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# AUDIT REPORT



## PORTSMOUTH REDEVELOPMENT AND HOUSING AUTHORITY

2003-PH-1005

SEPTEMBER 23, 2003

OFFICE OF AUDIT, MID-ATLANTIC  
PHILADELPHIA, PENNSYLVANIA

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Issue Date September 23, 2003
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Audit Case Number 2003-PH-1005
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TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub, 3 BPH

*Daniel G. Temme*

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

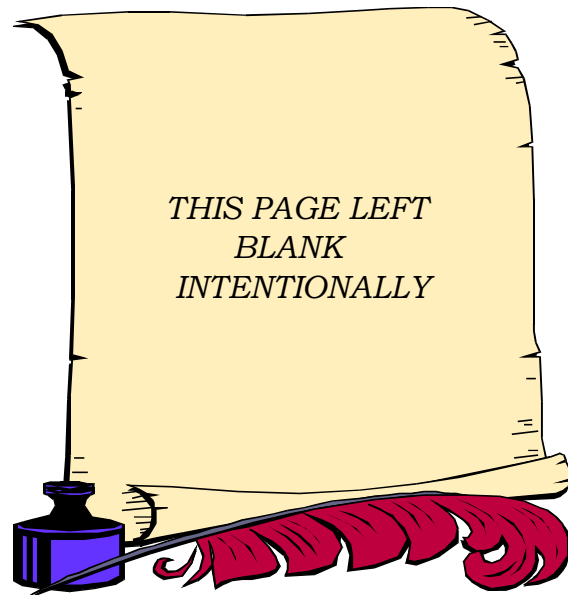
SUBJECT: Portsmouth Redevelopment and Housing Authority  
Portsmouth, Virginia

We completed an audit of the Portsmouth Redevelopment and Housing Authority (Authority) to determine if it was effectively and efficiently managing its operations.

The report contains four findings and applicable recommendations to improve the effectiveness of the Authority's operations.

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 John Buck, Assistant Regional Inspector General for Audit, at (215) 656-3401, extension 3486.



# Executive Summary

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We conducted an audit of the Portsmouth Redevelopment and Housing Authority's (Authority) operations. The purpose of our audit was to determine whether the Authority was effectively and efficiently managing operations according to the terms and conditions set forth in its Annual Contributions Contract with HUD and applicable Federal requirements. We found the Authority did not always:

- Carry out modernization or development in a timely, efficient and effective manner.
- Follow its established procurement policies or Federal Purchasing requirements when awarding modernization and HOPE VI contracts.

However, during the audit we did note several program areas where the Authority made significant progress. Specifically, the Authority took measures to more effectively:

- Maintain its low-income housing to provide its residents decent, safe, and sanitary living conditions.
- Administer its tenant-based Section 8 Program to assist the maximum number of eligible families under the Program.

We also noted the Authority quickly issued work orders to correct maintenance deficiencies we identified in its low-rent public housing units.

The results of our review are summarized below and detailed in the Findings section of this report.

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## The Authority Did Not Effectively Modernize Its Public Housing

The Authority used about \$8 million of its \$12 million HUD Modernization Grants from Fiscal Years 1997 to 2001 to award three consecutive contracts to a contractor that substantially missed deadlines, performed substandard work and failed to comply with contract specifications. The Authority also used its own maintenance staff to make repairs covered by the contract warranty and did not ensure the contractor performed work in accordance with Occupational Safety and Health Agency guidelines. These problems generally occurred because the Authority did not adequately consider the contractor's ability to perform the work and did not maintain an adequate contract administration system to ensure contractors performed in accordance with the terms, conditions, and specifications of their contracts. Our HUD housing inspector could only validate work estimated at about \$3.5 million out the \$8 million the Authority expended for its modernization

The Authority Did Not Always Properly Award Modernization Contracts

contracts. Additionally, the Authority could not support HOPE VI costs totaling \$74,608.

The Authority did not always follow its own established procurement policies or Federal Purchasing requirements when awarding contracts. We reviewed six modernization contracts valued at \$8.7 million and the Authority's \$24.8 million HOPE VI Grant. We found the Authority awarded three consecutive contracts totaling \$8 million to a contractor without adequately considering its ability to perform the work. This contractor substantially missed completion deadlines, performed substandard work and often did not perform needed renovations in accordance with the contract specifications. Authority officials also allowed this contractor to increase its bid on one contract by \$372,960 after bid opening without following proper procedures. The Authority further selected the developer of its \$24.8 million HOPE VI Grant without adequately documenting the reasons why they selected it.

The Authority Took Measures To Improve Maintenance Of Its Low-Income Housing

In September 2001 HUD's Real Estate Assessment Center inspected the Authority's four developments and assigned physical condition scores that ranged from 47 to 79 points (100 point maximum) under the Public Housing Assessment System. The low scores indicated the Authority's housing units were not well maintained. In June 2002, we found the Authority continued to have problems adequately maintaining its housing portfolio. We non-statistically selected and inspected 15 units from three of the Authority's four developments and identified 25 exigent life threatening deficiencies and 75 other deficiencies such as broken glass, chipped paint, and exposed wires in 11 of the 15 units. The poor physical condition of the low-income housing developments resulted from the Authority's inadequate maintenance procedures and its failure to enforce its tenant lease requirements.

However, during the audit the Authority took measures to more effectively maintain its low-income housing. The Authority selected a contractor to inspect and assess the physical condition of its entire low-income housing portfolio and to help it develop an improved preventive maintenance program. The contractor also provided training to the Authority's maintenance employees and other management staff. Based on HUD's Real Estate

Assessment Center's recent physical inspection scores from December 2002, it appears the actions taken by the Authority were successful in helping it improve its physical inspection scores and ultimately its maintenance program over its public housing portfolio. The Authority earned scores ranging from 82 to 88 points (100 point maximum) for the physical component under HUD's Public Housing Assessment System for its four developments. This represents an 11 to 77-percent increase over its scores from September 2001.

The Authority Took Measures To Significantly Improve Its Utilization of Section 8 Funding

The Authority has had a difficult time fully utilizing its Section 8 funding, and has consistently fallen below HUD's established standard of 95-percent utilization. For example, in Fiscal Years ending June 30, 2000 and June 30, 2001, it utilized only 74 and 73-percent respectively of its available budget authority, and HUD recaptured \$4.2 million from the Authority in those years. Insufficient staffing, staff turnover, improper waiting list administration, and failure to collect and analyze program information such as voucher turnover, leasing success rates, and response rates from waiting lists have all contributed to the Authority's low utilization of its Section 8 funding.

However, just prior to and during the audit, managers took measures to improve the Authority's Section 8 utilization. They implemented measures such as hiring additional staff, increasing entry-level salaries for program assistants, updating waiting lists, and collecting and analyzing program data. As a result, the Authority increased the number of units it leased from 613 to 964 from June 30, 2001 through June 30, 2002. It also increased its authorized budget authority utilization rate from 73-percent to 87-percent during that period. Further, based on preliminary data provided by the Authority as of June 30, 2003, it appears the Authority now has approximately 1,100 units under lease and is utilizing about 90-percent of its annual budget authority. Thus, since June 2001, the Authority has provided about 500 additional low-income families with Section 8 assistance.

Recommendations

We recommend that HUD determine the actual value of work completed on three modernization contracts for which the Authority paid \$8.0 million. For work the contractor failed to perform or did not perform in accordance with

contract specifications, we recommend HUD require the Authority to enforce the terms of the contracts, recover the value of work that was not completed according to the contract specifications, or repay HUD the value from non-Federal funds. We further recommend that HUD take appropriate administrative action to prevent the contractor from performing additional work for the Federal government and, as appropriate, against Authority officials to protect the taxpayers from future waste and abuse. We also recommend the Authority reimburse HUD \$74,608 for unsupported costs it made to the HOPE VI developer and its subcontractors. Lastly, we recommend specific management controls to help the Authority more effectively administer and award contracts, maintain its low-income housing, and fully utilize its Section 8 funding to assist the maximum number of eligible families under the Program.

#### Authority's Comments

We discussed the draft findings with the Authority personnel during the audit and at an exit conference with the Executive Director on May 28, 2003. Based on additional information the Authority provided us at and after that meeting, as appropriate, we revised the draft audit report. On July 29, 2003, we provided copies of the revised draft report to the Executive Director and requested the Authority provide us written comments on that report by August 14, 2003. On August 21, 2003, we received the Authority's written response in its entirety.

The Authority's written response consisted of a 111 page narrative along with nine voluminous attachments. While the Authority's comments were too voluminous to include in this report, we did include the cover page of the response which summarized the Authority's position on the audit. This can be found in Appendix C of this report. However, the Authority's entire response, including attachments, is available upon request. In their response, the Authority stated it unequivocally refutes the conclusions and recommendations presented in the report. Basically the Authority expressed their opinion that the audit lacked professional due care and ignored basic fundamental principles of audit independence and integrity. Further, it responded that the audit contradicted reviews and decisions previously made by the local HUD Program Office.



Evaluation Of Authority's  
Comments

More specifically, the Authority stated HUD had previously reported all of the modernization and procurement problems the audit identified and, as necessary, it corrected them. Also, to support its position that it received full value on its modernization contracts for Phases I, II, and III of Dale Homes, the Authority provided a recently completed cost estimate prepared by a contractor it retained solely for that purpose. Finally, the Authority stated that the maintenance and Section 8 utilization issues presented in this report are without substantial merit, since HUD has rated the Authority as a standard performer in both these Program areas.

We considered the Authority's comments in preparing this final report. Based on the Authority's response, it appears they commented on an older version of a discussion draft that we provided them on May 12, 2003 rather than the July 29, 2003 final draft. Therefore, many of the Authority's written comments were not pertinent to the discussions in this report, especially as it related to the maintenance and Section 8 issues we discussed in Findings 3 and 4.

