



Issue Date	July 16, 1999
Audit Case Number	99-CH-213-1006

TO: Edward J. Hinsberger, Director, Chicago Multifamily Hub

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: West Park Place Residents Association for Preservation
Resident Homeownership Program Grant
Preservation Technical Assistance Planning Grant
Chicago, Illinois

We completed an audit of the Resident Homeownership Program Grant and Preservation Technical Assistance Planning Grant awarded to the West Park Place Residents Association for Preservation. We conducted the audit in response to a complaint received from some residents of the property. The objectives of our review were to determine whether: (1) grant costs incurred were eligible and properly supported and (2) the proposed rehabilitation work was satisfactorily performed.

We found that the Resident Homeownership Program Grant costs incurred by the Association were eligible and properly supported. However, the Association did not effectively administer nor did HUD effectively monitor the grant. Additionally, the Association did not expend all of its Preservation Technical Assistance Planning Grant funds received from HUD.

Within 60 days, please give us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why you consider action unnecessary. Also, please furnish us copies of any correspondence or directives issued because of this audit.

Should your staff have any questions, please have them contact me at (312) 353-7832.

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Executive Summary

We completed an audit of the Resident Homeownership Program Grant and Preservation Technical Assistance Planning Grant awarded to the West Park Place Residents Association for Preservation. We conducted the audit in response to a complaint received from some residents of the property. The objectives of the audit were to determine whether: (1) grant costs incurred were eligible and properly supported; and (2) the proposed rehabilitation work was satisfactorily performed.

We found that the Resident Homeownership Program Grant costs incurred by the Association were eligible and properly supported. However, the Association did not effectively administer nor did HUD effectively monitor the Resident Homeownership Program Grant. Additionally, the Association did not expend all of its Preservation Technical Assistance Planning Grant funds.

The Resident Homeownership Program Grant Was Not Effectively Administered or Monitored

The West Park Place Residents Association for Preservation did not effectively administer nor did HUD effectively monitor the Resident Homeownership Program Grant. Specifically: (1) building roofs were not replaced or adequately repaired; (2) deficient concrete work was not remedied in a timely manner; (3) compliance with housing quality standards was not assured; (4) the grant account was not reimbursed for rehabilitation upgrades paid for by residents; and (5) rehabilitation work was not completed in a timely manner. The problems resulted from a lack of communication and coordination between the Association, its contractors, and HUD. As a result, there is no assurance that the grant will meet its objective of providing home ownership opportunities for residents with units that meet housing quality standards.

The West Park Place Residents Association Did Not Expend All Preservation Technical Assistance Planning Grant Funds

The West Park Place Residents Association for Preservation did not expend all of the Preservation Technical Assistance Planning Grant funds received from HUD. The Association expended \$118,079 of \$125,000 received, leaving an unexpended balance of \$6,921. Additionally, the Association overpaid a firm for legal services by \$3,441. The Association drew down grant funds based on cost estimates rather than on actual costs. As a result, the Preservation Technical Assistance Planning Grant funds received were not used for eligible grant activities and \$10,362 should be returned to HUD.

We recommend that the Director, Chicago Multifamily Hub, assures that the West Park Place Residents Association for Preservation: (1) develops a plan for adequately repairing or replacing all building roofs at the development in an expeditious manner; (2) completes repairs to the Project's

electric system resulting from deficient concrete work.; (3) ensures that all units meet HUD's housing quality standards prior to completing the sales of units to residents; (4) transfers all funds collected from residents for rehabilitation work upgrades to the rehabilitation escrow account; (5) ensures that all remaining contractual issues are resolved and expeditiously closes out the contract with the general contractor; and (6) repays HUD \$10,362 in Technical Assistance Planning Grant funds not expended for eligible grant purposes.

We presented our draft findings to the Association's Board President and HUD Chicago Multifamily Hub staff during the audit. We held an exit conference with the Board President on June 18, 1999. The Association and the Chicago Multifamily Hub provided written comments to our findings and recommendations. We included excerpts from the comments in each finding and Appendices B and C contain the complete texts of the comments.

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Introduction

The purposes of the Low Income Housing Preservation and Resident Homeownership Act of 1990 were to: (1) Keep housing affordable to low income families without unduly restricting property owners' prepayment rights; (2) Minimize involuntary displacement of tenants; (3) Work with State and local governments and the private sector to provide housing that is affordable to low and moderate income families; and (4) Facilitate the sale of housing to residents.

In August 1994, the West Park Place Residents Association for Preservation was awarded a \$125,000 Preservation Technical Assistance Planning Grant from HUD. The general purposes of this grant included: (1) establishing a resident council; (2) providing assistance in preparing and submitting an expression of interest and a bona fide offer to acquire the Project; and (3) preparing the transfer of physical assets package.

In May 1995, the West Park Place Residents Association for Preservation was awarded a Resident Homeownership Program Grant from HUD in the amount of \$14,183,850. This amount was comprised of \$11,412,072 for purchasing the property; \$69,000 for establishing a reserve for replacement account; and \$2,702,778 for rehabilitating the property and training residents on homeownership.

The West Park Place Residents Association for Preservation's Homeownership Program Grant is administered by the Chicago Community Development Corporation. Its books and records are located at 36 S. Wabash, Suite 1310, Chicago, IL 60603. The rehabilitation escrow account is maintained by Chicago Title and Trust Company. The West Park Place Residents Association for Preservation's President is Marcia Scardina.

