utilize square footage and not general unit numbers to take into account variances in unit sizes.
- The SFHA converted the numbers used by the OIG to average costs per square foot to make an accurate comparison between the work performed by the SFHA and that performed by MOH.

Notwithstanding the fact that the SFHA force account work was performed at a lower average cost per square foot than the comparator used by the IG, it is the position of the SFHA that additional cost savings were realized by the SFHA and the public in general by using SFHA residents to perform the work which were not taken into account in this audit. The use of force account provided employment opportunities for residents of public housing that would not otherwise have been available through the use of contractors. Well over 600 public housing residents have gained experience in skilled crafts through force account and other SFHA efforts.

Some residents of the SFHA's family developments, and especially the Big 4 of Sunnydale, Potrero Hill, Alice Griffith, and Hunters Point, are economically challenged, single mothers who receive public assistance, or residents who may have had contact with the criminal justice system. By employing SFHA residents in this manner, the SFHA instills hope, pride and direction in its residents potentially avoiding costs associated with populations at risk such as the following:

$25,600	The cost to the State of California to house one person in prison for one year
$20,000	The cost for the federal government to house one person in prison for one year
$10,000-12,000	The cost to move a person from welfare to work in California

$5,000	The cost to provide job training to one person in California

We would suggest that the employment opportunities provided to SFHA residents through our force account labor force were extremely effective in providing high quality work experience, a superior work product, meeting the needs of residents, and avoiding public and victim costs associated with crime.

In addition, SFHA force account work accounted for the following:

- Establishment of in-house force account labor force to immediately address the bricks and mortar and quality of life needs of residents
- Modernized 22 Senior and Disabled High Rise buildings or 2,025 units
- 315 units modified for handicap accessibility through March 2001
- 721 units of public housing modernized using CIAP and CGP funds
- 82 units off line for over 5 years brought back on to rent rolls to serve those on the SFHA waiting list of 14,700 households

Work items performed by SFHA force account labor included, but is not limited to the following:

- Plumbing/Irrigation Systems
- Heating
- Electrical
- Heating Systems
- Waterproofing
- Roofing
- Elevator Upgrades
- Common Area Renovation and Renewal
- Security Interior/Exterior Lighting
- Handicap Accessible Units
- Landscaping and Tree Pruning
- Interior Lead Based Paint (LBP) Abatement/Stabilization
- Exterior Painting/Exterior LBP Abatement/Stabilization
- Asbestos Removal
- Housing Quality Standards (HQS) Repairs
- Playgrounds
- Childcare Center Interior Design, Painting and Layout

The draft audit further suggests that the SFHA failed to maintain adequate records over assets and expenditures. A reading of the draft audit report makes clear that the criticism of the auditors is more directly related to their opinion as to whether or not data could be retrieved in the manner they requested. This is particularly true given that many of the reports requested by the auditors were specialized requiring the SFHA to write programs to customize its data in the form requested by the auditor. While it may be the opinion of the auditor that our records were cumbersome, not user friendly or awkward, the fact remains that appropriate documentation was and is maintained by the SFHA in accordance with HUD Financial Management Guidelines and Generally Accepted Accounting Standards. The issue of convenience does not meet the standard of a finding and boils down to a subjective personal standard.

However, the computer system currently utilized by the SFHA for financial recording and tracking can be improved. We will continue to work on those improvements and seek technical assistance from HUD to assist us in improving our data systems. And finally, the current CCS software is dated and should be updated. However, this is a resource issue and not a regulatory issue.

AUDITEE COMMENTS TO DRAFT REPORT - SAN FRANCISCO HOUSING AUTHORITY FORCE ACCOUNT MODERNIZATION PROGRAM

This entire response is the Auditee Comments for Finding 1 and should be incorporated into the HUD-OIG report in full and as submitted.

General Comments to Audit Report

The SFHA is deeply disappointed that your office has continued this audit after informing the SFHA that your audits were complete. As you may know, your audits of the SFHA began in 1998. Your office issued draft reports in January and February 2000 with the final draft dated February 24, 2000. As a result of these drafts, the SFHA provided comprehensive responses refuting the alleged findings and asking your staff to withdraw them. During this review and comment process, **the SFHA was informed verbally and in writing** that we had been provided with all the findings. In fact, Mr. Mark Pierce's letter dated February 15, 2000 states "**This is the fourth of four findings we anticipate for the audit report**". (**Tab 1**) On March 13, 2000, Mr. Sululagi Palega, Sr., President of the SFHA Board of Commissioners sent a letter to your predecessor, Mr. Robert Velasco expressing great concerns about the draft audit report. Mr. Palega followed up on March 27, 2000 with a letter to Mr. Harold Lucas, the Assistant Secretary for Public and Indian Housing and included a copy of his March 13, 2000 letter.

On March 31, 2000 your office issued Report 00-SF-201-1001. **Shortly thereafter, we were informed that the audit was NOT over and that your auditors would be returning to continue their review of the SFHA's force account modernization program**. Since all audits began at about the same time, and since your staff informed us that all findings had been provided to us, **we believe that the audit of force account and modernization may be retaliatory because of the SFHA's vigorous and comprehensive response to your earlier findings**. This reaction by your office is regrettable.

