U.S. Department of Housing and Urban Development
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District Inspector General for Audit

February 29, 1996

Audit Related Memorandum
No. 96-PH-201-1014

MEMORANDUM FOR: Ann Cohen, Director, Office of Public Housing, Pennsylvania State Office, 3APH

FROM: Edward F. Momorella, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Philadelphia Housing Authority
Apartment Renovation Team Program
Philadelphia, Pennsylvania

INTRODUCTION

We performed a review of the Philadelphia Housing Authority's (Authority) Apartment Renovation Team (ART) pilot demonstration program. The purpose of the review was to determine whether the ART program was managed in an effective and economical manner and that the program objectives were carried out in the plan provided to HUD by the Authority.

Audit work was performed between March and November 1995, and covered the period June 1, 1992 through October 31, 1995. We reviewed pertinent records at the HUD office and at the Authority's offices, interviewed HUD and Authority staff, and photographed selected properties (see photos).

SUMMARY

The ART program was a costly demonstration program. The program, which was designed to have union workers and Authority residents working together to renovate units and to provide training to residents, resulted in total costs of $28.3 million to renovate only 221 units. Over $2 million was spent on units which were determined to be not viable and not structurally sound, and on

units that were never completed. Authority residents who participated in the job training program received $347,211, but union workers were paid over $19 million for renovation labor.

Also, union workers who participated in the ART program were paid over and under the applicable Davis-Bacon wage rates. Although payments made in excess of Davis-Bacon rates are not a violation, such payments appear unnecessary and resulted in excessive costs charged to the ART program.

The lack of proper planning resulted in union workers doing work on properties that were determined to be unsuitable for renovation as well as the leasing of a warehouse for five years at a cost of $120,000 per year. In addition, costs of $209,830 were incurred on the leased warehouse for building improvements, equipment and various other items, although the warehouse was used for only seven months under the ART program. Also, vandalism and theft at the units under rehabilitation resulted in costs of $136,000, and security services provided to prevent vandalism and theft cost the Authority $716,498.

The Army Corps of Engineers, under an inter-agency agreement with HUD, reviewed the Authority's ART program and provided HUD with a report in December 1994. In August 1995 the Authority issued its own report on the ART program which assessed the program, included cost-related data and noted the many problems encountered. In September 1995 the HUD Office of Public Housing issued a report on the monitoring review of the Authority's Comprehensive Grant Program and the ART program. Four of the nine findings related to the ART program.

On November 27, 1995 we discussed the draft finding with the Authority's Executive Director and cognizant staff and advised them that the draft finding did not include recommendations for corrective action because the recent monitoring review report issued by the HUD Office of Public Housing addressed similar concerns and included appropriate recommendations. The Executive Director generally agreed with the draft finding, and added that the Authority had offered employment to certain Authority residents who participated in the ART program. He also believed that towards the end of the pilot program, a number of the operational problems had been worked out. Since the Authority's August 1995 report on the ART program essentially responded to our draft finding, we agreed that there was no need for a separate response to this report (Attachment 2).

The finding will not be controlled. However, within 60 days, please forward us copies of any correspondence or directives issued because of the review.

BACKGROUND

A proposal concerning the ART program was submitted to HUD by the Authority for approval on October 28, 1992. The proposal was for the rehabilitation of 100 scattered site units, with a proposed expansion to a second and third group of 100 scattered site units each, for a total of 300 scattered site units. The ART program was based on a pilot program on Mount Vernon Street in which six units were rehabilitated by the Authority using local trades workers and a professional construction manager. The six units were rehabilitated at a total cost of $259,763, with a cost per unit of $43,293. The composition of the ART program was anticipated to be union workers from the Building and Construction Trades Council of Philadelphia, and residents of the Authority developments who would work as trainees.