Audit Objectives

Our audit objectives were to determine whether: (1) grant costs incurred were eligible and properly supported; and (2) the proposed rehabilitation work was satisfactorily performed.

Audit Scope and Methodology

We performed our audit work between January and May 1999. To obtain general information about the Preservation Technical Assistance Planning Grant and Resident Homeownership Program Grant, we interviewed appropriate HUD staff, the Association's Board President, and Board representatives. We also reviewed HUD's grant files to determine the scope of the rehabilitation work to be performed, and the extent of HUD's monitoring of the grant program.

We reviewed all contracts applicable to the Resident Homeownership Program Grant rehabilitation work and consulting services to determine whether the contract work

performed was consistent with the approved grant scope of work.

To determine whether there were indications of poor quality work or major deficiencies, we physically inspected selected residential units and common areas of the property.

To ascertain whether the Resident Homeownership Program Grant amounts drawn down were properly approved and supported by appropriate source documentation, we reviewed the receipt and disbursement documentation maintained by the Chicago Title and Trust Company.

We analyzed a sample of 25 relocation disbursements to determine if the relocation expenses incurred were eligible and properly supported.

To ensure that payments received from residents for rehabilitation upgrades were credited against rehabilitation costs charged to the HUD Preservation Grant, we reviewed rehabilitation contract change orders. We then reconciled these change orders to the property management agent's listing of payments received from residents for rehabilitation work upgrades.

To determine whether Preservation Technical Assistance Planning Grant disbursements were eligible and supported by appropriate source documentation, we reviewed the grant budgets and payment documentation.

The audit covered Preservation Technical Assistance Planning Grant and Resident Homeownership Program Grant activities for the period August 1994 through March 1999.

We conducted the audit in accordance with generally accepted government auditing standards. We provided a copy of this report to the West Park Place Residents Association for Preservation's President.

The Resident Homeownership Program Grant Was Not Effectively Administered Or Monitored

The West Park Place Residents Association did not effectively administer nor did HUD effectively monitor the Resident Homeownership Program Grant. Specifically: (1) building roofs were not replaced or adequately repaired; (2) deficient concrete work was not remedied in a timely manner; (3) compliance with housing quality standards was not assured; (4) the grant account was not reimbursed for rehabilitation upgrades paid for by residents; and (5) rehabilitation work was not completed in a timely manner. The problems resulted from a lack of communication and coordination between the Association, its contractors, and HUD. As a result, there is no assurance that the grant will meet its objective of providing home ownership opportunities for residents with units that meet housing quality standards.

Grantee Responsibilities

Article II of the Resident Homeownership Program Grant Agreement executed on May 10, 1995 between the West Park Place Residents Association and HUD states that the Grantee shall carry out the work items approved in the Resident Homeownership Plan including providing the necessary personnel, materials, services, equipment, facilities and otherwise doing all things necessary for or incidental to the performance of the program activities. Article III of the Agreement states that the Grantee shall complete all program activities, including acquisition, rehabilitation, and transfer of at least 75 percent of occupied units (representing at least 50 percent of the total units of the project) which require funding by this grant within a period not to exceed four years from the date of execution of this Grant Agreement.

Section 18 of the Use Agreement For Resident Homeownership Under The Low Income Housing Preservation And Resident Homeownership Act Of 1990 (Use Agreement) states that during the conversion period, the Resident Council shall maintain the project in accordance with the housing quality standards set forth in 24 CFR Part 886 and local housing codes.

HUD Responsibilities

Article II of the Resident Homeownership Program Grant Agreement states that during the effective period of the Grant Agreement, the Government Technical Representative or the

Government Technical Manager shall be responsible for monitoring the approved activities of the Grantee.

Section 18 of the Use Agreement states that the Department shall conduct an annual physical assessment of the Project in order to ensure compliance with the housing quality standards.

Owner Representative Responsibilities

Section 1 of the Owner Representative For Construction Agreement states that the Owner's Representative will establish communication procedures with the Owner that ensure the flow of information to both the Owner and the Owner Representative from all parties and coordinate among all participants including the Owner, Architect, General Contractor, property manager, tenants, movers, etc. The Agreement also states that the Owner Representative shall make sure that these procedures, contracts, and all applicable governmental requirements are understood and properly carried out. Section 1 of the Agreement further requires the Owner Representative to coordinate the construction schedule.

General Contractor Responsibilities

Paragraph 12.2.1 of the General Conditions of the Contract for Construction states that the Contractor shall promptly correct construction work rejected by the Architect. The Contractor shall bear the costs of correcting such rejected work, including additional testing and inspections and compensation for the Architect's services and expenses made necessary thereby.

Building roofs were not replaced or adequately repaired

The Residents Association and HUD did not ensure that the building roofs were adequately repaired or replaced as part of the rehabilitation project. As a result, leaking roofs continue to be a problem even though the rehabilitation project is in the final completion phase.

In February 1995, the Residents Association submitted its initial Management Improvement and Operating Plan to HUD for approval. This plan contained a cost estimate and narrative statement of work for each line item of rehabilitation work to be performed at the project.

The initial Plan provided for removing and replacing roofing at an estimated cost of \$141,300. The need for this work was justified in the narrative statement of work as follows: "The existing built-up roofing is old and has been repaired numerous times. It is in need of replacement at all four sites of the project. There are leaks in units that annually are in need of

repair. The structure below the new roof should be verified for slope in order to improve the overall drainage and prevent damage to the exterior and interior of the property.”

