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TO: Joan Spilman, Director, Office of Public Housing, 2CPH

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: Utica Municipal Housing Authority, Utica, New York, Needs to Make Improvements in Administering Its HOPE VI Revitalization Program

HIGHLIGHTS

What We Audited and Why

We audited the Utica Municipal Housing Authority (Authority) regarding its administration of its HOPE VI grant program because of issues identified during our initial audit of the Authority's general operations. We wanted to determine whether the Authority (1) administered its HOPE VI grant program and activities effectively, efficiently, and economically in accordance with grant agreements and applicable rules and regulations; (2) complied with applicable procurement requirements; (3) implemented sufficient disbursement controls over administrative costs charged to the program; and (4) had a cost allocation plan to adequately account for and distribute costs to the program.

What We Found

The Authority's HOPE VI program is not achieving vital revitalization objectives in a timely manner or in accordance with program goals and requirements as specified in its application, revitalization plan, and grant agreement. For three professional services contracts associated with the HOPE VI program, 1) excessive fees were paid for application services, 2) a consulting contract was improperly modified, and 3) administration of a financial consulting contract was

inadequate. Questionable administrative costs were also charged to the program. In addition, the Authority periodically allocated certain costs such as wages and fringe benefits but neglected to allocate other indirect costs, and its allocation plan for wages and fringe benefits was not adequately supported or detailed.

What We Recommend

We recommend that the U.S. Department of Housing and Urban Development (HUD) director, Buffalo Office of Public Housing, instruct the Authority to implement procedures that will ensure that all collateral investments and in-kind services for the Hope VI project are documented and quantified. Reevaluate the scope of its revitalization plan and amend the plan accordingly so that HUD can reassess whether the Authority is able to meet its primary objective of revitalizing the project neighborhood known as Cornhill. Based on this reassessment, HUD should determine whether the amended plan is effective enough to ensure that the remaining \$7.47 million will be put to better use, or if the Authority can only achieve certain objectives, HUD should consider reducing the remaining amount of grant funds proportionately. We also recommend that HUD require the Authority to establish controls to ensure compliance with all applicable federal, state, and local procurement policies and regulations. Further, the Authority should be required to submit supporting documentation to justify all unsupported costs, so that HUD can make an eligibility determination, and reimburse the program from nonfederal funds all amounts determined to be ineligible. In addition, we recommend that the Authority develop and implement a cost allocation plan or establish an indirect cost rate proposal to ensure that all costs are properly allocated to the benefitting sources.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the results of our review during the audit and at an exit conference held on September 7, 2006. Authority officials did not agree with our findings and provided their written comments during the exit conference. The Authority's comments included alternative recommendations, which we have reviewed and taken into consideration. Based on this review, we revised our recommendations that pertain to finding one. Also, the Authority's comments included numerous appendixes that were too voluminous to include in this report, but will be provided to your office. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Utica Municipal Housing Authority (Authority) was organized pursuant to the Housing Act of 1937 and the laws of the State of New York. Its primary objective is to provide low-income housing to the citizens of Utica, New York, and surrounding areas in compliance with its annual contributions contract (contract) with the U.S. Department of Housing and Urban Development (HUD). The Authority is governed by a board of commissioners (board) composed of seven members, five appointed by the mayor and two elected by the tenants. The executive director is hired by the board and is responsible for the day-to-day operations of the Authority.

HUD awarded the Authority an \$11.5 million HOPE VI grant effective July 3, 2003. The grant funds are earmarked for developing replacement units for relocated public housing residents and new housing unit rentals and providing an opportunity for homeownership and renovated housing in Utica's most severely distressed neighborhood known as Cornhill. In addition, the Authority owns and manages eight federally funded developments with 932 low-rent units. It also administers Section 8 programs consisting of 515 units at seven Section 8, 11B, developments and 174 housing choice voucher units.

To administer the HOPE VI grant and related activities, the Authority created the not-for-profit corporation, Rebuild Mohawk Valley, Inc. (Rebuild Mohawk), on January 8, 2003. On July 11, 2003, the Internal Revenue Service designated Rebuild Mohawk as exempt from federal income tax under section 501(a) of the Internal Revenue Code as a nonprofit organization described in section 501(c)(3). Rebuild Mohawk is governed by a board of directors, composed of nine voting members and five ex-officio members. The HOPE VI coordinator is responsible for implementing policies and administering Rebuild Mohawk. Since the Authority was awarded the HOPE VI grant, it maintains responsibility for the grant as grantee; therefore, Rebuild Mohawk and the Authority are referred to interchangeably throughout this report.

We selected the Authority for audit based on issues identified during our review of the Authority's general operations, audit report number 2006-NY-1005, issued on February 21, 2006.

The objectives of our audit were to determine whether the Authority (1) administered its HOPE VI grant program and activities effectively, efficiently, and economically in accordance with grant agreements and applicable rules and regulations; (2) complied with applicable procurement requirements; (3) implemented sufficient disbursement controls over administrative costs charged to the program; and (4) had a cost allocation plan to adequately account for and distribute costs to the program.

RESULTS OF AUDIT

Finding 1: The Authority's HOPE VI Program Was Not Achieving Vital Revitalization Objectives

Contrary to its HUD-approved grant application, the Authority was not accomplishing its HOPE VI program objectives and did not show adequate progress toward completing key planned activities. Specifically, 1) overall progress was lacking and activities were not tracked; 2) partnership with the City of Utica (City) lacked progress and cooperation; 3) there had been limited activity or progress on Cornhill Commons, which is integral to the HOPE VI program as the central hub of the neighborhood revitalization project; 4) planned housing goals will not be attained, and target area code enforcement was inadequate to achieve revitalization objectives; and 5) the relocated tenants of the Washington Court development have not benefited as intended in the HOPE VI application. These deficiencies can be attributed to Authority's inadequate management of the HOPE VI program and its inability to handle a large redevelopment project. As a result, the HOPE VI program has not benefited the Cornhill neighborhood target area and residents as proposed in the application, plan, and grant agreement. Thus, the Authority has a limited chance of success in completing vital HOPE VI activities and achieving revitalization goals.

HOPE VI Program Objectives

In December 2002, the Authority applied for a HOPE VI grant in accordance with the notice of funding availability for the fiscal year 2002 HOPE VI program, published in the *Federal Register*, Volume 67, No. 147. In March 2003, HUD officially notified the Authority that its HOPE VI grant application had been approved. The grant agreement was executed in July 2003 and incorporates the notice and grant application. The total approved HOPE VI program budget to be expended was more than \$82 million, of which \$11.5 million was HUD funding, thus leveraging was an important component. The Authority received the maximum number of points for leveraged funds in its application rating due to the amount of leveraged funds that were to be provided in addition to the HOPE VI grant. In accordance with program requirements, all of the HOPE VI activities are to be completed and funds expended by September 30, 2008.

The Authority's approved application proposed to revitalize a community area known as the Cornhill section of Utica, which was experiencing the greatest distress and drain on local resources. With pledged support from City, county, school, and other agency leaders, the Authority planned to (1) offer the 70 families remaining at its Washington Courts Development the opportunity to move to new replacement housing in Cornhill; (2) demolish the Washington Courts Development and sell the site to the City for use as an economic

development site, creating job opportunities for residents of Washington Courts; and (3) transform Cornhill into a mixed-income neighborhood with new community assets and services. However, numerous revitalization investments critical to the success of the HOPE VI program have shown little progress, with available records indicating that only \$802,000 of the \$27 million in collateral investments had been expended as of March 31, 2006.

Progress Lacking and Activities Not Tracked

The Authority was not carrying out its HOPE VI revitalization program in a timely manner and in accordance with program requirements as proposed in its application, plan, and grant agreement. Due to a lack of adequate recordkeeping by the Authority, it is difficult to determine the exact amount expended and the overall progress for all HOPE VI activities. The total HOPE VI program budget of \$82.3 million has to be expended by September 30, 2008; however, only \$22.6 million had been expended as of March 31, 2006.

Based upon information provided by the Authority and the HOPE VI program quarterly progress report, the expenditures as of March 31, 2006, were as follows:

<u>Source</u>	<u>Budget</u>	<u>Expended</u>
HOPE VI award	\$11,501,039	\$ 4,034,362
Other federal funds	5,620,876	2,325,584
Nonfederal funds	<u>38,208,159</u>	<u>15,455,661</u>
Subtotal	55,330,074	21,815,607
Collateral investments	<u>27,039,088</u>	<u>801,936</u>
Total HOPE VI	<u>\$82,369,162</u>	<u>\$22,617,543</u>

As detailed above, only 27 percent of the overall budget had been expended as of March 31, 2006. Further, only 3 percent of funds for the important collateral investments had been expended.

The table below reflects activity on collateral investments as of March 31, 2006.

<u>Activity</u>	<u>Budget</u>	<u>Expended</u>
New school	\$16,000,000	\$ -0-
Rescue mission	2,800,000	-0-
Cosmopolitan center	2,500,000	-0-
City of Utica:		
Policing	400,000	111,600
Code enforcement	863,000	20,073

Economic development	500,000	-0-
Cornhill match	500,000	-0-
Residential rehabilitation	500,000	174,445
Lead paint program	500,000	375,000
In-kind staff	1,092,000	120,818
County of Oneida:		
Health department	270,000	-0-
Residential rehabilitation	1,024,088	-0-
Habitat for Humanity	<u>90,000</u>	<u>-0-</u>
Total collateral investments	<u>\$27,039,088</u>	<u>\$ 801,936</u>

The Authority's tracking system is incomplete and unsupported since it did not track the \$27 million of collateral activities. The Authority could not provide any expenditure reports regarding the \$27 million in collateral investments. The Authority had to request information from the City and other partners in an attempt to provide us with basic information; however, the responses we received were inadequate. Since the Authority did not maintain records on the \$27 million in collateral funding, there is no assurance as to the accuracy of the expenditures.

In addition to the lack of progress on collateral investments, the March 2006 quarterly report submitted to HUD shows that \$13.5 million of the nonfederal funds is planned for community services; however, only \$3.9 million has been expended. This represents only 29 percent of the total. Moreover, numerous partners who pledged support have not provided any funding as of this date. As a result, many of the leveraged activities, which are an integral part of the HOPE VI program, have not progressed satisfactorily.

HUD Monitoring Review Cited Concerns

HUD recognized the lack of progress and focus by the Authority in a May 2004 monitoring review. The monitoring report states that the Authority had not focused on accomplishing any one thing, was trying to accomplish everything at the same time, and did not have the necessary experience to do so. The monitoring review report further stated that the Authority needed to focus its energies on progress, which has been slow as evidenced by the Authority not meeting projected start dates and the actions not being completed. HUD recommended that a quarterly source of funds report be developed for each of the four categories of financial commitments (physical development resources, community services resources, collateral investments, and anticipatory investments). Similar to the community services resources report now in place, we suggest that each report individually list the amounts comprising the total commitment as well as the year-to-date proceeds and/or services received. When completed, these reports should reconcile with the quarterly report.

Lack of Progress and Cooperation in Partnership with City

The HUD 2004 monitoring review further cited a lack of cooperation between the Authority and the City, a main HOPE VI program partner. The City pledged significant funds and activities for the HOPE VI project; however, the Authority has not obtained progress reports from the City. Many of the City activities included not only collateral investments, but also infrastructure improvements for the development budget.

Based on the records available at the Authority, we estimated that approximately \$17 million would be provided by the City for HOPE VI activities. However, the Authority obtained City records that show more than \$19 million in HOPE VI program planned items with only around \$4 million expended and invested in the program area at March 2006. The Authority provided the documents to us without a detailed write-up or reconciliation.

More importantly, as of March 31, 2006 key activities from the City that are critical to the success of the HOPE VI program have been slow to materialize. These include:

- \$1 million in community assets and services to develop the Cornhill neighborhood, including a new community school, recreational park, outdoor ice skating rink, and community plaza.
- More than \$800,000 promised by the City for systematic code enforcement activities, of which the City has provided only \$20,000 for this activity.
- More than \$5.5 million in infrastructure improvements to be made in the HOPE VI program target area. The City is claiming only \$343,000. During our site visit to the target area, we noticed very few street and/or sidewalk improvements.
- More than \$500,000 committed by the City for economic development, of which no activity has been completed.
- \$245,000 committed for facade improvements. So far, only six businesses have been assisted for a total investment of only \$30,000.

The Authority did not maintain records as to the level of expenditures. Since it is responsible for ensuring the success of its HOPE VI program as required by the grant agreement, it should track the impact that the activities are having in the

revitalization zone. Further, there was no overall assessment of the impact of collateral investments.

Limited Activity or Progress on Cornhill Commons

The Authority's HOPE VI application states that one of the primary objectives of the HOPE VI program is to transform the Cornhill neighborhood once again into a mixed-income neighborhood with new community assets and services. The application provides that the City made a commitment of \$1 million to develop a new recreational park in the middle of Cornhill. The park is to have a new community school, multipurpose fields, softball fields, playgrounds, an outdoor ice rink, and a community plaza. This will bring a much-needed recreational asset to this area of the City. The Cosmopolitan Center will construct a \$2.5 million facility that will be part of the community school. The facility will host the administrative functions for its own organization, the Authority, the Cornhill Senior Center, and other neighborhood groups.

There has been limited activity or progress on the vital components comprising Cornhill Commons. Available records indicate that more than \$20 million was to be expended for the benefit of Cornhill Commons; however, as of April 2006, no funds had been invested. Authority officials also stated that the Authority still does not have site control over 12 houses within the seven-acre area needed for the Cornhill Commons project. In April 2006, we conducted a visual tour of the HOPE VI program target zone and confirmed that there had been limited activity in Cornhill Commons.

Housing Goals Not Attained and Target Area Code Enforcement Inadequate

The HOPE VI application was approved on the basis that the Authority would construct 74 new homeownership units and 120 new rental housing units for a total of 194 housing units. In addition, the application provided that 70 public housing units (consisting of 24 homeowner units and 46 rental units) would be developed with funds from this HOPE VI program grant.

The application section also provided that 24 of the 74 homeowner units will be available as lease to purchase public housing agency-owned units and 44 rental units would be available as homeowner units after 15 years of rental.

However, based upon information available as of March 31, 2006, the housing goals will not be met. The basis for this conclusion is as follows:

- The 24 lease to purchase public housing agency-owned units have been eliminated from the program. The Authority is now planning on only 54 homeowner units, down from the 74 planned. Of these 54 homeowner units, 23 units are targeted for 2007 and 2008.
- Only 11 of the originally planned 74 homeowner units have been completed.
- The total of 44 rental units (Rutger Manor) that were to be homeowner units after 15 years of rental has been reduced. The Authority now plans only 33 of these units.

Code Enforcement Is Not Adequate

The HOPE VI application provided that the replacement housing would be tied to “systematic code enforcement,” for which the City promised \$863,000. However, documentation provided by the Authority shows that the City had provided only \$20,000 for this activity as of March 31, 2006. In addition, the Authority noted many code violations in the HOPE VI target area and informed the City of such violations; however, little or no action has been taken by the City.

In April 2006, we toured the HOPE VI target area and noticed many code violations of properties located next to the new HOPE VI program homes. The following photos illustrate code concerns in the HOPE VI target area.



Street pavement and curb deterioration on Leah Street



Poorly maintained grounds of vacant boarded-up property

Relocated Washington Court Tenants Not Benefiting as Intended

A primary objective of the HOPE VI program was to give the tenants of Washington Courts the opportunity to relocate to HOPE VI housing in the Cornhill neighborhood area and hopefully become homeowners. According to the approved application, the HOPE VI project was designed to provide quality, affordable housing in combination with support services to empower the former residents of Washington Courts. The replacement housing is located in the Cornhill neighborhood of Utica with close proximity to shopping, banking, human service programs, and other facilities.

However, the vast majority of the displaced tenants have been relocated to other public housing. Only seven of the relocated Washington Court tenants now reside in the Cornhill neighborhood, with only one family having purchased a HOPE VI home. Most of the relocated Washington Court tenants are currently not residing in the Cornhill neighborhood and are not homeowners.

Washington Court Residents Have Not Benefited From Job Opportunities

According to the HOPE VI application, another one of the primary objectives of the HOPE VI program was to demolish Washington Courts and sell the site to the City for use in economic development including providing job opportunities for relocated residents of Washington Court. However, we conducted a visual inspection of the Washington Court site in April 2006 and noted that the demolition work had only recently begun. Thus, the job opportunities, if any, for the relocated residents appear to be many years away. More importantly, the Authority was to provide job opportunities during construction of the HOPE VI

homes by giving priority to the relocated residents of Washington Court, residents of other public and assisted housing, and persons in the Cornhill neighborhood.

The application provided that there were to be 1) aggressive procurement and contracting guidelines to ensure that HOPE VI program construction funds benefit the Authority's residents; 2) use of in-house labor or the Authority's residents to create hiring opportunities in the construction of the for-sale homes; and 3) proactive recruitment campaigns to attract private-sector partners, mainstream contractors, and minority business owners willing to agree to resident hiring goals. Despite these promises and assertions, the Authority has not hired the relocated Washington Court residents or any other public housing residents for the HOPE VI project.

Conclusion

The Authority was not carrying out its HOPE VI revitalization program in a timely manner and in accordance with program requirements as proposed in its application, plan, and grant agreement. Further, the HOPE VI program was not benefiting the Cornhill neighborhood target area residents as planned, and the Authority has a limited chance of success for completing vital HOPE VI activities and achieving revitalization goals within the current timeframes.

These failures can be attributed to Authority mismanagement of the HOPE VI program and the Authority's inability to administer a large redevelopment project. Without knowing the financial and programmatic status of many of its HOPE VI activities, the Authority cannot adequately administer its HOPE VI program in an economic and effective manner and with assurance of success. In 2004, HUD questioned the Authority's accomplishments and abilities and made several recommendations for improvements. However, the Authority did not make any measurable improvements. As such, not until the Authority reevaluates the scope and amends its plan so that the project neighborhood can be revitalized and program objectives can be achieved in a timely manner, will the remaining balance of \$7,466,678 in HOPEVI funds be more efficiently used and the reduced costs will benefit the program.

The remaining findings contained in this audit report are also indicative of the Authority's inability to manage the HOPE VI program in accordance with appropriate requirements.

Recommendations

We recommend that the director, Buffalo Office of Public Housing, require the Authority to

- 1A. Implement procedures that will ensure that all collateral investments and in-kind services for the HOPE VI project are documented and quantified. In addition, the Authority should continue to work collaboratively with its partners on this project.
- 1B. Reevaluate the scope of its revitalization plan and amend the plan accordingly, so that HUD can reassess whether the Authority is able to meet its primary objective of revitalizing the project neighborhood.

We also recommend that the director, Buffalo Office of Public Housing,

- 1C. Determine whether the amended revitalization plan is effective enough to ensure that the remaining \$7,466,678 in funds will be put to better use or if the Authority can only achieve certain objectives, consider reducing the remaining amount of grant funds proportionately.

Finding 2: The Authority's Controls over HOPE VI Contract Administration Were Inadequate

The Authority's administration of HOPE VI professional service contracts did not fully comply with applicable HUD regulations and requirements. For three professional services contracts associated with the HOPE VI program, 1) excessive fees were paid for application services, 2) a consulting contract was improperly modified, and 3) administration of a financial consulting contract was inadequate. As a result of the noncompliances, the Authority incurred unsupported costs of \$242,664, and cost efficiencies totaling \$74,099 were identified. The deficiencies can be attributed to the Authority's weak system of controls over contract administration.

Several contracts were modified by change orders that authorized increased cost limitations. Therefore, we selected a sample for review consisting of the three contracts that included the largest cost limit modifications. The three contracts were for professional services and were originally executed with not-to-exceed cost limitations. Nonetheless, each contract was modified to provide additional funding for significant changes to the scope of services. All three contracts failed to comply with HUD regulations and requirements.

