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Audit Case Number	2003-PH-1004

TO: Milan M. Ozdinec, Deputy Assistant Secretary, Office of Public Housing Investments, PI

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Review of the HOPE VI Relocation Process at the Housing Authority of Baltimore City
Baltimore, Maryland

INTRODUCTION

As part of the Homeownership and Opportunity for People Everywhere¹ (HOPE VI) audit of the Housing Authority of Baltimore City (Authority), we completed a separate review of the relocation process implemented during the HOPE VI Program. The primary objective of our review was to determine if the Authority followed HUD requirements when relocating tenants from the HOPE VI developments. Specifically, we wanted to determine if the Authority; (1) provided relocated tenants appropriate housing opportunities, (2) provided relocation assistance to the tenants during their move, and (3) established a process for occupancy in the new developments in accordance with the HUD-approved Relocation Plan.

Generally, we found the Authority did an adequate job in assisting the tenants from six HOPE VI developments in finding alternative housing, and improved its process to ensure displaced tenants receive priority in occupying completed HOPE VI units. However, during our review we did identify a number of deficiencies in the Authority's administration of its relocation process. Specifically, the Authority paid incorrect relocation assistance payments to a number of tenants and its outside moving contractor,

¹ The HOPE VI Grant was funded under various program names: FY 1993 – Homeownership and Opportunity for People Everywhere; FY-1994 & 1995 – Severely Distressed Public Housing Projects; FY 1996 – Public Housing Demolition, Site Revitalization and Replacement Housing Grants; FY 1997 - 2002 – Revitalization of Severely Distressed Public Housing.

and did not ensure the contract with its moving contractor included an appropriate liability clause that would reimburse tenants for property that was damaged or lost during the move. The details of our review and the seven recommendations to address the issues identified are discussed under the “Results of Our Review” section of this audit memorandum.

We appreciate the courtesies and assistance extended by the personnel of the Authority, the tenants and the HUD staff during our review.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions please contact Ms. Christine Begola at (410) 962-2520.

METHODOLOGY AND SCOPE

To accomplish our objective, we non-statistically selected 159 displaced tenants from all six HOPE VI developments (Lafayette Courts, Lexington Terrace, Murphy Homes, Hollander Ridge, Broadway Homes and Flag House) and reviewed their corresponding relocation files and housing inspection reports. However, this sample was expanded if discrepancies were identified at the individual developments. We also interviewed HUD staff, Authority staff in both the Relocation Department and the Section 8 Inspection Team, HOPE VI relocated tenants, and an American Civil Liberties Union (ACLU) representative to obtain details about the HOPE VI Relocation Process. Finally, we reviewed the requirements in the Authority’s Relocation Plan, HUD Handbooks and Office of Management and Budget’s guidance on the cost principles for state and local governments.

The audit covered the period April 1994, when the Authority first informed tenants of the demolition of Lafayette Courts, through December 2001. At the time of our review, the Authority demolished all six developments, completed work on one, and substantially completed work on another. We performed the majority of our fieldwork at the Authority’s main office located at 417 East Fayette Street, Baltimore, Maryland, and visited various public housing developments as needed. We performed the onsite fieldwork from January 2002 to July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards. We held an exit conference with the Executive Director of the Authority on June 9, 2003.

SUMMARY

We found the Authority generally did an adequate job in assisting displaced HOPE VI tenants in finding suitable alternative housing. The Authority demolished six developments with 4,194 units. Of the 2,246 occupied units, we found the Authority assisted 1,992 families² in finding adequate alternative housing. For the remaining tenants, 209 were evicted, deceased or skipped out on their rent, and for 45 we could not determine their status due to incomplete information in the Authority's files. Further, despite some initial setbacks, the Authority established a process to ensure displaced tenants received priority in re-occupying units in the newly completed HOPE VI developments in accordance with their approved HUD Relocation Plan. For the two developments the Authority had redeveloped by the beginning of the audit, Lafayette Courts and Lexington Terrace, 1,484 units were replaced with 729 units, of which 404 were public housing rental townhouses and 325 units reserved for elderly and homeownership. Altogether 198 of the displaced tenants were placed in the 404 available public housing units.

However, during our review we did identify a number of deficiencies in the Authority's administration of its tenant relocation process. Specifically, the Authority did not follow HUD Handbook 1378 when it processed relocation payments to the tenants. This caused the Authority to make \$64,215 in relocation assistance overpayments and \$20,705 in underpayments to a number of tenants. We also questioned the Authority's administration of the moving contract used to relocate several of the tenants. We found the moving contractor over-billed the Authority for \$23,533, and the Authority failed to include an appropriate liability clause in the moving company's contract, which would have saved the Authority an additional \$9,949 in relocation expenditures.

BACKGROUND

Established in 1937, the Housing Authority of Baltimore City was designated by the United States Congress as the conduit of Federal funds to the City for aid to poverty-laden citizens needing housing and related services. According to the Authority's website, the Authority ranks as the nation's top recipient of HOPE VI funding, having received \$172 million from nine HOPE VI Grants. The Authority is also recognized for completing the nation's first HOPE VI development, Pleasant View Gardens.

The HOPE VI Program was created on October 6, 1992. The HOPE VI Program, originally known as the Urban Revitalization Demonstration, was developed as a result of recommendations by the National Commission on Severely Distressed Public Housing, which was charged with proposing a National Action Plan to eradicate severely distressed public housing. The Commission recommended revitalization in three general areas:

- physical improvements,

² For purposes of this report, when referring to the number of units relocated within the HOPE VI developments, this report will use families, tenants and/or units interchangeably, however, a tenant and/or family does not necessarily mean one person.