The total grant amount that the West Park Place Residents Association requested from HUD exceeded the maximum amount of grant funds available under the Resident Homeownership Grant Program. Reductions to the initial Management Improvement and Operating Plan were negotiated between HUD and the Owner Representative. As a result of the negotiations, the approved grant amount for roof repairs was reduced from the \$141,300 initially requested to \$50,000. The scope of work changed from roof replacement to roof patching. However, there was no documentation available to justify the reduction in the scope of work. The roof patching work was completed in August 1996.

The roof patching work performed as part of the rehabilitation project was ineffective to alleviate the problem of leaking roofs. Four of 11 units we visited on March 24, 1999 showed evidence of roof leaks. An example follows:



Evidence of roof leak at 1729A Larrabee

Although the Project is beginning the process of converting its units to condominiums, a plan for a long term solution to the roofing problems has not been developed. The lack of an acceptable solution could adversely affect the sale of units to residents. Therefore, there is no assurance that the Resident

Substandard Concrete
Work Was Not Remedied

Homeownership Program grant will meet its objective of providing homeownership opportunities for residents.

Concrete work performed as part of the rehabilitation of the Project was completed between August and October 1996. The general contractor was paid \$73,164 for the concrete work performed. By December 1996, the Architect discovered problems with the concrete decks and flatwork. The work was redone by a different contractor in late 1997 but the quality of the work performed again was deficient. The following photograph shows the condition of the concrete deck work as of January 21, 1999:



Deficient concrete deck work and subsequent patching at
1719-1739 Larrabee

The concrete work was chipping due to improper installation. As a result, water leaked into mechanical rooms located beneath the concrete decks causing damage to the project's electrical systems.

On September 17, 1998, the Residents Association's Attorney advised the general contractor that an adjustment of \$67,000 for the improperly performed concrete work would be applied against the rehabilitation contract balance due. On October 14, 1998, a notice of default was served on the general contractor. The notification required the general contractor to commence correction of the substandard work within seven days. On October 15, 1998, the general contractor wrote to the Project's Attorney denying faulty workmanship by the general contractor or its subcontractors.

In May and June of 1999, concrete remediation work was completed at the Project. The Residents Association plans to make related repairs to the Project's electrical system in the near future.

Compliance With Housing
Quality Standards Was
Not Assured

Under the terms of the Use Agreement, the West Park Place Residents Association was to ensure that units met HUD's housing quality standards during the four-year conversion period that began on May 10, 1995. Additionally, HUD was to perform an annual physical assessment of the Project to ensure compliance with housing quality standards.

Neither the West Park Place Residents Association nor HUD performed physical inspections of the Project to verify that units met housing quality standards. The Project's management agent said housing quality standards' inspections were not performed because of the rehabilitation work being done at the property. HUD's Office of Multifamily Housing believed that the periodic physical inspections that HUD performed of rehabilitation work completed met the annual inspection requirement. However, these inspections were performed as part of the fund drawdown approval process and did not specifically verify compliance with housing quality standards. As a result, there is no assurance that the grant will meet its objective of providing home ownership opportunities for residents with units that meet housing quality standards.

Funds Collected From
Residents Were Not
Credited to The Grant
Account

The Project's management agent provided us with a listing of payments received from residents for rehabilitation work upgrades. These upgrades were requested by the residents and consisted of work items not included in the standard scope of rehabilitation work for the respective units. The listing showed that a total of \$2,953 was received from residents for the upgrades. The funds received from residents were deposited into the Project's operating account. However, HUD Resident Homeownership Program grant funds were used to pay the general contractor for the upgrades. Therefore, funds received from residents should have been credited back to the HUD Resident Homeownership Program grant account.

Rehabilitation Work Was
Not Completed In A
Timely Manner

The general contractor commenced rehabilitation work at the Project in June 1996. The contract provided for a construction period not to exceed 270 days. Therefore, the rehabilitation work should have been completed by April 1997. However,

the rehabilitation contract had not been closed out as of March 31, 1999, or two years beyond the planned completion date.

The construction delays have increased the costs associated with the rehabilitation work. In April 1998, the Project's Architect billed the Residents Association the amount of \$18,360 for additional hours worked on the rehabilitation project. The architectural firm attributed the additional hours worked to construction delays. Representatives from the Residents Association Board and its legal counsel, the Owner Representative, and the management agent agreed that all entities involved contributed to the construction delays. Upon the advice of its legal counsel, the Residents Association paid \$6,000 to the architectural firm in September 1998 pending a final resolution of the matter.

The Residents Association Board, the Owner Representative, the architectural firm, and the general contractor all shared responsibility for ensuring that the rehabilitation work was satisfactorily completed in a timely manner. Additionally, HUD was responsible for monitoring the grant activities. However, because the responsibilities were not properly accomplished, the rehabilitation work is not complete and there is no assurance that the grant will meet its objective of providing home ownership opportunities for residents.

Auditee Comments

Excerpts from the Resident Association's comments on our finding follow. Appendix B contains the complete text of the comments.

In the findings it was indicated that "there is no assurance that the grant will meet the objective of providing home ownership opportunities for residents with units that meet housing quality standards." The Association strongly disagrees with this statement.

The initial goals of WPPRA were to preserve affordable housing and provide homeownership opportunities. The majority of residents are demonstrating a strong interest in purchasing their units. More than two thirds of the residents of the property have attended Condominium Conversion Information Sessions. Every resident has received a purchase application and as of May 21, 1999 eight households have closed on the purchase of their units.