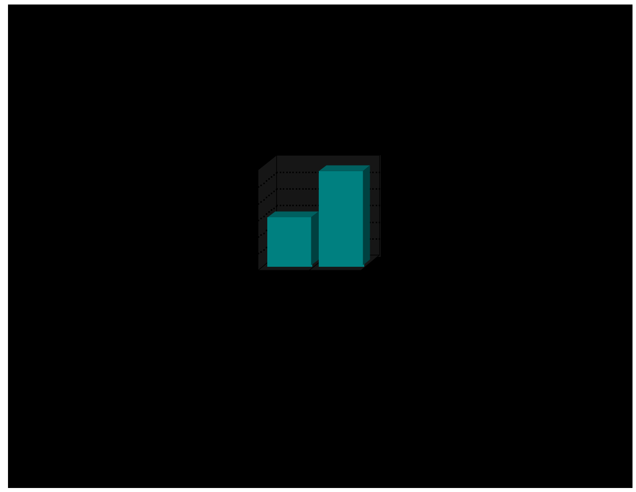
On December 4, 1992 HUD approved the ART program proposal for 100 units, and on December 27, 1992 the Authority solicited proposals for construction management services for the first 100 units. On February 5, 1993 the Authority notified HUD that, based upon the proposals received for construction management services, it would be more prudent for the Authority to develop these services in-house. On March 1, 1993 HUD concurred with the Authority decision and authorized the Authority to hire staff to manage the construction activities for the first 100 units. On May 20, 1993 HUD authorized the rehabilitation of up to 300 units.

Should you or your staff have any questions, please contact Richard J. DeCarlo, Assistant District Inspector General for Audit, at 656-3401.

Attachments
1. Finding
2. Authority Comments
3. Photos
4. Distribution

Attachment 1

Finding - <u>The Authority's Pilot Renovation Program Was Too Costly and Did Not Meet Resident Training Expectations</u>



The Authority completed the ART program on May 22, 1995, with 221 units renovated at a cost of $26.1 million, or $118,502 per unit, whereas the Authority submitted to HUD a construction budget of $14,407,632 for the ART program in September 1993, based upon a projected completion of 275 units and an average per unit cost of $52,592. All but seven of the completed units exceeded the total development costs allowed by HUD. Although some residents received some training, the amount of benefits accruing to the residents was minimal relative to the dollar amount of the ART program.

Poor planning and program administration resulted in this being a costly demonstration program. At the point when the Authority recognized the shortcomings and tried to improve operations, over $900,000 had been spent on units determined not viable and structurally sound for renovation. In addition, costs of $1.2 million had been spent on 75 units that have not been completed. The ART program resulted in total costs of $28.3 million.

Over $19 million of the $28.3 million was for labor-related costs paid to union workers, with only $347,211 going to Authority resident/trainees. The Authority paid wage rates in excess of the Davis-Bacon rates approved by HUD, and underpaid certain trade classifications. Although the overpayments are not a violation of the Davis-Bacon law, such payments appear unnecessary and resulted in excessive costs of at least $4.5 million being charged to the ART program. Also, underpayments made to certain trade classifications may result in additional costs charged to the ART program.

There was no control over union worker schedules. There was no evidence that work write-ups or cost estimates that were prepared by the Authority inspectors were used as a basis for performing the work or preparing the budget. Because of problems with materials and storage the Authority decided to lease a warehouse for a five year period for a demonstration program. The leasing of this warehouse was very costly. Over the five-year period, the Authority will have incurred leasing costs of $600,000, or $120,000 per year. In addition, the Authority has incurred costs of $209,830 for building improvements and other costs. The Authority has incurred costs of $136,000 related to vandalism and theft. Because of these problems, the Authority hired security firms to patrol the buildings, and incurred costs of $716,498.

Poor Planning

The Authority had no master plan for determining the feasibility or viability of the properties selected for the program. According to the ART program preliminary business plan, the initial 300 units were selected by the Authority's assistant managers for scattered sites during September 1992. An external inspection was conducted at each of the 300 units to determine: (1) that the building had not been demolished, and (2) that no serious structural problems existed. Some of the properties selected were isolated row homes, often with abandoned adjacent properties not owned by the Authority. The long term viability of selective renovations in otherwise blighted blocks, without other redevelopment activity in the community, is questionable.