- management improvements, and
- social and community services to address resident needs.

The HOPE VI Program provides funding using two grants: Revitalization Grants and Demolition Grants. Both grants fund the demolition of severely distressed housing, relocation and supportive services for relocated residents; while the Revitalization Grant also allows payments of capital costs of major rehabilitation, new construction, other physical improvements and the acquisition of sites for off-site construction. We conducted a separate audit of the Authority’s administration of the HOPE VI Program, the results of which will be issued under a separate report. This report concentrates on our review of the relocation of the HOPE VI residents by the Authority.

RESULTS OF OUR REVIEW

A. The Authority provided appropriate assistance to help displaced tenants find suitable alternative housing.

Displaced tenants were properly notified of relocation options and were provided counseling services

Under the Authority’s Relocation Plan, the Authority was to provide each displaced tenant adequate guidance and counseling services. The Authority was to first notify the tenants by sending them a preliminary notice. Following this notice, the Authority was to hold group information sessions and meetings with the relocation staff. The Authority staff would then interview each tenant to assess their housing needs, and as necessary, refer tenants for legal counseling and/or other social services. The residents also received a formal notice of non-displacement, relocation alternatives and counseling services. Our review of the 159 tenant files indicated the Authority provided adequate guidance and counseling to the tenants involved in the HOPE VI process. The tenant files contained a log documenting the contact the Authority made with each individual family, along with evidence of the group meetings held at the developments and individual counseling sessions provided to the various families.

The Authority provided displaced tenants suitable alternative housing

The Authority demolished 4,194 public housing units in six developments. Approximately 1,948 of these units were already vacant at the start of the demolition process. For the 2,246 units that were occupied, we determined the Authority relocated approximately 1,992 families from the demolished HOPE VI developments. Some tenants opted to move into other available public housing units, while others entered the private market (non-Housing Authority units), or Section 8 units. Based upon the Authority’s records, the initial moves³ for the HOPE VI Relocation Process are broken down as follows:

³ Initial moves can be classified as the first move made by tenants relocating from the demolished sites. Some tenants performed second and third moves because of housing issues.

HOPE VI Developments	Public Housing	Private Market	Section 8	Total Initial Moves
Lafayette Courts	440	21	95	556
Lexington Terrace	203	10	91	304
Murphy Homes	238	21	116	375
Hollander Ridge	276	68	161	505
Broadway Homes	57	5	26	88
Flag House	127	5	32	164
Totals	1,341	130	521	1,992

For the remaining 254 units, documentation showed 209 tenants were evicted, deceased or they skipped out on their rent. We could not determine the status of 45 tenants because documentation in the tenant files was incomplete.

As part of our review, we wanted to determine if the tenants received suitable alternative housing that met the basic housing quality standards of being decent, safe and sanitary. To accomplish this we reviewed the 159 tenant files selected in our sample for evidence that the Authority properly reviewed and inspected these units before habitation. We found support that showed the Authority properly completed inspections in 141 tenant files. We could not locate three of the files in our sample. The files for the remaining 15 showed that 14 of the tenants moved from Lafayette Courts or Lexington Terrace developments to public housing or rehabilitated units and one tenant moved to a Section 8 unit; however, we could not find any documentation that showed the Authority completed the proper inspections before the tenants moved into these units. The Authority acknowledged that due to the large number of inspections they had to complete during the relocation process, there was a shortage of inspectors available to complete the proper inspections of the public housing and rehabilitated units.

ACLU raised concerns on the quality of Section 8 units provided to some tenants

While conducting our review of the HOPE VI Relocation Process we interviewed an American Civil Liberties Union (ACLU) representative. The representative provided names of 31 tenants who complained that the Section 8 unit they moved into had deficiencies. Although we had only one issue with the Section 8 files we reviewed in our original sample, we decided to review the corresponding case files for these 31 tenants to determine if the Authority completed appropriate inspections for these units. We found the Authority properly completed an inspection and passed the units for 19 of the 31 cases. Files for the remaining 12 tenants disclosed that in one instance there was no inspection report while the other 11 files indicated that the landlords needed to make various improvements to the units before the tenants occupied the units.

We spoke to 7 of the 11 tenants who moved into a unit where the inspection report indicated landlords needed to make improvements. Three of the seven tenants claimed

the landlords did not correct a number of the conditions before they occupied the units. We discussed the deficiencies we noted in the Section 8 units with the Authority’s Section 8 inspection team and supervisor. The supervisor acknowledged the deficiencies and agreed to take appropriate corrective action.

B. The Authority needs to improve its process in providing relocation assistance to displaced tenants.

The Authority’s Relocation Plan states that each relocated tenant was to receive: (1) payment of all moving costs to temporary and/or to permanent housing; (2) \$50 relocation allowance if the Authority moves the tenant; (3) payment of security deposits; and (4) payment of miscellaneous expenses such as TV hookup, telephone transfers, utility connections and other services. Generally we found the Authority followed their relocation plan in providing relocation assistance to move displaced HOPE VI tenants. However, we did identify a number of deficiencies in the process. These are detailed below.