This draft report is presented by the HUD-OIG, after nearly 30 months of inspections from the inception of the audit to the delivery of this draft (August 1998 to February 2001). The audit report covers generally the recovery effort of the SFHA from January 1997 to June 30, 1999. It should be noted that effective September 30, 1999 and immediately after the conclusion of this

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audit period, the SFHA was designated by HUD as a **“High Performing”** public housing authority under the Public Housing Assessment System (PHAS).

By way of putting the period of time covered by this audit in context and perspective, it is important to note that at the time HUD began the recovery effort at the SFHA and continuing through the return the San Francisco Housing Authority to local control, HUD, the new Board of Commissioners and Acting Executive Director were confronted with severe, pervasive and long-standing problems typified by the following:

- Physical decay of housing units
- High levels of crime
- Asbestos and lead in housing units affecting families and children
- Housing units and common areas not accessible to the those with disabilities
- The average age of housing in the Big 4 was nearly 50 years old
- Decades of neglect
- Excessive insurance claims and insurance premiums
- Potential for cancellation of insurance due to lead based paint liability
- The leadership of the organization had been decimated by the recovery effort

As a result of the above, HUD and ultimately the newly appointed Board of Commissioners and Acting Executive Director were confronted with continuing exigent conditions that required immediate, bold, and broad based corrective action.

Corrective actions taken included:

- Establishment of in-house force account labor force to immediately address the bricks and mortar and quality of life needs of residents
- Modernized 22 Senior and Disabled High Rise buildings
- 315 units modified for handicap accessibility through March 2001
- 721Units of public housing modernized using CIAP and CGP funds
- 82 Units off line for over 5 years brought back on to rent rolls to serve those of the SFHA waiting list of 14,700 households
- 217,000 Work Orders processed
- Removal of the severely troubled housing authority designation under the HUD Recovery Team with a PHMAP troubled score of **50.7** to a **High Performing housing authority for fiscal year 1999**
- Reduction in insurance claims
  - ✓ Slips, trips and falls claims reduced from average of 58 per year (1995-98) to average of 11 (1998-00)
  - ✓ Reduction in all claims from average of 162 per year (1995-98) to average of 46 (1998-00)
  - ✓ Reduction in insurance premiums from 41% increase (1996-97) to 10% decrease (1998-99)
- Well over 600 public housing residents employed in good jobs

The chronology below also adds a perspective and context to the issues affecting the SFHA over the past decade. As stated in your draft report, the audit generally covers the period January 1997 to June 30, 1999.

1995-to FYE 1997	SFHA determined by HUD to be a troubled housing authority with a PHMAP score of 50.7.
May 1996- Sept 1997	Mayor Brown asks HUD to take over operation of the SFHA. HUD responds by sending in a recovery team to run the agency on a day-to-day basis.
1992-1997	The SFHA accumulates nearly $69,000,000 in unspent CIAP and Comprehensive Grant Program funds while public housing residents are living with lead based paint, asbestos, and generally substandard living conditions.
April 1997	SFHA requests approval from HUD to establish its force account program. (Under HUD's control)
September 1997	SFHA is returned to local control.
July/August 1998	Second request to HUD for approval to establish its force account program.

In preparing this draft audit report the auditors attempted to limit their analysis to pure monetary costs and disregards benefits. While the SFHA may not agree with this analysis, this audit report demonstrates the failure of HUD to integrate the multitude of requirements imposed on public housing authorities into its Audit Guidebooks and Handbooks. By Congressional mandate and ultimately HUD Regulation, housing authorities are not only required to manage and maintain rental property but also:

- Move residents from Welfare to Work.
- Reduce crime.
- Provide employment training to its residents.
- Abate lead and asbestos.

An audit which does not take into consideration and integrate these additional requirements imposed on housing authorities can not help but result in a **one dimensional analysis resulting in skewed conclusions**. The Board and management of the SFHA must balance its institutional needs with the human needs of its resident population and apply its best judgment to achieving this balance.

SFHA RESPONSE TO OIG INTRODUCTION

The introduction in your draft report may need some clarification to prevent any misunderstanding regarding the status of the SFHA between November 1996 and September 1997. The introduction states, in part,

> "… HUD sent a recovery team (consisting of HUD officials, consultants, and employees from other housing agencies) to assess the SFHA's operations and develop strategies to

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> deal with the problems. **This phase was concluded in November 1996 [emphasis added]**. HUD contracted to fill several key management positions to continue the recovery efforts."

As you know, HUD continued to run the SFHA from March of 1996 until September 1997 when the agency was returned to local control. **(Tab 2).**

SFHA RESPONSE TO FINDING 1

THE SFHA IN-HOUSE FORCE ACCOUNT PROGRAMS OPERATED EFFECTIVELY TO REDUCE COSTS, PROVIDE RESIDENT EMPLOYMENT, AND RESPOND RAPIDLY TO REQUIRED CONSTRUCTION NEEDS RESULTING IN MASSIVE IMPROVEMENTS TO THE QUALITY OF LIFE FOR SFHA RESIDENTS

OIG Finding: The Force Account Justification Submitted to HUD Was Inaccurate

The auditor incorrectly asserts that the force account justification was inaccurate. Upon review, the SFHA has the following response:

- The auditor misinterpreted the letter that made this request. A clear reading of the SFHA letter of July 28, 1998, Subject: Force Account Cost Effectiveness (**Tab 3)**, shows that the letter is discussing the use of force account for work such as HQS, modification of units and common spaces for handicap accessibility, lead based paint stabilization and abatement, and exterior painting. The SFHA letter goes on to state, among other things, that there are no warranty benefits available **for this specific type of work**. This statement was not intended as a generalized comment covering all construction work as apparently inferred by the auditor. Clearly the SFHA did and does require warranties on construction work performed by contractors.