The Association expects to achieve sales goals by the end of the summer 1999. There is no indication that the physical condition of the apartments will have any negative impact upon the successful marketing of the units.

WPPRA made the difficult decision to proceed with the purchase of West Park Place to achieve the goals of preservation of the property as affordable housing and homeownership after the initial request to HUD of rehabilitation costs of \$2,883,866 was reduced by HUD to \$2,484,982. This difficult decision required a reduction in the scope of work to be completed in the rehabilitation plan including removing the replacement of roofs as an element of the plan. The long-term maintenance plan anticipated utilizing funds in the replacement reserve account to replace the roofs. In the past year management has repaired all known roof leaks at the property. The Association has instructed management to continue to repair roof leaks and associated interior damage to units on an as needed basis. The Association has developed a plan for adequately repairing and replacing all building roofs.

At the time of the IG inspection in January 1999, the Association was in negotiations with the General Contractor to resolve the issue of the unsatisfactory concrete work provided at the site. Since that time a final agreement has been negotiated. The Association began the replacement of the deficient concrete work in May 1999. Completion is anticipated in June 1999. The necessary electrical repairs will be completed upon the completion of the concrete remediation.

Over the course of the rehabilitation, West Park Place was inspected regularly by HUD inspecting engineers. All issues raised by HUD inspectors were resolved in a timely manner. The Association has never received any citation from HUD or any other entity indicating that units were not in compliance with Housing Quality Standards.

The credits to the HUD Resident Homeownership Grant account totaling \$2,953 will be made with the final payout to be submitted to HUD in May 1999. They were not made previously because we were awaiting the final payout to reconcile all balances.

The rehabilitation program was completed in May 1998. The final closeout of the contract was negotiated in April 1999. Final payout to the contractor is expected in June 1999.

OIG Evaluation of
Auditee Comments

Under the terms of the grant agreement, the Resident Association should have sold at least 44 units to residents by May 10, 1999. Given that only eight units were transferred as of May 21, 1999, the Resident Association remains far behind the required number of units to be transferred to residents. Moreover, a total of 29 residents signed a complaint to OIG in November 1998 that expressed dissatisfaction with the physical condition of the property. Therefore, the deficiencies cited in our finding could adversely affect the sale of units to residents.

The results of our inspections of selected units and discussions with residents indicate that the Association's plan for replacing building roofs should be expedited. Timely action is necessary to prevent further damage to building interiors and personal property of the residents.

The Association's recent efforts to repair substandard concrete work, its plans to make related repairs to the property's electrical system, and its actions to close out the rehabilitation contract should correct deficiencies cited in the audit finding.

Because there is no evidence that the property was inspected for compliance with housing quality standards, there is no assurance that the units will meet such standards at the time of sale to residents.

HUD Comments

Excerpts from HUD's comments on our finding follow. Appendix C contains the complete text of the comments.

The replacement of the building roofs was not in the original capital needs assessment for the property. The Tenant Association proposed that the roofs be replaced, along with other additional repairs. However, due to cost constraints, a decision was made to patch the roofs instead of replacing them. Since the resources that were available to us were not limitless, that decision was based on the information available at that time.

Unfortunately, the roofs do need to be replaced. The owner has obtained an analysis of the roofing needs and has set a roof replacement schedule. It is anticipated that the funds to perform this work will come from the reserve for replacements. HUD will require the owner to submit a Management Improvement and Operating Plan (MIO) so that we can review and approve their plan and monitor its implementation.

Our office will inspect the property to verify satisfactory completion of the remaining concrete and electrical work prior to releasing the final construction draw.

HUD's inspector was at the site at least 9 times during the conversion period. A large percentage of the repairs under the construction contract were for interior items, so our inspector was in individual units. While we agree that full HQS inspection forms were not completed for every unit, our inspector was able to assess whether there were conditions that would constitute HQS violations. If such conditions were noted, we would have followed up and sent a team of Project Managers to conduct full HQS inspections. However, we made an administrative decision to use our resources in a manner so as to not duplicate efforts. Conducting full HQS inspections while a rehab (which HUD is actively monitoring) is being completed does not make sense and is not the most efficient use of our scarce resources. It should also be noted that when HQS inspections are performed at a project, a sampling of units are inspected. A 100% inspection would only be conducted if there were severe problems at the site.

With the implementation of HUD 2020, responsibility for performing physical inspections has been transferred from the Hub to the Real Estate Assessment Center (REAC). The REAC is responsible for having each property in HUD's inventory inspected each year; as a result, West Park Place will be inspected this fiscal year by a REAC contractor.

The owner has agreed to reimburse the grant account in the amount of \$2,953. This will be confirmed at the time of the final payout.

The completion of the rehabilitation work was slower than planned. Some of the delays were related to the dispute over the concrete work. Although the contract has not been closed out, the project was 98 percent complete as of May 1998. The owner submitted their final payout request on May 28, 1999. HUD will conduct a final inspection and process the final draw in accordance with the terms of the grant agreement once the necessary concrete and electrical repairs are satisfactorily completed.

OIG Evaluation of
HUD Comments

A Management Improvement and Operating Plan that will be approved and monitored by HUD should facilitate correction of the building roof deficiencies. However, the plan needs to provide for an expeditious solution to prevent further damage to building interiors and residents' personal property. Additionally, HUD's planned actions to inspect concrete and electrical repairs, as well as ensuring proper credit of resident payments, should ensure correction of deficiencies cited in our audit finding.