Excessive Fees Paid for HOPE VI Application Services

Because the Authority did not follow federal procurement regulations, \$181,762 was paid to an architectural firm for a contract that was not to exceed \$40,000. The excessive costs, which were more than 350 percent above the original maximum amount, were for architectural preconstruction and community planning services enabling preparation of the HOPE VI application. Federal regulations at 24 CFR [*Code of Federal Regulations*] 85.36(2) require grantees to maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts.

The selected contractor submitted a letter to the Authority before the competitive request for proposals, indicating familiarity with the HOPE VI target area of Cornhill. In responding to the request, the contractor promoted its firm as being experienced in the Cornhill neighborhood and agreed to do all of the HOPE VI application preparation for a not-to-exceed fee of \$40,000. A review of the selection process shows that this contractor was chosen over competing proposals based upon the low price of \$40,000.

The contract was executed in March 2002. However, despite its agreement to conduct all of the required application work for the \$40,000 fee, the company billed \$80,000 and at least 1,389 hours through September 2002. The Authority, however, did not approve the \$40,000 contract increase until October 2002. As a result, the work performed in relation to the billings over the original \$40,000 was

done without authorization. Thus, the contractor had no contractual authority to incur those charges.

The contractor then billed an additional \$89,152 for application services from September to December 2002. Once again, the work and billings were conducted without approval and authorization. The approval to go from \$80,000 to \$180,000 was not provided by the Authority's board until March 19, 2003, and was signed by the executive director on April 7, 2003. All of the billings were for HOPE VI application services, and the services provided were promised under the contract for the \$40,000. From September through December 2002, the contractor billed another 1,345.5 hours. More than 2,900 hours were eventually billed for HOPE VI application services.

Representatives of the contractor and the Authority attempted to provide justification for the substantial price increases. Our review of the change order justifications determined that the reasons provided for the increases were not valid. First, the contractor and the Authority cited the increased number of meetings and revisions to the plan. However, the scope of work required the firm to attend all necessary meetings and conduct whatever work was necessary to assist the Authority with the HOPE VI application. Second, the contractor and the Authority cited a larger area than anticipated when the proposal was submitted, yet this argument does not have merit when compared with the request for proposal's scope of services.

The total amount paid for the HOPE VI application services was \$181,762, when the maximum allowed by the procurement and contract process was \$40,000. For this reason and the reasons mentioned above, we consider \$141,762, which represents the amount paid in excess of the \$40,000, as excessive costs for the HOPE VI application services.

Consulting Contract Improperly Modified

A contract for consulting services with a not-to-exceed limit of \$85,000 was awarded on March 28, 2002, to assist the Authority with its HOPE VI application process, although the contractor's proposal did not fully comply with the request for proposals provisions. The Authority authorized a change order increasing the contract limit by \$20,000 on the same day the contract was awarded. The contract was modified three more times by change orders through November 5, 2003, adding an additional \$85,000 to the contract dollar limit. These four change orders increased the contract from a not-to-exceed limit of \$85,000 to a modified amount of \$190,000, thus increasing the original contract amount by about 124 percent and significantly modifying the scope of services to be provided. Rather than initiating a new request for proposals, the Authority opted to arbitrarily modify the contract on four occasions, thereby inappropriately restricting

competition for the additional services. In addition, contrary to regulations, the Authority did not conduct the required cost or price analysis for any of the four contract change orders executed.

Federal regulations at 24 CFR [*Code of Federal Regulations*] 85.36(f)(1) require grantees and subgrantees to perform a cost or price analysis in connection with every procurement action including contract modifications. Further, 24 CFR [*Code of Federal Regulations*] 85.36(a)(9) requires grantees and subgrantees to maintain records sufficient to detail the significant history of a procurement. These records will include but are not limited to the rationale for the method of procurement, selection of a contract type, contractor selection or rejection, and the basis for the contract price.

The Authority did not maintain sufficient records to track the history of the procurements as required. From the number of change orders processed, it is clear that the Authority paid for services well beyond the initial funding limitations for this contract. Further, it appears that the Authority was instructing the contractor to submit change orders.

For example, in a February 26, 2003, correspondence, Authority officials advised the contractor that the balance left on the contract was \$6,563, while further instructing the contractor to provide the authority with an outline of additional costs it would recommend for the HOPE VI grant implementation period. Authority officials further requested that the contractor provide the information as soon as possible so that the Authority could determine the size of the change order to approve at that time. Accordingly, it appears that the Authority initiated at least one modification to the contract by requesting that the contractor determine the level of additional funding to be included in a proposed change order. This does not appear to be in compliance with 24 CFR [*Code of Federal Regulations*] 85.36, which provides that all procurement transactions will be conducted in a manner that provides for full and open competition.

The history of this procurement action illustrates that administration over the consulting contract was mismanaged, thereby violating the above federal regulations. This not-to-exceed consulting contract went from \$85,000 to \$190,000 due to change orders that improperly modified the contract and prevented open competition. As of March 2004, the Authority had disbursed \$164,873, leaving a balance of \$25,127. As a result of these noncompliances, \$79,874, which represents all disbursements made in excess of the original contract amount (\$164,873 – 85,000), is considered to be unsupported, and the Authority should be prohibited from expending the undisbursed contract balance of \$25,127; this amount should be considered a cost efficiency.

Administration of Financial Consulting Contract Was Inadequate.

On November 14, 2003, the Authority awarded a contract for HOPE VI financial consulting services with a not-to-exceed limit of \$30,000. Less than seven months later, on June 4, 2004, the Authority authorized a change order of \$70,000 to add additional funds to the contract limit, while also indicating a new completion date of September 1, 2007. The \$70,000 change order represents a 233 percent increase from the original contract, and it modified the contract limit to \$100,000. Therefore, the change order represented a significant change in the scope of services to be provided.

The Authority could not provide evidence that the required cost price analysis had been conducted before contract modification. The only documentation maintained in the Authority's contract files relating to the change order was two faxed documents, dated September 20, 2004. One of the documents contained the change order itself and indicated a change order initiation date of April 1, 2004; however, the document signatures indicate that it was signed by the Authority on June 4, 2004, and by the contractor on June 5, 2004. The second faxed document was identified as a change order request, and it included details explaining that additional services had already been completed and that other services were needed. Therefore, it is unclear from the documentation whether certain services were provided by the contractor before execution of the change order.

Since the Authority did not conduct a price cost analysis for the contract modification, costs incurred of \$21,028, which exceeded the original not-to-exceed contract limit of \$30,000, are considered unsupported, and the Authority should be prohibited from expending the undisbursed modified contract balance of \$48,972, which should be considered a cost efficiency.

Conclusion

The above deficiencies show that the Authority's controls over contract administration relating to the HOPE VI program did not ensure that costs incurred for services were reasonable and necessary.

Recommendations

We recommend that the director, Buffalo Office of Public Housing, instruct the Authority to

- 2A. Establish controls to ensure compliance with all applicable federal, state, and local procurement policies and regulations, to include compliance in the areas of (1) performing cost estimates and/or price analyses for all future procurement activities, (2) ensuring that all procurement transactions are conducted in a manner that provides for full and open competition, and (3) properly administering contracts after execution.
- 2B. Provide documentation to justify the \$242,664 in unsupported costs [\$141,762 + \$79,874 + \$21,028], so that HUD can make an eligibility determination, and reimburse from nonfederal funds the amount of any unsupported costs determined to be ineligible.
- 2C. Discontinue activities associated with the consulting and financial consulting contracts that were improperly modified and ensure that the remaining contract balance of \$74,099 [\$25,127 for the consulting contract and \$48,972 for the financial consulting contract] is not disbursed.
- 2D. Prepare new requests for proposal if additional consulting or financial consulting services are deemed necessary.

Finding 3: Questionable Administrative Costs Were Charged to the HOPE VI Program

Contrary to its grant agreement and federal requirements, the Authority disbursed HOPE VI program funds for questionable administrative expenditures. These expenditures were associated with (a) salary allocations; (b) office supplies, equipment, and computer software; (c) reimbursement to the Authority for various expenditures; (d) credit card charges; (e) other miscellaneous expenses; (f) local utilities and taxes; and (g) food and beverages. We attribute these deficiencies to the Authority's failure to implement controls over disbursements that were sufficient to ensure compliance with applicable regulations. Consequently, Authority officials cannot ensure that they charged only reasonable and necessary administrative costs to the HOPE VI program.

Federal Regulations

Federal regulations at 24 CFR [*Code of Federal Regulations*] 85.3 include “any public housing agency” in the definition of a local government. The HOPE VI grant agreement between HUD and the Authority and 24 CFR [*Code of Federal Regulations*] 85.22(b) require the Authority to comply with the cost principles of Office of Management and Budget Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments.” Attachment A, paragraph C(1)(a), requires that all costs be necessary and reasonable for proper and efficient performance and administration of federal awards, and paragraph C(1)(j) requires that all costs be documented. Therefore, the Authority is required to maintain records sufficient to document the reasonableness and necessity of expenditures.

In addition, 24 CFR [*Code of Federal Regulations*] 85.20 requires that accounting records be supported by source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant awards documents, etc.

Between July 3, 2003, and December 31, 2005, the Authority disbursed HOPE VI program funds totalling \$75,869 to pay for questionable administrative expenditures. The details are described as below.

Salary Allocations

During the audit period, the Authority made journal entries detailing \$30,076 charged to the HOPE VI program for salary allocation for fiscal years ending June 30, 2004, and June 30, 2005. The Authority was unable to provide sufficient payroll data to support the salaries allocated, and the journal entries were not descriptive. Further, as discussed in finding 4, the Authority lacked an acceptable cost allocation plan. As a result, we question the \$30,076 pending an eligibility determination by HUD.

Payments for Office Supplies, Equipment and Computer Software

The Authority could not provide adequate documentation to support expenditures totalling \$20,148 for a laptop computer, computer software, file cabinets, a digital projector, general office supplies, and copier machine lease fees and their related supplies. There was no evidence to support that price quotes had been obtained for these purchases. Also, there was no invoice on file for the purchase of the digital projector, and it appears that payment, which occurred from two to six months after the purchase of the projector, was based on the vendor's statement of account. In addition, contrary to the Authority's policy requiring purchase orders of more than \$1,000 to be signed by the executive director, computer software was purchased without the appropriately authorized purchase order. Further, the purchase requisition and purchase order to support the costs associated with the copiers and their related supplies were not properly signed. The Authority did not have a copy of the maintenance agreement for the leased copier on file. It could not provide adequate supporting documentation, such as vendor invoices, purchase requisitions, and purchase orders, for overage charges for excessive copies. Accordingly, we consider the \$20,148 to be unsupported and recommend that HUD make a determination on the eligibility of these charges.

Reimbursements to the Authority for Various Expenses

The Authority reimbursed its general operating account \$11,628 for various costs including wages, benefits, office equipment, and supplies. The supporting documentation for these expenditures was nondescriptive in detailing the purpose and providing justification for the charges to the HOPE VI program. The Authority was unable to provide adequate accounting support such as vendor invoices, purchase requisitions, purchase orders, receiving reports, etc. Further, the small amount of supporting documentation that was provided does not agree with the amount charged to the HOPE VI program. Therefore, since the Authority did not provide adequate supporting documentation to substantiate that these expenditures were for reasonable expenses, we consider the \$11,628 to be unsupported and recommend that HUD make a determination on the eligibility of these charges.

Credit Card Charges

The Authority was unable to provide adequate documentation to support disbursements totalling \$7,104 for charges made to a credit card. The charges included finance charges, Dunkin Donuts, airline tickets, gasoline, hotel rooms, late fees, travel advances, software, and tuition reimbursement. The documentation provided to us for review lacked adequate accounting support such as vendor invoices, purchase requisitions, purchase orders, and receiving reports. Accordingly, we consider the \$7,104 to be unsupported and recommend that HUD make a determination on the eligibility on these charges.

In addition, the documentation that the Authority provided to support some of the credit card purchases was disorganized, and the billing dates could not be reconciled to the amount of payment or to budget line item distribution. In addition, certain charges, such as those for Dunkin Donuts, gasoline, groceries, and miscellaneous expenses classified as marketing expenses, are questionable as to their eligibility. The marketing expenses included potpourri, candles, greeting cards, ribbons, shrink roll, liquid soap, laundry baskets, and a mirror. Further, Office of Management and Budget Circular A-87, attachment B, provides that costs incurred for interest on borrowed capital are unallowable. Some payments were made from two to six months after the items were purchased; thus, certain credit card billings included finance charges and late fees, which are not eligible uses of funds. Therefore, we recommend that \$68 in ineligible costs be reimbursed to the HOPE VI program by the Authority from nonfederal funds.

Other Miscellaneous Expenses

The Authority could not provide adequate documentation to support expenditures totalling \$3,821. The items include flooring materials, flooring installation, digital prints, and black and white copies. There was no evidence to support that price quotes had been obtained for these purchases. In addition, contrary to the Authority's policy requiring purchase orders of more than \$1,000 to be signed by the executive director, the digital prints and black and white copies were purchased without the appropriately authorized purchase order. The documentation that the Authority provided to support telephone conference call expenditures was nondescriptive as to the purpose and did not provide sufficient justification for the expenditure. Accordingly, we consider \$3,821 in costs to be unsupported and recommend that HUD make a determination on the eligibility of these charges.

Payments for Local Utilities and School Taxes

The Authority disbursed checks totalling \$1,562 from HOPE VI program funds for payment of local utilities and school taxes that we consider ineligible expenses. The utility payments were for gas, electric, and municipal use in addition to municipal school taxes. The payments related to property not owned by the Authority. The property in question is owned by Stuben Manor, LLC, a limited liability partnership created by HOPE VI Developer Housing Visions, Inc., and Key Bank. The Authority charged these disbursements to account number 1400, entitled "Fees and Costs." However, these payments do not have a proper relationship to HOPE VI program administrative costs. Accordingly, we consider the \$1,562 to be ineligible and recommend that the Authority be instructed to reimburse this amount to the HOPE VI program with nonfederal funds.

Food and Beverages Expenses

The Authority was unable to provide adequate documentation to support the necessity of disbursements totalling \$1,153 for food and beverage items consumed during meetings related to the HOPE VI program. These expenses consisted of assorted food items, a luncheon for the HOPE VI program partners, and a banquet. Accordingly, we consider the \$1,153 to be unsupported and recommend that HUD make a determination on the eligibility of these charges.

The documentation that the Authority provided to support the banquet expenditure was nondescriptive as to the purpose and did not provide sufficient justification for the expenditure. In addition, the total amount paid exceeded the authorized purchase order amount by \$304. Therefore, we recommend that the \$304 be reimbursed to the HOPE VI program by the Authority from nonfederal funds.

Appendix C contains a summary of questionable administrative costs charged to the HOPE VI program.

Conclusion

The above deficiencies show that the Authority's controls over administrative costs did not ensure that the costs incurred were reasonable and necessary expenses. The lack of controls has allowed for questionable administrative costs to be charged to the HOPE VI grant program.

Contrary to applicable requirements, the Authority lacked documentation to show that \$75,869 in HUD funds used to pay for administrative costs was for reasonable and necessary expenses. The Authority paid \$1,935 in ineligible costs and \$73,934 in unsupported costs from HUD funds charged to the HOPE VI project.

Recommendations

We recommend that the director, Buffalo Office of Public Housing, require the Authority to

- 3A. Implement procedures and effective disbursement controls to ensure that all transactions charged to the HOPE VI grant are properly incurred, supported, and in compliance with applicable regulations.
- 3B. Reimburse the grant from nonfederal funds the \$1,935 in ineligible costs.
- 3C. Provide additional documentation and justification for the \$73,934 in unsupported costs so that HUD can make an eligibility determination. If any unsupported costs are determined to be ineligible, they should be reimbursed from nonfederal funds.

Finding 4: The Authority Lacked an Acceptable Plan for Allocating Costs to Its HOPE VI Program

Contrary to federal requirements, the Authority did not have an acceptable plan to support the allocation of costs to its HOPE VI program. It periodically allocated certain costs such as wages and fringe benefits but neglected to allocate other indirect costs. The Authority's allocation plan for wages and fringe benefits was not adequately supported or detailed. We attribute these deficiencies to the Authority's unfamiliarity with federal cost allocation procedures. As a result, the Authority's method of allocating costs to the HOPE VI grant was incomplete and did not ensure that the grant was bearing a fair share of the costs as required.

Federal Requirements

Federal regulations at 24 CFR [*Code of Federal Regulations*] 85.22(b) require the Authority to follow Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Section 85.3 of the regulation includes "any public housing agency" in its definition of a local government.

Office of Management and Budget Circular A-87, attachment A, paragraph A1, provides that state, local, and federally recognized Indian tribal governments shall establish principles to provide that federal awards bear their share of costs. Office of Management and Budget Circular A-87, attachment E, section B3 and 4, states that an "indirect cost pool" is the accumulated costs that jointly benefit two or more programs or other cost objectives, and "base" means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

Further, Office of Management and Budget Circular A-87 provides two methods that local governments can use to allocate costs to federal grants. The first method, as detailed in attachment C, paragraph A1, states that governments need a process whereby costs can be assigned to benefited activities on a reasonable and consistent basis. The cost allocation plan provides that process. All cost and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that support the propriety of the costs assigned to federal awards. The second method, as detailed in attachment E, section D1, states that all departments or agencies of the governmental unit desiring to claim indirect costs under federal awards must prepare an indirect cost rate proposal and related documentation to support those costs.

Certain Costs Periodically Allocated

The Authority's plan for allocating costs included salary and fringe benefit allocations for selected staff but failed to include other allocable costs or an explanation as to why other costs were not included in the plan. The HOPE VI coordinator explained that certain costs such as salaries and wages were allocated periodically; however, other indirect costs were not allocated to the grant.

HUD's HOPE VI budget guidance, dated June 2005, provides that budget line item 1410 [Administration] is intended for costs associated with the general, overall administration of the HOPE VI grant by the grantee. In addition to staff salaries and benefits, the budget guidance lists several other specific eligible administration expenses, including such costs as those incurred for office space and utilities for office space, etc. Further, Office of Management and Budget Circular A-87, attachment E, section A4, states that typical examples of indirect costs may include certain state/local central service costs, general administration of the grantee department or agency, accounting and personnel services performed within the grantee department or agency, depreciation or use allowances on buildings and equipment, the costs of operating and maintaining facilities, etc.

The Authority's Method for Allocating Costs Was Not Documented

The Authority did not have adequate documentation to support its allocation plan. For instance, the Authority's plan was not adequately supported with detailed time sheets or a time study to support the rates used to allocate wages by staff position, nor did the plan provide reasoning for not allocating nonsalary indirect costs to the grant. The Authority's plan merely listed (1) selected employee by name and title, (2) an apparent percentage of time and number of hours spent on HOPE VI activities, (3) general HOPE VI duties conducted by position, and (4) a notation stating cost per employee plus benefits. No additional documentation was included with the Authority's plan to indicate how the allocable percentages were determined or how the salary cost totals were calculated. In addition, the fringe benefits section of the plan did not describe the nature of the fringe benefits, nor did it describe how the fringe benefit amounts would be determined.

Cost Allocation Issue Previously Noted by HUD

The HUD Buffalo Office of Public Housing conducted a financial review of the Authority in May 2004. The Authority was cited by HUD for not having established and/or updated a formal cost allocation plan. HUD recommended that a formal allocation plan be developed in accordance with Office of Management and Budget requirements. HUD further recommended that the plan contain the rationale for the allocation process, as well as how it would be executed and when it would be adjusted to reflect updated information.

Two years later and despite HUD's recommendations, the Authority had not established an acceptable cost allocation plan to include the HOPE VI grant. In particular, as discussed above, the Authority's allocation plan did not contain the rationale for the allocation process.

Conclusion

Authority management had not implemented a cost allocation plan to ensure that costs allocated to the HOPE VI grant were accurate and reasonable. As a result, the Authority lacked assurance that costs charged to the HOPE VI program were reasonable in relation to the benefits derived from the costs incurred. Further, it is likely that the Authority's operating fund has been charged with other allocable indirect costs that have provided benefit to the HOPE VI program, further burdening an already stressed operating budget. Consequently, the Authority's ability to effectively control its HOPE VI program budget is diminished.