- The OIG misrepresents the cost for force account to convert a fully wheel chair accessible unit. The SFHA explained to the auditors several times that the costs in the general ledger (GL) included **all** costs including modification of public space. In the face of this information, the auditor simply took the costs and divided by the number of units to arrive at a figure. By using this rudimentary calculation, the OIG concluded that the cost for Senior Sweep to convert a 504 unit ranged between $18,931 and $96,233. The OIG then averages these incorrect costs per unit and comes up with a figure that is $7,245 higher then the Authority’s calculated costs. The OIG then uses this erroneous figure and multiplies it by 90 to fabricate additional costs of $652,000. This is not substantiated by the current general ledger, which includes all completed work.

- The auditor does not consider the improvements to common and public spaces in his costs. By making this simple calculation, the OIG did not take into account the Court Settlement Agreement that required the Authority to provide modifications for accessibility throughout the public spaces in all 22 senior/disabled buildings.

- The OIG auditor attacks figures in the July 28 letter, by comparing costs of projects completed by the Mayor's Office of Housing (MOH) to SFHA costs. Upon further research, and using the OIG's adjusted MOH construction costs, the SFHA documented the following (**Tab 4**):

  - 2300 Van Ness hard costs $70.46 per square foot.
  - Apollo hard costs $134.27 per square foot.
  - Lyric hard costs $106.07 per square foot
  - MOH average cost per square foot $ 103.60.
  - Clementina average cost per square foot $78.15 (25% below MOH average).

- The OIG raises the issue of warranties at least twice. We note the following:

  - The HUD CGP Guidebook, 7485 G, allows the use of force account labor for modernization work with HUD approval provided it is cost effective, appropriate given the type of work to be done, and the PHA has the capacity to serve as its own contractor. This guidebook does not state that a warranty is required when force account is used.
  - It is not clear how in-house, force account labor could provide a warranty. The use of force account is tantamount to being "self-insured."
  - If HUD required a warranty for force account work, it is evident that housing authorities would not be able to use force account under any circumstances.

- The auditor concludes that the July 28, 1998 letter to HUD did not comprehensively address all work eventually performed by force account labor.

  - The intent of the letter submitted to HUD was to outline general work that could be completed by force account rather than to detail every single construction related job that might be performed.
  - Through the force account landscaping work the SFHA was able to hire many residents to participate in the program. Although the benefits of hiring residents may not be apparent in developing a cost/benefit analysis, crime and vandalism were greatly reduced at the developments that were landscaped. This was a direct cost benefit to the Authority. It also improved the quality of life for our residents, those who were working, and those who were affected by the reduction of crime.
  - From December 1996 to July 1999, Senior Sweep reported 1209 HQS work orders completed at Clementina. The reported expenditures for HQS work orders are $446,121, which is $369 per work order. The use of force account labor allowed the SFHA to rapidly address resident's needs and improve the quality of their lives. This capability to deliver a very rapid response is an intangible that may not be apparent in making a cost estimate.

OIG Finding: Force Account Costs Exceeded Cost to Have a Contractor Perform theWork

- The auditor states that the SFHA did not have records sufficient to allow the OIG inspectors to adequately develop cost estimates for work performed.
- Each of the developments covered by the OIG report had a work plan that set forth the work to be done. The assigned construction inspector makes a daily record of the work performed. All costs are submitted to finance. These records were available, and in many cases reviewed by the OIG auditors and inspectors.
- The SFHA is not aware of a HUD regulation that requires the costs for modernization or HQS to be reported in the detail that the auditors seem to imply in their report.
- As indicated above, the costs for Clementina were 25% per square foot below the average adjusted cost of work performed for the MOH by outside contractors (see Tab 5).
- The OIG opines that the development at 2300 Van Ness is "fairly close" to the units at Potrero Annex. The former development was modernized under contract by the MOH and the latter by SFHA force account workers. The MOH completed three developments with square foot costs ranging from Van Ness at $70.46 to Apollo at $134.27 per square foot with an average of $103.60 per square foot. The auditor does not explain his reasons for choosing the "fairly close" Van Ness development as a basis for comparison rather than the more expensive Apollo or the average cost (**see Tab 4**).
- In September 1999, the SFHA obtained an estimate from our insurance carrier to repair Unit 610 at 320 Clementina. This estimate was $44,818 to repair the unit (**Tab 5**). The insurance carrier had no motivation to inflate their estimate. It should be noted that Senior Sweep's average cost per unit of $32,450 was significantly below the independent estimate by the insurance carrier.
- Using the average cost per square foot for all MOH developments, and the square footage of the Potrero Annex units, i.e., 1,006 square feet per unit, the average cost per square foot is $113, which compares favorably to the MOH average cost per square foot.
- The OIG auditor also uses the Oakland Housing Authority (OHA) as a basis for comparison. The developments chosen have units that are considerably smaller than those at Potrero Annex (OHA-Campbell at an average of 900 square feet; OHA-Peralta at 600-900 square feet; Potrero Annex at 1006 square feet). Because of the size differences, the OIG uses only the Campbell development, but does not appear to factor in the appreciable difference in square footage between the Campbell units and the Potrero Annex units.
- The SFHA informed the auditor that part of the costs for Potrero Annex were attributable to dry rot, termite damage, and the need to install additional electrical transformers. However, this information is "dismissed" by the auditor. The SFHA has provided photographs that clearly show the extensive damage to these buildings. (**Tab 6**)
- The auditor, after constructing a spurious argument that the SFHA costs are much higher than either the MOH or OHA then extrapolates this simplistic number over all modernization work done by force account personnel and concludes that the SFHA may have overspent approximately 50% of all modernization expenditures. Therefore, the conclusions of the auditor are grossly overstated, inflated, misleading and inaccurate.