There is no documentation to show that the property was inspected for compliance with housing quality standards. As a result, there is no assurance that the units will meet such standards at the time of sale to residents.

Recommendations

We recommend that the Director, Chicago Multifamily Hub, assures that the West Park Place Residents Association:

- 1A. Develops a plan for adequately repairing or replacing all building roofs at the Project in an expeditious manner.
- 1B. Completes repairs to the Project's electric system resulting from deficient concrete work.
- 1C. Ensures that all units meet HUD's housing quality standards prior to completing the sales of units to residents.
- 1D. Transfers all funds collected from residents for rehabilitation work upgrades to the rehabilitation escrow account.

- 1E. Ensures that all remaining contractual issues are resolved and expeditiously closes out the contract with the general contractor.

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The West Park Place Residents Association Did Not Expend All Preservation Technical Assistance Planning Grant Funds

The West Park Place Residents Association did not expend all of its Preservation Technical Assistance Planning Grant funds received from HUD. The Association expended \$118,079 of \$125,000 received, leaving an unexpended balance of \$6,921. Additionally, the Association overpaid a firm for legal services by \$3,441. The Association drew down grant funds based on cost estimates rather than on actual costs. As a result, the Preservation Technical Assistance Planning Grant funds received were not used for eligible grant activities and \$10,362 should be returned to HUD.

Grant Requirements

Article V of the Technical Assistance Planning Grant Agreement dated August 19, 1994 and amended on April 11, 1995, states that the grant agreement shall continue in effect until completion of the activities in the Approved Application Package. Article IX states that the grantee shall immediately, upon expiration of the term of this Grant Agreement or completion of grant activities, whichever occurs first, refund any balance of unencumbered grant funds that HUD has advanced or paid.

Grant Funds Received Of \$6,921 Were Not Expended

The West Park Place Residents Association did not expend \$6,921 of the Preservation Technical Assistance Planning Grant funds received from HUD. The Association requested and received \$125,000 of grant funds from HUD and expended \$118,079 on eligible grant activities.

The Association did not expend all grant funds received because it drew down grant funds based on cost estimates rather than on actual costs incurred. Additionally, the consultant hired by the Association to administer the grant said that \$5,000 was drawn down to be used to furnish an office for the board of directors. However, no funds have been spent for this purpose and this activity was not included in the approved grant agreement.

Overpayment of \$3,441 Was Made For Legal Services

On March 2, 1995, the Association was billed \$26,559 for legal services received between December 1994 and January 1995. The Association paid the legal firm \$10,000 in April 1995 and an additional \$20,000 in May 1995. The payments exceeded

the amount billed by \$3,441. The consultant hired by the Association to administer the grant could not explain why the overpayment was made.

Auditee Comments

Excerpts from the Resident Association's comments on our finding follow. Appendix B contains the complete text of the comments.

The initial IG review of PTAG vouchers indicated an overpayment for legal costs from PTAG funds. Invoices totaling \$39,059 for legal fees in 1994 and 1995 are included as exhibit 2. Invoice number 125171 for \$12,500 was founded in stored archived files after the IG review.

The unexpended balance of \$6,921 Technical Assistance Planning Grant Funds was budgeted for equipment and furniture to furnish the Association office. The Association intends to furnish the office in June 1999.

OIG Evaluation of Auditee Comments

Although the total amount billed for legal services was \$39,059, the Resident Association paid a total of \$42,500 for the services. The invoice for \$12,500 was previously considered in our analysis of grant costs incurred.

There is no documentation to show that the unexpended balance of grant funds were budgeted for office furnishings and equipment.

HUD Comments

Excerpts from HUD's comments on our finding follow. Appendix C contains the complete text of the comments.

It should be noted that the WPPRA requested and subsequently received HUD approval to deposit the balance of funds in their account for future utilization. The approval was granted prior to the expiration of the Preservation Technical Assistance Grant (PTAG).

Also, please note that it is not uncommon for grantees to utilize Phase I grant funds for activities which may not appear to be in accordance with the executed grant agreement. To illustrate, Article IV Paragraph (a) of the

grant agreement indicates in part, that Phase I activities include “establishing and organizing a Resident Council or community based nonprofit organization” etc. However, it is not clearly defined how a grantee should proceed in carrying out this task. Surely, one can not expect a grantee to accomplish this activity without the proper tools i.e. furnishing an office to establish accounting procedures, accommodate meetings and other related activities. In addition, Article IV Paragraph (b) clearly states in part, that the grantee shall provide the necessary personnel, materials, services, equipment and facilities necessary for or incidental to the performance of the work set forth in the approved application and executed grant agreement.

Notwithstanding, due to the fact that the WPPRA did not expend all PTAG funds prior to the termination of the grant agreement, my office will implement the necessary procedures to recover \$6,921 as recommended. Additionally, with regards to the \$3,441 which in accordance to your draft audit was an overpayment to WPPRA’s legal consultant, my office will proceed with the necessary measures to recover same.

OIG Evaluation of HUD Comments

The Chicago Multifamily Hub’s planned actions to recoup grant funds will correct the conditions cited in the draft audit finding.

Recommendations

We recommend that the Director, Chicago Multifamily Hub, assures that the West Park Place Residents Association:

- 2A. Repays HUD \$10,362 in Technical Assistance Planning Grant funds not expended for eligible grant purposes.

