



U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388
(404) 331-3369

June 15, 1999

No. 99-AT-204-1807

TO: Ledford L. Austin, Director, Office of Public Housing, 4FPH

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Citizen Complaints
Housing Authority of the City of Charleston
Charleston, South Carolina

In response to a citizen's complaints, we reviewed activities of the Housing Authority of the City of Charleston (Authority) as they relate to the Authority's selection and acquisition of four sites for new scattered site public housing projects. The purpose of our review was to determine whether the Authority complied with applicable laws, regulations and the Department of Housing and Urban Development (HUD) requirements.

SCOPE

We interviewed staffs of the HUD North Carolina and South Carolina Offices of Public Housing and Authority staff, and reviewed their related files and documents. We inspected the four proposed project sites and reviewed property records maintained by the Authority and officially recorded deeds for the properties. We interviewed the original complainant and nine other individuals who reside in the Charleston area and requested to be interviewed. We also reviewed written comments from three additional individuals who reside in the Charleston area.

Our review generally covered the period February 1997 through January 1999. The review was extended to other periods when appropriate. We conducted our review November 1998 through February 1999.

BACKGROUND

We received a hotline complaint from a Charleston area citizen in August 1998. We also received complaints from other citizens in the Charleston area during January and February 1999. The complaints concerned whether the sites selected for new public housing projects being developed by the Authority met HUD requirements.

The Authority administered a Public Housing Program of 1,327 units and a Section 8 Housing Program of 1,152 authorized units. The Authority also managed a Drug Elimination Program, a Service Coordinator Program, and a Comprehensive Grant Program. In fiscal year 1998, the Authority's expenditures for all programs totaled about \$10.5 million.

On July 24, 1995, the Authority received HUD approval for its application to dispose of Ansonborough Homes, a project of 162 vacant units located near downtown Charleston. The Authority received HUD approval of its application to develop replacement housing for Ansonborough Homes on February 11, 1997. The Authority submitted a proposal for 60 such units in January 1998. The Authority proposed four locations within the Charleston city limits, including two on Johns Island, one on James Island, and one in the West Ashley area. The Authority has not received HUD approval of the four sites.

The units are to be developed using funds from the sale of the Ansonborough site, proceeds from insurance claims for hurricane damage to the project, and HUD Comprehensive Improvement Assistance Program funds. HUD allowed the Authority to retain the \$2.65 million sale proceeds and the \$828,349 insurance claim proceeds for Ansonborough Homes. HUD required the Authority to maintain the sale and insurance proceeds in an investment account and obtain HUD approval prior to spending funds from the account.

SUMMARY

We determined that the four sites met HUD site selection requirements. However, we determined that the Authority did not follow HUD land acquisition requirements.

The Authority used \$288,000 of HUD funds to purchase and begin development of three properties without the required HUD authorization. The Authority completed purchase agreements for the sites without negotiating the prices and before obtaining appraisals of the properties' value. The acquisition cost for the properties may be excessive. Upon completion of our review, the Authority stated that the \$288,000 had been reimbursed to the Public Housing funds.

The Authority also did not obtain HUD approval prior to executing an option to purchase a property for a fourth public housing project. The option price of \$85,000 was not fully supported and was possibly excessive. The Authority also planned to amend the option to about double the size of the property and to increase the price to \$170,000.

We are recommending the Authority provide HUD with documentation of its actions in acquiring the four properties and documentation to support the acquisition, option prices, and the reimbursement of the Public Housing funds. We are further recommending that HUD determine if the properties are eligible, and if eligible, the acquisition prices allowable for HUD funding.

Details of the findings and recommendations are in Attachment A.

We provided the Authority a draft of the findings and discussed them with Authority staff on March 24, 1999. The Authority staff agreed with part of Finding 1. They stated that the Authority used HUD funds in error and returned the \$288,000 to the HUD program following our site review. The Authority staff disagreed with Finding 2 and stated that HUD funds were not at risk. We summarized the Authority's comments in the findings and included them as Attachment B.

Within 60 days, please give us, for each recommendation in the report, 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. Also, please furnish us copies of any correspondence or directives issued because of this review.

We provided a copy of this memorandum to the Authority.

If you have any questions, please contact me at (404) 331-3369, or Bruce Milligan, Senior Auditor, at (336) 547-4056.