Recommendations

We recommend that the director, Buffalo Office of Public Housing, require the Authority to

- 4A. Develop and implement a cost allocation plan and/or establish an indirect cost rate proposal in accordance with Office of Management and Budget requirements. Once an acceptable cost allocation plan or indirect cost rate proposal is developed, the Authority should ensure that all costs are properly allocated to benefitting sources.
- 4B. Establish procedures and controls to ensure that its plan for allocating costs is updated as necessary.

SCOPE AND METHODOLOGY

Our review focused on the Authority's HOPE VI grant program. To accomplish our objectives, we interviewed HUD officials and Authority staff. In addition, we reviewed applicable laws, regulations, and other HUD program requirements and the Authority's program files for the HOPE VI grant program.

Various documents including financial statements, general ledgers, bank statements, invoices, purchase orders, contracts, check vouchers, HUD monitoring reports, and the Authority's audited financial statements were also reviewed during the audit.

As of the end of our fieldwork, \$7,466,678 of the \$11.5 million in HOPE VI funding provided by HUD, was unspent. If the Authority implements our recommendations by amending its revitalization plan so that the project neighborhood can be revitalized and the program objectives can be achieved in a timely manner, the remaining balance of HOPE VI funds will be more efficiently used and the reduced costs will be a benefit to the program. As such, the Authority could then assure HUD that the remaining funds are being put to better use.

The review covered the period between January 1, 2003 and December 31, 2005, and was extended as necessary. We performed our audit work from February through June 2006 at the Authority's office located at 509 Second Street, Utica, New York. We also performed audit work at the offices of the Authority's not-for-profit corporation, the Rebuild Mohawk Valley, Inc., located at 524 Elizabeth Street, Utica, New York. The review was conducted in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The Authority did not establish controls and procedures to ensure that administration of the HOPE VI grant program was conducted in a manner that would achieve program objectives (see finding 1).
- Controls and procedures were not established to ensure the validity and reliability of HOPE VI data. The Authority was not sufficiently tracking the HOPE VI program partner activities, and cost allocations were charged to the grant without the benefit of an adequate cost allocation plan (see findings 1, 3, and 4).
- The Authority did not have an adequate system to ensure compliance with laws and regulations relating to the payment of certain HOPE VI contracting and administrative costs charged to the grant (see findings 2, 3, and 4).
- The Authority did not have an adequate system to ensure that resources were properly safeguarded when it charged questionable contracting and administrative costs to the grant (see findings 2 and 3).

FOLLOW-UP ON PRIOR AUDITS

**Report No. 2006-NY-1005
Utica Municipal Housing
Authority, Utica, New York
February 21, 2006**

We issued the above audit report pertaining to the general operations of the Authority. The report contained three findings with recommendations for corrective action.

Finding 1 involved the Authority providing unauthorized medical insurance benefits totaling \$511,480 for retiree medical costs. The recommendations are still open as the Authority contends it does not have any nonfederal funds available to reimburse the low-rent housing program, and HUD has requested a legal opinion from the Office of General Counsel regarding the definition of nonfederal funds, which may qualify for the repayment of disallowed costs to the low-rent housing program.

Regarding finding 2, HUD has also requested a legal opinion from the Office of General Counsel pertaining to the questioned \$140,116 that resulted from the Authority's deficient system for procuring and awarding contracts.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1C			\$7,466,678
2B		\$242,664	
2C			74,099
3B	\$1,935		
3C		73,934	
Total	\$1,935	\$316,598	\$7,540,777

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

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ “Funds to be put to better use” are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes costs reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance if the Authority implements our recommendations by amending its revitalization plan and ceasing to spend funds on improperly modified contracts, it will ensure that the remaining balance of HOPE VI funds will be more efficiently used and HUD could be assured that vital program objectives will be achieved in a timely manner. Thus, the efficient use of the funds will be a benefit to the program.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



Dr. Taras J. Herbowy
Executive Director

September 7, 2006

Mr. Edgar Moore
Regional Inspector General for Audit
U.S. Department of Housing & Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278-0068

RE: Municipal Housing Authority of the City of Utica,
OIG Audit 2006-NY-10XX
HOPE VI Revitalization Program
Letter Dated August 16, 2006 from Mr. Edgar Moore

Dear Mr. Moore:

This is to acknowledge receipt of your letter dated August 16, 2006 in connection with a Draft Audit Findings Report of the Municipal Housing Authority of the City of Utica, New York (UMHA) HOPE VI Revitalization Program. We have carefully reviewed this audit with our HOPE VI staff, senior management and Board of Commissioners. The purpose of this letter is to provide an in depth response analyzing the audit findings and to provide an outline of our corrective action plan. Therefore, this response is presented in three parts as follows: Overall Response; Detailed Response; and Corrective Action. Accordingly, we ask that you include this response in the Auditee Comments of the Final Audit.

OVERALL RESPONSE

The primary recommendation of your report is that the U.S. Department of Housing and Urban Development (HUD) should reassess whether the UMHA is able to meet its primary objective of revitalizing the project neighborhood known as Cornhill and consider the reallocation of the remaining \$7.47 million to another organization. While we agree that much remains to be accomplished with the HOPE VI initiative, we believe that recent enhancements to our program detailed in our response as well as the continued support of the administration of the City of Utica should justify a reexamination of your recommendation.

The UMHA strongly concurs with your audit report that the HOPE VI initiative must be more than just a housing program in order to effectuate the revitalization of the Cornhill neighborhood. Our strategy for successful neighborhood revitalization has been to enhance the educational and training opportunities of the neighborhood residents, develop new rental and home ownership housing, facilitate improvement of existing homes and redevelop the Martin Luther King, Jr. Elementary School (MLK) and adjacent land into a recreational area and community center known as the Cornhill Commons.

It is also important to note that our HOPE VI project is unique in the nation. Unlike many HOPE VI Revitalization grants which rebuilt the replacement housing on the same site as the original development, our grant application proposed to develop new housing units on a scattered site basis in an adjacent neighborhood. The multiple sites of our project were necessary to ensure a sufficient number of replacement housing units were developed, but it increased the complexity of the project from both development and property management perspectives.

THE MUNICIPAL HOUSING AUTHORITY OF THE CITY OF UTICA, NEW YORK IS A FAIR HOUSING AND EQUAL EMPLOYMENT OPPORTUNITY AGENCY

Comment 1

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Comment 2

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At the same time, like other HOPE VI projects in the nation, our project was negatively impacted by state and federal cuts to human service and housing programs, which impeded the ability of our partners to always fulfill match requirements. Increasing construction costs also made it imperative to reduce the number of planned HOPE VI rental and homeownership units.

Notwithstanding these larger issues, our housing authority has achieved many successes with our HOPE VI project. The following has been accomplished:

- ✓ Despite a delay in beginning housing production activities, we are in the process of meeting our planned goals and expect to complete the requisite number of units by the end of the grant term. To date, we have developed 76 tax credit rental replacement housing units in conjunction with our not-for-profit developer – Housing Visions Consultants, Inc. We have achieved 95% occupancy of these units. By September 2007, an additional 33 tax credit replacement housing units will be developed. The development of these units has made a significant difference in the revitalization of the Cornhill neighborhood. This area of Utica was previously blighted by blocks of vacant lots; through the HOPE VI initiative, we have developed this land into new housing and put properties back on the tax rolls.
- ✓ Through our nonprofit HOPE VI subgrantee – Rebuild Mohawk Valley, Inc. – we have developed 11 units of homeownership housing. Please note that these units represent the first new single family units built in Utica's inner-city in over 20 years. We are developing another eight units this year. (The HUD Buffalo Office requested that we reduce the number of homeownership units planned for 2006. RMV was prepared to develop additional units.) On November 22, 2004, an amendment to our Revitalization Plan was submitted to the HUD HOPE VI grant manager requesting a reduction in the number of planned homeownership units. The HUD Buffalo Office agreed with this modification to the Revitalization Plan. Nonetheless, we will complete the remaining 35 units by the end of the HOPE VI grant term.
- ✓ To date, five (5) local lenders have participated in HOPE VI home mortgage seminars and are anxious to provide permanent mortgages to qualified buyers. Our HOPE VI program, working with The HomeOwnership Center and Consumer Credit Counseling Services, has assisted over 40 applicants to achieve an acceptable credit rating for purchase of homes. More than 350 local residents have contacted our office to request information regarding UMHA homeownership opportunities. Of this number, 93 households are on the waiting list, 28 households have completed the pre-homeownership training course, and 11 households have been pre-approved.
- ✓ Sixty five families residing in the Washington Courts complex were successfully relocated to new and renovated UMHA and HOPE VI housing as well as provided other housing opportunities. HUD has used our relocation program as a model for other HOPE VI programs, recommended other housing authorities contact the UMHA for technical assistance, and we have helped to create forms and protocols used by other housing authorities.
- ✓ Our HOPE VI project has directly benefited both the residents of the Washington Courts complex and the Cornhill Target Area. The independent evaluation of our HOPE VI grant by Hamilton College published in June 2006 states that the project "... has met major goals. All Washington Courts families have been moved, most to other public housing projects in neighborhoods that are of higher median income and less racially segregated." Washington Courts households were relocated to recently renovated public housing units, provided Housing Choice (Section 8) vouchers, or moved to the new HOPE VI housing. Seven residents are currently residing in the Target Area; we expect this number to increase as new HOPE VI rental units are constructed. Please bear in mind that the UMHA provided detailed information to the Washington Courts residents on all available relocation options; the residents ultimately chose their relocation destination. Many of the residents have informed us that they preferred to live in conventional public housing because utilities are included in the rent. The UMHA has and will continue to provide relocation payments to residents desiring to move to subsequent phases of the HOPE VI project. Notwithstanding that 70% of the original Washington Courts residents are either elderly or disabled, we helped one former resident to purchase a HOPE VI homeownership unit. We expect this number to increase as we continue to build additional homes for purchase.

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Comment 2

- ✓ Our attached response demonstrates our Community Supportive Services Program has enabled our residents to become self-sufficient, maintain stable housing, secure employment, and access support services. Our Youthbuild Program enrolled 21 Cornhill residents and four public housing residents and helped 15 low-income neighborhood youth to obtain employment (of which 6 are construction-related jobs). The Youthbuild participants assisted in the construction and landscaping of the HOPE VI homeownership units and were provided on-the-job training opportunities in construction.
- ✓ Although the Utica area has an extremely limited number of certified Section 3 and minority-women business enterprises, we have conducted an aggressive outreach campaign to identify firms interested in participating in HOPE VI construction activities. To date, we have entered into 22 separate contracts with minority and women business and Section 3 enterprises and 21 Section 3 eligible and minority/female residents have been hired in connection with HOPE VI construction activities. We anticipate that Cornhill and Washington Courts residents will benefit from additional job opportunities once the original Washington Courts site is redeveloped into industrial and commercial uses.
- ✓ Our HOPE VI project has served as a model for cross-agency collaboration and partnership. The City of Utica and Oneida County have both provided financial support and resources for the project and cooperated with the UMHA in implementing the program. The City of Utica has provided a total of \$ 5,485,841 in housing development, infrastructure improvements, codes enforcement, planning, community policing, and economic development funding to the project. The City of Utica has been an invaluable partner in HOPE VI revitalization efforts by providing technical assistance, furnishing parcels for development, making available partial tax abatements and Payment in Lieu of Tax arrangements, and offering planning, Geographical Information System, environmental review, and zoning assistance. As part of its commitment to increased codes enforcement in the Target Area, the City recently enacted a local ordinance requiring periodic inspections of rental property.
- ✓ The UMHA recently vouchered Oneida County for the first installment of \$300,000 as part of its \$900,000 commitment to home improvement activities as part of the HOPE VI project. New York State Empire State Development has committed to provide this funding to Oneida County. In addition, the New York State Division of Housing and Community Renewal approved \$300,000 for home preservation activities. The Oneida County Planning and Health Departments have provided technical assistance and community outreach services.
- ✓ The Utica City School District has also serves as an important partner in our HOPE VI revitalization efforts. In conjunction with the School District and Oneida County Workforce Development, we have developed a Neighborhood Networks Center at the Martin Luther King, Jr. Elementary School in Cornhill. This initiative of UMHA, funded by a HUD \$300,000 Neighborhood Networks grant, has been providing services to the students of MLK and the Cornhill community through its educational programs of job skills development and remedial education.
- ✓ Our HOPE VI project demonstrated its ability to manage an extremely complicated project by the installation of a new playground on the grounds of the Martin Luther King School. The playground was constructed in June 2006 with the assistance of over 70 volunteers and a partnership between UMHA, RMV and the Utica City School District. Funding was provided by Office of Governor George Pataki, The Community Foundation of Herkimer & Oneida Counties, Inc. and Harriet T. McGrath Fund, the City of Utica, KaBOOM!, MLK Program Committee, Excellus BlueCross BlueShield, Utica Region, The Home Depot, and Wal-Mart. Assistance was also provided by the Office of Senator Hillary Rodham Clinton. The City of Utica provided \$5,000 to this project. A total of \$96,270 in non-HUD funds were contributed to this project. We view the playground as the first step in mobilizing public support for redevelopment of the MLK School and a demonstration of the construction management ability of the program to coordinate such a complicated initiative.
- ✓ The UMHA is strongly committed to developing the Cornhill Commons as the central hub of our neighborhood revitalization project. Although we have not made as much progress in completing this project as originally anticipated, we have completed important steps in the process. This phase of the project was delayed due to issues related to the disposition and demolition of Washington Courts and the need to gain approval from the State of New York and HUD. The Utica City School District has established a committee to examine the feasibility

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of developing a HOPE VI community school, the first step in accessing funding for the school from local, state, federal, and private sources. Absent any feasible plan and/or suitable funding available to a school district at its debt limit, UMHA is considering a range of other available means that may support the concept of community schooling in the HOPE VI target area not limited to the establishment of a Charter School. Over \$25,000 has been invested by public and private sources in the MLK Dream Park facility. As already mentioned, we have leveraged \$96,270 in connection with the development of the MLK playground project. The City of Utica has indicated that it will make available land for the Cornhill Commons Project and provide the necessary site control. A local house of worship is in the process of securing funding commitments to build a community center as part of the Cornhill Commons Initiative. The UMHA has recently received funding from the State of New York in the amount of \$25,000 for planning activities in connection with the Cornhill Commons project.

Comment 3

- ✓ Contrary to the match figures presented in your draft report, our data shows that we have leveraged a total of \$36,110,773 for our HOPE VI grant. Of this amount, \$5,115,161 consists of Community and Supportive services match, \$ 6,290,799 collateral investment, and \$24,704,813 direct housing physical investment. Please note that we have match tracking forms in place which are hereto attached as part of our detailed response and the UMHA submits on a quarterly basis to HUD reports on the amount of leverage generated for the HOPE VI project.

Comment 4

DETAILED RESPONSE

On August 16, 2006, the United States Department of Housing and Urban Development (HUD) released a draft Audit Report on the Municipal Housing Authority of the City of Utica, New York HOPE VI Revitalization Program. The audit reviewed the financial, programmatic, and management aspects of the program and focused on program outcomes, procurement, administrative costs, and cost allocation of grant expenses.

In July 2003, the United States Department of Housing and Urban Development (HUD) entered into a contract with the UMHA in the amount of \$11,501,039 to implement the HOPE VI project which involves the demolition of the Washington Courts public housing complex, relocation of residents, and the development of rental and homeownership units in Cornhill neighborhood of Utica. UMHA is the sponsor of the project and program grantee and provides general oversight of the project. Rebuild Mohawk Valley, Inc. (RMV), a private independent tax exempt Community Development Housing Organization under contract with UMHA, serves as the developer and construction manager of the homeownership component of the program and administers the HOPE VI grant on behalf of the UMHA. Housing Visions Consultants, Inc. (HVC), a non-profit entity, is the developer of the rental portion of the project.

In addition to developing new housing units, the program is designed to improve the HOPE VI Target Area – the Cornhill neighborhood – through improvement of community facilities and preservation and rehabilitation of the existing housing stock. In partnership with the community and service providers, the program also seeks to promote economic self-sufficiency of Washington Courts and Cornhill residents through community service and education programs.

We have carefully reviewed each of the findings in the Draft Audit Report. The UMHA recognizes and shares the United States Department of Housing and Urban Development's concerns regarding the progress of our HOPE VI program as well as our contract administration procedures and administrative costs. We are committed to working with your Department to address these concerns on a long-term basis, develop permanent solutions, and ensure that any problems do not reoccur.

The UMHA has prepared this response to clarify the issues raised by HUD in the audit and to provide additional information and detailed explanations relating to specific findings.

We have organized this report by replying to the major points raised in each section of the audit report. For the sake of clarity, each section has been separated and responded to individually. The italic face type indicates UMHA's response. Under each response, we provide information to clarify the facts relating to the finding, as well as indicate specific action steps to resolve identified issues. In that manner, we offer the following information for your consideration.

FINDING 1: THE AUTHORITY'S HOPE VI PROGRAM WAS NOT ACHIEVING VITAL REVITALIZATION OBJECTIVES

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Progress Lacking and Activities Not Tracked

The conclusion presented in the first section of this finding is not supported by the facts. It is our position that the program is complying with the major program requirements as proposed in the application, plan, and grant agreement. Although we have not achieved all of our objectives, we have made considerable progress in connection with the HOPE VI project. The UMHA successfully relocated the original Washington Courts residents, completed 76 units of rental and 11 units of homeownership housing, will complete 41 units of rental and homeownership housing by the end of this year, made the first steps in developing the community school by completing a Martin Luther King Dream Park, playground, and computer center, leveraged \$36,770,089 in match for the project, and secured \$1,200,000 in funding to develop a home improvement program.

We do acknowledge that the program may not have progressed as rapidly as it should have, but a number of factors have impeded the progress of the entire project:

- 1. Our HOPE VI project is extremely complex and differs from the normal projects funded by HUD. Generally, HOPE VI projects involve the demolition of the public housing development and the rebuilding on the same site. Our project consists of a scattered site development in a residential urban neighborhood. This kind of project would naturally take longer to complete and would have issues in connection with site control and neighborhood approvals.*
- 2. Several of the major partners have witnessed significant reductions in funding which have made it impossible for some of the match contributions to be fulfilled. In other cases, funding for some programs was completely eliminated.*
- 3. Increases in construction costs have left the UMHA with no choice but to limit the production of housing units.*

The UMHA strongly takes issue with your statement that the Authority did not properly track match for the program. Tracking forms are sent on a periodic basis to program partners to verify the amount of match. Match reports are submitted on a quarterly basis to HUD. Records are indeed maintained on the match contributions.

Comment 3

Contrary to the match figures presented in your draft report, our data shows that we have leveraged a total of \$36,110,723 for our HOPE VI grant. This amount consists of the following forms of match: Community and Supportive Services - \$5,115,161, collateral investment - \$6,290,799, and direct housing physical investment - \$24,704,813. Attached in the Appendix to this response are detailed reports detailing all forms of match contributed to the project.

A table summarizing the original commitments of the HOPE VI compared to current commitments and amounts of expenditure since July 2003 is as follows:

Current Leveraging	Committed	Expended	Variance	Application Commitment	
Physical Development	\$32,296,442	\$24,704,813	82%	\$30,279,906	Application Commitment
Collateral Investment	\$28,978,607	\$6,290,799	23%	\$27,039,088	Application Commitment
Community & Support Svcs.	<u>\$13,674,481</u>	<u>\$5,115,161</u>	38%	<u>\$13,475,127</u>	Application Commitment
Partner Support	\$74,949,530	\$36,110,723	51%	\$70,794,121	Application Commitment
HOPE VI Grant	<u>\$11,501,039</u>	<u>\$4,030,000</u>	35%	63% of \$70,794,121 is \$44,600,296	
Period : 7/1/03- 9/30/08	\$86,450,569	\$40,140,773		63% completed from 7/1/03 through 6/30/06 (12 of 19 quarters)	

Please note that the original application showed partner support of \$70,794,121 whereas the UMHA has leverage increased support for the HOPE VI project which is now committed to \$74,949,530 - a 106% increase in committed effort. Additionally, the physical development expenditure is at 82% of the original commitment whereas the HOPE VI program is now only 63% into the HOPE VI funding period.