OIG Finding: The Family Sweep Did Not Maintain Adequate Progress Records

- The basis for this alleged "finding" is not clear since the level of records suggested by the OIG do not appear to be required. The work to be performed is set forth in an approved workplan, the inspectors keep records of daily progress, time sheets record the personnel working on a specific project, materials are charged to a specific project, and all costs are recorded in the general ledger.

- The auditor states that Senior Sweep keeps better records than Family Sweep without explaining the significance of this comment.
- Since January 2000, Modernization has established a Force Account Construction Checklist and sets up a project file for each force account project, whether Senior or Family Sweep (**Tab 7**).

OIG Finding: The SFHA Was Not Adequately Inspecting Work

- The SFHA inspectors are at sites daily and record work done daily.
- The auditor spells out the entire rationale for the SFHA not obtaining building permits from the City and County of San Francisco (CCSF) for work performed by force account. The auditor mentions the 1995 legal opinion from the City Attorney and the concurrence of the Director of the Department of Building Inspections that the SFHA is exempt from obtaining building permits for in-house construction (**Tab 8**). However, the auditor discussed the matter with the Director of Building Inspections who apparently opined that the SFHA "should" actually be obtaining permits, in spite of a legal opinion to the contrary.
- The auditor, based on nothing more than his opinion, "agrees" that the SFHA should be obtaining building permits.
- The SFHA previously identified that its inspectors needed additional professional training and has been providing this training. In addition, in August 1999 the inspectors were reassigned out of Family Sweep to the Modernization Department to enhance their independence. The auditor details the experience required by the CCSF for its building inspectors but does not specify how these requirements might apply to the SFHA inspectors. We note that the three (3) inspectors assigned to Modernization include:

    - One Certified Building Inspector (ICBO Certificate number 0847382-10 issued January 23, 1999).
    - One Inspector with 17 functional inspection and construction seminars combined with continuing education leading to ICBO certification.
    - One inspector with 11 functional inspection and construction seminars combined with continuing education leading to ICBO certification.

OIG Finding: Housing Quality Standards Deficiencies Noted During Inspections

- The OIG lists 40 properties at Sunnydale and Potrero Annex that had some type of problem, e.g., broken window, bath fan cover missing, damaged floor tile, smoke detector missing. The auditor states that their inspectors were in the units between August and October 1999 and concludes, based on their inspection, that "…all modernization work was either not done or not performed adequately." In fact, this entire portion of the report is replete with suppositions, assumptions and unsupported statements. We believe many of the problems noted are attributable to the time difference between the completion of the work by Family Sweep and the inspection by the OIG. However, the OIG inspector does not even address the possibility that the work was completed and of high quality, but damaged after installation. An examination of SFHA records would have shown that the unit at 1502 Sunnydale which had a damaged electrical outlet, excessively peeling paint, missing smoke detector, damaged tile, sills, and doors was completed in December 1997, two full years prior to the OIG inspection. Likewise, the unit at 1868 Sunnydale which reportedly had problems with the switch coverplate, water heater vent, and interior paint was completed in May 1998 while the unit at 1605 Sunnydale with a missing smoke detector was completed in February 1998. The problems noted by the OIG inpsector are mostly typical maintenance problems that are routinely identified on HQS inspections and corrected by Maintenance crews, not force account.

OIG Finding: Emphasis On Low-Priority Modernization Lead [sic] to Emergency Situations

- Emergency conditions existed for some time and were not created by performing lower priority work items.
- Given the emergency conditions, SFHA exercised legitimate business discretion to weigh when the emergency work items could be completed with available funds against improving the quality of life for the residents.
- The SFHA was performing significant modernization work at two of its most troubled developments, e.g., Sunnydale and Potrero Terrace. These developments are nearly 60 years old and needed massive amounts of attention to raise the quality of life for the residents. The SFHA determined that exterior improvements such as landscaping would have a very positive impact on the overall quality of life for the residents. The SFHA leadership believed that landscaping and common area improvements would result in an overall decrease in maintenance costs and actively encourage residents to take pride in their homes.
- There is no connection between the CIAP and CGP expenditures and the request for emergency funding. Normal CGP would not be adequate to take care of the known emergency work and all the other priority needs relating to our 50 public housing sites scattered throughout the city.
- According to the SFHA's 5-year plan the immediate total capital need of the agency is $449.8 M. Clearly, neither the normal CGP allocation nor a modest infusion of emergency funds would fulfill this large need.
- HUD approved the emergency funds after long and careful scrutiny. It is clear that HUD believed the need for emergency funds was urgent.
- **The auditor clearly states that the SFHA leadership was empowered to determine the priority of work to be performed**. However, the auditor concludes that in his opinion, such a decision by the SFHA "…was not prudent." This is pure opinion contrary to regulatory empowerment of SFHA management and is not appropriate for inclusion in an audit report.
- A statement is attributed to the Executive Director regarding doing landscaping and other low priority work. However, the auditor never asked the Executive Director if he made such a decision, or if so, the rationale or context.
- The SFHA disagrees with the comments and conclusions of the auditor. The actions of the SFHA were a valid exercise of management discretion, particularly in light of the long delays in making capital improvements.