The Authority's allegations that the audit lacked due professional care and ignored basic fundamental principles of audit independence and integrity are without merit and raise serious questions as to whether the Authority is truly committed to improving its performance. As we stated in the Audit Methodology section of this report, we conducted the audit in accordance with generally accepted government auditing standards. Further, the Authority's assertion that our report contradicted reviews and decisions previously made by the local HUD Program Office is misleading and false. HUD Program staff was provided a copy of the draft to review and agreed with the issues we presented in the report. The cost estimate the Authority submitted to us, as evidence they received the full value for the renovations completed on Dale Homes, did not consider the substandard work performed by its contractor. Thus, we question the validity and accuracy of the estimate.

Lastly, this report acknowledged the improvement the Authority made during the audit to more effectively maintain its public housing. This was evidenced by the improvement in the Authority's recent physical inspection scores from HUD's Real Estate Assessment Center. In



regard to Section 8 management, although the Authority is designated as a standard performer, it has consistently failed to utilize all of the funding it received from HUD. As the report discusses, this was largely caused by management related deficiencies. Thus, although the Authority has made progress in both these areas, more improvements are needed and our reporting of these issues is appropriate and balanced.

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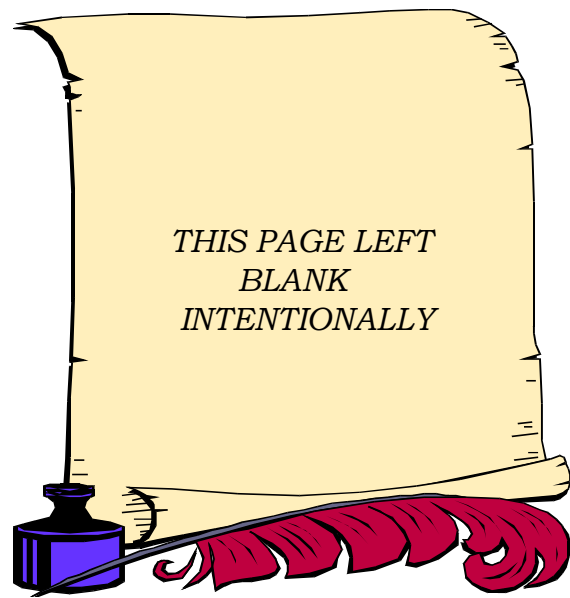
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Abbreviations

CFR	Code of Federal Regulations
HOPE VI	Homeownership and Opportunity for People Everywhere
HUD	U. S. Department of Housing and Urban Development
OIG	Office of Inspector General



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# Introduction

The city of Portsmouth, Virginia created the Portsmouth Redevelopment and Housing Authority on September 13, 1938. The Authority's stated mission is to enhance the quality of life for the citizens of Portsmouth through resource acquisition, asset management, and by pursuit of innovative opportunities. This includes promoting adequate and affordable housing, economic opportunity and a suitable living environment free from discrimination. The Portsmouth City Council appoints a seven-member Board of Commissioners to govern the Authority. The present Board Chairman is R. Scott Morgan. During the audit the Authority's Executive Director was Mr. Danny E. Cruce. The Authority is located at 801 Water Street in Portsmouth, Virginia.

The Authority is required to administer public housing in accordance with its Annual Contributions Contract with HUD. The Authority received the following financial assistance from HUD from Fiscal Years 1997 to 2001:

- \$24.2 million Operating Subsidy to operate and maintain its housing developments.
- \$12 million Capital Fund Program and Comprehensive Grant Program funding to modernize public housing units.
- \$24.8 million HOPE VI funds to enable demolition of obsolete public housing, revitalization of public housing sites and distribution of supportive services to the public housing residents affected by these actions.
- \$17.9 million funding to provide housing assistance through tenant-based Section 8 certificates and vouchers.
- \$1.8 million Public Housing Drug Elimination Program funds to eliminate or reduce drug related crime and other major crime and disorder problems.

The Authority's financial statements for Fiscal Years 1997 to 2001 are summarized below (\$'s Millions):

<b>Fiscal Year</b>	<b>Revenue</b>	<b>Operating Expenditures</b>	<b>HUD Subsidy</b>	<b>Operating Surplus/ (Deficit)</b>	<b>Operating Reserve</b>
<b>1997</b>	\$3.8	\$ 8.0	\$4.2	(\$0.05)	\$5.2
<b>1998</b>	\$4.3	\$ 8.3	\$4.9	\$0.9	\$6.0
<b>1999</b>	\$3.6	\$10.5	\$4.8	(\$2.2)	\$3.9
<b>2000</b>	\$2.7	\$ 9.2	\$4.9	(\$1.6)	\$2.3
<b>2001</b>	\$2.5	\$ 8.4	\$5.4	\$0.5	\$2.7

Audit Objectives

Our overall objective was to determine whether the Authority was effectively and efficiently managing its Programs according to the terms and conditions of its Annual Contributions Contract with HUD and other applicable Federal requirements. Our specific audit objectives were to determine whether the Authority:

- Performed modernization effectively and efficiently.
- Followed Federal Purchasing requirements and its own established requirements.
- Maintained low-income housing projects in a safe, decent, sanitary condition.
- Effectively managed its Section 8 Program.

Audit Methodology and Scope

To accomplish our objectives we:

- Interviewed HUD's Public Housing staff in the Virginia State Office.
- Conducted on-site interviews with Authority staff and reviewed contractor, Section 8, and maintenance files.
- Used audit software to non-statistically select the six highest valued modernization contracts the Authority awarded from Fiscal Years 1997-2001. The six contracts were awarded to two contractors and covered \$8.7 million of the \$12 million HUD provided to the Authority during this period for modernization.
- Reviewed contract files for the six highest valued modernization contracts to determine compliance with the Authority's own established procurement and contract administration requirements as well as Federal requirements.
- Reviewed the Authority's evaluation methods for selecting a contractor to perform work under a HOPE VI Grant valued at \$24.8 million in August 1996.



- Reviewed support for five payments totaling \$1.8 million made to the Authority's HOPE VI developer and its subcontractors in Fiscal Year 2001.
- Non-statistically selected 20 of 912 tenant files to determine compliance with HUD's Section 8 requirements.
- Reviewed the Authority's Section 8 Waiting List and Administrative Plan for compliance with HUD's Section 8 requirements.
- Reviewed the Authority's internal administrative measures for improving Section 8 utilization such as updating waiting lists and analyzing staffing needed for lease-up.
- Non-statistically selected 10 of 912 Section 8 units to determine compliance with Housing Quality Standards.
- Reviewed Year-end Settlement Sheets from the Authority's Fiscal Year ending June 30, 1999 to its Fiscal Year ending June 30, 2002 to determine if the Authority met HUD's Section 8 utilization requirements.
- Non-statistically selected 15 of 786 low-income housing units at three housing projects to determine if they were safe, decent, sanitary, and in good repair.
- Non-statistically selected 15 of 174 renovated units at the Authority's Modernization Project to determine if the work was performed timely and effectively and in accordance with contract specifications.

The audit was conducted between January 2002 and December 2002 and covered the period January 1, 1999 to October 31, 2001. When appropriate, we extended the review to include other periods. We conducted the audit in accordance with generally accepted government auditing standards.



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# The Authority Did Not Effectively Modernize Its Public Housing

The Authority did not manage its public housing Modernization Program in a timely, efficient and effective manner. The Authority received Federal funding of \$12 million from Fiscal Year 1997 to Fiscal Year 2001 to perform much needed modernization of its public housing stock. However, we found the Authority:

- Awarded about \$8 million under three consecutive modernization contracts to a single contractor who substantially missed completion deadlines, performed substandard work and often did not perform needed renovations in accordance with the contract specifications.
- Used its maintenance staff to make repairs that should have been repaired at no charge because they came under the contractor's warranty.
- Did not ensure its modernization contractor performed work in a safe manner, which resulted in a number of Occupational Safety and Health Agency violations.

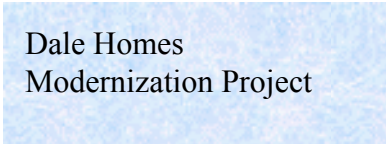

These problems occurred because the Authority did not adequately:

- Maintain a contract administration system that ensured contractors performed in accordance with the terms, conditions, and specifications of their contracts.
- Consider the contractor's ability to perform the work prior to awarding the contracts (Finding 2).

Authority officials permitted the modernization contractor to be paid in full without preparing written inspections of the work. Further, the Executive Director and the Director of Operations for Administration and Housing at the Authority directed the Authority's Modernization Director and the Technical Specialist to stay away from the work site after these individuals identified and reported deficiencies with the contractor's work.

Our HUD OIG housing inspector could only validate work estimated at about \$3.5 million out the \$8 million the Authority expended for this project. Additionally, the Authority could not support HOPE VI costs totaling \$74,608. Ultimately, the residents suffered because they were living in homes in developments with defects, which included severe roof leaks, exposed steel rebar rods, and standing water from poorly graded landscapes.