Prior to any renovation Authority inspectors also inspected the units selected for renovation and provided work write-ups and cost estimates. Our review of the work write-ups indicated that the Authority staff did not pay any attention to the inspectors' work write-ups. For example, the property at 2038 North 32nd Street had extensive fire and water damage. The Authority's inspectors recommended that the property be demolished. However, the Authority incurred costs of $56,239 for work at this property, and terminated the property from the ART program because of structural conditions and the location of the property. We were advised by the Authority staff that the work write-ups done by the Authority inspectors were not used to determine the construction work to be performed.

The Authority eliminated over 60 units from the ART program due to structural conditions and/or location of the properties. Some of these units were eliminated after clean-out and demolition work had been done inside the units, resulting in costs of $903,452. We were advised by Authority staff that an Authority employee who is a civil engineer was available to inspect these units after clean-out and demolition work had been completed. We were also advised that the structural conditions of the units could not be determined until the walls were removed.

The Authority began the program prematurely, that is, without a proper cost analysis and an evaluation of the condition of the units. We were advised by Authority staff that the cost to renovate these units was based on the pilot program units, which needed "patch and repair" work. However, the units in the ART program were longstanding vacant units in need of extensive renovation. We were advised by Authority staff that they were not aware of the condition of the units until they had started the renovations.

Our review of the work write-ups done by the Authority inspectors indicated that the Authority staff should have been aware of the condition of these properties. For example, on April 13, 1993 the Authority inspector inspected 1401 North 18th St., which had three units, and noted that the following work was needed:

- Install 100 amp electrical service for each apartment, rewire entire property, install new ceiling fixtures in every room.

- Remove all plumbing and heating from entire property, including water waste, heat and gas lines, install new gas lines to supply hot water heaters, heating units and gas ranges.

- Install a new gas-fired hot air furnace, including new duct work and vents.

- Demolish and replace rear wall, brace and shore to make safe all floors and roof as needed. Reinforce foundation to accommodate new wall.

Additional work included at this property included installing windows, doors, walls, ceilings, floors, concrete steps, kitchen cabinets and sink, bathroom tub, sink and toilet. The Authority inspectors estimated the hard costs to renovate this property at $114,202, or $38,067 per unit. The estimated hard costs did not include overhead or administrative costs. The Authority incurred actual costs of $307,007, or $102,335 per unit, to renovate these three units.

Because of the problems associated with the ART program the Authority postponed the renovation of 75 units and incurred costs of $1.2 million.

We also found evidence that some of the units selected for renovation were occupied. The intent of the ART program was to renovate long-term vacant units.

Davis-Bacon Wage Rate Inequities

The Authority paid workers over and under the required Davis-Bacon wage rates. As of February 1995 this has resulted in payments of $4.5 million over the Davis-Bacon rates. The Authority is also in the process of determining the amount certain trade classifications were underpaid. Although the over payments are not a violation of Davis-Bacon, they resulted in unnecessary and excessive costs being charged to the ART program. In addition, the underpayments could result in additional costs being charged to the ART program.

On May 19, 1992, the Authority and the Building and Construction Trades Council of Philadelphia (BCTC) signed an addendum to their contract for the union workers involved in the ART program which specified the hourly pay rate and fringe benefits for skilled tradesworkers . The hourly rate for skilled tradesworkers was set at $18.67 and for laborers it was $15.95, with fringe benefits differing from union to union. On March 19, 1993 HUD advised the Authority that Davis-Bacon wage rates effective August 30, 1991 applied to the ART program union workers, rather than HUD-determined wage rates.

The Authority has paid workers over and under the Davis-Bacon rates. For example, the basic hourly rate and fringe benefits for a laborer per the Davis-Bacon wage decision dated August 30, 1991 is $8.00 per hour and $2.00 for fringe benefits. The Authority, however, paid a laborer $15.95 per hour and $8.84 for fringe benefits, resulting in a $14.79 per hour overpayment. The Authority determined that laborers were paid a total of $2.3 million over the Davis-Bacon wage decision as of February 1995. The Authority also determined that the total overpayment to various trade classifications is $4.5 million.

In addition, the Authority underpaid certain trade classifications, which include plumbers, power equipment operators, and roofers. The Authority is in the process of determining the amount of the underpayments to these trade classifications.

Control of Union Work Schedules

Laborers started cleaning trash and debris out of buildings on March 29, 1993. Carpenters started boarding up cleaned buildings on April 13, 1993. A roofing crew started work on April 27, 1993.