HUD Handbook 1378 states, whenever a tenant is displaced from a public housing unit, the Authority may, at its discretion, elect to perform the move (with its own staff or through private contractors) at no cost to the tenant. In such cases, the tenant is entitled to a moving expense and dislocation allowance of \$50. The Handbook states that if the Authority does not elect to take responsibility for the move, the tenant shall complete the move and be reimbursed the following fixed allowance:

	Number of rooms of furniture moved							
	1	2	3	4	5	6	7	8
Allowance	\$350	\$500	\$650	\$800	\$925	\$1,050	\$1,175	\$1,300

For four of the original HOPE VI developments, the Authority gave tenants the option to either use the Authority’s moving contractor to complete the move or to move themselves. For the tenants in our sample that moved from Lafayette Courts and Lexington Terraces, the Authority’s moving contractor completed all of the initial moves.

Number of tenants received overpayment of relocation allowances

From our review of the 159 tenant files for the six developments, we found a number of problems with the payment of relocation allowances. For two of the developments, Hollander Ridge and Flag House, we found 40 tenants received \$27,090 in overpayments in their relocation allowance. Based on the overpayments we identified in the original sample, we decided to use audit mining software, called ACL, to analyze the entire database to identify other instances where an overpayment may have been made. From this analysis, we identified an additional 46 tenants where the Authority overpaid relocation expenses totaling \$37,125.

Records showed the Authority relocated these 86 tenants through its moving contractor. However, our review showed the Authority made a second payment that exceeded the \$50 allowance even though the tenant did not complete another move. Consequently, the Authority overpaid the 86 tenants from Hollander Ridge and Flag House \$64,215 in relocation payments. Generally the allowance paid was based on the fixed allowance schedule in HUD Handbook 1378.

When we asked Authority personnel why they overpaid assistance, Authority staff said these tenants were originally moved because of emergency situations that took place prior to the moves required for the demolition of the development. When the Authority processed the relocations, they asked these tenants if they were willing to stay permanently at the emergency location. For tenants that were willing to stay, the Authority paid an allowance based on the number of rooms of furniture the tenant had at the HOPE VI development that was eventually demolished. Authority staff explained since the original move was due to an emergency situation, and the tenant was willing to stay at the new location, they should receive an allowance based upon the demolition of their original unit. However, we could not find any written policy to support this statement. Staff explained this was “how things were always done”. By processing relocation allowances this way, the Authority unnecessarily paid the tenant moving benefits twice.

At our exit conference for the audit the Authority stated they implemented procedures to ensure the payment problems we identified would not re-occur. However, when we reviewed these procedures we noted the Chief Financial Officer had not approved the procedures nor had they been incorporated into the Authority’s established procedures manual. Thus, we could not verify whether these procedures had actually been implemented by the Authority.

Number of tenants did not receive their full relocation payment assistance

Our review of the 159 tenant files also identified 10 cases where the tenants did not receive their full amount of relocation payment assistance. Six tenants did not receive the required \$50 allowance when they relocated from Lafayette Courts, Lexington Terrace and Flag House and four tenants did not receive \$2,459 in relocation assistance when they relocated from Hollander Ridge. Furthermore, nine tenant files for former residents of Murphy Homes did not indicate what type of assistance the Authority provided. Authority staff explained that some of these tenants could have moved before the relocation specialist was able to interview the tenant to determine if relocation payments were warranted.

While reviewing one of the Hollander Ridge tenant files noted above, we found a memorandum dated February 15, 2001 from the Authority’s Relocation Department. The memo directed the Finance and Accounting Department to issue checks in the amount of \$108 to 41 residents for retroactive moving costs. The memo was in response to a finding noted during a HUD monitoring review that indicated the Authority used the wrong start date to calculate relocation benefits. HUD instructed the Authority to make

relocation payments starting with the approval date for HOPE VI funding which was October 1996; however, the Authority actually started paying tenants for moves that took place as of March 1999. Thus, HUD instructed the Authority to make an attempt to pay retroactive relocation payments for all tenants that moved from Hollander Ridge during October 1996 to March 1999. As such, we decided to review the remaining 40 files to determine if the Authority was successful in paying the retroactive payments.

We found the Authority underpaid 38 of the 40 tenants relocation assistance benefits totaling \$17,946. Contrary to HUD Handbook 1378, the Authority paid each tenant a set relocation assistance payment of \$108. HUD Handbook 1378 requires the Authority to pay a fixed relocation allowance based on the number of rooms moved, which ranges from \$350 for one room to \$1,300 for an eight room unit. We noted most of the tenants had at least three rooms of furniture to move, which would require a minimum payment of \$650. The Authority said they based the \$108 amount upon the contract amount it paid to its moving contractor. However, the Authority's contractor did not move the tenants noted on this memo.

Authority staff claimed their Legal Department gave them the discretion as to which amount (contractor's fee or HUD allowance) they should use to pay the tenants. However, we were unable to locate a legal opinion or other documentation to support this statement. In addition, based upon the documentation we did review, we found no evidence HUD approved the \$108 payment allowance. Thus, in total the Authority underpaid 48 tenants \$20,705 in relocation benefits, with the possibility nine additional tenants may have also been underpaid.