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Dale Homes  
Modernization Project

The Authority has four low-income housing projects which include: Swanson Homes with 209 units, Jeffrey Wilson

with 399 units, Lincoln Park with 178 units and Dale Homes with 293 units. The Authority is modernizing its second largest housing project known as Dale Homes in five phases. Authority officials awarded three successive contracts valued at \$8.0 million to the same contractor to perform the first three phases of the renovation. The first three phases of the project covered 174 of the 293 housing units in the housing project and required the contractor to:

- Remove and replace:
  - Interior ceilings and interior partitions (including removing and replacing roof structure).
  - Plumbing, electrical and mechanical systems.
  - Kitchen casework and toilet accessories.
  - Interior wood doors, exterior steel doors, and windows.
  - Heating units.
  - Sidewalks beyond concrete slabs.
- Abate lead-based paint and asbestos and replace asbestos floor tile.
- Demolish interior finishes and trim and finish new interior.
- Construct new laundry and mechanical rooms.
- Perform miscellaneous exterior building repairs.
- Grade and seed areas of the site disturbed by construction.

The following chart shows the contract award dates, number of units renovated, and contract value:

Contract Number	Phase	Date Awarded	Units Renovated	Contract Value (Millions) <sup>1</sup>
915-94-17	I	May 21, 1997	50	\$2.3
915-94-52	II	July 18, 1997	72	\$3.4
916-95-17	III	Oct. 9, 2000	52	\$2.3
<b>Total</b>			174	\$8.0

The Authority awarded a contract for Phases IV and V on September 8, 2002 to a different contractor. Since officials awarded this contract after we completed our audit fieldwork we did not review it.

U.S. Army Corps Of  
Engineers Noted  
Contractor Performance  
Problems

HUD acquired the services of the U.S. Army Corps of Engineers to perform quarterly inspections of renovations being performed at Dale Homes because it was concerned the Authority was not properly administering the contracts. HUD was also concerned that the contractor was not performing according to the terms and conditions of the contract. The Corps issued reports in 2001 stating the Authority was not performing necessary construction oversight, monitoring and control over the contract. The Corps' reports also stated the contractor was not meeting contract requirements and the physical condition of the property was unsatisfactory. Subsequent to the Corps' reports, some improvements were shown in the quality and timeliness of the Dale Homes modernization. Although the U.S. Army Corps of Engineers properly assisted with inspections on this renovation project, HUD Directive 968.140 states it is ultimately the responsibility of the Housing Authority, not HUD, to provide adequate and competent supervisory and inspection personnel during modernization to ensure work quality and progress.

Authority Officials  
Restricted Inspectors  
Reporting Deficiencies  
From The Work Site

In a September 21, 2001 report to HUD, the Army Corps of Engineers reported the Modernization Director and Technical Specialist were relieved from daily inspection and supervision of the Dale Homes Project on August 1, 2001. The Corps' report stated this occurred soon after the Modernization Director sent a letter to the contractor on July 26, 2001 checking on the status of serious deficiencies they reported with the contractor's work. Further, the

<sup>1</sup> Contract value includes all contract modifications.

Authority's Executive Director terminated the employment of the Technical Specialist on May 31, 2002, citing budgetary constraints as the reason.

The former Modernization Director and Technical Specialist told us the Director of Operations ordered them not to perform on-site inspections of the Dale Homes Modernization Project because they complained about the poor quality of the contractor's work. They further stated this was done at the order of the Authority's Executive Director.

The Director of Operations told us he ordered the Technical Specialist to stay off the work site because the situation with the renovation project had reached an impasse and was not progressing according to plans. He stated to resolve the impasse he directed the Technical Specialist not to perform on-site visits of the Dale Homes Modernization Project. The Director of Operations contended that he did not prevent the Modernization Director from performing on-site visits.

OIG Housing Inspector Identified Serious Deficiencies In The Contractor's Work

Prior to being restricted from the work site and eventually having his employment terminated, the Authority's former Technical Specialist provided the Office of Inspector General numerous photographs of work he deemed to be deficient at the Dale Homes Modernization Project. Since this concerned us, we brought in a HUD-certified housing inspector to independently inspect the Dale Homes Modernization Project.

Our housing inspector spent five days inspecting 15 units and found that all 15 units had serious defects in workmanship or did not meet contract specifications. We found the work performed by the modernization contractor was of extremely poor quality and not always done in accordance with plans and specifications. Some of the problems we noted were roof leaks, poor drywall, loose and separating kitchen flooring and base molding, rebar not covered, and regular light fixtures were installed instead of fluorescent fixtures. See Appendix B for a detailed description of the deficiencies. Some of our housing inspector's photographs that illustrate the deficiencies are presented below.





168 Dale Drive (after rehab)  
Ponding water and erosion from tire ruts in the common area sidewalks



45 Dale Drive (after rehab)  
Standing water in common walkways area due to grading and traffic



129 Dale Drive (after rehab)  
Standing water on site



46 Dale Drive (after rehab)  
Rebar rods were exposed outside of the foundation and were a safety hazard



46 Dale Drive (after rehab)  
Exposed fascia left and no caulking was present



45 Dale Drive (after rehab)  
Area of roof sheathing in attic from previous water leak



Finding 1



45 Dale Drive (after rehab)  
Stain from roof leak showing the kitchen ceiling damage



49 Dale Drive (after rehab)  
A concrete block was chipped and missing large pieces  
in mechanical room



50 Dale Drive (after rehab)  
Roof without ridge vent and moisture stained decking



51 Dale Drive (after rehab)  
Roof sheathing damaged and leaking



168 Dale Drive (after rehab)  
Water damage from gaps in fascia and drip edge at rear addition



168 Dale Drive (after rehab)  
Exposed steel rebar missed the mark on the concrete pour  
Concrete parget chipping and cracking from corner and  
gaps left in stucco at foundation

OIG Housing Inspector  
Could Only Validate  
Renovations Estimated At  
About \$3.5 Million

Our HUD housing inspector could only validate renovations estimated at about \$3.5 million out of the \$8 million the Authority paid to the contractor to complete the first three phases of the Dale Homes Modernization Project. Since written inspection reports were not available detailing actual work completed, and the specifications were not always clear, our inspector had difficulty clearly identifying the actual work the Authority paid for. Overall, he concluded the work performed by the contractor often did not meet the requirements as stated in the modernization contract. He provided examples of work the contractor failed to complete in accordance with the modernization contract such as failure to apply two coats of paint, unmarked electrical services and failure to install the proper fluorescent lighting. He used his on-site inspection, measurements from the plans and specifications, and applied the RS Means Repair & Remodeling Cost Data Workbook to estimate the value of the contractor's actual renovations. The RS Means Repair & Remodeling Cost Data Workbook describes remodeling cost data and labor costs for rehabilitation and renovation projects.

Maintenance Staff  
Repaired Warranty Items

In addition to paying an excessive amount for substandard work or work that was not performed, the Authority often used its maintenance staff to make repairs that should have been repaired at no charge because they came under the contractor's warranty. These repairs were all needed because of the contractor's substandard work. We identified 56 work orders covering about 191 labor hours with repair items that occurred during the contractor's warranty period. The repair items included roof leaks, ceiling repairs, faulty heating and air conditioning units installed by the contractor and broken kitchen cabinets. Instead of referring these items to the contractor, the maintenance department made the necessary repairs even though the items noted on the work orders were clearly part of the contract and occurred within the warranty period.

Contract Completion  
Deadlines Were  
Substantially Missed

In addition to the serious deficiencies in the work we also found the contractor substantially missed original contract completion deadlines. The contractor missed original established contract deadlines as follows:

Finding 1

Contract Number	Description	Original Completion Date	Actual Completion Date	<sup>2</sup> Difference
<sup>3</sup> 915-94-17	Phase I	July 18, 1997	Dec. 4, 2000	41 Months
915-94-52	Phase II	July 17, 1998	Dec. 4, 2000	29 Months
916-95-17	Phase III	Nov. 23, 2001	June 13, 2002	7 Months

Authority officials told us contract delays were attributable to disagreements between their staff and the contractor regarding the quality of the work. Our audit showed however, that delays were caused primarily by the contractor's inability to perform the work according to the terms and conditions of the contract and the failure of the Authority to require the contractor to adequately perform. As a result, the Authority was not in compliance with its Annual Contributions Contract with HUD. The contract specifically states the mission of a Housing Authority is to at all times develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects, and the economic well-being of the tenants. The contract further states that a substantial default of the contract results from failure to carry out modernization or development in a timely, efficient and effective manner.

Authority Paid The Contractor Without Documenting It Properly Inspected The Work

We reviewed documentation supporting 10 payments valued at \$2.3 million the Authority made to the contractor for Fiscal Years 1999 and 2000. We found the Authority could not provide adequate documentation to substantiate it properly inspected the work prior to paying the contractor. The Authority asserted it performed inspections but that it did not document them with inspection reports.

Federal regulations (24 CFR 85.36) require grantees and sub-grantees to ensure contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. The Authority's Statement of Procurement Policy and HUD's Procurement Handbook for Public and Indian Housing (7460.8 REV-1) reinforce these

<sup>2</sup> Some units may have been completed prior to the final contract completion date.

<sup>3</sup> Contract was modified twice to increase contract time only.

regulations by requiring the Authority to document progress inspections with appropriate inspection reports. The inspection report should include a description of the work or service completed and a determination as to whether or not the work is in compliance with plans and specifications. The Procurement Handbook also states that a copy of the inspection report should be included in the contract or purchase file.

Authority officials provided us copies of Periodic Estimates for Partial Payment (Form HUD-51001) certified by their architect, followed by an itemized price list of work performed to substantiate that they inspected the work. They informed us they believed this was the only documentation they needed to obtain payment on these contracts. While HUD accepts these documents as certification for payment, Federal regulations (24 CFR 85.36) also require the Authority to ensure it maintains an adequate system of contract administration. The Authority is responsible for having this system in place prior to certifying requests for payment. An adequate system of contract administration requires written inspection reports to properly document if the contractor is performing renovations in accordance with the terms and conditions set forth in the contract.