A major emphasis of the HUD IG report was to focus on Collateral Investment. The IG reported that an \$801,936 Collateral

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Investment expenditure had occurred whereas \$6,290,799 has now been documented - an amount 784% higher than indicated by the IG report.

As indicated above, it is true that not all human service agencies that committed match have provided funding to date. However, the UMHA has taken the following corrective action steps to resolve this issue:

- 1. Meetings have been held to explain the match documentation process and what forms of match are acceptable.*
- 2. One-to-one technical assistance has been provided to agencies requesting this service.*
- 3. New forms of match have been identified to supplant expected contributions from agencies unable to make their commitments due to funding cuts.*

We would be pleased to accept technical assistance from HUD to improve our match tracking procedures and will work with HUD in any way to resolve this finding.

HUD Monitoring Review Cited Concerns

Comment 7

Based upon the review of our records, the UMHA was in receipt of a fiscal HUD Monitoring Report in connection with financial issues referenced in this section. However, we were never provided with a written copy of the other report indicated in your audit. It appears from your audit that this report was prepared by HUD Buffalo and made reference to the lack of progress and focus of the HOPE VI project. We consulted with the HUD Buffalo Office and they were also unaware of this document. We are respectfully requesting that your office provide the UMHA with a copy of the program report.

As stated in your report, the UMHA developed a tracking system to track community services match for the HOPE VI grant. In fact, a HUD Washington representative applauded the match tracking system while providing training to our community service partners. Please keep in mind that the HUD HOPE VI Office has never provided grantees except for the Bearing Point report a protocol to track program match. Based upon your recommendation, we will begin the immediate implementation of a match tracking report for the other leverage categories.

Lack of Progress and Cooperation in Partnership with City

Comment 8

Your statement that there was a lack of cooperation between the City of Utica and the UMHA with connection to the HOPE VI Program is inaccurate and false. The City of Utica has provided financial support and resources for the project and cooperated with the UMHA in implementing the program. Contrary to the figures cited in the audit, the City of Utica has provided a total of \$5,485,841 in housing development, infrastructure improvements, codes enforcement, planning, community policing, and economic development funding to the project. The City of Utica has been an invaluable partner in HOPE VI revitalization efforts by providing technical assistance, furnishing parcels for development, making available partial tax abatements and Payment in Lieu of Tax arrangements, and offering planning, Geographical Information System, environmental review, and zoning assistance. As part of its commitment to increased codes enforcement in the Target Area, the City recently enacted a local ordinance requiring periodic inspections of rental property. Coordination meetings are held on a regular basis to share information and plan HOPE VI programs.

Upon the request of the HUD Buffalo Office, a formal Memorandum of Agreement was formulated to define the relationship between the City of Utica and the UMHA. The MOU, which was executed on May 26, 2005, stipulates the amount and types of match to be provided to the UMHA and confirms the commitment of the City of Utica to the Cornhill Commons and other HOPE VI projects. The City of Utica has obligated almost its total HUD HOME funding to the project.

In response to your specific concerns regarding the key activities of the City of Utica match, the following are summaries of the financial support heretofore provided to the project:

Comment 9

Cornhill Commons: In May 2005, the City of Utica entered into a Memorandum of Understanding (MOU) with the Municipal Housing Authority (UMHA); the MOU clearly defined roles and responsibilities relative to the redevelopment of two sites in which each party had a mutual interest. The former Washington Courts and Goldbas housing developments have historically been owned, operated and maintained by the UMHA. With the forced decommissioning of both housing projects by the United States Department of Housing and Urban Development due to their condition and location, the City of Utica

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developed a revitalization plan for that particular neighborhood (Gateway Historic Canal District revitalization plan). As part of the successful HUD HOPE VI grant, the UMHA proposed the construction of a community center/school within the City's Cornhill neighborhood, central to the proposed scattered site housing to be constructed to replace Washington Courts and Goldbas. Termed Cornhill Commons, the City owned the bulk of the land in a two-block area at the time of the HOPE VI award. To effectuate the development of both the former housing project land and the Cornhill Commons, both parties entered into the Memorandum of Understanding in May 2005.

Within the MOU, UMHA agreed to provide title to the Washington Courts and Goldbas parcels to the City for \$150,000 in cash. In addition, the MOU required that the City provide an additional \$750,000 contribution to be used toward the development of the Cornhill Commons. In return, the UMHA was required to provide \$265,000 to the City from HUD to remediate potential environmental issues. The MOU also required that a "written development plan" be developed in partnership between the City and the UMHA. Finally, the MOU also detailed additional funding commitments to be made by the City which had already largely been committed within the original, successful HOPE VI application and which has already been addressed in other sections of this response.

To date, the UMHA has provided the required \$265,000 to the City. With the funds, the City was granted early access to the former Washington Courts housing units and has completed asbestos abatement. Furthermore, in anticipation of the title transfer for the property, the City has begun demolition of the housing units with its own employees. However, to date, issues with the New York State Division of Housing and Community Renewal (DHCR) continue to delay the actual transfer of the property from UMHA to the City. However, at the time that transfer can be made, the City is fully prepared to provide the \$150,000 in cash as required by the MOU. Furthermore, the City is also ready to provide the \$750,000 contribution toward the development of Cornhill Commons.

Relative to the development of a written development plan, Cornhill Commons was originally envisioned to be part of an expanded Martin Luther King Elementary School and was to include community space and expanded recreational facilities. To assist in the development of the school expansion, UMHA contracted with a local architectural firm with extensive experience in educational facilities design; of the total \$12,000 contract, the City and UMHA equally shared the total cost. The result of the effort was an architectural plan that depicted a possible expansion of the school to accommodate an expanded school with provisions for shared community space. During the development of the plan and subsequent to its development, the City met extensively with the various partners in the project – UMHA, the City, Rebuild Mohawk Valley, the City of Utica School District Board, Superintendent and staff as well as the architect. Ultimately, however, the School Board has yet to finalize the plan.

The City stands resolute in the commitments made within the MOU relative to Cornhill Commons. In the event that the school portion of the Cornhill Commons fails to materialize, the City (in partnership with the UMHA) has developed plans to develop single-family housing on the sites within the two-block area still owned by the City or its Urban Renewal Agency. The City of Utica Urban Renewal Agency has continued to maintain ownership of the majority of the parcels within the proposed Cornhill Commons area. Of the total 57 parcels of land within the two-block area, the City of Utica or its Urban Renewal Agency still owns all but two dozen. If such a significant change in the scope of the project were to occur, the City still stands behind its commitment to the overall HOPE VI effort.

Codes Enforcement: The City of Utica has contributed a total of \$69,232 towards in-kind codes enforcement activity in the target neighborhood. These funds cover the portion of time of the Codes Enforcement Bureau, the City of Utica Fire Department, and Section 8 Housing Quality Standards (HQS) inspections. The City of Utica recently has enacted legislation to strengthen the enforcing of housing codes. The Residential Occupancy Permit law requires that landlords register their rental properties with the City of Utica and that all such properties are inspected on a periodic basis.

As per the HOPE VI application, as well as the MOU between the City and UMHA, \$500,000 has been contractually obligated to residential rehabilitation in the HOPE VI target area. Of that contractually obligated amount, \$327,223 has been expended of the obligated amount. It is our position that the match requirement has been met for this particular collateral investment category.

While the City of Utica had a lead paint program, the City did whatever it could to complete units that were located in the HOPE VI target area. HUD prioritization regulations and limited funding prevented the City from meeting its goal of

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\$500,000. Repeated attempts over the last three years to receive a new lead grant from the HUD Office of Healthy Homes and Lead Hazard Control have yet to produce a positive result. Should that change, the City will complete the remaining \$125,000 in lead-related work. A lead application in the amount of \$1.4 million was recently submitted to HUD and we are waiting approval.

Infrastructure Improvements: Contrary to your claim that only \$343,000 has been expended thus far on infrastructure improvements, a total of \$822,194 has been contributed. Please find attached in the Appendix photographs of improvements made to the neighborhood's infrastructure.

Economic Development: In order to meet the \$500,000 in economic development match that was committed to the project, the City of Utica is currently undertaking a significant commercial revitalization of Oneida Square, which is located on the western boundary of the target area. In addition to a \$200,000 New York State Main Street Grant, the City of Utica has set aside just over \$300,000 in CDBG funding for the project. Once executed, this investment would meet the \$500,000 match requirement for economic development.

Many economic development incentives are offered by the City of Utica in the HOPE VI target area. These efforts include:

- ✓ Economic Reinvestment Program (ERP) Loans --- low interest loans of \$5,000 - \$150,000 for real estate, machinery and equipment, inventory, or working capital.
- ✓ Jumpstart Loans --- micro-enterprise loans for new or existing businesses with 1-5 employees. Loans up to \$5,000 for inventory, working capital, machinery and equipment, or business opportunity loans.
- ✓ Empire Zone Benefits ---- Zone certified business eligible for investment tax credits, employee incentive credit, real property tax credit, tax reduction credit, sales tax exemption, and utility reductions.
- ✓ Utica Industrial Development Agency --- grants PILOT agreements and sales tax and mortgage tax exemptions.

The following is a compilation of businesses in the HOPE VI target area which have benefited from economic development incentives from the City of Utica.

- ✓ Gary's Midtown Plaza is located at 1641 Oneida Street. Gary's received a \$104,720 ERP loan for building renovations, machinery and equipment, and working capital. Gary's Midtown Plaza created ten new full-time equivalency jobs.
- ✓ Cornhill Senior Center benefited from a \$10,000 bridge loan. This loan was a short-term note for working capital, and was repaid from proceeds of a grant from the New York State Department of the Aging.
- ✓ Metal Logix Design and Fabrication received a loan in the amount of \$62,500 for the purchase of equipment and working capital. The project renovated a City of Utica owned building slated for demolition and created 25 new jobs.
- ✓ Porter Construction made application and received a JumpStart MicroEnterprise Loan in the amount of \$5,000 for the purchase of equipment. The company was born out of the HOPE VI project and the need for additional construction firms operating in the Cornhill section of the City. Porter Construction anticipates hiring an employee from the immediate area.
- ✓ Winston Auto Repair will utilize a \$5,000 JumpStart MicroEnterprise Loan for the purchase of equipment with the target market of Cornhill. Winston's will further capitalize on the increased residency via the HOPE VI project to generate additional business. An increase in employment of one mechanic is expected.
- ✓ Loretto Utica Center received a loan many years ago as part of the initial new construction and renovation. Loretto has long served the community and has hired locally during their tenure.

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- ✓ Other businesses such as Just Neon, Hannafords Market and A.J. Wright have been assisted through the City's Empire Zone Program where benefits are a function of new employment. A.J. Wright has employed over 55 full-time equivalents from the local job market.

Comment 9

Business Façade Improvement: The City of Utica's Business Façade Improvement Program is a definable matching grant fund for businesses within the CDBG area. The purpose of this program is to provide matching grants to neighborhood business to improve their façade and exterior structure. The program provides a 1:1 match with a cap of \$5,000 from the City for those businesses who wish to renovate/build the exterior of the property, or erect a sign. For those businesses in the identified Scenic and Historic targeted area, there is a 2:1 match, with a cap of \$10,000 from the City. Within the HOPE VI and adjacent areas, the City has provided a total of \$91,261.53 in façade grants to 19 businesses. If it appears that the administrative requirements are too restrictive, the City of Utica will consider modifying the program requirements to increase participation in the program.

Comment 9

In-Kind Staff: In a commitment letter dated December 3, 2002 (listed in the HOPE VI grant application as item CI-19) from former City of Utica Urban and Economic Development Commissioner UMHA Executive Director, the City firmly committed staff resources to the HOPE VI project with an "estimated value" of \$1,092,000. Since its inception, the City of Utica has been drawing match documentation from certified timesheets and payroll submissions in order to meet its match requirement. Mr. Mojave's commitment was an estimate of the cost to Rebuild Mohawk Valley had they hired equivalent staff to those made accessible by the City of Utica for the purposes of grant administration. All services and assistance provided by City staff (totaling nearly 15% of all annual staff time) were provided free of charge to Rebuild Mohawk Valley, and countless unrecorded hours were spent in planning and consultation with HOPE VI staff. The intent of Mr. Mojave's letter was never to meet the goal of \$1,092,000 in salary and benefits incurred, but rather to offer the services of City staff whenever necessary to fulfill the goals of the project.

Comment 11

Your statement that the UMHA did not track in-kind expenditures from the City of Utica is not correct. On a quarterly basis, the UMHA submits to HUD a report detailing match contributions from all parties. Based upon your recommendations, we will improve our tracking system and perform written assessments of the impact of collateral investments.

Limited Activity or Progress on Cornhill Commons

Comment 12

The UMHA is strongly committed to developing the Cornhill Commons as the central hub of our neighborhood revitalization project. Although we have not made as much progress in completing this project as originally anticipated, we have completed important steps in the process. This phase of the project was delayed due to issues related to the disposition and demolition of Washington Courts and the need to gain approval from the State of New York and HUD. Special legislation had to be approved by the State of New York to transfer the property. The HUD Buffalo Office requested that the UMHA execute a memorandum of agreement with the City of Utica to confirm the commitment of city funding to the Cornhill Commons project. The MOU was executed May 2005 and provides for the funding in the amount of \$900,000 for the Community School project from the proceeds of the sale of the Washington Courts site. We are now waiting for final approval from the New York State Division of Housing and Community Renewal for the final transfer of the site to the City of Utica.

In addition to the complexities involved in the transfer of the Washington Courts project, the UMHA confronted the following challenges to the implementation of the Cornhill Commons project:

1. Transitions in leadership at the Utica City School District hampered progress. The former school superintendent, who made the original commitments in connection with the Community School, resigned his position in 2005.
2. The HOPE VI Liaison person at the City of Utica passed away suddenly in 2005. This person was extremely well respected in our community and had decades of experience in community development.
3. The Commissioner of Urban and Economic Development of the City of Utica, who assisted in the preparation of the HOPE VI grant application, resigned in 2005.
4. The original HOPE VI Coordinator for Rebuild Mohawk Valley, Inc. left his position in March 2005.
5. Site acquisition issues related to the Cornhill Commons project are complex and sensitive. The City of Utica may need to exercise its eminent domain rights to acquire additional properties in the development area to complete the project.

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It must be noted that your statement "...that the Authority still does not have site control over 12 houses within the seven-acre area needed for the Cornhill Commons project" is misleading. In fact, the City of Utica has indicated that of the 52 parcels in the Cornhill Commons area, 40 are available for development of the project.

The UMHA agrees that the progress on the Cornhill Commons has been limited. However, we take issue with your statement that "no funds have been invested" to date. The following steps have been taken to effectuate the development of the Cornhill Commons and Community School:

- 1. A committee of school, agency, and neighborhood residents have held periodic meetings to coordinate planning of the Community school. The Utica City School District also has established an ad hoc committee to examine the feasibility of developing a HOPE VI community school, the first step in accessing funding for the school from local, state, federal, and private sources.*
- 2. Over \$25,000 has been invested by public and private sources in the MLK Dream Park facility located on South Street in the HOPE VI Target Area. The Dream Park Facility is part of the Cornhill Commons Project.*
- 3. Over \$12,000 has been expended for a feasibility study of the Cornhill Community School Development. This funding was provided by both the UMHA and the City of Utica.*
- 4. The Office of Governor George Pataki provided funding in the amount of \$60,000 for the development of HOPE VI Cornhill Commons Park Project. Of this amount, funding in the amount of \$35,000 was used for the development of the Cornhill Commons Playground. community visioning, architectural, engineering, and planning feasibility study for the Cornhill Commons Park and recreational facility. The UMHA intends to complete the planning study by the end of 2006.*
- 5. By way of the Memorandum of Agreement, the City of Utica has indicated that it will make available land for the Cornhill Commons Project and provide the necessary site control.*
- 6. A local house of worship is in the process of securing funding commitments to build a community center as part of the Cornhill Commons Initiative.*
- 7. In conjunction with the School District and Oneida County Workforce Development, we have developed a Neighborhood Networks Center at the Martin Luther King, Jr. Elementary School in Cornhill. This initiative of UMHA, funded by a HUD \$300,000 Neighborhood Networks grant, has been providing services to the students of MLK and the Cornhill community through its educational programs of job skills development, computer training, after-school program, and remedial education. The Neighborhood Network Center represents the first step in transforming MLK School into a community school which offers services to both the youth and adult residents of the neighborhood.*
- 8. RMV demonstrated its ability to manage an extremely complicated project by the installation of a new playground on the ground of the Martin Luther King School. The playground was constructed in June 2006 with the assistance of over 70 volunteers and a partnership between UMHA, RMV and the Utica City School System. Funding was provided by Office of Governor George Pataki, The Community Foundation of Herkimer & Oneida Counties, Inc. and Harriet T. McGrath Fund, the City of Utica, KaBOOM!, MLK Program Committee, Excellus BlueCross BlueShield, Utica Region, The Home Depot, and Wal-Mart. Please note that the City of Utica provided \$5,000 to this project as well as in-kind technical assistance. Assistance was also provided by the Office of Senator Hillary Rodham Clinton. A total of \$96,270 in non-HUD funds were contributed to this project. We view the playground as the first step in mobilizing public support for redevelopment of the MLK School and a demonstration of the construction management ability of RMV to coordinate such a complicated initiative.*

Comment 12

Contrary to your finding, we have determined that \$468,270 has been expended to date on the development of the Cornhill Commons Project. Please be assured that the UMHA is committed to the development of the Cornhill Commons Project and will accept any technical assistance from HUD to achieve this HOPE VI grant objective.

Comment 13

Housing Goals Not Attained and Target Area Code Enforcement Inadequate

We concur that the UMHA does not intend to meet the original housing production goals set forth in the HOPE VI Application. Your audit fails to note that the UMHA submitted to the HUD Buffalo Office a revised revitalization plan on November 22, 2004 to alter the unit mix. HUD approved these unit modifications through verbal statements at field visits with HOPE VI staff. HUD staff shared the same concerns about creating realistic expectations for the program and urged

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the UMHA to seek this amendment. Although the UMHA was successful in raising new sources of funding for the program, rising construction costs put a serious financial stain on the available development capital for the program. Reducing the number of planned units is the only feasible method for remaining within the budget for the program.

Initial delays in program start-up were the result of a complex procurement process to encourage small Section 3 and M/WBEs to participate in the program. Construction financing provided by the New York State Division of Housing and Community Renewal involved a higher degree of complexity than originally anticipated. Despite a delay in beginning housing production activities, we are in the process of meeting our planned goals and expect to complete our production objectives by the end of the grant term. To date, we have developed 76 tax credit rental replacement housing units in conjunction with our not-for-profit developer – Housing Visions Consultants, Inc. We have achieved 95% occupancy of these units. By September 2007, an additional 33 tax credit replacement housing units will be developed. The development of these units has made a significant difference in the revitalization of the Cornhill neighborhood. This area of Utica was previously blighted by blocks of vacant lots; through the HOPE VI initiative, we have developed this land into new housing and put back properties on the tax rolls.

Through our nonprofit affiliate – Rebuild Mohawk Valley, Inc. – we have developed 11 units of homeownership housing. Please note that these units represent the first new single family units built in Utica's inner-city in over 20 years. Sixteen units are currently under development. We plan to develop another eight HOPE VI units by December 2006. The UMHA is also developing 8 units of new homeownership housing in the West Utica area as part of our Replacement Housing Factor initiative. We will complete the remaining 35 units by the end of the HOPE VI grant term.

It is important to note that we will the closing on the Rutger Manor project will be held within 90 days. The amount of the HOPE VI funds to be expended on this closing will be \$2,173,058. Therefore, there will be a significantly higher amount of funds expended on the HOPE VI grant by the end of this year than was indicated in your report.

