



U.S. Department of Housing and Urban Development
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Philadelphia, PA 19107-3380

District Inspector General for Audit

June 27, 1997

Audit Related Memorandum

No. 97-PH-241-1809

MEMORANDUM FOR: Bruce D. Crawford, Director, Community Planning
and Development Division, Pittsburgh Area
Office, 3ED

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

SUBJECT: Citizen Concern
O'Connor Square Townhouses
Pittsburgh, Pennsylvania

Based upon a citizen's concern registered with our office, we completed a review of the O'Connor Square Townhouses, a four unit structure located in Pittsburgh's neighborhood of Hazelwood. The purpose of our review was to determine if the planning, processing, and construction of the project was conducted in accordance with HUD regulations and requirements.

We interviewed HUD's Community Planning and Development staff, Pittsburgh's Urban Redevelopment Authority (URA) staff, the architect, the owners, reviewed cost and construction files, and visited the construction site.

The URA funded the O'Connor Square project from the following sources:

- \$295,000 grant and \$126,010 loan from the Pittsburgh Housing Construction Fund (PHCF).
- \$120,000 grant from the Community Development Investment Fund.
- \$200,000 private bank loan.

The URA provided the funds to a local Community Housing Development Organization, Glen Hazel Citizen's Association (GHCA). GHCA maintained ownership of O'Connor Square and assumed development responsibilities for the project. As developer, the selection of the architect and general contractor was GHCA's responsibility. As a Community Housing Development Organization, GHCA was not subject to procurement or bonding criteria.

Our review of GHCA's procurement activities disclosed:

- The contract for the construction of O'Connor Square was awarded without competition.
- The contractor was not bonded.
- An identity of interest existed between a member of GHCA's Board and a sub-contractor.

During construction of O'Connor Square the following obstacles were experienced: progress was slow; major construction flaws were cited requiring corrective actions; and sub-contractors were not being paid timely. As a result, construction activity was suspended by the URA inspectors and an independent architect and engineer were contracted to assess damages and formulate a remedial construction plan. To expedite completion of the project the URA required GHCA to allow the Pittsburgh Housing Development Corporation (PHDC), a URA subsidiary, to manage the completion of the project. Upon PHDC's recommendation GHCA terminated the original contractor. PHDC selected another contractor to complete the job.

Originally, construction of O'Connor Square was budgeted at \$552,000. The current budgeted amount for completion is \$762,100. Construction costs as of May 5, 1997 were \$699,559. The project is not completed.

The PHCF loan is currently in default due to liens against GHCA. Until the townhouses are sold there is no assurance of repayment of the PHCF or commercial loans.

No deficiencies were noted in the review of construction costs charged to the project.

Recommendation

Based on the circumstances surrounding this case and to prevent future occurrences we recommend you take appropriate measures to assure CDBG funded Community Housing Development Organizations are subject to Federal procurement regulations and requirements.

If you have any questions please contact Irving I. Guss, Assistant District Inspector General for Audit at (215) 656-3401.

Attachment - Distribution

Attachment

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