In the case of the Authority, it was apparent an adequate contract administration system was not in place since it did not complete written inspection reports. The lack of adequate contract administration was also evidenced by the poor quality of work our HUD housing inspector noted. As a result, the contractor had no incentive to improve its performance since deficiencies and non-conformance were not properly tracked or communicated in writing by the Authority.

Authority And Contractor  
Cited For Occupational  
Safety And Health  
Violations

We also noted the Authority was unable to compel the contractor to conduct business in a safe manner. The Virginia Department of Occupational Safety and Health conducted an inspection on the Dale Homes Project on August 22, 2001 and identified 11 safety violations, 1 willful and 10 serious. The contractor was fined \$22,700 because of the violations. For example, the contractor was cited and fined \$15,000 for not ensuring energized open face 220/240 volt, 100-amp meter bases were guarded against accidental



contact with employees. This violation exposed employees to electrical shock hazards and their associated injuries. The Occupational Safety and Health evaluator told us the violations were so severe that if anyone was seriously injured on the site they could have pursued criminal action against the contractor.

Authority officials acknowledged the violations and told us on numerous occasions they observed and reported conditions warranting corrective action. But, the contractor failed to immediately correct the conditions resulting in the violations. Rather, the contractor chose to appeal all violations. We believe this report of serious and willful deficiencies from the Virginia Department of Occupational Safety and Health coupled with substantial evidence of substandard performance identified elsewhere in this finding sheds considerable doubt on the competence of this contractor and the Authority's willingness or ability to effectively administer its Modernization Program.

Authority Also Could Not Support Some HOPE VI Costs

We also reviewed five payments totaling \$1.8 million made to the Authority's HOPE VI developer and his subcontractors in Fiscal Year 2001. Authority officials selected a HOPE VI developer to revitalize a housing project known as Ida Barbour on August 6, 1996. The HOPE VI Grant was valued at \$24.8 million.

Our review showed the Authority could not provide documents such as invoices, progress schedules, and certificates of completion needed to support three payments reviewed totaling \$74,608. The unsupported costs related to landscaping, fencing and developer services.

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### Auditee Comments

The Authority strongly disagreed with this finding. The Authority responded that this finding contradicted reviews and decisions previously made by the presiding HUD Program Office and that it ignored the role of the U.S. Army Corps of Engineers in those decisions. The Authority also asserted that all of its modernization and contract administration problems have been corrected. Additionally, to support its position that it received full value on its modernization contracts, the Authority provided a recently completed cost estimate from a contractor it hired for that purpose.

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**OIG Evaluation of  
Auditee Comments**

The audit confirmed the severity of the modernization and contract administration problems the HUD Program Office previously identified. The audit did not contradict any of those findings. This report also appropriately explains the role of the U.S. Army Corps of Engineers in the inspection process. Additionally, the cost estimate the Authority provided failed to consider the substandard work performed by the modernization contractor for Phases I, II, and III of Dale Homes. Consequently, we question the accuracy or validity of the estimate. More importantly, we made key recommendations to help protect the government's interests in the future and ensure low-income residents are provided decent, safe and sanitary housing.

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**Recommendations**

We recommend that HUD:

- 1A. Use an independent cost estimator to determine the actual value of the renovations performed by the Dale Homes Modernization Contractor (Phases I, II, and III).
- 1B. Require the Authority to enforce the requirements of the three questioned modernization contracts. For any work identified under 1A that the contractor fails to complete in accordance with the contract plans and specifications, require the Authority to obtain reimbursement from the contractor or repay HUD the value of the work from non-Federal funds.
- 1C. Take appropriate administrative action against Authority officials who were responsible for managing the Dale Homes modernization contracts to protect the Authority from future waste and abuse.
- 1D. Initiate action to prohibit the Dale Homes Modernization Contractor (Phases I, II, and III) from performing any additional work for the Federal government.
- 1E. Require the Authority to develop a tracking system for administering contracts. At a minimum, the tracking system should include procedures that

measure the contractor's compliance with the terms and conditions of the contract to include:

- Documenting all contract inspections and discrepancies noted using an appropriate inspection report.
- Certifying when and if discrepancies are corrected.
- Preparing reports of any deficiencies or disputes brought to the contractor's attention but which the contractor has not corrected or has refused to correct.

- 1F. Require the Authority to provide documentation to justify unsupported costs of \$74,608 made to the HOPE VI developer and its subcontractors. If the Authority cannot provide adequate documentation to support the costs require it to reimburse from non-Federal funds the amounts that it cannot support.



## The Authority Did Not Always Properly Award Modernization Contracts

The Authority did not always follow its own established procurement policies or Federal Purchasing requirements when awarding modernization contracts. This occurred because Authority officials misinterpreted these requirements. Our review of six modernization contracts valued at \$8.7 million and a developer of a \$24.8 million HOPE VI Grant showed the Authority:

- Awarded three consecutive contracts totaling \$8 million to a single contractor to modernize its public housing without adequately considering the contractor's ability to perform the work.
- Allowed a modernization contractor to increase its bid by \$372,960 after they opened all bids without adequate documentation showing the error was unintentional and without a written determination from the Contracting Officer.
- Selected the developer of a \$24.8 million HOPE VI Grant without detailing the reasons why they selected the contractor.

The Authority's failure to properly award contracts led to a situation where it repeatedly used a modernization contractor that did not adequately perform needed renovations. Ultimately, the Authority overpaid this contractor for defective renovations and residents suffered because they were living in deficient public housing units (Finding 1). Additionally, HUD has limited assurance the Authority selected the contractor that would provide the best value for the taxpayer for a HOPE VI Grant valued at \$24.8 million.

Officials Awarded \$8 Million In Contracts Without Adequately Considering Contractor's Ability To Perform Work

The Authority awarded three consecutive contracts valued at \$8.0 million to a single contractor without adequately considering the contractor's integrity, compliance with public policy, record of past performance, and financial and technical resources. The three contracts covered the first three phases of a five-phase plan to modernize its Dale Homes project. Ultimately, we found this contractor did not properly complete the required renovations, and the Authority overpaid this contractor for substantially deficient work. Further, residents suffered because they had to live in these deficient units (Finding 1). Authority officials told us they believed they were bound to award the contracts to the lowest bidder. Also, they said since the contractor was not debarred, they did not consider or question the contractor's performance on previous contracts and accepted the lowest bidder to avoid potential lawsuits.

These beliefs helped lead to the situation we reported in Finding 1.

While officials are correct they should not award contracts to debarred, suspended, or ineligible contractors, these are certainly not the only considerations. Federal regulations (24 CFR 85.36) and HUD's Procurement Handbook for Public and Indian Housing (7460.8 REV-1) both require grantees and sub grantees to award contracts only to responsible contractors possessing the ability to perform under the conditions of a proposed procurement. Officials are required to consider contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.

The Authority's own procurement policy reinforces the HUD and Federal regulations. It also states contracts should be awarded to the "most responsible lowest bidder". It further states that procurement shall be conducted only with contractors who have the technical and financial competence to perform the work and have demonstrated a satisfactory record of integrity.

Authority officials could not provide any evidence they verified the references of their Dale Homes Modernization Contractor or investigated its integrity. The Modernization Director and his staff acknowledged the contract files did not contain any documents verifying the contractor's references or its integrity. In fact, they told us the only criteria they used to select this contractor was the fact that it was the lowest bidder.

Our audit showed contracting officials awarded a second, and after that a third, consecutive contract to this contractor even after it failed to perform adequately on the preceding contracts. Officials told us they did not have any specific reason in regards to performance not to make these awards. But, as we describe in Finding 1, the Authority failed to properly inspect or document inspections of the contractor's work and therefore failed to document numerous deficiencies in the work. Since the Authority did not properly document deficiencies, it failed to create evidence that clearly would have illustrated the inability of this contractor to adequately perform the renovations.

Despite a lack of documented inspections, we found the contractor's failure to perform was well known at the Authority. For example, the former Director of Facilities Management for the Authority stated, in an inter-office memorandum on September 10, 1996 to the Authority's Director of Operations for Administration and Housing, that the contractor selected for the Dale Homes revitalization was unable to meet contract deadlines, did not submit acceptable construction schedules and other administrative requirements for work performed on other Authority projects. The Director of Operations disagreed with the Director of Facilities Management's comments.

Authority Did Not Follow Proper Procurement Requirements In Awarding A Modernization Contract

The Authority permitted the modernization contractor to increase its bid significantly on contract 915-94-17 after it opened all contractor bids. They allowed this to occur without clear and convincing evidence that the contractor made a nonjudgmental mistake and without a written determination signed by the Contracting Officer. As a result, officials allowed the contractor, with full knowledge it would still be the lowest bidder, to increase its bid by \$372,960.

HUD's Procurement Handbook for Public and Indian Housing (7460.8 REV-1) states that a correction to a bid after the bids are opened is permitted only if the bidder can demonstrate clear and convincing evidence that it made a nonjudgmental mistake. The Handbook further requires all decisions to allow correction or withdrawal of bid mistakes to be supported by a written determination signed by the Contracting Officer. The Authority's internal Procurement Policy reinforced HUD requirements and required contractors to submit a request to withdraw a bid prior to the bid opening with documentation clearly showing the error was unintentional.

After bid opening, the Authority's Director of Facilities Management was concerned that the winning bidder understated its bid. As a result, he appropriately submitted a letter to the contractor on September 12, 1996 seeking confirmation that the bid was in fact correct. The next day, the Dale Homes Modernization Contractor submitted a request to the Authority to increase its bid because of an alleged mathematical error. The contractor claimed it incorrectly estimated the cost to purchase and install new heating and air conditioning units. In the original bid the

contractor estimated it would cost \$3,108 to purchase and install 50 new heating and air conditioning units. However, the contractor revised its estimate after bid opening stating the heating and air conditioning units, materials and labor, would now cost \$310,800. The contractor further added 20-percent for overhead and profit, thus increasing the original bid by \$372,960.