The HUD Buffalo Office has encouraged the UMHA to submit a revised revitalization plan to adjust our unit production goals so they are consistent with recent changes in the housing market and financial conditions. We intend to submit this plan to HUD within 60 days. In addition, we will forward to HUD a construction management plan to demonstrate that the remainder of units can be built within the life of the grant term.

Codes Enforcement is Not Adequate

Your section on the lack of sufficient codes enforcement in the Cornhill area does not accurately reflect the facts. During the term of the HOPE VI grant, the City of Utica has worked closely with the UMHA and RMV in addressing codes violations in the target area. Codes Enforcement, Section 8, and Fire Department staff has inspected 3,094 housing units in Cornhill during the last three years and has written nearly as many citations. The fact that the IG witnessed what they believed to be apparent violations does not mean that those properties have not been addressed. In many instances the citation will be ignored, at which point it is forwarded for action in Utica City Court. At that point, after many months of what is commonly referred to as "docket delay", the property owner is given the opportunity to plead their case before a judge. More often than not, the judge will take that hardship claim and reduce the citation to a nominal fine. In the end, the property remains in violation and nothing is done to physically improve the property. The following spring, during a codes sweep, the property will be cited for something new, plus the old violations, and the process begins anew. The City of Utica Codes Department cannot be faulted for the fact that property owners have significant rights, and that the state of due process is such that a homeowner is provided with the opportunity to plead monetary hardship. As with community policing, the City remains committed to the Cornhill neighborhood and will continue to enforce the code to the best of its abilities.

The City of Utica has taken aggressive action against landlords to correct code violations. The City of Utica recently has enacted a Residential Occupancy law that mandates periodic inspections by the Fire Department of rental property. We anticipate that this legislation will help to reduce residential blight and substandard housing conditions in Utica's inner-city. We view the City of Utica as an invaluable partner in our efforts to address codes violations in our HOPE VI Target Area.

The UMHA has made recent progress in leveraging funding for home improvement activity in the HOPE VI Target Area. It applied and was approved for a grant of \$300,000 from the New York State Division of Housing and Community Renewal to implement a Home Preservation Initiative to improve private rental property in the Cornhill neighborhood. The County of

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Oneida recently was vouchered for the first installment of \$300,000 as part of its \$900,00 commitment to home improvement. New York State Empire State Development has indicated that they will approve a grant of \$900,000 to cover the cost of the County's contribution. We intend to begin the implementation of our home improvement program no later than November 2006.

Comment 14

It should be noted that continued cuts in funding for HUD's Community Development Block Grant and HOME program may undermine efforts to bring up to code dwelling units in the HOPE VI Target Area. In reality, a massive infusion of federal dollars is needed to properly address code violations and finance property improvements in the Target Area. Our local community lacks the requisite tax dollars to subsidize home improvements in any meaningful way.

We are disturbed that photos included in your report fail to report the complete picture of revitalization activities and may dissuade public and private investment in our community. Please find attached photos we would like you to include in the final report which demonstrate the positive impact of the HOPE VI program on the City of Utica.

Relocated Washington Courts Tenants Not Benefiting as Intended

Comment 15

The UMHA concurs that the majority of the original inhabitants of the original Washington Courts residents did not locate to the HOPE VI housing. However, your analysis neglects to indicate several salient facts regarding how the HOPE VI project has benefited the Washington Courts residents and how our relocation effort was conducted to ensure that the displaced residents were placed in improved housing situations:

Our relocation plan clearly indicated that residents would be relocated to HOPE VI housing as well as other public housing developments. This plan was submitted to HUD and no objections were raised to the plan either from HUD Buffalo or Washington staff.

HUD approved our request to begin early relocation of the residents in order to ensure that they had a wide range of available housing options. The early relocation facilitates the relocated process and provided residents with ample time to choose relocation destinations.

It was ultimately an individual resident decision as to their final relocation destination. During the planning process, residents were asked to select their relocation preference. Residents were requested to base decisions on location of jobs, schools, community amenities, etc. as well as public transportation accessibility. This choice-based process ensured resident input and customer satisfaction during the relocation transition.

Residents were provided with extensive relocation advisory services, case management, moving expenses, and gap payments to ensure that their successful moves to their new housing. Residents chose where they desired to move to.

The UMHA believes that every resident displaced from the Washington Courts should have the right to reapply for occupancy in the new HOPE VI housing once the project is complete. For this reason, after project completion, every resident who receives assistance as a "displaced person" has been contacted and offered an opportunity to reapply for occupancy in the Kembleton and Steuben Village communities. Washington Courts residents also received priority preference to relocate to the new housing.

Forty five of the sixty households were relocated from the development are either headed by elderly or disabled persons. Despite the small number of employed heads of household, the program has helped one resident become a homeowner and we expect additional families to purchase homes through the program.

Our relocation efforts were consistent with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended as well as Section 104(d) of the Housing and Community Development Act of 1974. The forms developed for our relocation activities were adopted by HUD for use by other HOPE VI projects in the United States.

An independent evaluation of our HOPE VI project (which was required by HUD as part of the NOFA process) stated that "...relocated residents were satisfied with the new residency." The HUD Buffalo Office repeatedly indicated that our relocation efforts were successful. The Hamilton College evaluation study also stated that "...all Washington Courts families

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have been moved, most to other public housing projects in neighborhoods that are of higher median income and less racially segregated. Many of our residents moved into recently renovated public housing units and were transitioned to private housing through the use of Section 8 (Housing Choice vouchers).*

The UMHA is undertaking following steps to ensure that Washington Courts residents will take advantage of HOPE VI rental and homeownership housing opportunities:

Ten households were referred to homeownership counseling program. We are anticipating that additional residents will purchase homes through the program.

The UMHA is strongly committed to the well being of our residents and will implement HUD recommendations to improve services to the Washington Courts residents. UMHA intends to review our current homeownership program and recommend steps to increase access to it by former Washington Courts residents. In addition, we will continue to offer relocation assistance and benefits to Washington Courts residents desiring to move into subsequent HOPE VI housing.

Based upon the foregoing, we are respectfully requesting that you remove this finding from the final audit document.

Washington Courts Residents Have Not Benefited from Job Opportunities

The UMHA is committed to offering contracting opportunities to businesses owned by low-income residents and minority or women owned businesses as well as providing employment opportunities to low-income residents. We strongly take exception to your allegation that low-income or Section 3 residents were not hired as a result of the project. In connection with HOPE VI, the UMHA and its nonprofit housing developers – Rebuild Mohawk Valley, Inc. and the Housing Visions Consultants, Inc. - undertook extensive efforts to maximize the use of minority and women's and Section 3 businesses as well as to hire residents. The following are examples of the affirmative efforts we conducted to achieve our Section 3 and minority and women business enterprise goals:

- 1 Mailings were sent to M/WBE contractors in our region apprising them of bidding opportunities.*
- 2 The Mohawk Valley Contractors Guild, a minority contractors association, provided assistance in identifying potential contractors.*
- 3 The Oneida Homes project was bid out in smaller portions to encourage bids from M/WBEs.) of M/WBEs.*
- 4 The UMHA and RMV sponsored technical assistance workshops to help firms obtain state certification.*
- 5 Technical assistance was provided by the New York State Division of Housing and Community Renewal and the New York State Department of Economic Development.*
- 6 RMV participated in a Construction Career Fair, sponsored by Mohawk Valley Contractors Guild, local builders exchange and local unions, to encourage participation of minorities and women in the construction trades.*
- 7 Utica Municipal Housing Authority Youthbuild program served as a subcontractor for the Oneida Homes project. Youthbuild is a construction skills training, basic education, and leadership development program targeted to low-income dropout youth. The majority of participants in the program are minorities and a significant number are female.*
- 8 Based upon information provided by the New York State Division of Housing and Community Renewal, there are only a handful of state certified M/WBE firms in our area.*

Through the efforts of the HOPE VI program three minority-owned businesses, two women owned businesses were retained to perform construction work for the homeownership component of the project. Moreover, 21 minorities Section 3 residents were employed through HOPE VI related firms.

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Our rental housing developer – Housing Visions Consultants, Inc. – retained a WBE for both the Steuben Village and Rutger Manor projects. Six Section 3 firms were retained for the Rutger Manor project, while eight were utilized for the Steuben Village Project. Two Section 3/minority employees were hired by the Steuben Village Sub prime contractor. A final report will be issued in 2007 for the Rutger Manor hiring results.

The HUD Buffalo Office encouraged our office to use modular construction on the HOPE VI units in order to maximize the use of federal funds. Modular construction was determined to be more cost effective than traditional stick built construction. However, this type of construction carries a social price. Modular construction required the utilization of fewer local contractors and limited our ability to carry out Section 3 activities.

Your statement regarding that the demolition for the Washington Courts project has only recently begun may be correct, but does not provide a complete picture of the issue. Delays in the demolition of this property were the result of a complex property transfer process required both by HUD and the State of New York. HUD Washington delayed this process by mistakenly requiring another demolition application to be approved. It was also necessary to secure special state legislation for the demolition. We are now waiting for the New York State Division of Housing and Community Renewal to provide final authorization for the disposition of the property. Factors beyond the control of the UMHA created the delay in demolishing this structure. The City of Utica is remains committed to redeveloping this site into industrial and commercial uses and creating jobs for our residents.

Please find attached in the Appendix documentation of the outreach efforts conducted by our developers.

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The UMHA understands that it can further improve its compliance with Section 3 and M/WBE requirements. We intend to submit to HUD a revised Section 3 plan and a revised procurement policy to reach these goals. Among the enhancements we are considering will be to provide Section 3 firms with a priority ranking (Section 3 regulations allow that where the Section 3 covered contract is to be awarded based upon the lowest price, the contract shall be awarded to the qualified Section 3 business concern with the lowest responsive quotation, if it is reasonable and no more than 10 percent higher than the quotation of the lowest responsive quotation from any qualified source.) and system for certifying covered firms. The Baltimore Housing Authority, whose HOPE VI program has been nationally acclaimed for its effective Section 3 programs, has offered to provide technical assistance to the UMHA to enhance our ability to hire residents.

We are requesting that this specific finding not be included in the final audit.

Conclusion/Recommendations

Comment 1

We are requesting that the HUD IG office reconsider your recommendation regarding reallocating or reducing the original HOPE VI grant award. We strongly believe that the UMHA has the capacity to continue to administrate this grant and meet program outcomes. The UMHA welcomes any technical assistance to improve our program operations. The HOPE VI grant has been the most significant infusion of federal funds for community redevelopment since Urban Renewal grants of the 1960's. The loss of these funds for our community will have disastrous consequences for our city's continued redevelopment efforts and will send a message to potential investors that the City of Utica has limited potential for urban revival.

Comment 6

The UMHA will undertake the following corrective actions in connection with this finding:

- 1. Within sixty days, submit to the HUD Buffalo Office a revised revitalization plan, a collateral match tracking system, revised Section 3 plan, and a plan to develop the Cornhill Commons project.*
- 2. Continue to contact agencies which committed match to enforce match commitments.*
- 3. Request that the Utica City School District make a final commitment to initiate a feasibility study for a community school.*
- 4. Continue to meet with the City of Utica on a regular basis to coordinate HOPE VI activities.*
- 5. Commence the implementation of the home improvement program funded by New York State*

Finding 2: The Authority's Controls over HOPE VI Contract Administration Were Inadequate

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Excessive Fees Paid for HOPE VI Application Services

The draft Audit Report states that the HOPE VI Architectural Services Contract was for a Not-To-Exceed \$40,000.00. However, the notion that this contract was for a "Not-To-Exceed" \$40,000.00 value is incorrect for the following reasons:

Terms of the Contract for HOPE VI Architectural Services

In the original Request for Proposals (RFP) for "Architectural Design Concepts & Project Implementation" for the HOPE VI Project, dated January 27, 2002, the respondents were requested to provide an hourly rate with a total not-to-exceed contract cost for the following HOPE VI project services:

1. Pre-Construction Services - During the preparation of the application
2. Architectural Services During Construction - After notification of the HOPE VI Award

The IG Auditor failed to recognize that this contract is in two parts, 1) HOPE VI Application Preparation Phase and 2) the HOPE VI Implementation Phase. The number 1 ranked proposal jointly submitted by two architectural firms provided a hourly "Not-to-Exceed Fee" of \$40,000.00 for the HOPE VI Application Preparation Phase and recommended that once the grant is received, fixed fees be established for defined projects and hourly rates continue to be used for work not associated with a defined project. The post HOPE VI Award Implementation Phase of the project assumes proceeding in this manner.

The joint proposal submitted by the two architectural firms was attached to the "Form of Agreement" as EXHIBIT "B" and made a part thereof. In accordance with item #2 of the attached "Form of Agreement" between the UMHA and the architectural firm, consideration will be paid in accordance with the following terms:

1. HOPE VI Application Preparation Phase- Hourly Not-to-Exceed \$40,000.00
2. HOPE VI Implementation Phase - Not-to-Exceed 8% of Construction Costs. Recommended that once the grant is received, fixed fees be established for defined projects and hourly rates continue to be used for work not associated with a defined project. The post HOPE VI Award Implementation Phase of the project assumes proceeding in this manner.

Since, the UMHA did not know if the Authority would receive the grant or the amount of the grant award, the Authority could not establish a "Not-To-Exceed" value for the HOPE VI Implementation Phase of the contract. Hence, hourly rates were used for any work that the Authority considered HOPE VI Implementation Phase work or services justified under the change order process.

The Draft Audit Report States that the reasons provided for fee increases were not valid. The contractor and the Authority cited the increased number of meetings and revisions to the plan. However, according to the Audit Report, the scope of work required the firm to attend all necessary meetings and conduct whatever work was necessary to assist the Authority with the HOPE VI Application. The UMHA takes issue with this statement for the following reasons:

Protracted Pre-Application Phase Services

According to the original Request for Proposals (RFP), dated January 27th, 2002, HUD was expected to stipulate an application deadline of June 22, 2002 for the HOPE VI Grant; however, it is very important to note that the NOFA was not issued until the end of July with a December 6th, 2003 submission. The contract for the HOPE VI Architectural Consulting Services was awarded on March 28, 2002. The Architect assumed based on the RFP that he would be providing pre-application services up to the application deadline stated in the RFP of June 22nd, 2002. This deadline would require the contractor to anticipate a three-month period for his pre-application services. However, the pre-application services projected to be fully completed after a three-month time period turned into a much bigger level of effort over a nine-month time period. This extended time period was approximately triple the time frame that was originally anticipated.

The HUD recommended "Form of Agreement Between Owner and Architect" typically used by the UMHA for any

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Architectural Services provided to the Authority states that the A/E shall continue as a Basic Service for a period Not-To Exceed by more than 10% the construction period originally established by the contract document (i.e. Basic Service Period). Based upon the above recommended HUD contract language it is clear that HUD considers protracted services as a valid justification for a change order. The UMHA did not state the obvious, "protracted services," in the justifications for the change orders. However, this certainly was the case with the Architectural Pre-Application Phase Services. The Architectural firms provide bid prices based on the information provided to them in the RFP. The RFP clearly stipulates an expected application deadline of June 22, 2006.

The pre-application phase billing for the architectural firms through June 30th, 2006 was \$37,758.91. According to the original Request for Proposals (RFP), HUD was expected to stipulate an application deadline of June 22, 2006. The Architect anticipated completing his pre-application services for the UMHA in June and in fact his hourly billing did not exceed the hourly "Not-To-Exceed" bid price of \$40,000.00 through June 30th, 2006. However, given the highly competitive nature of the HOPE VI Grant and the huge financial investment that the UMHA had committed towards the goal of landing the HOPE VI Grant in 2001 and again in 2002, the UMHA was determined to utilize the extended time frame and available consultants to the HOPE VI Project to improve upon Utica's HOPE VI Grant Application and as a result the likelihood of award.

The extended time frame unquestionably increased the scope and level of services provided by the Architect. The actual efforts provided by our architectural consultants quickly exceeded the efforts that were originally anticipated as a result of the extended time frame when this contract was awarded on March 28, 2002. The following is a list of responsibilities that were assigned to the architectural team:

- *Provided professional services for the preparation of the HOPE VI Grant Application.*
- *Provided professional services for the preparation of the Cornhill Master Plan. The Master Plan preparation services required an exhaustive and extensive site survey of the HOPE VI Redevelopment area to identify sites for community space, new construction and rehab of existing structures.*
- *Attended numerous work sessions with the HOPE VI project teams and UMHA staff.*
- *Performed visual and photographic field surveys of the HOPE VI redevelopment area.*
- *Completed design studies for the Neighborhood Master Plan and Community Campus Site Plan.*
- *Prepared colored presentations for the Neighborhood Master Plan and Community Site Plan.*
- *Prepared housing unit designs and color presentations for the in-fill housing units.*
- *Performed unit distribution analysis of the HOPE VI Project.*
- *Prepared presentations for and attended Public Meetings.*
- *Prepared property lists and residential neighborhood design layouts of the proposed HOPE VI redevelopment area.*
- *Prepared and attended zoning meetings on behalf of UMHA.*
- *Prepared building unit designs for one and two family townhouses.*
- *Prepared construction cost analysis and estimates.*
- *Provided professional services for the preparation of design and planning refinements for the HOPE VI Phase IV buildings and properties, including meetings and site visits with UMHA staff and members of the Board of Commissioners.*
- *Prepared documentation in support of the NYS Affordable Housing Grant Application and the DHCR Mortgage Assistance Program.*
- *Provided professional services for the design and contract documents for the bidding and construction of two Model Houses for the HOPE VI Project, including the preparation of presentation materials for project review.*
- *Provided additional documentation and letters for the NYS Affordable Housing Grant Application and DHCR Mortgage Assistance Program as requested by MHA Staff.*
- *Provided HOPE VI Master Plan and Environmental Assessment for twenty (20) Steuben Village properties as requested by MHA staff.*
- *Provided revisions to Architectural Construction Drawings and specifications for the Model Homes as requested by RMV and MHA staff.*
- *Provided color maps of the HOPE VI Master Plan as requested by RMV staff.*

The following issues relative to the assigned services listed above resulted in a substantial increase in time and

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expenditures to the contract awarded to the architectural team:

- *Project Schedule* – At the time of the proposal, it was anticipated that the NOFA was expected to stipulate an application deadline of June 2002; however, the NOFA was not issued until the end of July with a November Submission which was then extended to December. The extended time frame greatly increased the level of services and time expended.
- *Our HOPE VI project is extremely complex and differs from the normal projects funded by HUD. Generally, HOPE VI projects involve the demolition of the public housing development and the rebuilding on the same site. Our project consists of a scattered site development in a residential urban neighborhood. This kind of project would naturally take longer to complete and would have issues in connection with site control and neighborhood approvals.*
- *Campus Size* – The area affected by the campus design was four blocks at the time of the bid proposal. Subsequent to the bid opening the campus design incorporated significantly more space and included planning for a new police station and public school.
- *Number of Units* – The total proposed number of housing units and unit mix continually fluctuated. Every time changes occurred in these parameters significant time was expended adjusting base maps and building layouts.
- *Available Land* – The data that had been provided relative to available land was constantly changing with some inaccuracies found in the data found resulting in significant changes to project base maps and plans.
- *Zoning Approval* – The new NOFA required zoning approval of properties to be developed. This was an unanticipated assignment resulting in significant time expended in developing the required documentation.
- *Funding Applications* – Provided application preparation services for additional funding in support of the HOPE VI Grant.

It is not necessarily the scope of services identified above that the contractor performed that is as important as the repetitive services the contractor continued to perform as a result of the directives of the Housing Authority during the protracted time period of the grant submittal. The Auditor Report states "under the scope of work that the firm would conduct whatever work was necessary to assist the authority with the HOPE VI application". I have been unable to find this language in the RFP for "Architectural Design Concepts & Project Implementation" for the HOPE VI Project, dated January 27, 2002 nor the "Form of Agreement" or the submittal form provided by the architectural firms. In accordance with the joint proposal submitted by the architectural firms, the UMHA and the architectural consultants assumed proceeding with the work performed during the protracted time period at the hourly rates which is consistent with the bid proposal form which was made a part of the contract.