OIG Finding: Significant Modernization Work Was Not Maintained

- The SFHA agrees that problems developed in maintaining the landscaping at Sunnydale and Potrero Terrace. The sprinkler systems were damaged and required frequent maintenance. The SFHA resorted to hand watering in selected areas and while the irrigation system was repaired to maintain the landscaping and most of the landscaping installed by force account is not an issue. There may be selected areas where the condition of the grass is a problem for a variety of reasons. However, suggesting that all landscaping is ruined is misleading and inaccurate. Photographs taken in March 2001 clearly show healthy landscaping at the developments in question. (**Tab 9**)

OIG Finding: Family Sweep Management Inadequate

- General Manager Family Sweep. The SFHA previously submitted voluminous information regarding the General Manager of Family Sweep and believes this employee is fully qualified for the position.
- Assistant General Manager/Principal Administrative Planner of Family Sweep. At the time of the on site audit, this employee's personnel file was incomplete. As the auditor points out, the employee has an Associate's degree in accounting. In addition, the employee has continued to take college courses. The employee's other relevant experience is as follows:
  - 14 years experience with a private sector general contractor. The employee was responsible for scheduling, estimating, payroll records, soliciting vendors, tracking jobs, attending local boards and commissions when projects were on their agendas, and meeting with local officials.
  - 3 years experience with a power company that provided experience in scheduling, work orders, dispatch of work crews, adjustments of bills, negotiations with unions, handling customer complaints and reporting incoming payments.
  - 1997 to 1999 - SFHA as a Principal Administrative Planner. Responsible for budget reports, job estimates, scheduling, attendance at meetings relating to projects, public presentations to residents.
  - 1999 to Present - SFHA as the Assistant General Manager of Family Sweep. This position requires any combination of education, experience, and training that would likely provide the required knowledge and skills to accomplish the duties of the position. Examples of qualifying include AA degree in business administration, finance or cost estimating and four (4) years of increasingly responsible experience in construction, budget development, administration and rehabilitation management.
  - At the time the employee entered the Assistant General Manager of Family Sweep position, she possessed an AA in the appropriate field and had at least 20 years of construction related experience. This individual met the minimum qualifications for this position.
  - The auditor comments that the employee was assigned to the position on April 12, 1999 while the position description was not signed until April 19. In this case, the Classification Specialist had completed work on the job description and had determined the salary schedule number. Since this action involved a promotion, it was made effective on April 12 at the start of a pay period. The employee is in this

position on a temporary promotion, which under SFHA policies does not have to be advertised. (**Tab 10**)

- Construction Project Manager. The individual in this position has left the SFHA. The position requires a Bachelor's degree in fields that include public administration and five (5) years of administrative experience in public facilities construction and rehabilitation, including three (3) years of supervisory experience. This employee had a Bachelor's degree in Political Science. In addition, the employee had extensive public sector experience including one (1) year as Executive Assistant at the SFHA. He also had over two (2) years of significant financial management experience. The position does not require hands on construction experience, but "administrative experience" in public facilities construction. The SFHA determined that the totality of this employee's education and experience met the minimum qualifications for this position. (**Tab 11**)
- Assistant Construction Project Manager. The individual in this position has left the SFHA. This position requires any combination of experience and training that likely would provide the required knowledge and skills to perform. The qualifications could include a Bachelor's degree in a field related to construction or public administration, two (2) years of increasingly responsible administrative experience in public facilities construction and rehabilitation and one (1) year of supervisory experience. The employee's resume shows a certificate in accounting from a business school and two (2) years at university. In addition, the resume shows two (2) years of college with a major in construction inspection. The employee had more than five (5) years in construction as an ironworker that included interpreting blueprints and specifications. In addition, the employee had over one (1) year as an engineering technician in the construction field. A summary statement from the employee claims an additional five (5) years in the construction field, including managing projects, analyzing materials and writing reports. It is clear this employee met the minimum qualifications for this position at the time of his appointment. (**Tab 12**)

OIG Finding: SFHA Provided Unreliable Estimates to Counter OIG Claims

- The SFHA was not provided with an adequate opportunity or sufficient time to provide independent and professional cost estimates.
- This finding by the HUD-OIG fits the classic definition of chutzpah, i.e., the child who kills his parents and asks the court for mercy because he is an orphan. In this case, the HUD-OIG presented the SFHA with various calculations arrived at during the year they had conducted their audit. These calculations were not consistent with SFHA estimates and experience. The SFHA employed an independent firm, Hanscomb, to perform a cost study. However, such work takes time. The auditor gave the SFHA about two weeks to have the consultant prepare a report for extensive work done at three developments. When the consultant was not able to complete its work in the unreasonably short time, the auditor characterized the work as "unreliable". The time limits were set by the OIG, not the SFHA. The chronology below sets forth the time sequence for some of the audit site visits and other activities. The dates are established by e-mail (**Tab 13**):