In a letter dated September 17, 1996, the Authority's attorneys advised the Executive Director to not only reject the contractor's bid, but also to notify HUD the contractor should be investigated. In its letter, Counsel stated the apparent low bidder failed miserably to substantiate the mistake, and stated the escalation of the price may be an attempt to recoup money that was "left on the table" rather than a bona fide mistake. But, in a letter dated September 27, 1996, the same attorneys advised the Authority to accept the contractor's increased bid. Counsel based its reversal in opinion mainly on the assertion that it could not independently verify the component costs in one item (heating and air conditioning units).

The Authority acted properly by asking the contractor to verify its bid. However, in our opinion, the Authority's inability to verify a component cost item is not clear and convincing evidence that the contractor made a nonjudgmental mistake. On the contrary, we believe it places considerable doubt on that claim. Further, we reviewed all documents provided by the Authority to substantiate its decision to allow the increased bid and concluded it was definitely not clear and convincing. In addition, officials failed to obtain a written determination signed by the Contracting Officer accepting the new bid. HUD's Procurement Handbook requires the Contracting Officer's written determination as a key management control.

To ensure this problem does not reoccur, the Authority should provide training to its contracting personnel on the requirements and procedures for correcting or withdrawing bids once the original bids have been opened.

Authority Did Not Document Reasons For Selecting Its HOPE VI Developer

Authority officials selected a HOPE VI developer to revitalize a housing project known as Ida Barbour on August 6, 1996, without detailing or documenting the reasons they selected it. As a result, the Authority and HUD have limited assurance the contractor selected would provide the best value for the taxpayer for a HOPE VI Grant valued at \$24.8 million.

According to Federal regulations (24 CFR 85.36), a Request for Proposal must include a description of the service to be procured and should identify all the requirements the bidders must fulfill including all factors that will be considered when evaluating bids. Additionally, the Authority's Procurement Policy states that the request must contain a description of the evaluation factors associated with the procurement including the weight given to each technical factor and a method for evaluating the proposals before the solicitation process should be established.

We found the Authority established seven criteria to evaluate the four proposals it received. However, it could not provide detailed scoring for each proposal or a written description of the rationale it used to select its HOPE VI contractor. Officials told us they used interviews with the contractors as a basis for the scoring, but the interviews were simply hand-written notes of the discussions held with potential contractors. It is clear that the procedures used to select a HOPE VI developer were not in compliance with Federal Purchasing requirements or the Authority's own established procurement policies.

The Authority correctly noted that HUD did in fact report this problem in a previous monitoring review. However, due to the importance and materiality of this issue (i.e. award of a \$24.8 million HOPE VI Grant), and to ensure this problem does not reoccur, we believe it is also worth emphasizing in this audit report. Officials should emphasize and train procurement personnel in the need to prepare written comments explaining rationale for scores provided to specific contractors on each individual rating factor.

Auditee Comments

The Authority responded that HUD had already reported the procurement problems the audit identified, and therefore, we should not report them. The Authority also contended, however, that in all cases it followed proper contract award procedures and since its modernization contractor was the lowest responsible bidder they were justified in awarding the contract to the contractor.

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OIG Evaluation of Auditee Comments

Many of the procurement issues we discuss in this report have not been previously addressed or reported by HUD. However, for those issues that HUD had previously questioned, we provided a much greater analysis and discussion of the facts and causes related to the procurement problems as well as recommendations to correct the deficiencies. Further, the fact that the Authority has not corrected or even acknowledged the existence of these serious deficiencies in its contract award procedures raises doubt as to whether they are truly committed in improving their procurement practices. Thus, the issues and recommendations we present in the report are appropriate and necessary.

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Recommendations

We recommend that HUD require the Authority to:

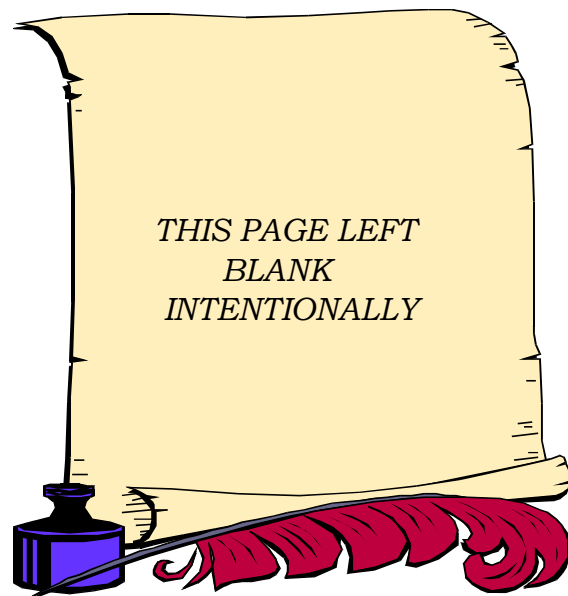
- 2A. Issue local policy and train contracting officials on Federal Purchasing requirements required for awarding contracts. Training and policy should emphasize the need to:
- Award contracts only to responsible contractors possessing the ability to perform under the conditions of a proposed procurement.
  - Ensure they are considering contractor integrity, compliance with public policy, record of past performance, and financial and technical resources when awarding contracts.
  - Ensure they allow corrections to bids after bid opening only if the bidder can demonstrate clear and convincing evidence that it made a nonjudgmental mistake.

- Ensure any decisions to allow correction or withdrawal of bid mistakes is supported by a written determination signed by the Contracting Officer.
- Prepare written comments explaining why they gave each specific contractor a particular score.

We recommend that HUD:

- 2B. Include reviews of contract award deficiencies in future monitoring reviews at the Authority to ensure they have been corrected.





## The Authority Took Measures To More Effectively Maintain Its Low-Income Housing

In September 2001, HUD's Real Estate Assessment Center conducted physical inspections on the Authority's four developments and assigned physical condition scores to each project that ranged from 47 to 79 points out of a possible 100 points under the Public Housing Assessment System. These scores indicated the housing units were not well maintained. In June 2002, we also found the Authority continued to have problems maintaining its housing portfolio. We non-statistically selected and inspected 15 units from three of the Authority's four developments and identified serious deficiencies in 11 of the 15 units. Altogether we identified 25 exigent life threatening deficiencies and 75 other deficiencies such as broken glass, paint chipping, and exposed wires in the units.

The overall results of our inspections conducted in June 2002 are shown in the following table:

<b>Project<sup>4</sup></b>	<b>Units Inspected</b>	<b>Units With Deficiencies</b>	<b>Total Number of Deficiencies</b>	<b>Exigent Life Threatening Deficiencies</b>
Swanson Homes	5	5	26	8
Jeffrey Wilson	5	5	50	14
Lincoln Park	5	5	24	3
Totals	15	15	100	25

HUD's Real Estate Assessment Center defines life-threatening deficiencies as those that threaten the health and safety of the residents and require immediate attention and remedy. These deficiencies include: exposed electrical wires, emergency fire exits blocked or unusable, rat, mice, and vermin infestation, missing electrical switches, missing cover plates, missing or inoperable smoke detectors, broken or barred windows preventing egress. Some of the life threatening deficiencies we identified were loose electrical outlets, broken ceiling fan with wires exposed, debris blocking back door, inoperable smoke detectors, refrigerator blocking heater, and loose electrical receptacles. The other deficiencies consisted of paint chipping on the walls, chipped enamel in the bathroom sinks, broken porch lights, and gaps in the walls surrounding the pipes. We documented many of the deficiencies we identified during our inspections through photographs. Some of these photographs are shown below.

<sup>4</sup> We did not perform a detailed review of maintenance issues at Dale Homes due to the deficient renovations described in Finding 1.

Finding 3

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74 Merrimac (Swanson Homes)  
Pipe flange not sealed near the kitchen sink



89 Swanson Drive (Swanson Homes)  
Broken ceiling fan in the living room



6 Merrimac Drive (Swanson Homes)  
Paint chipping on the bathroom ceiling



89 Swanson Drive (Swanson Homes)  
Phone cable on stairwell – tripping hazard



36 Lexington Drive (Lincoln Park)  
Peeling enamel on the sink in the first floor bathroom



36 Lexington Drive (Lincoln Park)  
Loose vent in the rear bedroom

After we provided a detailed description of the deficiencies to the Maintenance Director, he initiated work orders to correct them. At our exit conference with the Authority on May 28, 2003, the Authority presented photographs of work they had completed to correct the deficiencies. However, we did not physically verify all the items have been corrected.

### The Authority Improved Its Maintenance Procedures

The Authority recognized it needed to improve its maintenance procedures in order to ensure it provided its residents decent, safe, and sanitary living conditions. In November 2001, the Authority hired an independent contractor to inspect its four low-income housing projects. Authority officials selected the firm to perform a 100-percent annual inspection of its dwelling units and building systems using the Uniform Physical Condition Standards inspection protocol in order to determine short-term maintenance needs and long-term capital fund needs.

The Authority directed the firm to provide a baseline score (a worst case scenario) that would assist them in developing a preventative maintenance program to focus attention on the most problematic areas in its public housing portfolio while also improving performance on the Physical Condition indicator of the Public Housing Assessment System. The independent contractor also provided training to all maintenance employees and other management staff in a two-hour training session. In addition, each maintenance employee and other management staff were afforded an hour to spend shadowing the contractors in their performance of the annual inspection of dwelling units and systems.