Attachments:

- A - Findings and Recommendations
- B - Schedule of Unsupported Costs
- C - Authority Comments
- D - Distribution

FINDINGS AND RECOMMENDATIONS

Finding 1 - Land Acquisition Requirements Were Not Followed

The Authority did not follow HUD land acquisition requirements when it acquired three properties for public housing projects. The Authority used \$288,000 of HUD funds to purchase and begin development of the properties without the required HUD authorization. The Authority completed purchase agreements for the sites without negotiating the prices and before obtaining appraisals of the properties' value. The acquisition cost for the properties may be excessive.

Criteria

The Annual Contributions Contract (ACC), Part A, Section 4, dated July 1995, requires the authority to develop each project in a manner to promote efficiency and economy. Attachment 5, Section 1, of the ACC requires the authority to follow HUD acquisition requirements including obtaining HUD approval before taking an option or acquiring title to a project site.

The Public Housing Development Handbook 7417.1 REV-1, Chapter 8, dated December 1991, states that the authority shall not make payment for any services relating to site acquisition until written authorization is obtained from HUD. Chapter 3 of the handbook provides requirements for acquisition of real property for the Scattered-Site Program. The authority must notify the owner in writing of HUD's estimate of the fair market value of the property. Form HUD-51971-II, Purchase Agreement, includes a space for HUD's estimate. Chapter 3 states further that if the authority does not notify the owner of HUD's estimate, the authority must comply with the requirements of Paragraphs 5-2 through 5-8 of HUD Handbook 1378.

HUD Handbook 1378, Tenant Assistance, Relocation and Real Property Acquisition, Chapter 5, dated July 1992, provides additional requirements for real property acquisitions. Real property is to be appraised prior to initiation of negotiations. Two appraisals are encouraged for high value properties. An amount of just compensation should be established prior to initiation of negotiations. The basis for just compensation is to be provided to the owner with the initial written purchase offer.

The Code of Federal Regulations, 24 CFR, Part 941.302, effective July 22, 1996, states that the authority may not expend funds to purchase a project site until receiving HUD approval.

Land acquisition requirements not followed

In acquiring three properties for three public housing scattered site projects, the Authority did not comply with the following requirements:

- a) The Authority used \$288,000 of HUD funds to purchase and begin development of the three sites in January and February 1998 without obtaining HUD approval of the sites or written authorization to use HUD funds to purchase the properties. The Authority submitted an amendment to its project application to HUD April 1, 1998, but did not notify HUD that the Authority had already purchased the three project sites.

- b) The Authority did not obtain HUD's approval of the fair market value of each site. Thus, the owners did not receive this information as required by Handbook 7417 making the requirements of Handbook 1378 applicable.
- c) The Authority did not establish or provide amounts of just compensation to the property owners.
- d) The Authority did not obtain an appraisal of each property prior to negotiating the purchase price and executing a purchase agreement with each owner. The Authority agreed to the price each owner requested without any negotiations.

After the Authority and the owners executed the purchase agreements establishing the sales prices, the Authority obtained an appraisal of each property. The appraisals concluded the purchase prices were reasonable. The Authority did not submit the appraisals to HUD for review.

The Authority's use of the HUD funds of \$288,000 to purchase and begin developing the sites before receiving HUD concurrence put the funds at risk. By agreeing to the purchase prices before obtaining appraisals and without negotiating the prices with the owners, the Authority did not have proper assurance that the purchase prices were reasonable.

The Authority did not have proper controls in place to ensure land acquisitions complied with HUD requirements. The Executive Director initially stated that the Authority used funds of a related agency instead of HUD funds to purchase the sites. However the accounting records showed, and the Director of Administration confirmed, that HUD funds were used. The Director of Administration stated she thought the use of HUD funds was authorized because HUD had approved the Authority to incur preliminary costs. However, HUD had approved preliminary costs of only \$26,287.

The Executive Director stated that the Authority reimbursed the \$288,000 to its HUD program on March 19, 1999, after the completion of our site review.

Authority Comments (Summary)

The Authority stated that it intended to purchase the three properties using non-HUD program funds and to land bank the properties pending HUD approval of the sites. The Authority stated that the Authority's use of HUD funds for the purchase was a human error instead of a circumvention of HUD procedures. The Authority stated the "at risk" funds were those of the Authority's enterprise fund instead of HUD funds. The Authority stated that it had not presented the three properties to HUD for review and authorization for use of HUD funds. The Authority agreed that updated appraisals of the properties may be necessary. The full text of the Authority's comments is included in Attachment B.