Lack of supervision contributed to the relocation payment errors

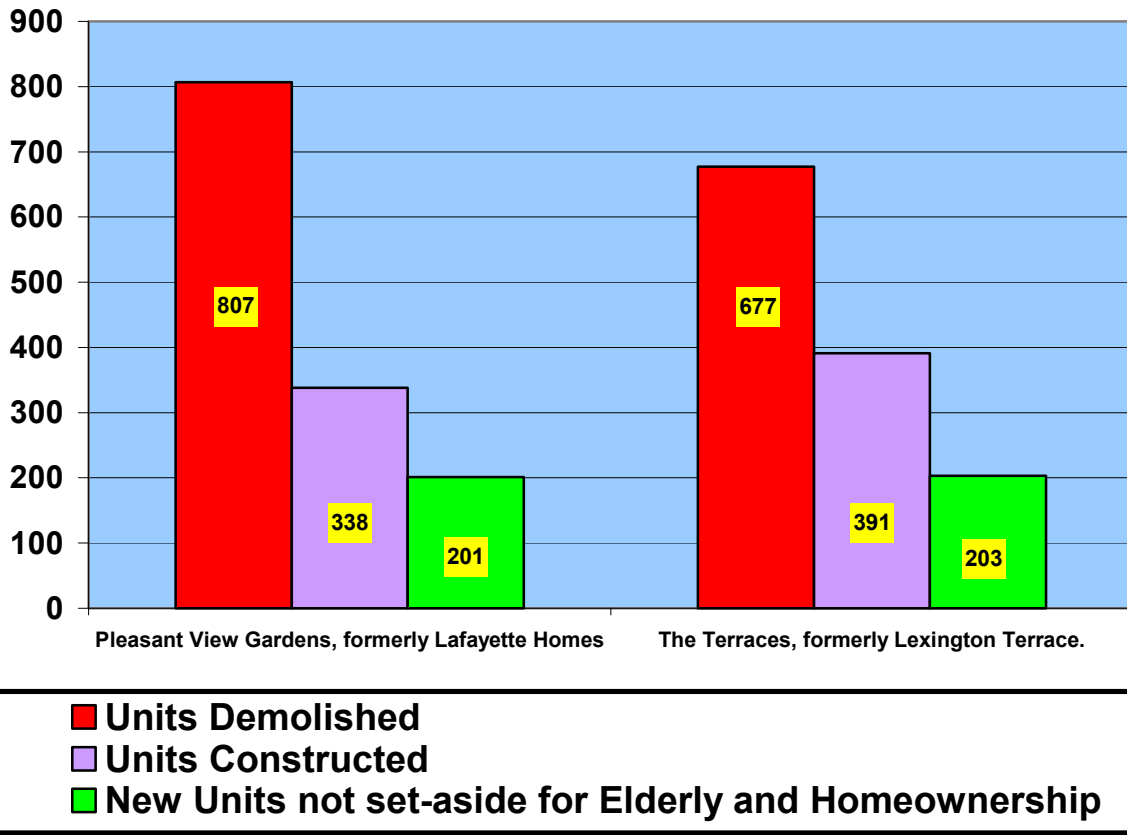
The Authority began making HOPE VI moves in April 1994 after the Authority sent a preliminary notice to the tenants of Lafayette Courts. At that time the Authority's Relocation Department staff handled the relocation process for all six HOPE VI developments. Up until March 1999, the Relocation Department had a Chief of Relocation that was responsible for supervising the relocation process. The Chief of Relocation was responsible for verifying that eligible tenants received the required relocation payments. However, when the Chief of Relocation left in March 1999, the Authority abolished the position, and there was no indication the Authority's senior management assumed the duties. Many of the questionable relocation payments we identified during our review were paid after March 1999. In addition, we noted the Finance and Accounting staff approved relocation payment requests submitted by the relocation staff without questioning them because they assumed the relocation staff understood the relocation payment requirements. We believe the lack of supervision during this time period contributed to the Authority making \$64,215 in relocation overpayments and \$20,705 in relocation underpayments to tenants.

In a written response provided after the exit conference the Authority provided an organization chart dated April 2, 2003. This organization chart indicated a "Director – Acquisition & Relocation" position had been established in the Relocation unit to handle all

of the Authority’s relocation matters. However, we were not provided a copy of the duties and responsibilities of the Director to ensure that all of our concerns would be addressed.

C. The Authority placed 198 displaced tenants into the completed HOPE VI developments.

At the time of our review, the Authority completed construction and re-occupied two HOPE VI developments; Pleasant View Gardens, formerly Lafayette Courts, and The Terraces, formerly Lexington Terrace. As the graph below shows, these new developments had significantly fewer public housing units available to rent than the original developments they replaced.



The new Pleasant View Gardens consists of 27 for-sale townhouses, 201 public housing townhouse rentals, and 110 senior mid-rise public housing units. The new Terraces development consists of 100 market rate homeownership units, 203 public housing townhouse rentals, and 88 senior housing units. Within the confines of the approved HOPE VI development plans, we found the Authority generally extended opportunities to former residents of Lafayette Courts and Lexington Terrace to occupy the new developments. Based on documentation reviewed as of January 2002, 159 original tenants of Lafayette Courts were occupying the public housing units at Pleasant View Gardens, and 39 of the original tenants from Lexington Terrace were occupying the public housing units available at The Terraces.