The Maintenance Director told us the independent contractor spent approximately two and one-half weeks with the Authority performing a 100-percent annual inspection of dwelling units and systems in accordance with the Uniform Physical Condition Standards inspection protocol. Moreover, all employees within the Maintenance Services Division and other management staff were provided with pocket guides that provided a handy reference in the identification and/or repair of work orders. Each maintenance employee was provided with enough

information to properly identify, report, and repair problem areas in the Authority’s properties.

Authority’s Physical Inspection Scores Improved In December 2002

Based on HUD’s Real Estate Assessment Center’s most recent physical inspection scores from December 2002, it appears the Authority’s strategy has been successful in helping it improve its physical inspection scores and ultimately its maintenance program over its housing portfolio. As the table below illustrates, the physical inspection scores for all four developments increased significantly from September 2001 to December 2002.

Property	September 2001 Score	December 2002 Score	Percentage Increase in <sup>5</sup> Score
Swanson Homes	79	88	11%
Jeffrey Wilson	47	83	77%
Lincoln Park	54	84	56%
Dale Homes	73	82	12%

As discussed previously, the poor physical condition of the low-income housing developments reported by the Real Estate Assessment Center in September 2001 occurred mainly because the Authority needed to improve its maintenance procedures. But, the Director of Maintenance Services also partially attributed the condition of the low-income units to the Authority’s lack of lease enforcement. He believed that the residents were not being held accountable for their actions. The Maintenance Director also acknowledged that broken glass was a serious problem, but a problem that is difficult to control. He provided examples of when maintenance staff removed broken glass from the basketball courts one day and found it on the courts again the next day. In addition to the improved maintenance procedures, the Authority can also continue to ensure it provides its residents with decent, safe, and sanitary living conditions by periodically reviewing lease requirements with tenants, and when appropriate, taking action to enforce the lease requirements when they identify violations.

<sup>5</sup> Score is a number between 0 and 100 reflecting the physical condition of the properties.

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**Auditee Comments**

The Authority stated that the public housing maintenance issues presented in this finding are without substantial merit since HUD has reported the Authority as a standard performer in this Program area.

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**OIG Evaluation of Auditee Comments**

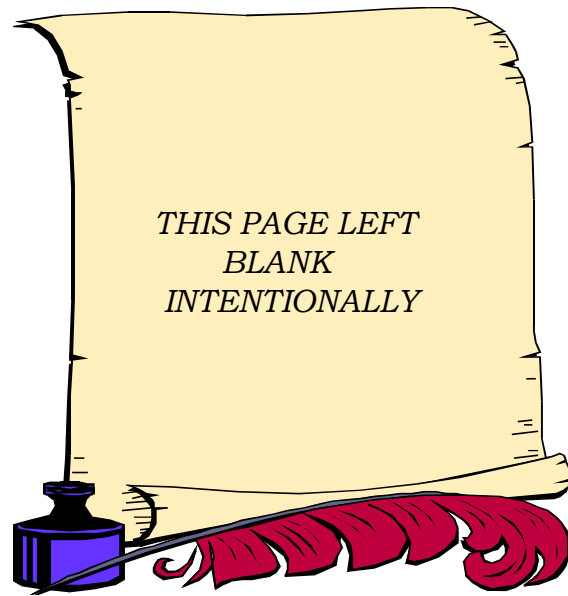
This finding acknowledges the improvement the Authority made during the audit to more effectively maintain its public housing. This was evidenced by the improvement in the Authority's recent physical inspection scores from HUD's Real Estate Assessment Center. However, although the Authority has made progress in improving its maintenance program, much more work needs to be done. Further, the Authority's failure to acknowledge the existence of these critical maintenance issues in its written comments further illustrates the need for additional HUD monitoring in the future.

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**Recommendations**

We recommend that HUD:

- 3A. Periodically monitor the Authority's Physical Condition indicator under the Public Housing Assessment System. If a significant drop in the score(s) is noted, perform an on-site review to determine the reason, and as appropriate, require the Authority to develop a corrective action plan.
- 3B. Require the Authority to periodically review lease requirements with tenants to ensure they understand their responsibilities under their lease, and when appropriate, take action to enforce the lease requirements when violations are identified.



## The Authority Took Measures To More Effectively Administer Its Tenant-Based Section 8 Program

The Authority has had a difficult time fully utilizing its Section 8 funding, and has consistently fallen below HUD's established standard of 95-percent utilization. For example, in Fiscal Years ending June 30, 2000 and June 30, 2001 it utilized only 74 and 73-percent respectively of its available budget authority, and HUD recaptured \$4.2 million from the Authority during that period. Insufficient staffing, staff turnover, improper waiting list administration, and failure to collect and analyze program information such as voucher turnover, leasing success rates, and response rates from waiting lists all contributed to the Authority's low utilization of its Section 8 funding. As a result, at least 500 low-income families that could have received assistance from 1999 through 2001 did not.

However, just prior to and during the audit, managers acknowledged they needed to improve the administration of their Section 8 Program and agreed to implement a number of measures. Such measures included hiring additional staff, increasing entry salary levels for program assistants, updating waiting lists, and collecting and analyzing program data. As a result of the measures taken, the Authority increased the number of units it leased from 613 to 964 from June 30, 2001 to June 30, 2002, and increased its authorized budget authority utilization rate from 73 to 87-percent during the same period. Further, based on preliminary data provided by the Authority as of June 30, 2003, it appears the Authority has made additional progress. The Authority now reports it has approximately 1,100 units now under lease and is utilizing about 90-percent of its annual budget authority. If the Authority continues to successfully implement the measures addressed in this report, it should be able to achieve full utilization in a relatively short period.

### HUD Guidance

HUD published a Housing Choice Voucher Program Guidebook in April 2001 to provide Housing Authorities methods for effectively administering tenant-based Section 8 Programs. The guidebook includes a historical review of the tenant-based rental assistance programs, discusses program requirements in detail, and describes best administrative practices used by Authorities that operate the program. A Housing Authority that does not take advantage of these practices has little chance of achieving optimum utilization of Section 8 vouchers. Administrative practices listed in the guidebook include:

- Maintaining an up-to-date waiting list.



- Collecting and monitoring success rate data, that is, the percent of families who received a voucher, found suitable housing units, and became Program participants.
- Providing search assistance to voucher holders.
- Providing landlord outreach.
- Extending or limiting search time to voucher holders.
- Analyzing the adequacy of payment standards.
- Analyzing staffing levels.

HUD defines utilization as the higher of unit utilization or budget utilization. For this audit, we calculated utilization of contracted funds as the percent of funds contracted for one year that have been expended for housing assistance payments or earned as fees by the Authority. We also calculated the percent of units leased by dividing the number of units under lease to the number of baseline units that had been under the Annual Contributions Contract for 12 months or more at the end of the Authority's fiscal year. HUD expects a high performing Authority to maintain an average utilization rate at or above 98-percent, with standard performance between 95 to 97-percent.

The Authority Made Progress In Using Its Section 8 Funding

While the Authority's utilization has improved since Fiscal Year ending June 30, 1999, additional improvements are needed to ensure this trend continues. HUD expects Housing Authorities to either lease 95-percent of units under their Annual Contributions Contract or spend 95-percent of their annual budget authority. From 1999-2002, the Authority consistently fell below HUD's Section 8 utilization requirements. Lease-up rates and percentage of annual budget authority spent for the four years is as follows:

Authority Fiscal Year Ending <sup>6</sup>	Annual Budget Authority (Millions)	Annual Contributions Required (Millions)	Annual Budget Authority Utilization <sup>7</sup> Rate	Contract Units	Leased Units	Unit Utilization <sup>8</sup> Rate
6/30/99	\$5.8	\$2.3	40%	1,145	495	43%
6/30/00	\$3.9	\$2.9	74%	1,156	604	52%
6/30/01	\$5.1	\$3.7	73%	1,156	613	53%
6/30/02	\$6.6	\$5.7	87%	1,316	964	73%

Since the Authority underutilized Section 8 funding, HUD recaptured \$4.2 million during 2000 and 2001. During that period, the Authority could have assisted at least 500 additional low-income families if it had effectively utilized its entire tenant-based Section 8 funding. However, as we discuss below, the Authority recognized it needed to make a number of changes in its administrative practices to improve its Section 8 Program. As a result of these changes, the Authority increased the number of units it leased from June 30, 2001 to June 30, 2002 from 613 to 964 units, and increased its authorized budget authority utilization rate from 73 to 87-percent during the same period. Further, based on preliminary data provided by the Authority as of June 30, 2003, it appears the Authority has made additional progress as it reports it has approximately 1,100 units now under lease and is utilizing about 90-percent of its annual budget authority. However, we did not verify the later figures.

**Administrative Weaknesses Limited The Authority's Ability To Fully Utilize Its Section 8 Funding**

During the audit, we identified a number of weaknesses in the Authority's administration of its Section 8 Program that limited its ability to fully utilize its Section 8 funding. Specifically, we found problems in staffing, waiting list administration, and how data was collected and analyzed to monitor the Program. However, just prior to and during the audit the Authority took action to address these areas, and as a result has significantly improved its Section 8 utilization rate since Fiscal Year ending June 30, 2001.

<sup>6</sup> The Authority's fiscal year runs July 1 to June 30.

<sup>7</sup> Total Annual Contributions Required divided by the Annual Budget Authority.

<sup>8</sup> Average Unit Months for the fiscal year divided by Annual Contributions Contract Unit Months authorized by HUD.

Our discussion of these areas and the actions the Authority has or is taking to improve its Section 8 Program follow.