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Management Controls

In planning and performing our audit, we considered the management controls of the West Park Place Residents Association for Preservation in order to determine our auditing procedures and not to provide assurance on management controls. Management controls consist of the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance adopted by management.

Relevant Internal Controls

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

- Program Operations - The policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - The policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - The policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - The policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss and misuse.

We assessed all of the relevant controls identified above.

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

Significant Weaknesses

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

- Program Operations: The Association did not effectively administer nor did HUD effectively monitor the Resident Homeownership Program Grant. Specifically: (1) building roofs were not replaced or adequately repaired; (2) deficient concrete work was not remedied; (3) compliance with housing quality standards was not assured; (4) the grant account was not reimbursed for rehabilitation upgrades paid for by residents; and (5) rehabilitation work was not completed in a timely manner (see Finding 1).
- Compliance with Laws and Regulations: The Association did not properly expend all of its Preservation Technical Assistance Planning Grant funds received from HUD, as required by Article V of the Technical Assistance Planning Grant (see Finding 2).

Follow Up On Prior Audits

This is the first audit of both the West Park Place Residents Association's Technical Assistance Planning Grant and its Homeownership Program Grant by HUD's Office of Inspector General. The latest Independent Public Accountant audit covered the fiscal year ended December 31, 1997. The report contained no findings.

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Schedule Of Questioned Costs

<u>Recommendation Number</u>	<u>Ineligible Costs</u>
2A	\$10,362

Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

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Auditee Comments

WEST PARK PLACE RESIDENTS ASSOCIATION FOR PRESERVATION 1739 North Larrabee • Chicago, Illinois 60614 • (312) 266-9735

May 24, 1999

Via Hand Delivery

Richard Urbanowski
Senior Auditor
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Midwest
77 West Jackson Boulevard, Room 2646
Chicago, Illinois 60604-3507

Re: West Park Place Draft Findings Comments

Dear Mr. Urbanowski:

This letter is the formal response to the two draft findings, dated May 12, 1999, that resulted from the comprehensive investigation conducted by your office of all administration and operations of the West Park Place Residents Association for Preservation as owner of West Park Place Apartments.

In the findings it was indicated that “there is no assurance that the grant will meet the objective of providing home ownership opportunities for residents with units that meet housing quality standards.” The Association strongly disagrees with this statement. The Association has efficiently planned for the long term maintenance and improvement of the property and has implemented a unique homeownership program that provides ownership opportunities to households with incomes as low as thirty percent of median income.

The initial goals of WPPRA were to preserve affordable housing and provide homeownership opportunities. The WPPRA Homeownership Program offers three and four bedroom condominiums for sale to households with incomes as low as 30% of median income in one of the most affluent neighborhoods of Chicago. The majority of residents are demonstrating a strong interest in purchasing their units. More than two thirds of the residents of the property have attended Condominium Conversion Information Sessions. Every resident has received a purchase application and as of May 21, 1999 eight households have closed on the purchase of their units. The Association expects to achieve sales goals by the end of the summer 1999. There is no indication that the physical condition of the apartments will have any negative impact upon the successful marketing of the units.

The Association has effectively planned for the continued improvement of the property. Although the budget constraints of the LIHPRHA program did not provide for a gut rehabilitation

of all 69 units of the property as a part of the rehabilitation program, the renovation did provide all new boilers, all new electrical systems, new windows and many new interior items. The Association has thoroughly planned for the replacement of the roofs and other necessary building systems by efficiently operating the property and aggressively capitalizing the property's replacement reserve account.

FINDING 1: The Resident Homeownership Program Grant Was Not Effectively Administered or Monitored

1. *Building roofs were not replaced or adequately repaired:* WPPRA made the difficult decision to proceed with the purchase of West Park Place to achieve the goals of preservation of the property as affordable housing and homeownership after the initial request to HUD of rehabilitation costs of \$2,883,866 was reduced by HUD to \$2,484,982. This difficult decision required a reduction in the scope of work to be completed in the rehabilitation plan including removing the replacement of roofs as an element of the plan. The long-term maintenance plan anticipated utilizing funds in the replacement reserve account to replace the roofs. The reserve account has been funded accordingly. Attached, as exhibit 1 is a Roof Condition Evaluation provided to the Association. The table below lists the current roof replacement schedule. In the course of regular maintenance at the property this schedule will be modified as needed. In the past year management has repaired all known roof leaks at the property. The Association has instructed management to continue to repair roof leaks and associated interior damage to units on an as needed basis.

Roof Replacement Schedule

Year	Building Addresses	Estimated Cost
2000	1700	\$95,000
2001	1800	\$40,000
2002	1900	\$50,000

2. *Deficient concrete work was not remedied;* At the time of the IG inspection in January 1999, the Association was in negotiations with the General Contractor to resolve the issue of the unsatisfactory concrete work provided at the site. Since that time a final agreement has been negotiated. The Association began the replacement of the deficient concrete work in May 1999. Completion is anticipated in June 1999. The necessary electrical repairs will be completed upon the completion of the concrete remediation.

3. *Compliance with housing quality standards was not assured;* Over the course of the rehabilitation, West Park Place was inspected regularly by HUD inspecting engineers. All issues

raised by HUD inspectors were resolved in a timely manner. The Association has never received any citation from HUD or any other entity indicating that units were not in compliance with Housing Quality Standards.