Displaced tenants return to Pleasant View Gardens

The Authority provided 159 of the original tenants from Lafayette Courts with units in the newly completed Pleasant View Gardens Development. As part of the Relocation Plan for Lafayette Courts, the Authority requested the tenants make a determination at the time of relocation if their move was going to be a permanent or a temporary move. The Authority managed this process by requesting tenants sign a Right of Return, or an agreement waiving their right to return. Although we found the majority of the files we reviewed had either a Right to Return agreement or a waiver of that right in the file, we noted the ACLU challenged the process. According to the ACLU representatives, when Pleasant View Gardens was ready for occupancy, the Authority did not allow tenants who signed a Right to Return to be placed in the new units. Because of this issue, the ACLU took civil action against the Authority. The plaintiffs in the case requested that the courts stop the Authority from offering newly constructed units in Pleasant View Gardens to anyone other than former Lafayette Courts residents with the Right of Return Agreements executed before September 30, 1995, until, the Authority first made those units available to all former Lafayette Courts residents.

Further, the court found the Authority did not provide adequate relocation assistance to former Lafayette Courts tenants. Because of this ruling, the Authority agreed to offer new relocation assistance to all former residents and sent two notifications to former Lafayette Courts tenants to inform them of the new relocation assistance. In addition, the tenants were allowed different options, including the right to return to the new Pleasant View Gardens even if they had previously given up their right to come back. Because of these corrective actions, we believe the Authority was successful in providing a significant number of the original tenants from Lafayette Courts with units in the newly completed Pleasant View Gardens development.

Limited number of displaced tenants return to The Terraces

As for Lexington Terrace, the documentation showed only 39 original tenants from Lexington Terrace occupied the 203 public housing units. Despite this low number, we found the Authority did follow their relocation agreement in providing the displaced tenants from Lexington Terrace proper notification of the re-habitation of the new Terraces. The Authority sent former tenants two notices requesting information as to whether they wanted to return to the new development or not.

A number of factors may have contributed to the substantially lower re-occupancy level for The Terraces. First, The Terraces did not have one bedroom units for non-elderly families. Second, the lease agreements for the public housing town homes were stricter for The Terraces than for Pleasant View Gardens. The Terraces' housing manager told us that some of the former residents were not happy with the new lease provisions that required the resident to be responsible for payment of all utilities. In addition, residents were required to enter into a program whose overall goal was to assist the tenant in

achieving specific goals and outcomes in the area of employment and self-sufficiency. These stricter requirements were not part of the Pleasant View Gardens lease agreements.

The Authority improved its process for re-occupying completed HOPE VI Developments

The Authority acknowledged it encountered several problems with the process it used to re-occupy Pleasant View Gardens and The Terraces. Because of this, the Authority implemented a lottery process to re-occupy Heritage Crossing, formerly known as Murphy Homes. Heritage Crossing will consist of 75 public housing units, 185 homeownership units, a day care, community center and a historic park.

The Authority determined that any former tenant of Murphy Homes interested in returning to the redeveloped development must participate in the lottery. The lottery will determine the order in which families are assigned units. The Authority will place the Murphy Homes residents selected by the lottery in a unit bedroom size based on family composition. All residents must meet certain eligibility criteria to be qualified. A resident may be disqualified if the:

1. household income is greater than 60% of the HUD Area Median,
2. resident was evicted from the original Murphy Homes development,
3. resident voluntarily left the unit without notice, and
4. resident was convicted of criminal activity that threatens the community.

Once the lottery is completed, those residents who cannot be placed immediately will be placed on the Authority's waiting list. This new process should provide greater assurance that displaced tenants are given a fair opportunity to re-occupy the completed developments.

D. The Authority did not properly administer its moving contract.

To handle the moving process for several of the tenants, the Authority hired an outside moving contractor. However, we found the Authority did not properly administer the contract. Due to the lack of an adequate monitoring system, the Authority overpaid the contractor \$23,533. Also, due to the lack of understanding of HUD regulations, the Authority did not ensure the proper liability insurance was provided by the contractor to cover potential losses or damage to tenants' personal property. This oversight resulted in the Authority paying \$9,949 in claims to tenants.

The Authority overpaid the contractor for moving expenses associated with Flag House

We reviewed all 47 moving expense invoices, totaling \$45,840, associated with the Flag House relocation. According to HUD Handbook 7460.8 REV-1, the Authority was to pay the contractor based upon the terms of the contract. However, we found that in 39 cases the moving company overcharged or double billed the Authority. Based on our review, we determined the Authority overpaid the contractor \$23,533, or 51 percent of

the \$45,840, on 39 of the 47 contractor invoices. Examples of the contract price compared to what the Authority was charged and paid are shown below:

Items	Contract Price	Invoice Price	Difference/ Overcharge	% Difference
Extra Manpower	\$50.00	\$225.00	\$175.00	350%
Relocation - 2 Bedroom	\$133.00	\$325.00	\$192.00	144%
Packing Assistance	\$80.00	\$175.00	\$95.00	119%
Relocation - 1 Bedroom	\$108.00	\$225.00	\$117.00	108%
Boxes	\$2.50	\$4.50	\$2.00	80%
Tape	\$1.50	\$2.00	\$0.50	33%
High-rise	\$155.00	\$200.00	\$45.00	29%

In addition, the moving company charged the Authority twice for services it provided three tenants only once. For example, we found two invoices for packing of household goods for the same tenant. When we talked to the tenant we were told that the services were only provided once. The second tenant had two invoices showing moves to two different addresses on the same day and the third tenant had two invoices showing the tenant moved to the same address on the same day.