*Staffing Needs Not Analyzed*

Managers can improve utilization by ensuring they have an adequate staff that is well trained and by keeping employee turnover to a more manageable level. HUD's Housing Choice Voucher Program Guidebook recommends that Authorities estimate staffing needs by calculating response rates from waiting list applicants, voucher success rates, and then estimating staffing based on time needed for the required leasing activities such as tenant interviews, briefings, processing requests for tenancy, and leasing. The Guidebook also states a significant amount of work is required to lease units and increase program revenues, and Authorities must be willing to invest in staff to perform required intake and leasing activities.

We found the Authority was not measuring its response and success rates nor estimating its staffing levels to achieve maximum utilization. The Housing Management Director informed us staff turnover, lack of training, and low salaries probably all contributed to low lease-up rates. We agree these factors all contributed to low utilization, but the Authority now needs to address these issues. For example, we found that staff turnover was definitely a problem because at least two Section 8 staff members were terminated every year from Fiscal Year ending June 30, 1999 through Fiscal Year ending June 30, 2001. Only one of the nine current Section 8 staff was employed for more than two years. Officials acknowledged they did not hire or properly train personnel, and if they were trained the salaries they were paid were not adequate to retain them.

After we completed our audit fieldwork, Authority officials told us they took measures to analyze the amount of work required to lease units and increase program revenues. Based on their staffing analysis, they determined their current nine member staff should be increased to a ten and one-half member staff. The Section 8 Director also acknowledged the Authority experienced a tremendous staff turnover. To illustrate, she said that over a six-week period in the Spring of 2002, the Section 8 division lost five members of a then eight member staff. She stated this

greatly affected the Authority's ability to maintain program stability while increasing utilization rates. As a result of their recent staffing analysis, she told us they have hired a full time administrative support person and an experienced Program Coordinator. To facilitate staff retention, they have also increased the entry-level salary of their Program Assistants.

The importance of recruiting and maintaining an adequate staffing level cannot be overemphasized. For example, in Fiscal Year 2001 the Authority had only 613 units under lease. That year it recruited six new staff members and by Fiscal Year ending June 2002 it had 964 under lease. This action, along with opening its waiting list in late 2000, helped the Authority achieve a significant increase in the number of vouchers it issued by the end of its 2002 Fiscal Year. However, as we discussed above, in the Spring of 2002 five staff members left employment. The measures taken by the Authority should help resolve some of its staffing problems and allow it to continue to improve its Section 8 utilization.

#### *Waiting List Not Purged or Updated*

Although the Authority had a waiting list, it was not updated or purged annually as required by the Authority's Five-year Plan. During our audit there were only 40 families on the waiting list yet the Authority needed to lease 200 more units to reach the required 95-percent utilization rate. The forty families had been on the waiting list an average of about two and one-half years. Four families were on the list for over five years. An up-to-date and well-managed waiting list promotes fair and consistent treatment of families, ensures needy families receive assistance as quickly as possible, and is a first step in helping the Authority maintain a high leasing rate. The Authority could improve its utilization by following its own established procedures and updating its waiting list annually. A waiting list that has not been periodically updated includes people who have moved away, died, or found other solutions to their housing needs.

After we completed our audit fieldwork, the Section 8 Director told us she did not intend to allow the waiting list to reach this low level, but extenuating circumstances and her obligations to the families and owners currently participating

in the Section 8 Program became her first priority. She informed us the Authority began outreach and marketing activities to accept new Section 8 applicants in September 2002 and the old applications have been issued, leased or closed due to the applicant's request, or their non-response to management's requests. Lastly, she told us that in the future the Authority would adhere to its policy of formally updating and purging its waiting list annually.

*Waiting List Not Opened Sufficiently*

The waiting list was not opened sufficiently to allow enough applicants to apply for Section 8 assistance and achieve full utilization. After we completed our on-site audit work in September 2002, the Authority opened its waiting list for seven hours. During this seven hours, 275 applicants applied for assistance but only 63 families received vouchers. Prior to that the list had been closed since the Summer of 2000 when 800 new families were added to the list. Accordingly, from Fiscal Year ending June 30, 2000 to Fiscal Year ending June 30, 2002, the Authority's utilization of annual Section 8 budget authority increased significantly. While there is no HUD requirement to keep the waiting list open for any particular length of time it is important that enough applicants be on the list to ensure that Section 8 funds are fully utilized. It was evident that this was not always the case at the Authority.

Authority officials told us they chose not to open their waiting list for an extended period of time in September 2002 so that they could process applications received rapidly and issue vouchers promptly. To ensure they maintain a viable waiting list however, they told us they would reopen the list in August 2003 for an extended period of time.

*Managers Did Not Adequately Collect and Analyze Information*

Managers had not adequately collected and analyzed information to determine specific issues contributing to low leasing rates such as turnover, response rates from waiting lists, voucher success rates, and staffing required for lease-up. This information is needed to develop a leasing strategy

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or plan to overcome perceived tight market problems or other external factors affecting utilization.

After we completed our audit fieldwork however, the Section 8 Director told us their managers had analyzed factors affecting the Authority's lease-up rate and determined that their staff's caseload was too large to adequately process and monitor participants. Therefore, they told us they would realign Section 8 staff responsibilities, address owner outreach, recommend participants with credit issues seek counseling, and increase staffing to enhance performance.

*Turnover, Response and Success Rates Not Measured*

Managers did not measure turnover, response or success rates from the various stages of its application process. The Authority could use turnover data to help determine how many and when vouchers should be issued. Waiting list response rates are useful because they tell the Authority how many families should be called and also give an indication of the need to purge or update the lists. Calculating the success rate is important primarily because it informs staff how many families must be issued vouchers before the Authority can expect to lease all of its units under contract. For example, if the Authority expects a 50-percent success rate, it will need to issue twice the number of vouchers for every lease it will need to execute.

After we completed our audit fieldwork, the Section 8 Director told us managers began measuring the success rates from the application process to lease-up. To illustrate, she stated that of the 251 vouchers issued since July 2002, 188 families leased with an average leasing time of two months. With a 75-percent success rate, and 252 families currently issued vouchers but not leased, she estimated the Authority needed to issue another 84 vouchers to achieve a 100-percent leasing rate.

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**Auditee Comments**

The Authority stated that the Section 8 utilization issues presented in this finding are without substantial merit, since HUD has reported the Authority as a standard performer under the Section 8 Management Assessment Program.

OIG Evaluation of  
Auditee Comments

The Authority has in fact been designated as a standard performer under the Section 8 Management Assessment Program but has consistently failed to achieve HUD goals for utilizing its vouchers/funding. As we highlight in the report, the Authority's utilization problem was caused by management related deficiencies. Although the Authority made progress in utilizing its Section 8 funding, it falls short of HUD's goal of a 95-percent utilization rate. Further, the Authority's failure to acknowledge the Section 8 utilization issues presented in this finding illustrates the need for additional HUD monitoring to ensure the Authority continues to make satisfactory progress in utilizing its available funding.

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Recommendations

We recommend that HUD:

- 4A. Ensures the Authority implements internal procedures to improve Section 8 utilization through appropriate monitoring. Specifically ensure the Authority:
- Updates and purges its waiting lists annually.
  - Opens its waiting lists sufficiently to allow enough applicants to apply for assistance to achieve full utilization.
  - Collects and analyzes data recommended in HUD's Housing Choice Voucher Program Guidebook to include turnover, response rates from waiting lists, voucher success rates, and staffing required for lease-up.
  - Uses the data collected to develop a strategy to improve utilization.
  - Trains and compensates Section 8 staff adequately.

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# Management Controls

Management controls consist of a plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies. Management controls include the processes for planning, organizing, directing, and controlling program operations. They contain the control environment for risk assessment, information systems, control procedures, communication, and measuring and monitoring program performance.

In planning this performance audit, we evaluated the Authority's management controls related to our objectives to determine the audit scope and the procedures.

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## Relevant Management Controls

Relevant to our audit objectives were the Authority's management systems and controls for:

- Carrying out modernization or development in a timely, efficient and effective manner.
- Maintaining low-income housing units in good repair, order and condition.
- Following its established procurement policies or Federal Purchasing requirements when awarding contracts.
- Administering its tenant-based Section 8 Program to assist the maximum number of eligible families under the Program.

A significant weakness exists if management controls do not give reasonable assurance that: resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

## Significant Weaknesses

From our review, we determined the following to be significant weaknesses:

- The Authority failed to modernize its public housing in a timely, efficient and effective manner.
- The Authority did not maintain a contract administration system that ensured contractors performed in accordance



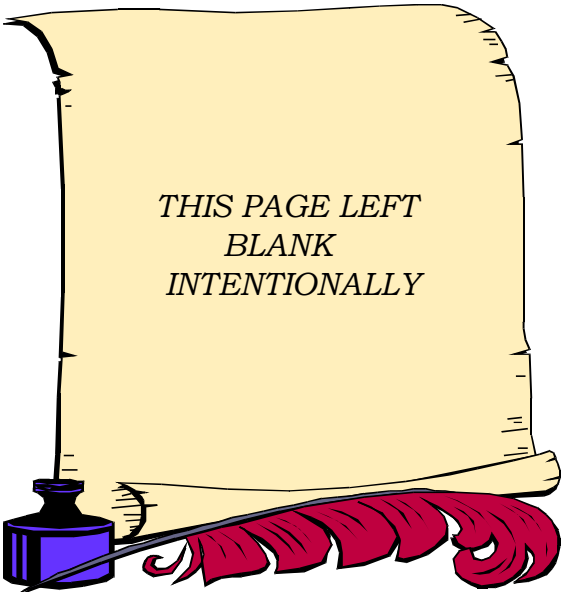
with the terms, conditions, and specifications of their contracts.

- The Authority did not always follow its own established procurement policies or Federal Purchasing requirements when awarding contracts.
- The Authority did not maintain its low-income housing units in good repair and condition.
- The Authority's utilization of Section 8 vouchers was significantly below established standards.
- Managers did not implement administrative measures to improve Section 8 utilization.