4. *The grant account was not reimbursed for rehabilitation upgrades paid for by residents;* The IG identified \$350 of outstanding balances owed to the operating account for upgrades in individual units. A check for \$145 was received by the management company on May 21, 1999 to pay for the garbage disposal hookup in unit 1927a. The unit 1739 \$180 cabinet upgrade payment had been credited to the unit's rent account rather than towards payment of the upgrade. The credits to the HUD Resident Homeownership Grant account totaling \$2,953 will be made with the final payout to be submitted to HUD in May 1999. They were not made previously because we were awaiting the final payout to reconcile all balances.

5. *Rehabilitation work was not completed in a timely manner;* The rehabilitation program at West Park Place was complicated by the unique requirements of each individual unit and protracted problems with the general contractor particularly related to the concrete remediation work. The rehabilitation program was completed in May 1998. The final closeout of the contract was negotiated in April 1999. Final payout to the contractor is expected in June 1999.

WPPRA Response to Finding 1 Recommendations:

- 1A. The Association has developed a plan for adequately repairing and replacing all building roofs. See Exhibit 1 for the detailed plan.
- 1B. Work is currently underway to remediate the deficient concrete work. Repairs to the electrical work will be completed immediately upon the completion of the concrete work.
- 1C. The Association has not been cited for any violations related to Housing Quality Standards.
- 1D. \$2953 will be transferred as of May 31, 1999 from the operating account to the PRHG account.
- 1E. The final payout with the general contractor was negotiated in April 1999. Final payout to the General Contractor will be submitted to HUD before May 31, 1999.

FINDING 2: West Park Place Residents Association Did Not Expend All Preservation Technical Assistance Planning Grant Funds

- 1. The initial IG review of PTAG vouchers indicated an overpayment for legal costs from PTAG funds. Invoices totaling \$39,059 for legal fees in 1994 and 1995 are included as exhibit 2. Invoice number 125171 for \$12,500 was founded in stored archived files after the IG review.
- 2. The unexpended balance of \$6,921 Technical Assistance Planning Grant Funds was budgeted for equipment and furniture to furnish the Association office. These funds have not been spent. The Association intends to furnish the office in June 1999.

WPPRA Response to Finding 2 Recommendations:

- 2A. The Association has provided additional documentation for the legal expenses paid from the PTAG grant. The Association intends to complete the furnishing of the office in June 1999.

Conclusion:

The Association has worked for more than seven years to preserve West Park Place as affordable housing and to provide ownership opportunities to residents at the property. The process has been long and complicated however the results speak for themselves. The strong interest in the conversion program demonstrates the Association's success. West Park Place has been preserved as affordable housing.

Very truly yours,

Marcia Scardina
President

Attachments

HUD Comments

U.S. Department of Housing and Urban Development
Illinois State Office
77 W. Jackson Blvd,
Chicago, Illinois 60604-3507

MEMORANDUM FOR: Ronald Huritz, Assistant Director Inspector General for Audit,
Midwest

FROM: Edward J. Hinsberger, Director, Chicago Multifamily Hub

SUBJECT: Draft Audit Findings
West Park Place Apartments

Attached is this office's response to the draft audit findings for West Park Place Apartments. If you have any questions, please do not hesitate to contact Mary Anderson, Director of Operations, at (312) 353-6236, extension 2102.

Attachment

Finding 1: The resident homeownership program grant was not effectively administered or monitored.

Recommendation 1.A: Develop a plan for adequately repairing or replacing all building roofs at the Project.

Chicago Hub Response:

The replacement of the building roofs was not in the original PCNA for the property. The Tenant Association proposed that the roofs be replaced, along with other additional repairs. However, due to cost constraints, a decision was made to patch the roofs instead of replacing them. Since the resources that were available to us were not limitless, that decision was based on the information available at that time.

Unfortunately, the roofs do need to be replaced. The owner has obtained an analysis of the roofing needs and has set a roof replacement schedule. It is anticipated that the funds to perform this work will come from the reserve for replacements. HUD will require the owner to submit a Management Improvement and Operating Plan (MIO) so that we can review and approve their plan and monitor its implementation.

Recommendation 1B: Hub to ensure that the owner expeditiously corrects deficient concrete work and makes repairs to the Project's electric system.

Chicago Hub Response:

The owner identified the deficient concrete work and has been in negotiations with the general contractor to correct the deficient work. A final agreement was reached and the replacement of the deficient concrete work began in May 1999. The owner expects that all concrete work will be finished in June 1999. The repairs to the electrical system will be completed after all concrete repairs are finished. Our office will inspect the property to verify satisfactory completion of the remaining concrete and electrical work prior to releasing the final construction draw.

Recommendation 1C: Hub to ensure that all units meet HUD's housing quality standards prior to commencing the sale of units to residents.

Chicago Hub Response:

The Use Agreement states that the Department shall conduct an annual physical assessment of the Project in order to ensure compliance with the housing quality standards. HUD's inspector was at the site at least 9 times during the conversion period. A large percentage of the repairs under the construction contract were for interior items, so our inspector was in individual units. While we agree that full HQS inspection forms were not completed for every unit, our inspector was able to assess whether there were conditions that would constitute HQS violations. If such conditions were noted, we would have followed up and sent a team of Project Managers to

conduct full HQS inspections. However, we made an administrative decision to use our resources in a manner so as to not duplicate efforts. Conducting full HQS inspections while a rehab (which HUD is actively monitoring) is being completed does not make sense and is not the most efficient use of our scarce resources. It should also be noted that when HQS inspections are performed at a project, a sampling of units are inspected. A 100% inspection would only be conducted if there were severe problems at the site.