    - Aug. 2, 1999 Auditor to visit the SFHA's Egbert Street Office for data

- Sept. 16, 1999 Auditor's message that they will perform additional unit inspections at Potrero Annex and Clementina "next week"
- Sept. 22, 1999 Auditors will visit Clementina
- Oct. 18, 1999 Auditor reviewing work orders for Clementina
- Nov.9&10, 1999 Auditor to visit Egbert St. Office for data
- Aug. 15, 2000 Auditor meets with SFHA staff on draft findings
- Aug. 30, 2000 Auditor states by e-mail that SFHA provide any documentation, including the Hanscomb estimates for Sunnydale and Potrero Annex by Friday, September 1, 2000 or the documentation might not be considered before the draft report is issued
- Feb. 2, 2001 Draft report issued

- **The issues raised by the OIG regarding the reliability, quality and thoroughness of Hanscomb's cost estimates are directly related to the auditor's insistence that the information they were producing be provided within an unrealistic timeframe**.
- Hanscomb estimates that they would need between 6-8 weeks to properly evaluate and prepare cost estimates for the three developments but they were given approximately one week based on the OIG's unreasonable deadline.
- Hanscomb was contacted regarding the OIG's findings and offered the following insights:

  - We agree with OIG on using the documented 1998 rates if given more time to research historical costs. OIG is questioning the methodology. Both methods are correct depending on the availability of time. Since Potrero Annex and Sunnydale are bigger projects and require more time to prepare the cost estimates than Clemetina, we favored the de-escalation approach since it is a faster approach.

  - Inconsistencies in the unit rates can be explained by the fact that no two jobs are the same. In general, the OIG is saying that the Clementina rates used are higher than Potrero Annex and Sunnydale after de-escalation. This is true because it is easier to work in a building that was totally gutted out with no concerns for occupied units above and below. In addition both Potrero Annex and Sunnydale are easily accessible from the street compared to Clementina which has ten units spread throughout the entire twelve stories. This requires more mobilization between units and material management from the staging area on the ground floor by an elevator to the upper floors. Other factors include restrictive working hours and noise considerations.

  - In reference to the unit rate sample the OIG used, the rates for toilet, lavatory and kitchen sink need to include rough-in costs at $366.97 for each fixture. This would make the difference between Clementina and Potrero Annex smaller. The cabinet demolition for Clementina should be higher than $6.50/lf, an oversight on our part. The interior painting to the ceiling for Potrero Annex at $3.21/sf includes gypsumboard ceiling and is not comparable to the $1/sf for painting only costs for Clementina.

Recommendations

The SFHA believes the issues raised in this draft report are unfounded and the resulting recommendations unnecessary. These recommendations by the IG have no basis or merit, are unfounded, misleading and without quantitative substantiation.

AUDITEE COMMENTS TO DRAFT REPORT - SAN FRANCISCO HOUSING AUTHORITY FORCE ACCOUNT MODERNIZATION PROGRAM - FINDING 2

This response is the Auditee Comments for Finding 2 for the Executive Summary and should be incorporated into the HUD-OIG report and the Executive Summary previously submitted with Finding 1. These comments should be reported in full and as submitted.

AUDITEE COMMENTS REGARDING FINDING 2

This entire response is the Auditee Comments for Finding 2 and should be incorporated into the HUD-OIG report in full and as submitted.

THE SFHA MAINTAINED SYSTEMS THAT PROPERLY TRACKED AND RECORDED COMPREHENSIVE GRANT FUND ASSETS AND EXPENDITURES

OIG Finding: Various Rules Govern Recording and Accounting Requirements

- The SFHA concurs the auditor cited a variety of regulations.

- With regard to HUD Handbook 7460.8 Rev 1, Procurement, we note that this handbook is dated January 14, 1994 and does have a $25,000 limit on small purchases. However, according to 24 CFR Part 85.36 (d)(1), "Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 USC 403 (11) (currently set at $100,000)." (**Tab 1)** This provision has been in place for several years.

OIG Finding: Inadequate General Ledger Reporting

- The gist of this finding appears to be that the auditor was inconvenienced because the automated system maintained in the Finance Department was not able to instantly create all the reports the auditor requested within the time period requested by the auditor. However, it is clear from the draft report that the information was supplied or could have been supplied from available records or systems, therefore this finding is inappropriate for inclusion in an OIG audit report.

- While the OIG, in its subjective opinion, may find reviewing the GL to determine line item charges inconvenient and time consuming, SFHA GL determinations conform to HUD financial guidelines and generally accepted accounting principles (GAAP).

- The OIG incorrectly states that, "Senior Sweeps [sic] had not been able to distinguish its own 504 costs from work charged to the accounts from prior periods." The General Ledger gives the dates of all charges to line items. The previous modernization program had spent approximately $200,000 and these amounts were properly recorded and easy to distinguish.