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# Follow-up On Prior Audits

No recent audits have been conducted at the Portsmouth Redevelopment and Housing Authority. In addition, no outstanding recommendations, Office of Inspector General or other, exist for the Authority.

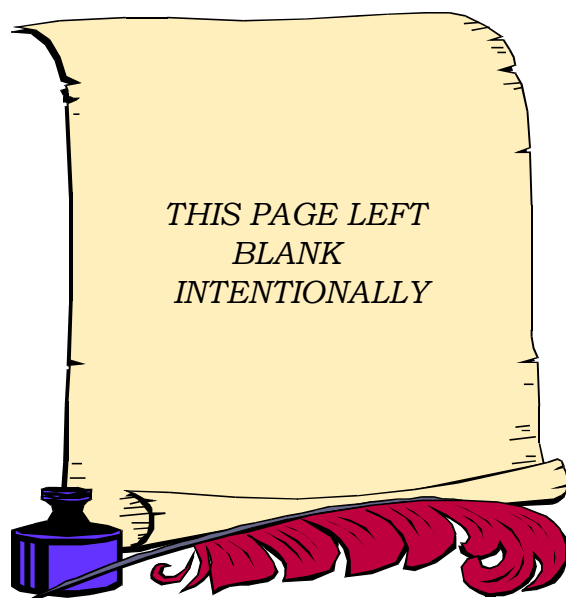


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## Schedule of Questioned Costs

Recommendation Number	Ineligible 1/	Unsupported 2/
1B	-	\$8,018,328
1F	-	\$74,608
Total	-	\$8,092,936

- 1/ Ineligible amounts are not allowed by law, contract, HUD or local agency policies or regulations.
- 2/ Unsupported amounts are not clearly eligible or ineligible, but warrant being contested (i.e. lack of satisfactory documentation to support the eligibility of the costs).



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# List of Units Inspected and Deficiencies Noted

## 45 Dale Drive: 2-Bedroom Unit

- isolated rafters water-damaged and molded from roof leaks
- kitchen ceiling had damage and water stains from roof leaks
- HVAC register in the kitchen was loose and falling out
- living room ceiling had damage and water stains from roof leaks
- sidewalk area had ponding water and poor grading
- tenants were driving on the grassy area and over sidewalks leaving ruts
- hot water vent in roof was not sealed properly and had lifted

## 46 Dale Drive: 3-Bedroom Handicapped Accessible Unit

- spalling and cracking mortar at gutter downspout
- roof leak at drainpipe where the valley of addition and house connect
- shifting concrete pad at door has poor grading around base of pad
- open ground on electrical GCFI outlet in kitchen
- very poor ceiling repair at header in living room from water leak in roof
- main water shutoff valve was recessed in the drywall
- kitchen flooring and base molding was loose and separating
- bathroom flooring was separating and toilet was not caulked
- loose electrical outlet and poor drywall finish in bedroom
- moisture and mold build-up was present on the fascia at the gutters
- unit was poorly graded around additions allowing water to pond and cause erosion
- porch columns were not properly painted, only one coat and it was bleeding through
- large crack in parged wall under the new windows was left unrepaired
- rebar was protruding from the ground missing the foundation creating a hazard
- drywall in the mechanical room was not finished left gaps
- the exterior vent over the mechanical room was broken
- wood fascia was left exposed due to poor flashing and siding around the gutters
- broken DWV pipe cleanout (too short), poor grading pitched toward unit
- old electrical cables were left sticking out of the ground at addition in rear
- gas meter entry through wall was not sealed allowing for access of rodents
- base trim moldings of new columns were not sealed and were separating
- there were many gaps in the aluminum fascia and vents leaving exposed wood

## 49 Dale Drive: 1-Bedroom Unit

- new concrete pad had broken and had a rough repair
- condensation drain line was not sealed at the exterior wall
- unit had poor grading drainage around the new addition
- concrete block was broken and missing pieces in the mechanical room

- holes cut out for venting of the hot water tank were not sealed off
- concrete wall had separation cracks at the corner of the addition
- standing water was present in the splash block

50 Dale Drive: 1-Bedroom Unit

- new downspout was run over opening in wall directed to foundation wall
- base of the columns was not painted correctly and was chipping
- new paint on the addition was bleeding through
- roofing was overlapped as required and the excess was not trimmed
- kitchen sink base cabinet had large cut-outs that were not sealed
- ceiling light had a water stain at the base of the mounting
- cut-out in the roof for the new plumbing was large and the sheathing was water damaged and stained

51 Dale Drive: 1-Bedroom Unit

- roofing and sheathing were damaged at the new roof addition
- porch railing was not level and the posts were prematurely worn

168 Dale Drive: 3-Bedroom Unit

- spot painting around the new windows does not match and is unacceptable
- porch pad was flush with the grade and the handrails were not installed
- grading around the new pads was not pitched correctly
- bathroom ceiling had water stains from the roof leak
- all of the light fixtures were incandescent but required to be fluorescent
- several areas had poorly finished drywall
- there was several gaps in the fascia leaving exposed wood
- rear addition had excessive gaps in the fascia at the gutters
- a clean out DWV pipe was a tripping hazard and poorly graded
- rebar was exposed as hazard and missed the concrete foundation

188 Dale Drive: 3-Bedroom Unit (maintenance had repaired some work)

- main water shut-off valve was installed recessed in the wall and was almost inaccessible
- bedroom ceiling had poorly finished drywall

## 191 Dale Drive: 2-Bedroom Unit

- porch plaster was damaged and the soffit was excessively loose
- corner of the addition was in rough condition and the spot painting was poor
- roofing and shingles are not laying correctly in the valley of the porch

## 196 Dale Drive: 1-Bedroom Unit

- gaps were present in the porch ledger and the ceiling was not finished
- there was a large bow in the front rafter of the porch roof and fascia gaps
- site was poorly graded and pitched toward the unit
- there was ceiling damage in the kitchen from a roof leak
- several areas of wood were exposed at gable end and not caulked
- holes were not sealed in wall at kitchen sink base cabinet
- the drip edge was not installed correctly, too short and several gaps in fascia

## 198 Dale Drive: 1-Bedroom Unit – exterior inspection only

- drip edge was missing on the front at the addition
- standing water in splash blocks and poor pitch in grading

## 203 Dale Drive: 2-Bedroom Unit

- fascia and drip edge were missing at gable end
- poor job of spot painting where new windows and downspouts were installed
- leak in the living room ceiling left stains
- large bow was left in the new wall where bottom plate is warped or shifted
- unacceptable spot painting on repair in bedroom ceiling due to roof leak
- faucet in new bath room sink would not shut off and was of poor quality
- the corners of the drywall ceiling in the bathroom had rough finish

## 207 Dale Drive: 2-Bedroom Unit

- poor fascia installation on the front porch (wavy and loose)
- upper corner of exterior of addition is cracking
- poorly graded and topsoil is sandy loam and not seeded
- stain from roof leak in living room ceiling
- excessive holes were cut out in kitchen cabinet for exhaust vent
- both bathrooms had poorly finished drywall
- exposed wood was not caulked at fascia on porch addition



208 Dale Drive: 2-Bedroom Unit

- poor installation of soffit and fascia on new porch ceiling
- a large wave was present in the new header over the kitchen doorway
- large holes were cut out in the bathroom sink cabinet and not sealed
- another large wave in the base plate of the living room wall was present
- an electrical outlet in the bedroom did not work
- in rear bedroom all outlets are wired incorrectly to one wall switch
- poor drywall finish in rear bedroom

213 Dale Drive: 2-Bedroom Unit

- large gaps in fascia and gable vents and missing caulk
- incorrect light fixture was loose and could cause a hazard
- bathroom ceiling was water damaged and exhaust fan did not operate
- corner of the roof at the addition was damaged
- concrete construction waste was left on site
- covering on the addition wall is severely peeling off wall
- rear concrete pad is too high and causes a tripping hazard
- unacceptable repair to wall at downspout on addition
- fascia and drip edge was damaged at roof of mechanical room

223 Dale Drive: 2-Bedroom Unit

- large gaps with mildew at fascia on porch and missing caulk
- exposed wood under shingles at drip edge and fascia
- poor drywall finish in bedroom
- splash block was missing and grading was pitched toward unit
- the door to the mechanical room had not finished being painted
- poor patch work under window that was blocked in
- grading was poor and tripping hazards were present
- corner of the porch roof was poorly finished, bent and cracked
- there were cracks left in the wall from installing the shutters
- front sidewalk was below grade
- front downspout was missing and the porch pad was separating at unit
- ceiling damage in the living room from a roof leak
- electrical outlet in the laundry room was very loose and could cause hazard

# Auditee Comments

## PORTSMOUTH REDEVELOPMENT & HOUSING AUTHORITY

August 21, 2003

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


Dear Mr. Temme:

The Portsmouth Redevelopment and Housing Authority is transmitting our response to the Draft Audit Findings dated July 29, 2003. The Authority strongly disagrees with these four findings and accordingly is presenting our case within this response. As part of our case, U.S. Cost, a nationally recognized cost estimating firm has prepared a detailed analysis of the value of work performed at Dale Homes. This analysis calls into question the OIG's exaggerated estimate presented within their findings.

Thank you for the recent time extension you granted the Authority and for your sympathetic remarks concerning my recent hospitalization.

Should you have any questions or require any clarification on our response, please contact me or Mr. Hal Short of my staff.

Very truly yours,

  
for  
Danny E. Cruce  
Executive Director

Enclosures

cc: Mr. R. Scott Morgan

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Danny E. Cruce