Evaluation of Response

We do not agree that the Authority did not submit the three properties to HUD for review. The three properties were included in the proposal for 60 replacement housing units on four sites submitted by the Authority to HUD in January 1998. HUD funds were at risk until the Authority reimbursed the \$288,000 to the HUD program following our site review. The Authority did not address (1) the reasonableness of the acquisition prices, and (2) the procedures the Authority should establish to ensure compliance with requirements for future land acquisitions.

Recommendations

We recommend that you:

- 1A. Require the Authority to submit a chronology and explanation of the steps it took to acquire the three properties and copies of related documents including the property appraisals.
- 1B. Review the documents submitted by the Authority, obtain other information as necessary, and determine if HUD should approve the properties for the Authority's scattered site project.
- 1C. If your office approves the properties, review the property appraisals and other information as necessary and determine the cost of the properties eligible to be funded by HUD.
- 1D. Require the Authority to submit documentation verifying the \$288,000 of HUD program funds have been reimbursed.
- 1E. Require the Authority to establish procedures to ensure compliance with land acquisition requirements for future public housing development projects.

Finding 2 - Option Price May Be Excessive

The Authority did not obtain HUD approval prior to executing an option to purchase a property for a public housing project. The option price of \$85,000 was not fully supported and was possibly excessive. The Authority also planned to amend the option to about double the size of the property and to increase the price to \$170,000.

Criteria

The ACC, Part A, Section 4, dated July 1995, requires the authority to develop each project in a manner to promote efficiency and economy. Attachment 5, Section 1, of the ACC requires the authority to follow HUD acquisition requirements including obtaining HUD approval before taking an option or acquiring title to a project site.

HUD approval of purchase option not obtained

The Authority did not obtain HUD approval before executing an option to purchase a site for scattered site housing. The option was with an Authority non-profit corporation. The non-profit corporation purchased the site, 4.06 acres, on January 20, 1998. On the same date, the non-profit corporation and the Authority executed an option for the Authority to purchase approximately two acres of the property for \$85,000. At the completion of our review, the Executive Director stated that the Authority planned to increase the number of units for the site and to purchase the full 4.06 acres. The tentative purchase price for the full site was \$170,000.

The option price was possibly excessive. The owner previous to the non-profit corporation acquired 5.04 acres, which included the 4.06 acres acquired by the non-profit corporation, on April 17, 1997, for \$110,000. The previous owner completed a purchase agreement with the non-profit corporation on August 19, 1997, and the sale was completed January 20, 1998, for \$170,000. Thus in about 8 months the previous owner acquired the 4.06 acres for about \$22,000 per acre and sold the land for about \$42,000 per acre, an increase of about 91 percent. This increase in price indicated the Authority's option price for the property was possibly excessive.

The option price was also not properly supported. The Authority obtained an appraisal of the property dated October 31, 1997, which was after the non-profit corporation had already executed a purchase agreement to pay the previous owner \$170,000. The appraisal supported the price of \$170,000. However, the appraiser's selection and analysis of comparable sales had apparent weaknesses. The Authority did not submit the appraisal to HUD.

The Authority did not have proper controls in place to ensure real property acquisitions complied with HUD requirements.

Authority Comments (Summary)

The Authority stated that the option agreement was an obligation of the Authority's enterprise fund instead of HUD funds. The full text of the Authority's comments is included in Attachment B.

Evaluation of Response

The option provided the Authority an opportunity to purchase the property. The property was included in the proposal for 60 replacement housing units on four sites submitted by the Authority in January 1998 to HUD. The Authority's inclusion of the property in the proposal indicates the Authority's intention to use HUD funds to pay the site acquisition cost. If the Authority proceeds in this manner, the requirements for HUD approval of the option and reasonableness of the purchase price will apply.

Recommendation

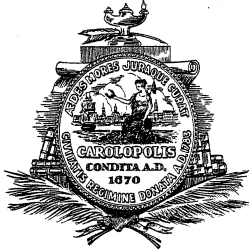
We recommend that you:

- 2A. Review the appraisal obtained by the Authority and determine if the appraisal is properly prepared and can be used to determine the value of the property. If the appraisal is not acceptable, obtain a valid appraisal.
- 2B. Determine the property value which the Authority may pay with HUD funds.
- 2C. If your office approves the property, require the Authority to submit the purchase agreement for your concurrence of the purchase price.

SCHEDULE OF UNSUPPORTED COSTS

<u>Recommendation</u>	<u>Unsupported¹</u>
1D	\$288,000

¹ Unsupported costs are those whose eligibility cannot be clearly determined during the audit since such costs were not supported by adequate documentation.