Housing Management and Accounting Division personnel told us no one reviewed the contractor invoices for Flag House to ensure the moving services were actually provided and the rates charged were in accordance with the contract. Accounting personnel said they were directed to process these invoices quickly and therefore the invoices were not thoroughly reviewed. The Chief of Accounting stated it is part of their standard operating procedures to ensure only the contract rate is paid and believed that this was an isolated incident. However, as a result of these overpayments, the Authority issued a directive instructing Housing Management and relocation personnel to review invoices before the Accounting Department pays the invoices. Currently, both the Project Managers at the developments and Housing Management staff approve all invoices to ensure the billed services had been provided before a payment is made. This should help minimize the risk in making overpayments to the contractor.

The Authority did not ensure that the moving contract included a liability insurance clause

The Authority paid property damage claims to tenants even though the proposal for procuring moving services stated the Authority was not liable for any damages, losses or claims. This occurred because the Authority failed to include liability provisions in the contract with the moving company, and the Authority felt compelled to cover the claims. According to HUD regulations, tenants are entitled to expenses for insurance for the replacement value of the property in connection with the move and necessary storage of their personal property. This apparent oversight caused the Authority to pay claims totaling \$9,949 and inflicted unnecessary hardship on a number of its tenants.

HUD Handbook 1378, Chapter 3-2 (a), provides that any displaced residential owner-occupant or tenant-occupant who qualifies as a displaced person is entitled to payment of his or her actual moving and related expenses, as the Agency determines to be reasonable and necessary, including expenses for insurance for the replacement value of the property in connection with the move and necessary storage; or the replacement value of property lost, stolen, or damaged in the process of moving (not through the fault or negligence of the displaced person, his or her agent, or employee) where insurance covering such loss, theft or damage is not reasonably available.

The Authority's Invitation for Bids for moving, relocation and storage services stated the Authority had no obligation for the payment of damages or claims relating to any actions or conduct by the contractor. However, Procurement Department staff said that the moving services contract did not include provisions for mover liability issues because they were not aware of the requirement.

By not having the necessary liability insurance clause in the moving contract the Authority inflicted unnecessary hardship on a number of its tenants. In one case, a tenant filed a property damage claim in August 2000, but since the moving company was not cooperative in resolving the claim, the Authority reimbursed the tenant. However, the tenant was not reimbursed for the lost personal property until December 2001. Altogether the Authority paid claims totaling \$9,949 that should have been the responsibility of the moving company.

In response to the liability issue we raised, the Authority provided us a copy of a procurement policy it adopted on May 20, 2003. The revised policy provides for the inclusion of appropriate liability insurance in their executed contracts. However, we noted the policy does not provide specific procedures to instruct Authority staff on how to implement this requirement on future contracts.

We held an exit conference with the Office of Public and Indian Housing, the Authority's Executive Director and his staff on June 9, 2003. Generally, the Authority agreed with our findings and recommendations but requested we reconsider modifying a number of points in our report based on additional documentation they agreed to provide us after the exit conference. Soon after the exit conference, the Authority provided us with the additional documentation. We reviewed the additional support and adjusted our draft report as was appropriate. We presented a draft report to the Authority for comment on July 23, 2003 and received the Authority's response to our report on August 6, 2003.

AUDITEE COMMENTS

The Authority's response to our audit memorandum was 18 pages, including six attachments. Overall, the Authority agreed with our assessment and acknowledged the past deficiencies of the relocation program cited during our review. In their response they discussed several procedures they agreed to implement to improve their administration of their relocation program.

However, the Authority took exception with our assessment that they overpaid their moving contractor for moving expenses associated with Flag House. The Authority concluded the payments to the moving contractor were not overpayments, but were payments made for services performed in emergency conditions and authorized by the Authority staff. In conducting their research of these billings they obtained guidance from their Office of Legal Affairs and an affidavit from the former Associate Deputy Director of Housing Operations. The affidavit was provided as support for the justification of the expenditures incurred by the Authority. Although the Authority acknowledged that the proper support was not documented at the time of the payments to the moving company, they stated the charges were justified.

In their response the Authority also stated that they do not have adequate non-federal funds available to pay back any of the improper payments noted during the review and have requested that HUD consider granting a Regulatory Exemption of the costs.

The narrative section of the Authority's response is included in Appendix B.

OIG EVALUATION OF AUDITEE COMMENTS

We are encouraged that the Authority has begun to take actions to improve their overall relocation program. However, since the Certified Financial Officer did not approve the procedures that were provided with their response, we could not establish whether these procedures were actually implemented.

We disagree with the Authority's position that the payments to the moving contractor were justified. Although we are not questioning that an emergency situation may have occurred at the Flag House property, that does not negate the fact that the Authority paid the moving contractor above and beyond the cost allowances within the moving contract. The moving contract has allowances built in for extraordinary conditions to help supplement the cost of a move outside of normal conditions. However, the Authority paid invoices that were well above these allowances. In addition, if the Authority believed these costs were justified because an emergency situation, they should have documented it as such at the time and not at the time the auditors questioned the expenditures and payments.