The Audit Report States that all the billings were for HOPE VI application services and the services provided were promised under the contract for the \$40,000.00. The UMHA takes issue with this statement for the following reasons:

The HOPE VI application was submitted by the UMHA on December 6th, 2003. However, the Audit report fails to recognize those services provided after the HOPE VI Application submittal date of December 6th, 2003 as continued services provided during the HOPE VI Implementation Phase of the contract. The terms of the joint proposal submitted by the architectural firms, attached to the "Form of Agreement" as EXHIBIT "B" and made a part thereof, are as follows:

1. *HOPE VI Application Preparation Phase- Hourly Not-to-Exceed \$40,000.00*
2. *HOPE VI Implementation Phase – Not-To-Exceed 8% of Construction Cost. Furthermore, the joint proposal submitted by the architectural firms recommended that once the grant is received, fixed fees be established for defined projects and hourly rates continue to be used for work not associated with a defined project. The post HOPE VI Award Implementation Phase of the project assumes proceeding in this manner.*

The architect and the Housing Authority assumed that any architectural consultant services performed after the HOPE VI Application submittal date should not be considered as part of the application preparation phase of the contract with the Not-To-Exceed \$40,000.00 value. In accordance with the joint proposal submitted by the architectural firms, the UMHA and architect assumed proceeding with the additional work at hourly rates for the work not associated with the pre-application phase of the project which is consistent with the bid proposal form which was made a part of the contract. The following invoices were for work that occurred after the HOPE VI Pre-Application Phase of the project:

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<u>Payment #</u>	<u>Amount</u>	<u>Period of Services Performed</u>
#4/Partial	\$89,152.59	for Services Performed From September 1 st , 2002 to December 31 st , 2002
#5	\$ 4,576.12	for Services Performed From April 1 st , 2003 to April 30 th , 2003
#6	\$8,034.05	for Services Performed From July 1 st , 2003 to July 31 st , 2003

Also, the following pre-development activities that were totally unanticipated assignments resulted in significant time expended during the pre-application phase of the project by the Architectural Consultants as a result of the new NOFA. Based upon the previous year 2001 NOFA for the HOPE VI application that was issued the activities listed below were not anticipated. The 2002 NOFA was not yet issued at the time of bid for the Architectural Services Contract; hence these activities could not have been included in the contractor's scope of services. Furthermore, these activities are typical pre-development activities performed during the Construction or Project Implementation Phase of the project. Some of the pre-development or Construction Phase activities described above are as follows:

- Zoning Approval – The new NOFA required zoning approval of properties to be developed. This was an unanticipated assignment resulting in significant time expended in developing the required documentation. This activity is a construction phase service that was required by HUD during the application phase of the project.
- Provided professional services for the preparation of bid specifications and contract documents for two Model Houses for the HOPE VI Project. This scope of work is very clearly spelled out in the RFP under Responsibilities of the Responder, item #2, Architectural Services During Construction.
- Provided Environmental Assessments of HOPE VI Properties as requested.
- Provided documentation and letters for the NYS Affordable Housing Grant Application and DHCR Mortgage Assistance Program as requested. The RFP clearly states HOPE VI Application Preparation not the NYS Affordable Housing Grant Application and DHCR Mortgage Assistance Program; hence, this work is considered out of scope work.

The Audit Report appears to have oversimplified this contract and their conclusions regarding the same by asserting the following "the scope of work required the firm to attend all necessary meetings and conduct whatever work was necessary to assist the Authority with the HOPE VI Application." However, in the Auditor's review of this contract including the RFP, the change orders and the scope and level of services provided for the HOPE VI Project by the Architectural Consultants, the UMHA strongly feels that the Auditors may have failed to recognize the following important facts:

1. Contract Period - According to the original Request for Proposals (RFP), dated January 27th, 2002, HUD was expected to stipulate an application deadline of June 22, 2002 for the HOPE VI Grant, however it is very important to note that the NOFA was not issued until the end of July and UMHA's application was not submitted until December 6th, 2003. The pre-application services projected by the architectural firms to be fully completed after a three-month time period turned into a much bigger level of effort over a nine-month time period. This extended time period was approximately triple the time frame that was originally anticipated.

The HUD recommended "Form of Agreement Between Owner and Architect" typically used by the UMHA for any Architectural Services provided to the Authority states that the A/E shall continue as a Basic Service for a period Not-To Exceed by more than 10% the construction period originally established by the contract document (i.e. Basic Service Period). Based upon the above recommended HUD contract language, it is clear that HUD considers protracted services as a valid justification for a change order. The UMHA did not state the obvious, "protracted services", in the justifications for the change orders. However, this certainly was the case with the Architectural Pre-Application Phase Services. The Architectural firms provide bid prices based on the information provided to them in the RFP. The RFP clearly stipulates an expected application deadline of June 22, 2006.

2. The draft Audit Report states that the HOPE VI Architectural Services Contract was for a Not-To-Exceed \$40,000.00. However, the notion that this contract was for a "Not-To-Exceed" \$40,000.00 value is incorrect. The Auditors have failed to recognize that this contract is in two parts: 1) HOPE VI Application Preparation Phase and 2) the HOPE VI Implementation Phase. The terms of the joint proposal submitted by the architectural firms, attached to the "Form of Agreement" as EXHIBIT "B" and made a part thereof, are as follows:

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- HOPE VI Application Preparation Phase- Hourly Not-to-Exceed \$40,000.00
- HOPE VI Implementation Phase – Not-To-Exceed 8% of Construction Cost. Furthermore, the joint proposal submitted by the architectural firms recommended that once the grant is received, fixed fees be established for defined projects and hourly rates continue to be used for work not associated with a defined project. The post HOPE VI Award Implementation Phase of the project assumes proceeding in this manner.

The Audit report fails to recognize those services provided after the HOPE VI Application submittal date of December 6th, 2003 as continued services provided during the HOPE VI Implementation Phase of the contract.

3. Also, the pre-development activities that were totally unanticipated assignments resulted in significant time expended during the pre-application phase of the project by the Architectural Consultants as a result of the new NOFA. Based upon the previous year 2001 NOFA for the HOPE VI application that was issued, the activities listed below were not anticipated. The 2002 NOFA was not yet issued at the time of the solicitation for the Architectural Services Contract; hence, these activities could not have been included in the contractor's scope of services. Furthermore, these activities are typical pre-development activities performed during the Construction or Project Implementation Phase of the project. Some of the pre-development or Construction Phase activities include the following:

- Zoning Approval – The new NOFA required zoning approval of properties to be developed. This was an unanticipated assignment resulting in significant time expended in developing the required documentation. This activity is a construction phase service that was required by HUD during the application phase of the project.
- Provided professional services for the preparation of bid specifications and contract documents for two Model Houses for the HOPE VI Project. This scope of work is very clearly spelled out in the RFP under Responsibilities of the Responder, item #2, Architectural Services during Construction.
- Provided Environmental Assessments of HOPE VI Properties as requested.
- Provided documentation and letters for the NYS Affordable Housing Grant Application and DHCR Mortgage Assistance Program as requested. The RFP clearly states HOPE VI Application Preparation, not the NYS Affordable Housing Grant Application and DHCR Mortgage Assistance Program; hence, this work is considered out of scope work.

Consulting Contract Improperly Modified

The request for proposal for the HOPE VI application preparation services was written according to HUD requirements indicating the need for three public meetings to be accomplished by the November 29, 2002 submission deadline. During the application preparation process, the Mayor of Utica and the President of the Utica City School District Board of Education each asked for public meetings beyond the scope of the original application preparation contract to occur later in the application process. In furtherance of the HUD stipulation that the applicant will, "evaluate the extent, nature and quality of resident and community outreach you have achieved by the time your application has been submitted..." the UMHA accordingly increased the contract services and conducted additional public meetings to have a satisfactory community outreach. To have refused requests for additional public meetings from significant partners in the application process would have been contrary to the express requirements of the HUD grant application process.

These requests for additional public meeting came within weeks of the November 29, 2002 application deadline making the preparation of a new request for proposals infeasible. Additionally, it was known from the 2001 unsuccessful HOPE VI application process that if the grant management team was not under continuous contract throughout the application process and into the post award period, HUD would not consider the applicant ready to proceed. Therefore if the applicant stopped the application process for any reason, including to issue a request proposals for additional meetings, it would have shown an interruption in services and if no vendor had responded the HOPE VI application process would simply stop.

In addition to the need for additional meetings late in the application process, HUD changed the submission deadline to early December, a few weeks prior to the stipulated deadline. This caused the application preparer to re-evaluate all available information knowing that every applicant in the country would be doing likewise due to the highly competitive nature of the application process. These additional services were directly attributable to HUD and it was infeasible to prepare a new request for proposals with the amount of notice provided by HUD.

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Unknown to the application preparer at the time of responding to the original request for proposals, critical partners would not provide participation commitments until after the original application deadline had expired. The application was therefore written with the information available within the original deadline period and then re-written. The original scope of service was therefore performed during the original application preparation period; however, the partners needed more time to make a decision after the application consultant had performed their services. These critical commitments all arrived after the original deadline as follows:

- ✓ December 2, 2002 Utica City School District commitment of \$16,000,000 to build a community school;
- ✓ December 2, 2002 Cosmopolitan Center commitment of \$1,500,000 to build a community center;
- ✓ December 3, 2002 City of Utica commitment of \$1,000,000 to develop the Cornhill Commons, being \$500,000 of it for the Cosmo Center project;
- ✓ December 3, 2002 City of Utica commitment of \$500,000 to provide residential housing rehabilitation;
- ✓ December 3, 2002 City of Utica commitment of \$500,000 for a Lead Safe Utica program; and
- ✓ December 3, 2002 City of Utica commitment of \$1,763,000 for Systematic Codes Enforcement, Community Policing, and Economic Development Funding.

Due to the new commitments received after the original submission deadline, the entire HOPE VI budget, most narratives and all summary reports had to be thoroughly rewritten and edited. This was accomplished by having the applicant Executive Director and other members of the application team fly to the consultant's office for a total rewrite and review. None of this work beyond the original scope of work could have been anticipated and there was insufficient time to issue a request for proposals between the original application deadline of November 29, 2002 and the HUD revised submission deadline of December 6, 2002.

The value of the original contract work compared to the additional work needed is summarized as follows:

Item	Percent of Effort	Value of Effort	Rationale for Modification from Original Scope of Work
Original Contract for Application Services	100%	\$85,000	Respond to HUD RFP requirements requiring application and post submission services.
Charge for Application Services April-Oct., 2002		\$79,351	Needed application services subject to original scope of services.
Additional Public Meetings	15%	\$15,300	Needed to satisfy HUD application requirements. Infeasible to RFP due to meetings requested late in process.
Additional Analysis	25%	\$21,250	Respond to HUD change in the submission deadline. Infeasible to RFP due to HUD required work needed late in process.
Application Rewrite	30%	\$25,500	Respond to partner commitment documentation. Infeasible to RFP due to required work needed late in the process.
Value of Additional Application Services		\$62,050	Needed application services in compliance with HUD requirements wherein it was infeasible to RFP.
Charge for Additional Services Nov.-Dec., 2002		56,158	Services rendered in compliance with HUD requirements and in response to commitments from partners.
Value of Application		\$147,050	Original Contract plus needed services in response to

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Services			HUD requirements and partner requirements without sufficient time to RFP
Charge for Services performed for 2002 Application		\$135,509	Actual charge for application services.
Charge for Services performed for 2001 Application		\$275,000	Actual charge for application services.

Comment 18

As is evident from the above tables, the UMHA utilized a not-to-exceed contract in 2002 as a means of attempting to reduce the application cost of \$275,000 experienced in 2001. The original 2002 contract of \$85,000 actually cost \$135,509 due to additional demands stipulated by HUD and as a result of partners submitting information beyond the original HUD submission period. It was infeasible to issue a request for proposals within HUD revised application period due to the notice periods provided by HUD and partners critical to the application process. The presumed value of the application services provided was \$147,050, being more than was actually charged.

For the reasons stated, the UMHA was unable to RFP during the application period and the services were performed according to acceptable values and per HUD application requirements. Additionally, the UMHA utilized a not-to-exceed contract format that successfully provided for significant cost savings.

Please bear in mind that our HOPE VI application was more complex than the applications submitted by most housing authorities. Since our project involved the development of scattered site locations rather than the redevelopment of the original public housing development, application preparation costs would naturally be higher than comparable proposals.

The original Request for Proposal indicated an expected submittal date of the grant application of June 22, 2002. However, the NOFA was not issued until July 2002 with an application date of November 29, 2002, which was then delayed until December 2, 2002. The consultants based their bid proposals on a June 22, 2002 deadline. The December 6 submittal date increased the level and scope of services provided as a result of the delay in the application deadline. The protracted services provided as a result of the HUD HOPE VI application requirements necessitated the change orders to the original contract. There was a cost analysis performed of the contract's hourly rates and the continued services were provided at the original rates. Hence, it was not necessary to perform additional cost analyses of the hourly rates provided in the original proposal. Each of the change orders was approved by the UMHA Board of Commissioners.

Comment 19

In conclusion, it is our position that the costs expended for the HOPE VI application services were justified. The procurement of this contract and the change orders complied with relevant HUD regulations and the Housing Authority procurement policies. We are requesting that the HUD IG not include this finding in your audit. We intend to cancel this contract within the next thirty days.

Administration of Financial Consulting Contract Inadequate

Comment 20

On November 14, 2003, the Authority awarded a contract for HOPE VI financial consulting services. At that juncture, the UMHA assumed that there would have to be considerable reliance on general consulting services. The HUD HOPE VI Grant Manager subsequently informed the UMHA that instead of general services, extensive reliance would need to be placed on financial advisory services for preparation of "Term Sheets" and "Master Development Agreements." This was new information to the UMHA, never having administered a HOPE VI grant the financial services contract had to be immediately modified or risk HUD sanctions for falling behind project timetables.

A cost price analysis was conducted in reference to this contract on March 28, 2002. The consultant continued her services on an hourly basis as provided for in the original contract. Due to additional financial consulting services, the consultant continued to bill on the hourly rate for work performed. Based upon your concerns, the UMHA will be terminating this contract within the next thirty days.

CONCLUSION/RECOMMENDATIONS

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Comment 20

It is our position that the UMHA did not violate any section of our procurement policy or Part 85 in the change orders related to these contacts. We do acknowledge that the amount of the change orders were significant. However, in order to meet the HUD imposed HOPE VI grants application deadlines, it was not practical to reissue Requests for Proposals for these services. Additionally, the complex nature of our HOPE VI project involving multiple scattered site locations necessitated increases in the original cost of the proposal preparation services.

The change orders required for these contracts were the result of the uncertainty as to the actual submittal dates for the HOPE VI grant application. HUD Washington continued to change anticipated deadlines and extended the formal HOPE VI deadline once. The lack of clarity from HUD as to the actual deadline date created the conditions for the delivery of "protracted services" during the life of the contract. HUD considers protracted services as a valid justification for change orders. The extended time period, by its very nature, altered the level of effort requested of our consultants by the UMHA.

The contracts involved more than one phase – pre-application and post-application. Your audit failed to recognize that the not to exceed amounts were only based on the pre-application phase for architectural services.

Please bear in mind that all three contracts were awarded based on an hourly rate with a not to exceed value that would equate to the number of hours anticipated to achieve contract objectives. The level of services requested of our consultants far exceeded the anticipated hours. The services requested were determined by HUD HOPE VI requirements and the delay in the expected submittal date of the HOPE VI application naturally increased the number of hours needed to complete the application. All the contracts were solicited prior to the publication of the HOPE VI NOFA; hence, the level of effort and the application requirements could not have been anticipated prior to the issuance of the NOFA.

Your audit stated that the vendors should have completed all the required work for the not to exceed value. The level of effort over the extended time period far exceeded our expectations. It is our position that the UMHA acted in a justified manner with respect to the payments. We adhered to original terms of the contract in connection with the hourly rate. It was not practical to reissue a Request for Proposal due to the exigencies of the HOPE VI grant application process. It would have been impractical to change the vendors in the preparation phase of the grant application submittal.

Comment 6

While we believe that the UMHA acted properly with respect to the modifications of these contracts, we concur with your recommendation to strengthen our contract administration process. We recently have provided procurement training to our staff and are in the process of revising our procurement policy and developing a detailed procurement protocol. We will terminate the contracts referred to in your Draft Audit Report within 30 days and will prepare new requests for proposal if additional services are deemed necessary. (The contract for the architectural services has already been terminated.) We are respectfully requesting that the HUD IG office close this finding and not deem any of these expenses as ineligible.

FINDING 3: QUESTIONABLE ADMINISTRATIVE COSTS WERE CHARGED TO THE HOPE VI PROGRAM

Salary Allocations

Comment 21

The allocations of staff time were made on the basis of the cost allocation plan which was determined to be in compliance by the HUD Buffalo Office on two separate occasions. It is our position that these costs were fully supported by the salary distributions reflected in the cost allocation plan and HOPE VI budget. The HUD Buffalo Office accepted the methodology of our submitted cost allocation plan and did not request additional information. It was our understanding that this plan met HUD requirements. Nonetheless, the UMHA will submit to HUD within 60 days a more complete and detailed cost allocation plan meeting the requirements of your audit report.

Payments for Office Supplies, Equipment, and Computer Software

Comment 22

We concur that there might not have been adequate documentation provided in connection with the expenditures listed in this section when your office initially reviewed the transactions. The supporting documentation for expenses was generally filed in the program offices rather than attached to the purchase order. We have now taken corrective steps to ensure that complete documentation is attached to the purchase order information to facilitate the audit process. Please bear in mind that no request was made to our staff for detailed explanations of these expenses while IG audit team was at our offices. We requested the listing of these expenditures through telephone conversations as well as correspondence, but were not

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provided with the list until the issuance of the draft audit.

The UMHA takes issue with your statement regarding the lack of price quotes for the items listed in the section. Please be aware that the UMHA procurement policy allows the use of state contract prices in lieu of securing multiple quotes for purchases. State contract pricing is permitted pursuant to federal procurement regulations. The procurement of the Laptop computer and digital projector were purchased using state contract pricing. AutoCAD, Intuit, and Creative Management software were procured from sole source vendors. It was our understanding that the filing cabinets and general office supplies purchased from Hummel's Office Supply were covered by state contract prices; however, we are unable to locate such documentation at this time. However, please keep in mind that Hummel's is a state contract price vendor. The copy machine was purchased through a New York State Contract price #PC59459.

Comment 23

Please find attached the signed maintenance contract which was not included with the original back-up purchase. Also enclosed are the two vendor invoices for the purchase of the copier and the overage copy charges. Please bear in mind that the excessive copy charges were the result of the HUD Buffalo's directive to our program to increase marketing efforts in connection with the HOPE rental and homeownership units.

Comment 23

Reimbursements to the Authority for Various Expenses

Please find attached the supporting documentation for the reimbursements to the Housing Authority for various HOPE VI expenses. Each expense was directly related to the operation of the HOPE VI program and was allowable. For example, overnight delivery service bills were in connection with HOPE VI submissions to HUD and other funders. As previously indicated, we have strengthened our internal control policy to require that supporting documentation is attached to every purchase order.

Comment 24

Credit Card Charges

We concur that documentation on the subject credit card charges were not available for easy access at the time of the audit. We further acknowledge that finance charges and late fees are not eligible expenses. At the same time, it is our position that the other charges to the credit card were legitimate and allowable as per federal regulations. The donuts purchase was in connection with refreshments for HOPE VI open houses. The airline tickets, hotel rooms, gasoline, and tuition reimbursement were in connection with training workshops on mapping software and low-income housing tax credits. Travel advances were not charged to the credit card.