AUDITEE COMMENTS**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTON**

550 MEETING STREET, CHARLESTON, SOUTH CAROLINA 29403
 TELEPHONE (843) 720-3970 FAX # (843) 720-3977 TDD (843) 720-3685
 Donald J. Cameron - Executive Director

April 5, 1999

1991-97
 CERTIFICATE OF EXCELLENCE
 IN MANAGEMENT OPERATIONS
 U.S. DEPARTMENT OF HOUSING AND
 URBAN DEVELOPMENT

1997
 FOUNDERS AWARD
 HISTORIC CHARLESTON FOUNDATION

1994
 SUSTAINED PERFORMANCE AWARD
 U.S. DEPARTMENT OF HOUSING AND
 URBAN DEVELOPMENT

1989, 1990, 1997
 CAROLOPOLIS AWARD
 PRESERVATION SOCIETY
 OF CHARLESTON

1991
 SPECIFIC ACTIVITY AWARD
 U.S. DEPARTMENT OF HOUSING AND
 URBAN DEVELOPMENT

1991
 HONOR AWARD
 AMERICAN INSTITUTE OF ARCHITECTS

1988
 AWARD FOR
 NATIONAL EXCELLENCE
 U.S. DEPARTMENT OF HOUSING AND
 URBAN DEVELOPMENT

1986
 HONOR AWARD
 AMERICAN INSTITUTE OF ARCHITECTS

1985
 AWARD FOR
 DESIGN EXCELLENCE
 PRESIDENT RONALD REAGAN

1985
 HONOR AWARD
 NATIONAL ASSOCIATION OF HOUSING
 AND REDEVELOPMENT OFFICIALS

1984
 FEDERAL DESIGN
 ACHIEVEMENT AWARD
 NATIONAL ENDOWMENT
 FOR THE ARTS

Mr. P. Bruce Milligan, Senior Auditor
 U.S. Department of Housing and Urban Development
 Office of Audit
 Richard B. Russell Federal Building
 75 Spring Street, SW, Room 330
 Atlanta, GA 30303-3388

Dear Mr. Milligan:

The purpose of this letter is to follow up on the Exit Conference held here March 24.

The Authority, created under South Carolina Code, is a multifaceted organization of which the governmental funds are but one component of the entity. By this I mean, HUD assisted public housing may in most housing authorities be synonymous with the identity of the PHA. However, in our case, this is not true. With the exception of when one of our not for profit entities is utilized, all transactions are in the name of the Charleston Housing Authority, but not necessarily of the governmental fund. I point this out because all contracts, checks etc. are in our name and are liabilities of the entity but not again of the governmental fund unless specifically authorized.

The second overall point I would like to make is the Authority, as far back as 1980, has had site standards of what is a good potential site for affordable housing. These standards, unfortunately, severely limit (for good reason) land that is available to be considered for possible use. The process starts with the City Planning Department preparing a Preliminary Site list, of which sixteen pages were sent to us in July 1996. That list, within two months of windshield surveys, record checks, etc., was pared down to eight to ten likely candidates. The point being, out of thousands of parcels of land in and adjacent to the City of Charleston, only a few dozens were even available for consideration, and after a first cut, a handful remained. To this, add two other factors: REITS had entered the market to buy up almost any potential site; and, very importantly, if an owner was not willing to sell, we walked away from the site no matter how desirable it appeared. Due to the length of time HUD development programs generally take, we chose to acquire the probable sites in our own name or through our not for profit entity in a land banking plan.



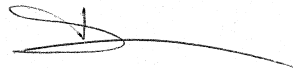
Mr. P. Bruce Milligan
April 5, 1999
Page 2

That land banking was to be funded through the Charleston Housing Finance Agency, an Enterprise Fund of the Housing Authority. It was planned that once the development proposal was approved and an Annual Contributions Contract executed, we would submit the sites to the HUD office in Columbia for approval and authorization to purchase utilizing the governmental funds of SC16P001023.

Lastly and most critical, I believe all of us have to have a proper understanding of the events that took place concerning the expensing in January and May 1998 to the governmental fund. We must recognize that this was a human error and not a circumvention of proper procedures preceding HUD authorization for site acquisition.

We appreciate the open dialogue that took place during our recent meeting and the opportunity to place our comments in writing. Attached is our specific response to the two findings previously forwarded to us.