RECOMMENDATIONS

We recommend the Office of Public Housing Investments require the Authority:

- 1A. Establish and implement policies and procedures to ensure a HUD-approved property inspection is completed on each housing unit, and that all identified deficiencies are properly repaired before the tenant takes possession of the unit. (Section A)
- 1B. Repay the HOPE VI Grants, with non-Federal funds, overpayments of relocation payments totaling \$64,215 broken down as follows: Hollander Ridge - \$37,465 and Flag House - \$26,750. (Section B)

- 1C. Establish and implement policies and procedures to ensure staff performing relocation duties which include processing relocation payments are adequately supervised. (Section B)
- 1D. Establish and implement a payment system that ensures vendor payments are supported by the contract documents, and payments do not exceed contract amounts. (Section D)
- 1E. Repay the Flag House HOPE VI Grant, with non-Federal funds, overpayments to the moving contractor totaling \$23,533. (Section D)
- 1F. Ensure future moving contracts with moving contractors include appropriate liability provisions in the contract. (Section D)
- 1G. Repay, with non-Federal funds, improper liability payments totaling \$9,949. (Section D)

FOLLOW-UP ON PRIOR AUDITS

The Office of Inspector General completed a review of the Housing Authority of Baltimore City Thompson Court Decree and issued an audit memorandum on the results on January 24, 2001 (Audit Memorandum 2001-PH-1801). The memorandum had three recommendations with similar concerns expressed by the ACLU as in this current report. The recommendations are all closed. The full report can be viewed from our website at www.hud.gov/oig/ig131801.pdf.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to the relocation of tenants under the Housing Authority of Baltimore City's HOPE VI Program to determine our audit procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Evaluate if the Authority provided adequate relocation assistance to eligible tenants including finding a suitable unit for the tenant to relocate to.
- Review the assistance payments to the tenants to determine if the payments are supported and adequate.
- Review the Authority's administration of the moving service contract.

For each of these activities, we assessed the control environment, control activities, internal monitoring and reporting functions. We made our assessment and gained our understanding through a testing of transactions in each of the activities.

Significant Weaknesses Found

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

Our audit disclosed the following significant weaknesses with the Housing Authority of Baltimore City's HOPE VI Relocation Program;

- The Authority needs to improve its process in providing relocation assistance to ensure displaced tenants are provided accurate relocation payments that are fully supported. (Section B)
- The Authority did not properly administer its moving services contract which caused it to overpay the contractor for services rendered and pay tenant liability claims that the moving contractor should have been responsible for. (Section D)

SCHEDULE OF QUESTIONED COSTS

Section Number	Recommendation Number	Ineligible Costs 1/
B	1B	\$64,215
D	1E	\$23,533
D	1G	\$ 9,949

- 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 policies or regulations.

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



HOUSING AUTHORITY OF BALTIMORE CITY

PAUL T. GRAZIANO, EXECUTIVE DIRECTOR
Lyle Schumann, Deputy Executive Director

417 East Fayette Street
P.O. Box 1917
Baltimore, MD 21202-3134

August 6, 2003

Mr. Daniel G. Temme
Regional Inspector General for Audit, Mid-Atlantic, 3AGA
U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Dear Mr. Temme:

I have reviewed the draft audit report of the Housing Authority of Baltimore City's (HABC) HOPE VI- Relocation Program. Enclosed please find the Authority's written comments to the findings and recommendations identified in the report. I appreciated meeting with you and the appropriate HUD officials in early June, to discuss the draft audit report in detail and to provide suggested revisions.

Please contact me at (410) 396-8050 should you have any questions or concerns regarding this matter. We will continue to keep you apprised of the progress made in the HABC HOPE VI Program.

Sincerely,

Paul T. Graziano
Executive Director

Enclosure



Recommendation - Finding 1A

Establish and implement policies and procedures to ensure a HUD-approved property inspection is completed on each housing unit, and that all identified deficiencies are properly repaired before the tenant takes possession of the unit.

Response - Finding 1A

As part of its overall restructuring, HABC has made dramatic improvements to its Section 8 Program. All units used for relocation under the Section 8 program are inspected thoroughly for compliance with Housing Quality Standards, and only those that meet these standards are accepted.

Recommendation - Finding 1B

Repay the HOPE VI grants, with non-Federal funds, overpayments of relocation payments totaling \$64,215 broken down as follows: Hollander Ridge - \$37,465 and Flag House - \$26,750.

Response - Finding 1B

The Authority acknowledges the past deficiencies of the relocation program as cited in this IG audit report. Despite the deficiencies, it is worth noting that tenants have been relocated safely and humanely and that the Authority had established procedures in its relocation program to correct the deficiencies. In regard to the over payments totaling \$64,215, the Authority is requesting HUD to consider granting a Regulatory Exemption of the costs. Currently, the Authority does not have adequate non-federal funds available for the use of repaying the overpayments.

Recommendation - Finding 1C

Establish and implement policies and procedures to ensure staff performing relocation duties including processing relocation payments are adequately supervised.

Response - Finding 1C

The Authority has adopted corrective actions pertaining to processing relocation payments. These procedures were developed and implemented by the Authority on June 3, 2002 (below). We request that this portion of the recommendation be removed from the audit draft.

Processing Relocation Payments Procedures as of 6/3/2002:

- Invoices are submitted directly to the Accounts Payable department from the relocation vendor.

- Invoices are sent to the Residential Assistance Section by the Accounts Payable- Account Clerk.
- Each line item is verified against the contract to ensure correct charges and to detect any discrepancies.
- The Residential Assistance staff corrects any discrepancies and completes a Partial Delivery Report for the Supervisor's signature.
- The Residential Assistance Supervisor reviews and approves all invoices, which are then submitted to the Procurement department to initiate a purchase order (P.O.).
- The approved requisition is electronically sent to the Budgets department via the E-Requisition system.
- Upon the Budget department's approval of funding availability, the requisition is then returned to the Procurement department.
- The Procurements department generates a P.O.
- Accounts Payable staff reviews the P.O., invoice and partial delivery report to make certain that all services listed on the invoice, comply with the terms/conditions as stated on the P.O. and verifies that the appropriate managers sign-off.
- The transaction is entered into the Great Plains Dynamics system by the A/P staff.
- The Accounts Payable Supervisor reviews the payment batch in the system and approves and releases the transaction batch to generate a check.
- A/P performs the select for payment process twice a week and checks are mailed to vendor.