Comment 6

We do not agree with your assertion that marketing expenses listed in this section are questionable as to their eligibility. Included in the budget for HOPE VI is a marketing line which was intended to cover community outreach and advertising activities in connection with both the rental and homeownership units. Items such as ribbons, candles, and potpourri were used for HOPE VI open houses. Laundry baskets and a mirror were utilized as door prizes for the open houses and welcoming gifts for the new homeowners. The Buffalo HUD Office repeatedly requested that our HOPE VI program intensify our marketing efforts to attract tenants and homeowners to the project. These efforts were successful in helping the UMHA to rent up the Steuben Village project and sell homeownership units. Marketing practices such as open houses are widely used in both the private and public housing industry and are considered a highly effective method of generating public interest in real estate products. It is our position that marketing expenses are legitimate costs as per HUD HOPE VI budget guidelines.

Based upon our concerns, the UMHA will require supervisory approval of all HOPE VI purchases. Each purchase will be signed off by the HOPE VI Fiscal administrator, HOPE VI Director, and the UMHA Fiscal Administrator. A checklist of back-up items will be prepared and no purchase order will be processed unless all items are presented. Random file reviews will be conducted by staff designated by the UMHA Executive Director to ensure compliance with HUD regulations and UMHA procurement and accounting controls.

Other Miscellaneous Expenses

The digital prints and black and white copies were in connection with the procurement and bidding documents for the Oneida Homes 4B project

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Comment 25	<p><i>The telephone conference call expenditures referenced in your audit were justifiable and were in connection with the planning activities for the HOPE VI grant start-up. HUD staff in New York, Buffalo, and Washington offices as well as the UMHA staff, attorneys and board members participated in these calls. The UMHA's internal telephone conferencing capability is limited to only three shared lines. Due to the higher than normal participation in these calls, it was necessary to use our long-distance telephone provider to provide the conferencing services. Upon analysis of the cost of these calls, the UMHA has since discontinued this practice.</i></p>
Comment 26	<p>Payments for Local Utilities and School Taxes</p> <p><i>Payments for local utilities and school taxes are eligible expenses as per the following HUD documents - HOPE VI Budget Guidance and Policy Alert and Use of Operating Subsidies for Mixed Finance Projects. HUD regulations state that HOPE VI funds may be used to pay for utility and tax payments in connection with mixed finance rental projects. The utility and tax payments were paid for vacant units in the Steuben Village project during the rent-up period. All the properties for which these expenses were reimbursed were designated at that time as public housing units. It is important to note that the purpose of the Initial Operating Period Deficit Reserve is to fund initial operating deficits related to the public housing units prior to receipt of operating subsidy. In conclusion, the expenses for the utilities and taxes were justified expenditures since they are allowed as a development expense. The fact that these payments were made on properties not owned by the UMHA is irrelevant. The audit report failed to mention that these properties are part of our HOPE VI project, financed in part by HUD funds, and are subsidized with ACC funding.</i></p>
Comment 26	<p>Food and Beverage Expenses</p> <p><i>The food expenses cited in this section were in connection with community meetings regarding the HOPE VI program. The purpose of the luncheon held on November 20, 2003 was to orient our HOPE VI partners to the procedures for providing match documentation reports to the program. The "banquet" expenses were in reference to a luncheon of HOPE VI partners to build community support for the Cornhill Commons – Community School Project which was conducted on December 20, 2003. The luncheon featured speakers on successful community school models and provided information on how local residents can assist the HOPE VI project to develop the Cornhill Community School project. In fact, local service providers purchased tickets to cover some of the expenses for the event. Please find attached documentation in connection with the food expenses. We regard these food costs as legitimate operating expenses. The nonprofit agencies reporting match are not reimbursed for their time in assembling the documentation; the luncheon was an important business practice to earn their good will for their continued participation in the program. The Community School Luncheon was intended to bring together key community leaders and organizations for the purpose of building a coalition to advocate for the development of the HOPE VI Community School.</i></p> <p><i>It is our position that these expenses were justified marketing costs of the HOPE VI project and are allowed by HUD regulations. Based upon our review of HUD HOPE VI budget guidance and discussions with HUD Buffalo, reasonable food and beverage expenses are allowable under the HOPE VI program so long as they are used to support HOPE VI program objectives (e.g., marketing of rental and homeownership units). During the audit process, the supporting documentation was not available. Please find in the Appendix to this letter documentation for the expenses listed in the Draft Audit Appendix C.</i></p>
Comment 23	<p>Conclusion/Recommendations</p> <p><i>We are respectfully requesting that the HUD IG Office review the expenses deemed to be ineligible and/or unsupported in light of the information presented herewith. We are in the process of implementing procedures and effective disbursement controls to ensure that all HOPE VI program transactions are properly incurred, supported, and in compliance with applicable regulations.</i></p> <p>FINDING 4: The Authority Lacked an Acceptable Plan for Allocating Costs to Its HOPE VI Program</p> <p>Certain Costs Periodically Allocated</p>

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Your audit asserts that our cost allocation plan "...included salary and fringe benefit expenses for selected staff but failed to include other allowable costs or an explanation as to why other costs were not included in the plan." It is important to note that the UMHA's cost allocation plan was determined by the HUD Buffalo Office to be in compliance. The Buffalo Office did not request that other costs than salary and fringe benefits be included in the plan. There are no statutory or regulatory requirements mandating these other costs be charged to the grant. The UMHA was fully aware of the limited amount of administration funds for the HOPE VI grant, which must last during the five-year duration of the program. We were further cognizant of the fact that other housing authorities such as Albany, New York exceeded their administrative caps and had to greatly reduce staff for their programs. In order to ensure that the HOPE VI program had sufficient funding for staff and other direct operating expenses, the UMHA elected not to charge to the grant indirect costs, but instead provide these on an in-kind basis to the HOPE VI program and RMV.

The Authority's Method for Allocating Costs Not Documented

The salary allocations to the HOPE VI program were formulated based upon the following factors: 1) the limited funding available through the grant to cover administration costs; 2) previous experience of the UMHA and other grantees in allocating staff time to other grants. The HUD Buffalo Office did not require the submission of any time sheets or time studies to support the percentage allocations of staff as part of the approval process of the cost allocation plan. It is our position that a time study would not have been useful to determine salary allocations since the percentages of time charged to the HOPE VI grant were small and reasonable. The same percentage for salary allocation was assigned to the distribution of fringe benefit costs in order to ensure consistency. It was not necessary to describe the specific fringe benefits since these are benefits which are paid to all UMHA staff and are based upon rates supplied by the IRS, New York State, and health insurance vendors. Most importantly, the HUD Buffalo Office did not request any of the information cited in your audit to support the methodology of our cost allocation plan. We would have certainly complied with this request.

Cost Allocation Issue Previously Noted by HUD

We do not take issue with the recommendation of the HUD Buffalo Field Office in their May 2004 report that the Authority needs to adopt a cost allocation plan. We submitted the plan to the Field Office and received verbal assurances of its compliance on two separate occasions. It was our understanding that this plan was acceptable.

Comment 27

Conclusion/Recommendations

It is our position that we have complied with the basic components of the cost allocation plan (e.g., percentages of time, staff roles in project). Based upon our research of HUD HOPE VI guidance materials, no time study is required to substantiate the operating assumptions of the cost allocation plan.

Comment 21

We believe that your request for the UMHA to develop detailed cost allocation plan is neither necessary nor practical at this time. In order to maximize the use of HOPE VI funds, the UMHA resolved not to charge the HOPE VI budget for certain overhead costs such as office space. HUD has set a safe harbor cap of 6% on housing authority administration on HOPE VI grants. An indirect cost rate proposal to HUD would be limited to no more than this amount. The UMHA is in the process of developing a reimbursement agreement between the UMHA and Rebuild Mohawk Valley, Inc., the HOPE VI subgrantee, in order to efficiently distribute, reimburse, and share costs. Since there are only two remaining years for the HOPE VI grant, we believe it is not cost effective to submit an indirect cost proposal.

It is the position of the UMHA that HOPE VI funds should primarily be used to directly benefit low-income residents, develop new housing and assist in the revitalization of the HOPE VI Target area. Therefore, we believe it is entirely appropriate and in the public interest to minimize the use of HOPE VI funds with respect to administration and overhead. It is also a common practice of housing authorities to limit the use of HOPE VI funds for administrative purposes.

Comment 6

Notwithstanding these comments, we will establish procedures and controls to ensure that costs are fairly charged to the HOPE VI program and Rebuild Mohawk Valley, Inc. and submit a more detailed cost allocation plan to the HUD Buffalo Office for their review. The City of Utica has made available HOME Community Housing Development Organization funding to help defray operating costs of HOPE VI related activities. In addition, we will request that our Independent Auditor prepare an annual cost allocation plan to distribute HOPE VI costs.

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CORRECTIVE ACTION

We acknowledge that our HOPE VI program has not completely met all objectives in connection with the Cornhill Commons, housing production goals, codes enforcement, and benefits to Washington Courts residents. At the same time, we have made considerable progress in leveraging match, creating a neighborhood playground and park, creating partnerships, developing new housing units, providing community and supportive services to Washington Courts residents, and encouraging the participation of Section 3 and minority and women business enterprises in the HOPE VI project.

In order to ensure that the project continues to meet its objectives, we will request technical assistance from HUD and National Association of Housing and Redevelopment Officials College of Experts and use funding from a grant from the Office of Governor Pataki to assist with the development of the Cornhill Commons Project. The UMHA will submit a revised Revitalization Plan to ensure that our housing development goals are reasonable and feasible. We will institute a home improvement project this autumn utilizing funding from Oneida County and the State of New York. The Baltimore Housing Authority and other agencies have committed to provide the UMHA with technical assistance to strengthen our Section 3 programs. We also intend to revise our Section 3 and procurement policy to encourage increased resident participation. In order to ensure community participation in the HOPE VI project, we will continue to hold meetings of our HOPE VI Task Force and Cornhill Commons Planning Committee. We have replaced our HOPE VI Coordinator and are now in the process of hiring a new fiscal administrator for the program.

Comment 28

The UMHA is committed to working with the United States Department of Housing and Urban Development to resolving concerns related to the Draft Audit Report of our HOPE VI Program. Upon a detailed review of the audit report, UMHA believes that the findings do not represent a complete and accurate assessment of the HOPE VI Program. The report neglected to include the significant accomplishments of the program and did not take into consideration the complexity of managing a comprehensive and multifaceted community revitalization initiative involving multiple partners and intricate financing arrangements. The report did not consider the often contradictory purposes of the HOPE VI program, the lack of initial technical assistance and training provided by HUD, the unreasonable demands of the HUD Notice of Funding Availability process, the escalating cost of construction and cuts to federal and state human service programs which negatively impact the program outcomes, and the onerous process for obtaining HUD approval for components of the Revitalization Plan. At the same time, we acknowledge the need for changes in fiscal management policies and procedures, a revision of our Revitalization Plan objectives, and a realistic plan for the development of the remaining housing units and community infrastructure projects including the Cornhill Commons and the Community School. We are fully confident that these issues can be successfully addressed and new procedures put into place that will ensure that grant objectives will be met. The HOPE VI funding is indispensable to our community's revitalization and revocation or reduction of the program's financing will have dire consequences for the future redevelopment of Utica's most blighted neighborhoods.

As set forth below, UMHA has already begun to take steps to strengthen its management of the HOPE VI Program by the implementation of new procedures, as well as additional oversight and review:

Comment 6

1. The process of hiring of a new fiscal administrator for the HOPE VI grant has commenced;
2. The Coordinator of the HOPE VI program has been replaced;
3. Increased frequency of meetings to coordinate HOPE VI activities with the City of Utica;
4. Increased contact with service providers and other entities to document provision of match;
5. Reinitiating the HOPE VI Task Force to coordinate neighborhood revitalization and resident services;
6. Organizing of a HOPE VI resident association consisting of new residents of the homeownership and rental housing as well as former residents of Washington Courts;
7. Required supervisory approval of all HOPE VI purchase orders and procurements;
8. Disbursement of first installment of 3 payments of \$300,000 from the County of Oneida to the UMHA to underwrite home improvement program;
9. Revised contract language in construction contracts mandating Section 3 compliance;
10. Termination of contracts with HOPE VI proposal preparation consultants;
11. Required back up and documentation for purchases made with HOPE VI funds;
12. Development of a new tracking system of collateral match.

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The following is a time line for our proposed action plan to resolve issues in connection with your Draft Audit Report:

1. Retain technical assistance to submit recommendations on enhancing existing and recently revised policies and operating procedures – September 2006;
2. Receive report from technical assistance provider and act on recommendations – December 2006;
3. Submit a plan to HUD indicating oversight procedures, revised policies and procedures on financial controls - January 2007;
4. Receive HUD approval of plan - February 2007;
5. Implement action plan - March 2007;
6. Progress meeting with HUD – June 2007.

In addition, based upon your recommendations, we will submit the following to HUD Buffalo within 60 days:

1. A revised revitalization plan to accommodate programmatic changes to the HOPE VI project, all of which are not only possible but shall be accomplished;
2. A construction management plan to complete the development of the remaining homeownership units;
3. A revised Section 3 and procurement protocol to provide incentives to participation by resident and minority-women business enterprises;
4. A revised protocol for HOPE VI procurement and accounting procedures to be used by RMV staff;
5. A plan for the development of the Cornhill Commons properties;
6. A plan for the immediate development of the home improvement program;
7. The development of a detailed annual cost allocation plan.

We would be pleased to supply your office with copies of our above referenced submissions to the HUD program staff.

We look forward to working with HUD to resolve any issues relating to the operation of our HOPE VI project. Continued funding of our HOPE VI project is vital to the revitalization of Utica's neighborhoods.

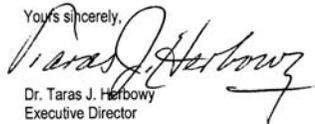
Finally, it is most important for you to understand that irrespective of our concurrence with any of your findings; it is the position of the Municipal Housing Authority of the City of Utica that this should not obscure the accomplishments of the HOPE VI program. Further, it is our position that any findings amid our accomplishments should not merit recommending reallocation or reduction of the remaining HOPE VI project funding. You have my pledge, as a recently appointed Executive Director, that corrective action is currently being implemented and future actions prompting the findings you have set forth in the HOPE VI audit shall no longer occur.

In the meantime, if we may provide additional information or answer questions that you might have, please do not hesitate to call me.

Should you have any questions and/or concerns, feel free to contact me accordingly.

Thanking you in advance for your kind cooperation and consideration, on behalf of the City of Utica Municipal Housing Authority, I remain

Yours sincerely,



Dr. Taras J. Herbowy
Executive Director

Enclosures

cc: Karen A. Campbell, Assistant Regional Inspector for Audit

OIG Evaluation of Auditee Comments

- Comment 1** Officials for the Authority state the primary recommendation of the report is that HUD should reassess whether the Authority is able to meet its primary objective of revitalizing the project neighborhood and consider the reallocation of the remaining \$7.47 million to another organization. Authority officials believe that much remains to be accomplished with the HOPE VI initiative, and they strongly concur with our audit report that the HOPE VI initiative must be more than just a housing program in order to effectuate the revitalization of the project neighborhood. We have reviewed and taken into consideration alternative recommendations provided by Authority officials in their comments. Based on this review, we revised our recommendations pertaining to finding one. We changed our recommendation to finding one to have HUD require the Authority to reevaluate the scope of its revitalization plan and amend the plan accordingly, so that HUD can reassess whether the Authority is able to meet its primary objective of revitalizing the project neighborhood. Based on this assessment, we recommend that HUD determine whether the new plan is effective enough, to ensure that the remaining funds will be put to better use, or if the Authority can only achieve certain objectives, HUD should consider reducing the remaining amount of grant funds proportionately.
- Comment 2** The Authority cites many events that have occurred since we left the audit site, however, these actions and recent accomplishments are responsive to our audit. The conclusions presented in our report are based on facts in place at the time of our review. However, regarding the June 2006 evaluation of the Hope VI grant conducted by the local College, which provides that the project met major goals. This study focused on the geographical and demographic mix of the community that resulted from relocating tenants of the distressed and now demolished Washington Court project; as such, the major goals of this study does not relate to the objectives of our audit. The study mentions that the goal of relocating tenants was accomplished. However, it does not mention that the tenants were not relocated according to the planned application of the Hope VI grant, which was to relocate the tenants to the Cornhill section of Utica and for them to become home owners. Nevertheless, the Authority needs to continue collaborating with its partners and document the cost of its successes to ensure that the total HOPEVI project is achieved.
- Comment 3** Officials for the Authority contend that contrary to the match figures presented in our draft report, they have leveraged over \$36, million in grant funds, match tracking forms are now in place, and the amount of leverage generated for the HOPE VI project is now reported to HUD on a quarterly basis. However, as noted during the review and with the additional documents provided at the exit conference, the Authority was unable to assure the accuracy of the expenditures reported. For example, the Authority's additional documents include a letter from a collateral partner dated August 31, 2006 that asserts that the partner has

expended \$3.7 million towards the Hope VI program. However, the Authority provides no evidence that they verified these figures by examining supporting documents. OIG calculated \$801,936 in collateral investment expenditures from the information provided to us during the audit and at no time did the Authority provide documentation to support any other amounts in collateral investments. Regarding the quarterly reports submitted to HUD, Authority officials admit that this form does not include figures for collateral investments, as such; their system does not appear to be complete and is insufficient to support some statements made in their response.

Comment 4 Officials for the Authority state that the United States Department of Housing and Urban Development (HUD) released a draft audit report on the Authority's HOPE VI Revitalization Program. This statement is not correct. The HUD Office of Inspector General (OIG) Office of Audit released a draft audit report on Authority's HOPE VI Revitalization Program. While organizationally located within the Department, the HUD-OIG provides independent oversight in initiating and carrying out audits and investigations.

Comment 5 Officials for the Authority contend that the conclusion presented in the finding is not supported by the facts and that they are complying with major program requirements as proposed in the application, plan and grant agreement. In addition, tracking forms are sent on a periodic basis to program partners to verify the matching funds. Furthermore, the officials contend that the match reports are submitted on a quarterly basis to HUD. OIG stands by the facts and conclusions presented in our report. The Authority's tracking system was incomplete and unsupported, it did not track the \$27 million of collateral activities and these activities were not included in the quarterly report to HUD. The Authority did not maintain adequate records on collateral investments; therefore, the accuracy of the financial data provided could not be determined. Further, the match reports that were provided to HUD on the activities other than collateral investments were not always supported with evidentiary matter. During the audit, OIG made numerous requests for basic financial information on all collateral activities and City match activities. Authority officials advised that they did not maintain the records in question and had to actually request documentation from various partners. Since the Authority did not adequately track all Hope VI funding and activities we maintain that they are not complying with all major program requirements.

Comment 6 This comment applies to auditee comments on pages 37, 45, 53, 54, 56, 57 and 58. Throughout their response, Authority officials mention several corrective actions that they started or have planned to implement. Although we recognize these corrective actions, the majority of these actions are planned and were not implemented during our review, as such, they will be part of the audit resolution process to be reviewed when the actions have been completed. For the Authority actions that have commenced, the Authority's response and appendices of information that was provided at the exit conference was not sufficient enough to encourage us to change our determinations.

Comment 7 Officials for the Authority contend that HUD never provided them with a copy of a 2004 monitoring report, nor provided grantees a protocol to track program match other than the Bearing Point report. Authority officials also contend that a HUD Washington representative applauded their match tracking system. However, OIG obtained the HUD monitoring report from Authority officials, and also received a copy from the Buffalo field office along with the Authority's response to the financial review section of this monitoring report; as such, Authority officials were aware of this report. As for the match tracking system as stated above, the Authority's system is incomplete because it does not maintain adequate tracking of all activities and appropriate records. Regarding the HUD official applauding the tracking system during a training class, we were not present at this training and we did not see such approval in writing.