Sincerely,



Donald J. Cameron
Executive Director

DJC:ss

Finding 1 - Authority Comment

The Authority has not presented the three properties in question to the HUD office in Columbia for appropriate review, evaluation and authorization for expensing to the Governmental Fund. The 'at risk' funds are those of the Housing Authority's Enterprise Fund. Inasmuch as, the Authority land banked these properties fourteen to fifteen months ago, updated appraisals may be in order.

Finding 2 - Authority Comment

The option agreement entered into in the name of the Authority is not an obligation of the Governmental Fund. The 'at risk' obligation is that of the Enterprise Fund.

DISTRIBUTION

Executive Director, Housing Authority of the City of Charleston
 Deputy Secretary, SD (Room 10100)
 Chief of Staff, S (Room 10000)
 Special Assistant to the Deputy Secretary for Project Management, SD (Room 10100)
 Acting Assistant Secretary for Administration, S (Room 10110)
 Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)
 Senior Advisor to the Secretary, Office of Public Affairs, S, (Room 10132)
 Deputy Assistant Secretary of Administrative Services/Director of Executive Secretariat, AX
 (Room 10139)
 Director of Scheduling and Advance, AL (Room 10158)
 Counselor to the Secretary, S (Room 10234)
 Deputy Chief of Staff, S (Room 10226)
 Deputy Chief of Staff for Operations, S (Room 10226)
 Deputy Chief of Staff for Programs and Policy, S (Room 10226)
 Director, Office of Special Actions, AK (Room 10226)
 Deputy Assistant Secretary for Public Affairs, W (Room 10222)
 Special Assistant for Inter-Faith Community Outreach, S (Room 10222)
 Executive Officer for Administrative Operations and Management, S (Room 10220)
 Senior Advisor to the Secretary for Pine Ridge Project, W, (Room 10216)
 General Counsel, C (Room 10214)
 Director, Office of Federal Housing Enterprise Oversight, O (9th Floor Mailroom)
 Assistant Secretary for Housing/Federal Housing Commissioner, H (Room 9100)
 Office of Policy Development and Research, R (Room 8100)
 Inspector General, G (Room 8256)
 Assistant Secretary for Community Planning and Development, D (Room 7100)
 Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)
 Government National Mortgage Association, T (Room 6100)
 Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)
 Chief Procurement Officer, N (Room 5184)
 Assistant Secretary for Public and Indian Housing, P (Room 4100)
 Chief Information Officer, Q (Room 3152)
 Director, Office of Departmental Equal Employment Opportunity, U (Room 5128)
 Director, Office of Departmental Operations and Coordination, I (Room 2124)
 Chief Financial Officer, F (Room 2202)
 Director, HUD Enforcement Center, V, 451 Portals Bldg, Suite 200, Washington, DC 20140
 Director, Real Estate Assessment Center, X, 1280 Maryland Avenue, SW, Suite 800
 Director, Office of Multifamily Assistance Restructuring, Y, 4000 Portals Building
 Secretary's Representative, 4AS
 State Coordinator, North Carolina State Office, 4FS
 Director, Office of Public Housing, 4FPH
 Deputy Chief Financial Officer for Finance, FF (Room 2202) (2)
 Director, Office of Budget, FO (Room 3270)

Audit Liaison Officer, 3AFI
Audit Liaison Officer, Office of Public and Indian Housing, PF (Room P8202)
Departmental Audit Liaison Officer, FM (Room 2206)
Acquisitions Librarian, Library, AS (Room 8141)
Counsel to the IG, GC (Room 8260)
HUD OIG Webmanager-Electronic Format Via Notes Mail (Morris_F._Grissom@hud.gov)
Public Affairs Officer, G (Room 8256)
Director, Housing and Community Development Issue Area, U.S. GAO, 441 G Street N.W.,
Room 2474, Washington DC 20548 ATTN: Judy England-Joseph
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs,
United States Senate, Washington DC 20510-6250
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,
United States Senate, Washington DC 20510-6250
The Honorable Dan Burton, Chairman, Committee on Government Reform,
United States House of Representatives, Washington DC 20515-6143
Henry A. Waxman, Ranking Member, Committee on Government Reform, United States House
of Representatives, Washington, DC 20515-4305
Ms. Cindy Sprunger, Subcommittee on Oversight and Investigations, Room 212,
O'Neil House Office Building, Washington, DC 20515-6143
Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, NW,
Room 9226, New Executive Office Bldg., Washington, DC 20503