Recommendation - Finding 1D

Establish and implement a payment system that ensures vendor payments are supported by the contract documents, and payments do not exceed contract amounts.

Response - Finding 1D

The Authority has implemented detailed procedures as of September 5, 2002 that document LOCCS drawdowns, contract payments, and the reconciliation process. See

Exhibit 1-D(a) for the detailed procedures. In these procedures, Section II, items C and D specifically address the deficiencies relating to this finding. Since the Authority has taken the corrective actions, we request that this recommendation be removed from the draft report.

Also, a Summary Accounts Payable Check Processing is provided below. Exhibit 1-D(b) provides a flowchart of step-by-step actions.

1. On a daily basis, the Accounts Payable Supervisor reviews the E-Requisition System to retrieve the approved purchase orders and print a copy.
2. The Supervisor distributes the P.O. to the designated staff and the assigned responsibility to monitor the respective vendor.
3. The staff matches the vendor's invoice and reviews the P.O. to ensure that the invoice terms are in conformity with the P.O. Staff also ensures that the received quantity matches the invoice, that the designated employee signatures are intact to validate the receipt of goods and/or services rendered, that a separate ledger is maintained to verify that the not-to-exceed threshold is within the contract amount, and that invoices are billed for work prior to the expiration date of the agreement.
4. If there are any discrepancies that the Accounting staff is unable to resolve, the Procurement Manager and the A/P Supervisor will follow up with corrective actions needed to resolve the problem.
5. If necessary, the Chief of Finance and Accounting and the Director of Procurement will intercede to resolve the outstanding issue.
6. The A/P staff enters invoices in the Great Plains Dynamic System. The system notes if the invoice is a duplicate.
7. The A/P Supervisor reviews and posts each batch to perform check processing.
8. Vendor checks are generated twice weekly.

Recommendation - Finding 1E

Repay the Flag House HOPE VI grant, with non-Federal funds, overpayments to the moving contractors totaling \$23,533.

Response - Finding 1E

The Authority performed further research relating to payments to Allen Movers & Co. for the period between November 5, 1999 and March 28, 2000. The Authority concluded that payments to the moving contractor were not overpayments, but were payments made for services performed in emergency conditions and authorized by HABC staff. This recommendation should be removed from the audit draft.

During the time of research, the Chief Financial Officer directed that opened invoices be placed on "hold" status until the over-billed amounts could be resolved. Finance and Accounting (F&A) also notified the Office of Legal Affairs (OLA) for appropriate follow-up action.

Meetings were held with representatives from Allen Movers & Co., OLA, Procurements, and F&A in attempts to understand specific circumstances pertaining to the over payment issue. Copies of related payment data was forwarded to the OLA for its opinion.

OLA provided a copy of a memo dated December 3, 2000 (see Exhibit 1E-a) from the General Counsel to the Director of Internal Audits. In accordance with the content of the memo, it was concluded that the moving contractor was directed to perform relocation services in an emergency situation, authorized under Section III.E of the HABC Statement of Procurement Policy and 24 CFR 85.36.

Attached is a copy of an affidavit (see Exhibit 1E-b) from Charles H. Gaskins, former Associate Deputy Director of Housing Operations, attesting to the existence of an emergency and justifying the expenditures that were incurred by HABC.

At the time of the payment to the moving company, HABC did not properly document the records to support these transactions. While it might appear that payments were made outside the P.O., the charges were legitimate.

HABC has made every effort to ensure that all similar emergency procurements are supported by written justifications, and that all changes are properly documented in the procurement files.

Recommendation - Finding 1F

Ensure future moving contracts with moving contractors include appropriate liability provisions in the contract.

Response - Finding 1F

HABC has implemented steps to ensure that future contracts with moving contractors include appropriate liability provisions in the contract. The attached sample copy (Exhibit 1F), "Invitation for Bids (IFB) No. B-1260-02 for Moving/Relocation Services" dated July 25, 2002, Sections II.20 and II.20.2 provide the required insurance and indemnification language. This language ensures that a contract is awarded only when these requirements are met.

Additionally, on May 20, 2003, the HABC Board of Commissioners adopted a revised Statement of Procurement Policy ("Procurement Policy") for HABC. Section VII. D. of the Procurement Policy provides that "[a]ll contracts shall also include any clauses required by Federal statutes, executive orders, and their implementing regulations, as provided in 24 CFR 85.36(i)." This language would include, but not be limited to, appropriate insurance and indemnification provisions.

Recommendation - Finding 1G

Repay, with non-Federal funds, improper liability payments totaling \$9,749.

Response - Finding 1G

As indicated in the above response to recommendation 1F, the Authority has taken corrective actions to include liability provisions in the IFB process and contract agreements with the moving company. The Authority does not have adequate non-federal funds available and would respectfully request HUD's consideration for a Regulatory Cost Exemption for the previous improper payments of \$9,749.

EXHIBITS:

1D(a). Procedures Listing

1D(b). Flow of the Accounts Payable Process

1E-a. Affidavit from the Office of Legal Affairs

1E-b. Affidavit from former Associate Deputy Director of Housing Operations

1F. Invitation for Bids for Moving/Relocation Services