Comment 8 Officials for the Authority state that the OIG's conclusion that there was lack of cooperation between the City of Utica and the Authority in connection with the HOPE VI program is inaccurate and false. Based on the Authority's comments it appears that the relationship with the City has improved, however, during the audit, Authority officials informed us that the City was not always cooperative in providing data on HOPE VI program matters. In addition, during our audit Authority officials confirmed that the financial data from the City was not readily available until OIG provided a written request for the information, which prompted the Authority to consult with City officials to obtain the information. However, once the information was received from the City, the Authority could not reconcile substantial differences in the financial data related to the HOPE VI activities. Nevertheless, now that a Memorandum of Understanding has been finalized with the City, the Authority needs to continue to work with the City to document all amounts expended on the HOPE VI project to ensure its success.

Comment 9 Subsequent to our audit, Authority officials provided financial information pertaining to key activities of the City of Utica match. We have reviewed the additional documentation submitted and conclude that the new information only details the Authority's assertion that more funds have been expended, matched and additional commitments have been made. However, the documentation to support these assertions was not attached to their response. Consequently, the Authority is merely highlighting issues that are not cited in the report as deficient. However, our review of the additional documentation submitted pertaining to Codes Enforcement revealed that the figures provided do not reconcile to the Authority's claim that the City has contributed a total of \$69,232 towards codes enforcement activity. Further, the Authority has not provided any documentation to support the \$187,220 in Economic Development cost other than a detail list of businesses in the HOPE VI program, which have benefited from economic development incentives from the City. The Authority did not provide any evidence or loan documents that we could test or review. In addition, a printout of 19 businesses that have received matching grant funds for Façade Improvement does not sufficiently support the claim that the City has provided \$91,261 in facade grants. Lastly, in regards to In-Kind Staff services, the Authority asserts that the City's intent was never to meet the goal of \$1 million in salary and

benefits, but rather to offer the services of City staff whenever necessary to fulfill the goals of the project. However, the Authority provided insufficient documentation to support the basis of the \$1 million estimate (e.g. for support for demolition cost, the City provided a schedule that listed addresses, census tract data, block information, population statistics and total cost; but no basis for how this cost was calculated).

Comment 10 Officials for the Authority contend that contrary to OIG's claim that only \$343,000 has been expended on infrastructure improvements; a total of \$822,194 has been contributed. Nevertheless, although the Authority provided pictures of infrastructure improvements, Authority officials do not state how much of the contributions received have been expended. Furthermore, during the audit the Authority was unable to assure the accuracy of program expenditures detailed in the limited documentation that was available. Our review of the documentation submitted subsequent to the audit pertaining to infrastructure improvements noted that the documentation does not reconcile to the \$822,194 in contributions claimed. The schedule provided details street boundaries, census tracts, income ranges, population statistics, and total cost; however, there was no evidence of what street repairs were made or how the total cost was calculated. Accordingly, the Authority needs to maintain better support for the accuracy of the contributions and expenditures pertaining to infrastructure improvements.

Comment 11 Officials for the Authority disagree with our conclusion that in-kind expenditures from the City were not tracked. However, we reiterate that the Authority did not adequately track in-kind expenditures. The Authority's tracking system is incomplete and unsupported because it does not maintain adequate tracking of all activities and appropriate records (see Comment 7). Nevertheless, Authority officials state that based on our recommendations, they will improve their tracking system and perform written assessments of the impact of collateral investments.

Comment 12 Officials for the Authority agree that progress on this activity has been limited, however, they take issue with the statement that no funds have been invested to date because a total of \$468,270 has been expended on the development of the Cornhill Commons Project. They cite various activities and potential funding that the Authority has taken to effectuate the development of the Cornhill Commons and the Community School, which was done so as recent as June 2006. However, at no time during our audit or during our visual tour in April 2006 were we provided with any financial or programmatic records that we could verify indicating any activity pertaining to Cornhill Commons and the Community School. Our review of the additional documentation provided by the Authority subsequent to our audit has determined that the \$468,270 in claimed expenditures is not fully supported. The City cites various activities and potential funds to be expended, however, the documentation that they provided does not reconcile which activities pertain to the \$468,270. Accordingly, better support is needed.

Comment 13 Officials for the Authority concur with OIG that housing goals set forth in the HOPE VI application will not be met. The officials contend that a revised revitalization plan was submitted to HUD on November 22, 2004, and HUD verbally approved a reduction in housing goals, however we were unable to ascertain this verbal approval with HUD field office officials. Such approvals should be documented in writing and not verbally granted. HUD field office officials have recently encouraged the Authority to submit a revised plan, and officials for the Authority intend to submit to HUD a revised plan within 60 days. We remind the Authority that their HOPE VI grant application was a competitive process and was approved based upon the assertions made by the Authority for housing goals as well as other promised HOPE VI activities. Although officials for the Authority cite various factors to explain why housing goals will not be met, it is OIG's position that it is incumbent upon Authority management to adjust to changing conditions and to anticipate that there will be obstacles to overcome in such a large development project. Since the Authority acknowledges that housing goals will not be met, we changed our recommendation for finding one to have HUD require the Authority to reevaluate the scope of its revitalization plan and amend the plan accordingly, so that HUD can reassess whether the Authority is able to meet its primary objective of revitalizing the project neighborhood.

Comment 14 Officials for the Authority contend that our conclusion on the inadequacy of code enforcement does not accurately reflect the facts. Authority officials contend that a total of 3,094 housing units in the Cornhill area have been inspected and just as many citations have been issued. However, we found the documentation submitted to support this claim inadequate as it appears to be merely a compilation of Section 8 units inspected by the City. Officials state that the City has taken aggressive action against landlords to correct code violations and that a law mandating periodic inspections by the Fire Department was recently enacted. The officials continue on to state that a massive infusion of federal dollars is needed to properly address code violations. Although a law mandating inspections may have been recently enacted, our review noted that the Authority maintained records on the specific HOPE VI target area parcels that had code violations, but did not provide documentation to support resolution of the violations noted in their records. Further, OIG inspection of the target area documented that many of the violations remain. The conclusions reached during our review are correct as documented by Authority records, which indicate that only \$20,000 of the budgeted \$863,000 was expended on code enforcement and that many violations remain uncorrected. The Authority does not dispute that only \$20,000 has been expended by the City and further acknowledges that much work remains to be addressed. Lastly, Authority officials request that their photos, which demonstrate the positive impact of the HOPE VI program be included in our report. However, including photographs in our report that Authority officials want us to would effect the independence of our review. As such, the photographs depicted in our report that supports inadequate code enforcement, are just two of several photographs taken by OIG of numerous code violations identified during our visual inspection of the HOPE VI target area.

Comment 15 Officials for the Authority concur that the majority of Washington Court residents did not relocate to HOPE VI program housing. Conversely, the officials claim that the relocation of the residents to other housing has been a success. The Authority's response does not address the primary relocation issue raised in the finding, which is that Washington Courts residents should be relocated to the Cornhill area and become homeowners. The fact that residents were simply relocated is not indicative of meeting the primary HOPE VI program objective for the residents. Authority officials assert that every displaced tenant has been contacted and offered an opportunity to reapply for housing in the HOPE VI project area. However, at no time during or subsequent to our audit were Authority officials able to provide documentation to support that such actions occurred. Further, Authority officials assert that 45 of the 60 relocated households were either disabled or elderly head of household and not employed. However, this information about resident circumstances should have been considered at the time the Authority declared the application goals of relocating such residents. Thus, the fact that only one resident to date has become a homeowner is evident that the Authority is not truly achieving the HOPE VI application goals. Authority officials cite an independent evaluation of the HOPE VI project, which concluded that the relocated Washington Courts residents were satisfied with the new residency. Based upon the living conditions of the Washington Courts project, as described in the HOPE VI application, the conclusion of the independent evaluation is not surprising. Residents of Washington Courts would have been satisfied with any new residency. Overall, officials for the Authority cite many obstacles to homeownership, including resident reluctance, and request that this finding be removed from the report. We remind the Authority that these issues should have been anticipated and methods for marketing and effectuating homeownership are the responsibility of the Authority management, as such, the finding stands as presented.

Comment 16 The comments provided by officials for the Authority do not address the issue raised in the finding. The comments provided by the Authority address general Section 3 hiring and do not dispute the fact that Washington Court residents have not benefited from job opportunities as detailed in our finding. In addition, Authority officials agree to the statement that the demolition of Washington Courts project has only recently begun, however they object to the characterization of the demolition. Authority officials contend the delays were beyond their control and partly the responsibility of HUD. OIG maintains that the Authority is responsible for the management of the HOPE VI program and overcoming obstacles inherent during large development projects. The fact that the application was prepared in 2002 and the demolition still remains incomplete in 2006 cannot be denied. As such, the finding stands as presented.

Comment 17 Officials for the Authority disagree with the fact that the contract for HOPE VI applications services was for a not-to-exceed value of \$40,000. In summary, the officials contend that OIG failed to recognize that the contract had two parts 1) HOPE VI application services and 2) HOPE VI implementation phase. In

addition, there was a protracted pre-application phase that was initially expected to be only three months, but became nine months, which added to the application costs. The statement by Authority officials is inaccurate, whereas the OIG was fully aware that the contract contained two parts. The finding and related issues address only the portion of the contract relating to the application services. Contrary to assertions by Authority officials, their own records indicate that the contractor was indeed paid at least \$181,762 for just the application services. This is despite the fact that the contract provided that all application services be provided for a not-to-exceed fee of \$40,000. In addition, as noted in the finding, the contractor was competitively selected due primarily to the low price of \$40,000. Officials for the Authority also cite the protracted time of application services as a cause of the contract application costs increasing from \$40,000 to \$181,762. Thus, the Authority appears to be making the argument that the application costs would have been within the \$40,000 cap if only the application was filed in June 2002 rather than in December 2002. This argument does not have merit since the contractor had billed a total of \$80,000 from April 2002 through September 2002. This is already double the original agreed upon costs of \$40,000. The contractor then billed an additional \$101,762 for application services, even though the application was filed only three months later. Further, the billings submitted do not provide specifics as to the additional services provided for the \$101,762.

Comment 18 Officials for the Authority contend that several factors extended the scope of work needed for the contract requiring the extension of the contract time period. Thus, the work beyond the original scope could not have been anticipated, and there was insufficient time to issue a new request for proposal. In addition, Authority officials contend that there was a cost analysis performed of the contract's hourly rates and since the continued services were provided at the original hourly rates, it was not necessary to perform an additional cost analysis. We agree that the scope of this contract was significantly modified, thus emphasizing the need to comply with 24 CFR [Code of Federal Regulations] Part 85 requirements. Although this contract was modified on four occasions, including an initial change order authorization on the very same day the contract was awarded, the required cost analysis was not performed for any of the four modifications. The Authority chose to modify this contract on four occasions, increasing the original not-to-exceed contract limit of \$85,000 to a modified contract limit of \$190,000. It is clear that the Authority's method of administering this contract were conducted in a manner that did not allow for full and open competition for the significant level of services to be provided.

Comment 19 Auditee officials believe that the costs expended for HOPE VI Application Services were justified. However, the contract in question was modified in violation of 24 CFR [Code of Federal Regulations] Part 85.36. Specifically, there was no cost analysis for the increased change order amounts and no open competition provided for the additional services beyond the scope of the original contract. Although officials for the Authority contend that the procurement of this contract and the change orders complied with relevant HUD regulations and

their own procurement policies, the Authority intends to cancel this contract within the next thirty days.

Comment 20 Officials for the Authority contend that this contract for financial services was modified to avoid the risk of HUD sanctions for falling behind project timetables. Authority officials state that a cost price analysis was conducted on March 28, 2002, and that the contractor's additional services were based on the hourly rate provided for in the original contract. Our review determined that the initial contract was not awarded until November 14, 2003 and the contract modification change order was not authorized until June 4, 2004, thus the cost analysis conducted on March 28, 2002 cannot be related to the June 4, 2004 contract modification. Thus, the Authority was unable to provide evidence that the required cost analysis had been conducted for the contract modification. The Authority intends to terminate this contract with the next thirty days.

Comment 21 Officials for the Authority contend that the HUD field office determined the cost allocation plan was in compliance and accepted the methodology on two occasions. Further, the costs were fully supported by the salary distributions reflected in the cost allocation plan and HOPE VI budget. In addition, Authority officials further contend that a time study would not have been useful since the percent of time charged were small and reasonable. However, the Authority was unable to provide any documentation that indicated that HUD approved their methodology for allocating cost, nor did they provide support for how the salary percentages for allocating the costs were determined; thus, a time study would be useful. Further, upon review of the draft report, HUD officials stated that the cost allocation plan should include support for its allocation percentages and that the plan should be updated annually. Nevertheless, Authority officials have stated that they will resubmit a more detailed cost allocation plan to HUD.

Comment 22 Officials for the Authority concur that adequate documentation might not have been provided in connection with identified expenditures. In addition, Authority officials contend that no request was made to the Authority staff for detailed explanations of these expenses while the audit was being conducted, and they took issue with the statement that there was no evidence of price quotes. However, during the audit we provided Authority staff with a list of the transactions we wished to review, and requested that they provide all available supporting documentation pertaining to the transactions. The Authority staff provided us the available supporting documentation requested and, for their own reference made copies of all the documentation that was provided to us. Thus, the staff of the Authority was aware of the transactions reviewed during the audit. However, the documentation provided to us generally was disorganized, incomplete and lacked sufficient details. Further, the additional documents provided in the Authority's appendix to their comments pertaining to the questioned administrative costs still did not adequately address the deficiencies noted in the finding. For example, to support the inadequate number of price quotes deficiency, Authority officials provided a single price quote provided by the same vendor cited in the deficiency. This clearly does not support nor address

the deficiency cited. In addition, although Authority officials stated that the equipment was purchased using state contract pricing, they did not provide evidence of this.

Comment 23 We have reviewed the supporting documentation Authority officials attached to their response to support the questioned costs pertaining to copier supplies, maintenance and overage charges (check no. 1624), and determined that this documentation was inadequate. Although the contract and sales agreement detail such items as unit price and overage rates, the invoice provided by the Authority did not support or tally up to the amounts questioned. In addition, our review of the additional documentation pertaining to the reimbursements for various HOPE VI expenses (entitled check No. 1485 and GJ-106) found that these items were unexplained, disorganized, and could not be clearly traced to the amount questioned in the report. For example, the copies of travel itineraries submitted do not support the actual travel costs incurred. Further, the Authority submitted a stack of invoices, bills, contracts, etc. with no evidence on whether these items should have been charged to the HOPE VI project.

Comment 24 Officials for the Authority concur that documentation pertaining to credit card charges was not available at the time of the audit, and further acknowledges that finance charges and late fees are not eligible expenses. The Auditee believes the items labeled as marketing expenses, are allowable, however, since they pertain to candles, potpourri, greeting cards, etc., we disagree.

Comment 25 We have reviewed the additional documentation provided by the Authority and found the telephone conference calls costs to be unsupported. The documentation submitted is merely copies of the reservation confirmations for the calls and provides no support for the actual costs charged. Although officials for the Authority contend that the telephone conference call expenditures were justifiable in connection with the planning activities for the HOPE VI grant program start-up, the documents provided do not explain the purpose of the calls. Authority officials now state that they have discontinued this practice.

Comment 26 Authority officials contend that the food and beverage expenses cited were in regards to the HOPE VI program and that they consider these food costs as legitimate operating expenses. Authority officials concur that during the audit, the supporting documentation was not available, and therefore provided, as an attachment to their response, documentation to support the expenses. We reviewed the documentation and determined it to be insufficient and inadequate. For example, the purchase of food and beverages to be served at HOPE VI meetings is questionable as to necessity and reasonableness. Further, press releases and meeting agendas submitted as supporting documentation pertaining to the banquet do not provide support for the actual costs questioned. Accordingly, the food and beverage expenses are still questionable.

Comment 27 Officials for the Authority contend that they received from HUD verbal assurances that their cost allocation plan was in compliance with requirements.

However, during our review we were not provided any evidence to support this claim.

Comment 28 The Authority contends that the draft report neglected to include significant accomplishments of the program and did not take into consideration the complexity of the financial arrangements involved. Nor did it consider the complexity in managing a multifaceted community revitalization effort involving multiple partners, not to mention the lack of HUD training and unreasonable demands of the HUD Notice of Funding Availability (NOFA). However, we remind Authority officials that our goal is to recommend improvements to existing program controls to ensure that the program is completed efficiently and effectively. As for the complexity of the program and the demands of the NOFA, HUD technical assistance and training can be obtained by contacting HUD and requesting such assistance or guidance. Nevertheless, these issues will not change the facts presented in the report, as such, if our audit recommendations are implemented the Authority can make a difficult project become less complicated.

Appendix C

QUESTIONABLE ADMINISTRATIVE COSTS CHARGED TO THE HOPE VI PROGRAM

Date	Check / reference number	Description	Ineligible amount	Unsupported amount
Sept. 3, 2003	1028	Assorted food items		\$37.86
Jan. 23, 2004	1247	Luncheon for Hope VI program partners		\$235.40
Jan. 23, 2004	1254	Banquet	\$304.00	\$880.03
		Total food and beverage	\$304.00	\$1,153.29
Oct. 17, 2003	1095	Computer software and file cabinet		\$308.98
Dec. 5, 2003	1170	Computer software		\$3,567.00
Dec. 5, 2003	1172	Laptop computer		\$1,380.00
Jan. 23, 2004	1249	Computer software		\$1,630.90
Jan. 23, 2004	1411	Digital projector		\$1,139.45
Mar. 5, 2004	1445	Computer software		\$1,825.00
Mar. 24, 2004	1624	Savin copier and related supplies		\$2,443.78
Mar. 24, 2004	1624	Savin copier and related supplies		\$3,987.22
June 22, 2004	1624	Leased copier maintenance and copy overages		\$311.45
June 22, 2004	1624	Leased copier maintenance and copy overages		\$787.15
July 1, 2004	1913	Computer and software		\$1,677.00
Oct. 22, 2004	1792	File cabinets and office supplies		\$545.47
Dec. 22, 2004	1857	Leased copier maintenance and copy overages		\$195.35
Sept. 28, 2005	2256	Leased copier - copy overages		\$350.16
		Total office supplies, equipment, and computer software		\$20,148.91
June 30, 2004	GJ-32	Salary allocation fiscal year June 30, 2004		\$3,252.84
June 30, 2005	GJ-104	Salary allocation fiscal year June 30, 2005		\$26,823.96
		Total salary allocation		\$30,076.80
May 25, 2004	1485	Reimburse authority - various costs		\$504.35
May 25, 2004	1485	Reimburse authority - various costs		\$1,231.33
May 25, 2004	1485	Reimburse authority - various costs		\$6,940.19
June 30, 2005	GJ-106	Reimburse authority - office equipment/supplies		\$2,952.98

2005				
		Total reimbursement To municipal housing		\$11,628.85
May 5, 2005	2016	Gas and electric use	\$416.92	
Oct. 5, 2005	2227	Municipal water use	\$1,089.15	
Oct. 19, 2005	2231	Municipal school taxes	\$56.24	
		Total utilities and taxes	\$1,562.31	
Apr. 26, 2004	1483	Various charges including late fees and finance charges		\$2,236.92
Apr. 27, 2004	1483	Various charges including late fees and finance charges		\$164.65
Apr. 27, 2004	1483	Various charges including late fees and finance charges		\$3,562.80
Nov. 26, 2004	1791	Various charges including late fees and finance charges		\$382.18
Nov. 26, 2004	1791	Various charges including late fees and finance charges		\$623.56
Nov. 9, 2005	2254	Marketing expenses, late fees, and finance charges	\$39.44	\$134.20
Nov. 21, 2005	2290	Late fees and annual membership fees	\$29.50	\$0.00
		Total various credit card charges	\$68.94	\$7,104.31
Sept. 12, 2003	1040	Flooring materials and installation		\$1,255.80
Oct. 28, 2003	1110	Health insurance		\$0.00
Oct. 29, 2003	1118	Telephone conference calls		\$876.91
Aug. 24, 2005	2161	Black and white copies and digital prints		\$1,689.00
		Total miscellaneous charges		\$3,821.71
		Subtotal	\$1,935.25	\$73,933.87
		Grand total of ineligible and unsupported costs		\$75,869.12