- The SFHA's Creative Computer Solutions (CCS) (now Emphasys Computer Solutions (ECS)) software does not have a true relational database engine to provide the type of CGP general ledger (GL) reporting capabilities described by the auditors. There is no drop-down or ad hoc reporting feature in the GL module to display transaction details directly from the Payroll, Purchasing or Work Order modules. CCS has the largest installed base and is in use at over 150 PHAs. While other systems are being looked at by the SFHA and other PHAs, capital funds to upgrade or replace CCS are in short supply and any replacement vendor would have to be able to provide seamless interaction between the legacy system and the desk top PC and have a true relational data base. However, despite the limitations of CCS, the recording and reporting of all transactions can be tracked from the GL down to each hard document in accordance with HUD financial guidelines and GAAP. A GL transaction detail report has account and reference numbers on every entry for tracking purposes, and timely manually prepared project reports are generated for each development that shows detailed actual expenditures against budgeted line items.

- The "lump sum transfers" referred to are merely period or fungible charges brought forward for budgeted line items. Cumulative project expenditures are not arbitrarily transferred in lump sums to merely balance budgeted line items as asserted by the OIG.

- The MIS department can extract detailed project expenditure reports by reading and writing directly from data files with the use of its Editor programming tool, but this process can be time consuming and limited, as the auditors discovered. Hard copies of manually prepared budget to actual project expenditure reports were kept back to the 1996 period, but GL reports were not run because they were not routinely used by SFHA staff.

- All transaction details for labor, materials, equipment, supplies, and outside services expenditures are identified through a GL transaction report by account and reference number. The hard copy documentation behind every transaction is maintained in Accounts Payable, Payroll, Purchasing, and the Central Warehouse. This is of necessity a manual system, but project reports for cumulative expenditures to work and budget line items are regularly prepared and distributed to both program and project managers.

- The reports the auditor requested from MIS were a duplication of the data available from hard copy documents referenced in the GL. For clarification purposes, MIS does not get involved with expenditure adjustments. Journal entries are made by Finance only after properly justified and documented reasons are received from program and project managers.

- The GL, Accounts Payable and Purchasing module description fields were designed by CCS for a one line display. Users whose writing abilities vary greatly prepare these descriptions. The auditors could have examined the supporting documents to determine that there are ample details of all labor, material and outside service expenditures properly charged to

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HUD-approved CGP work and budget line items. Since this audit went on for nearly 30 months, the auditors could have wisely invested their time in reviewing available documentation.

- The SFHA did not transfer funds between CGP accounts to move expenditures where funds had been budgeted. Current HUD guidelines (**Tab 2**) on fungibility allows the SFHA "to substitute any work item from the latest approved Five-Year Action Plan to any previously approved CGP Annual Statement and to move work items among approved modernization budgets without prior HUD approval." The SFHA was dealing with CGP funds from several years and wanted to ensure that the oldest grant funds were spent first. HUD-approved work and budget line items for specific projects were moved from period to period, while formal budget revisions were submitted to move funds from project to project. No project expenditures were moved from one project to another in the GL unless a journal entry explaining the correcting adjustment was prepared.

- The auditor discusses 131 nonpayroll transfers of funds for Sunnydale totaling $18.2 M. and includes a table showing various fund transfers from one account to another totaling $5.2 M. The auditor concludes that Finance could not reliably charge costs to the correct accounts. As was explained to the auditor, force account project work is typically budgeted and carries over for more than one CGP year. Expenditures are charged to the oldest grant year first and are moved forward to the next one within the same budget and work line item. This is similar to a first-in, first-out (FIFO) system for inventory purposes, which is a commonly accepted accounting standard and practice. GL transaction details can be matched to the original source documents by looking at the reference numbers. The so called "lump sum transfers" mentioned by the auditor can be accurately matched to the GL based on current practices. There are no misrepresentations of expenditures as alleged by the auditor. (**Tab 3)**

- To enhance the SFHA's ability to track expenditures, the Modernization & Construction Department along with the Finance Department have come up with a budget tracking procedure for all of Force Account Job Files. The account number will be identified with the type of work, the development and the unit. We are starting this process with Comprehensive Grant 2000.

OIG Finding: SFHA Was Not Consistently Following Proper Purchase Order Procedures

- The draft report states that purchase orders are "frequently" prepared after the expense has been incurred. The selection of imprecise and general language by the auditor makes it impossible for the SFHA or users of the report to determine the magnitude of the alleged problem, if any.

- The SFHA concurs that procurement procedures should be followed in all cases. However, construction projects, by their nature, contain some uncertainty regarding the amounts of supplies and materials required for the job. In some cases, force account personnel may have been in the midst of a job and discovered an unanticipated need for additional supplies or materials. These officials may have opted to make the purchase quickly rather than have high cost craft personnel with no materials to continue their work. This would appear to be a prudent exercise of discretion to avoid down time and ensure timely project completion. Any expenditures would clearly be small purchases under simplified processes and would be quickly corrected by preparing the appropriate documents for approval.

- The SFHA concurs that all procurement steps should be completed in advance of purchases. In this regard, the recently updated contracting and procurement policies and procedures (adopted January 2001) **(Tab 4)** directs staff to follow the proper procurement processes. In addition, the Executive Director issued a reminder on Unauthorized Obligations of Funds on February 9, 2000. **(Tab 5)** The SFHA will provide training to all staff on proper procurement procedures to ensure a complete understanding by all.