The roofing crews were completely redoing roofs on buildings that were structurally unsound and would later be eliminated from the ART program. In other words, each trade union controlled its own work schedule. As a result, some unions advanced faster than others, with little coordination of completion dates. Consequently, when properties were determined to be unsuitable for renovation by the inspectors, some work had already been completed. When units were removed from the ART program, the work and funds spent on those abandoned properties were essentially wasted.

Resident-Trainees/Training Program

The Authority's resident job training program had little impact, if any, on the ART program. The resident job training program is a training and employment program which provides low-income, public housing residents with the opportunity to enter the workforce, preferably through enrollment in a building trades union apprenticeship program.

Since June 1993 approximately 45 residents have participated in the resident job training program and the ART program. Eleven resident/trainees who participated are now in the trade apprenticeship program. As of June 1995 the resident/trainees who participated in the ART program were paid a total of only $347,211, while union workers were paid over $19 million.

While the ART program did result in some benefits to the resident job training program, there are far less costly renovation programs available to the Authority.

High Cost Lease

Because of the type of renovation the Authority was doing in the ART program, there was a need for a separate warehouse to store materials, because materials stored at the sites were constantly stolen. In addition, ART program materials stored at the Authority's main warehouse were sometimes pulled for other uses, making the materials unavailable for the ART program. As a result, on August 8, 1994, a separate warehouse with office space was leased by the Authority for the ART program. The Authority signed a five-year lease, with monthly rental payments of $10,000, or $120,000 per year. In November 1994, the ART program staff moved into the warehouse. In addition to the monthly rent the Authority incurred costs of $209,830 for building improvements, office furniture, telephone lines, security system, and equipment for the warehouse (fork lift trucks, shelving, weight scales). The leasing of this warehouse for a five-year period and the additional improvements were very costly, because the warehouse was used for only seven months (the ART program moved into the warehouse in November 1994 and stayed until May 1995, when the last units were completed).

Work Write-Ups and Cost Estimates

The work write-ups and cost estimates appeared to be used only for documenting that the estimated cost did not exceed the total development cost (TDC) allowed under the Comprehensive Improvement Assistance Program and Comprehensive Grant program. The Authority had work write-ups and cost estimates for all of the buildings renovated in the ART program, but there was no evidence that the Authority compared the estimated cost to actual cost incurred, or used the work write-ups as a basis for performing the work. The TDC limits were used as cost guidelines.

According to the U.S. Army Corps of Engineers the work write-ups failed to provide both the necessary data to plan an efficient rehabilitation project, such as detailed drawings and specifications, and photographs of all exterior walls, interior load bearing walls, floors, floor joist and any other areas that would be of value in the renovation of the buildings.

Vandalism and Theft

The Authority has incurred substantial losses due to vandalism and theft. Reported losses total $135,000, but the Authority indicated that actual losses could be as much as $270,000. The theft of materials includes windows, furnaces, doors, plumbing, electrical supplies and employees' tools.

Security

Because of problems with vandalism and theft the Authority hired security firms to patrol the buildings under construction. In addition, the Authority used interior alarm systems to monitor the buildings. The Authority incurred costs of $716,498 related to security.

AUTHORITY COMMENTS

The Executive Director generally agreed with the finding and added that, in addition to the resident/trainees who are now in trade apprenticeship programs, certain residents were offered employment by the Authority. In addition, the Authority's August 1995 report on the ART program addressed the problems cited in the finding and should be considered as the Authority's response.

OFFICE OF INSPECTOR GENERAL COMMENTS

We recommend that your office continues to follow up on resolution of the wage inequities and other areas reviewed that need corrective action as a result of this pilot demonstration program.

CC:OSWALD
   CIANCI

3AGA:DECARLO:AMP:02/27/96

Correspondence Code	3AGA			
Concurrence	DECARLO			
Date				

Attachment 4

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REPORT NAME:	Philadelphia Housing Authority Apartment Renovation Team Program Philadelphia, Pennsylvania
REPORT NO:	96-PH-201-1014
ISSUE DATE:	February 29, 1996

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