With the implementation of HUD 2020, responsibility for performing physical inspections has been transferred from the Hub to the Real Estate Assessment Center (REAC). The REAC is responsible for having each property in HUD's inventory inspected each year; as a result, West Park Place will be inspected this fiscal year by a REAC contractor.

Recommendation 1D: Hub to ensure that the owner transfers all funds collected from residents for rehabilitation work upgrades to the rehabilitation escrow account.

Chicago Hub Response:

The owner has agreed to reimburse the grant account in the amount of \$2,953. This will be confirmed at the time of the final payout.

Recommendation 1E: Hub to ensure that all remaining contractual issues are resolved and the contract with the general contractor is closed out expeditiously.

Chicago Hub Response:

The completion of the rehabilitation work was slower than planned. Some of the delays were related to the dispute over the concrete work. Although the contract has not been closed out, the project was 98% complete as of May 1998. The owner submitted their final payout request on May 28, 1999. HUD will conduct a final inspection and process the final draw in accordance with the terms of the grant agreement once the necessary concrete and electrical repairs are satisfactorily completed.

Finding 2: The West Park Place Residents Association did not expend all Preservation Technical Assistance Planning Grant funds.

Recommendation 2A: Hub to ensure that the owner repays HUD \$10,362 in Technical Assistance Planning Grant funds not expended for eligible grant purposes.

Although the IG draft audit finding is correct in its assessment that the West Park Place Residents Association (WPPRA) did not expend all of the available grant funds. It should be noted that the WPPRA requested and subsequently received HUD approval to deposit the balance of funds in their account for future utilization. The approval was granted prior to the expiration of the Preservation Technical Assistance Grant (PTAG).

Also, please note that it is not uncommon for grantees to utilize Phase I grant funds for activities which may not appear to be in accordance with the executed grant agreement. To illustrate, Article IV Paragraph (a) of the grant agreement indicates in part, that Phase I activities include “establishing and organizing a Resident Council or community based nonprofit organization” etc. However, it is not clearly defined how a grantee should proceed in carrying out this task. Surely, one can not expect a grantee to accomplish this activity without the proper tools i.e. furnishing an office to establish accounting procedures, accommodate meetings and other related activities. In addition, Article IV Paragraph (b) clearly states in part, that the grantee shall provide the necessary personnel, materials, services, equipment and facilities necessary for or incidental to the performance of the work set fourth in the approved application and executed grant agreement.

Notwithstanding, due to the fact that the WPPRA did not expend all PTAG funds prior to the termination of the grant agreement, my office will implement the necessary procedures to recover \$6,921 as recommended. Additionally, with regards to the \$3,441 which in accordance to your draft audit was an overpayment to WPPRA’s legal consultant, my office will proceed with the necessary measures to recover same.

Distribution

Secretary's Representative, Midwest (2)
 Director, Chicago Multifamily Hub (2)
 Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)
 Deputy Chief Financial Officer for Finance, FF (Room 2202)
 Director, Office of Budget, FO (Room 3270)
 Internal Control and Audit Resolution Officer, 3AFI (2)
 Audit Liaison Officer for Housing, HQC, Room 6232 (2)
 Departmental Audit Liaison Officer, FM, Room 2206 (2)
 Acquisitions Librarian, Library, AS (Room 8141)
 Deputy Secretary, SD, Room 10100
 Chief of Staff, S, Room 10000
 Special Assistant to the Deputy Secretary for Project Management, SD, Room 10100
 Assistant Secretary for Administration, A, Room 10110
 Assistant Secretary for Congressional and Intergovernmental Relations, J, Room 10120
 Senior Advisor to the Secretary, Office of Public Affairs, W, Room 10132
 Director of Scheduling and Advance, AL, 10158
 Counselor to the Secretary, S, 10218
 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
 Deputy Assistant Secretary for Public Affairs, W, Room 10222
 Special Assistant for Inter-Faith Community Outreach, S, 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
 Office of the Deputy General Counsel, CB, Room 10220
 Acting 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
 Assistant Secretary for Community Planning and Development, D, Room 7100
 Executive Vice President, 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 8206
 Director, Office of Departmental Operations and Coordination, I, Room 2124
 Chief Financial Officer, F, Room 2202
 Director, Enforcement Center, V, 200 Portals Building
 Acting Director, Real Estate Assessment Center, V, 1280 Maryland Avenue, SW, Suite 800
 Director, Office of Multifamily Assistance Restructuring, Y, 4000 Portals Building
 Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human
 Resources, B 373 Rayburn House Office Building, Washington, D.C. 20515
 The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs,

Distribution

340 Dirksen Senate Office Building, United States Senate, Washington DC 20510
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,
706 Hart Senate Office Building, United States Senate, Washington DC 20510
The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn
House Office Building, U.S. House of Representatives, Washington, DC 20515
Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn
House Office Building, U.S. House of Representatives, Washington, D.C. 20515
Ms. Cindy Foglemen, Subcommittee on Oversight and Investigations, Room 212,
O'Neil House Office Building, Washington DC 20515
Director, Housing and Community Development Issue Area, U.S. General Accounting Office,
441 G Street, NW, Room 2474, Washington DC 20548 (Attn: Judy England-Joseph)
Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street,
NW, Room 9226, New Executive Office Building, Washington, D.C. 20503