- The auditor comments that SFHA policies did not prohibit the creation of "open" orders. We are not aware of any regulatory basis for such a prohibition. The SFHA has about 12 open purchase orders. The intent of establishing these open orders is to assure the accessibility to a single vendor, e.g., Home Depot that can provide the necessary supplies and materials when they are needed for jobs in progress. Under these limited circumstances, the use of an open purchase order is prudent since the alternative would be to stop work until supplies and materials could be procured on an individual basis. The total amount of any open order is well within the HUD definition for a small purchase. The use of these types of orders is an alternative to the use of a SFHA credit card for small purchases as might be done by a federal agency.

- Under an open order, the individual items are not identified in the purchase order, but are specified on the invoice and are identified to a specific project or development. While the SFHA attempts to closely monitor the use of these open orders, there may be isolated instances where the amounts purchased exceeded the amount of the purchase order requiring that the purchase order be increased. Additional safeguards are included in the revised SFHA Procurement Policies and will be covered by future procurement training.

OIG Finding: The SFHA Did Not Have an Adequate Inventory System

- The auditor offers an unsubstantiated opinion that the SFHA did not place an emphasis on tracking and confirming assets.

- One finding by the OIG is that an electric bender did not match the inventory information available. The bender on site had a different identification number than shown on the SFHA inventory. However, the auditor was told that the original machine was defective and the vendor replaced it under the warranty. In fact, the auditor confirmed this information with the vendor. In spite of all this information, the auditor supposed that additional benders might have been purchased, thereby explaining the bender with the different identification number. The SFHA hereby certifies there is only one bender.

- The auditor found an inconsistency between Senior and Family Sweep Departments with regard to the quality of their vehicle inventory lists and rated the Senior Sweep list as superior. However, since the auditor concedes that Family Sweep was able to account for all their vehicles the relevance of this comment is unclear.

- The OIG also states that equipment lists for Senior and Family Sweep were incomplete and did not provide enough information to track expenditures. However, the type of equipment is not identified. We would note that construction equipment is subject to hard, daily use in the field and inventory tags could be knocked off.

- The auditor states, "We did not review any Senior Sweep storage areas. However, Senior Sweep informed us no logs or records were maintained over materials stored on-site." **Senior Sweep informed the auditor that it does not maintain any inventory on site and that is the reason no logs or records are maintained.** Senior Sweep draws necessary materials from the SFHA warehouse and only takes to the site the materials it needs for the job, e.g., paint when painting is required. Family Sweep did maintain an inventory of supplies and materials in storage containers. However, this practice has been discontinued. Family and Senior Sweep not draw supplies and materials from the warehouse only for jobs in progress.

- The SFHA set up a Management Analyst position in August 2000 to establish inventory control systems.

OIG Finding: Lack of Controls Over Maintenance Cost [sic] Charged to Grant

- The SFHA is aware that routine maintenance is ineligible to be charged against CGP and it did not do so. The SFHA assigned six (6) Laborers and eighteen (18) Painters to the Maintenance Department to handle work orders that were deferred for the modernization program. Under the PHMAP guidelines, "Referral to next year's modernization program is acceptable only when there are less than three months remaining in the current fiscal year when the inspection is conducted." (**Tab 6**) Additionally, PHMAP guidelines, component #1, Section A, item 2.b, clearly states "Deferred for modernization work order. Maintenance work being completed under a modernization program is not included. This encompasses any work that is combined with similar work and scheduled to be completed within the current or following year if there are less than three months remaining before the PHA's FYE when the work order was generated under the PHA's modernization program or other capital improvement program. This work is included in the modernization budget or program budget rather than the PHA's operating budget." (**Tab 7**) All work orders assigned and charged to CGP were those generated with less than three months remaining in the SFHA's current fiscal year which is October 1 to September 30. (**Tab 8**)

- The SFHA assigned force account employees to the Director of Maintenance for supervision while they were performing deferred maintenance. We are not aware of any regulation that prohibits such a supervisory arrangement. The auditor opines that there was a lack of procedures, controls, and records, yet he was able to allege that personnel charges resulted in "ineligible costs" of $98,102 and "unsupported costs" of $73,210. These are very precise numbers for a system with "inadequate records."

- The auditor contends that three (3) Maintenance employees were improperly charged to CGP even though they were allegedly primarily working on standard interior painting of vacant units with work orders outstanding for less than 30 days. The auditor does not further identify the employees, work orders, or development (s). The SFHA properly assigned and charged work orders to either maintenance or CGP. It is possible the auditor associated individual employees with a funding source for the entire period without comparing employee names against the pay periods and corresponding fund charges in the payroll register.

- Inexplicably, the auditor states that he did not have sufficient time to confirm what he describes as "questionable payroll costs" for CGP staff supervised by Maintenance. We note that the site visits with the Central Service staff were approximately 16 hours. Contrary to a statement in the draft report, the SFHA staff responded to all questions raised by the Auditor. We believe the auditor may have been confused by associating names of the individual employees with funding source during the entire period being reviewed, rather than comparing employee names against pay periods and corresponding fund charges in the payroll register. During the midst of the audit, the primary auditor introduced a second auditor and told Central Service staff that she would continue and conclude the audit. She did not contact Central Service staff after the initial introduction.

OIG Recommendations:

The SFHA believes the issues raised by this draft report are generally unfounded and the resulting recommendations unnecessary. However, the SFHA has two comments regarding the recommendations, as follows:

1. The SFHA will continue to review the potential to upgrade its software. This is a serious resource question because of the amount of capital funds and staff time required.
2. The SFHA will continue to monitor its processes to make them as responsive and user friendly as possible.

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