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Audit Case Number	99-FW-201-1001

TO: Elinor R. Bacon
Deputy Assistant Secretary
Office of Public Housing Investments, PT

FROM: D. Michael Beard, District Inspector General for Audit, 6AGA

SUBJECT: Housing Authority of the City of Dallas
HOPE VI Grants

As part of a nationwide audit of the HOPE VI Program, we performed an audit of the Housing Authority of the City of Dallas' (Authority) HOPE VI grants to determine if the Authority: (1) effectively, efficiently, and economically used its HOPE VI funds; (2) properly procured contracts under its HOPE VI grants; (3) only expended amounts for eligible activities; (4) met the objectives of its Revitalization Plan; and (5) implemented its community and supportive services components in accordance with applicable rules and regulations, and in a manner that will allow the activities to be sustained beyond the grant term.

The Authority has made some progress on its revitalization, despite being seriously hampered by lawsuits. However, the audit disclosed significant concerns relating to Authority HOPE VI activities. These concerns include: (1) improper procurements and misallocated costs; (2) a questionable land purchase; and (3) the need for improved planning and management of its community and supportive services activities.

Within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Please write or call me at (817) 978-9309 if you or your staff have any questions.

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Executive Summary

As part of a nationwide review, we audited the Housing Authority of the City of Dallas' (Authority) HOPE VI grants to determine if the Authority: (1) effectively, efficiently, and economically used its HOPE VI funds; (2) properly procured contracts under its HOPE VI grants; (3) only expended amounts for eligible activities; (4) met the objectives of its Revitalization Plan; and (5) implemented its community and supportive services components in accordance with applicable rules and regulations, and in a manner that will allow the activities to be sustained beyond the grant term. We found the Authority needs to make improvements in each of these areas.

The Authority's HOPE VI Program stems from a Court mandate to the Authority to provide replacement units in non-minority areas of the City. The Authority has faced serious difficulties trying to meet the Court's requirements. These difficulties include trying to buy scarce and expensive land in north Dallas, and legal delays and costs due to homeowner opposition. Given these difficulties, the Authority overall is satisfactorily carrying out its HOPE VI grant activities. However, the audit disclosed significant concerns relating to Authority HOPE VI activities, which may hinder the Authority's successful completion of its revitalization plan. These concerns include: (1) improper procurements and misallocated costs; (2) a questionable land purchase; and (3) the need for improved planning and management of its community and supportive services activities. Despite the legal delays and costs, the Authority could have largely avoided these concerns had it followed procurement requirements, had property appraised before making a purchase offer, and properly planned and managed its community and supportive services activities.

Improper procurements and misallocated costs.

A review of charges for 12 contractors found numerous instances of procurement improprieties. These improprieties included sole source contracts and purchase orders, purchases made without cost analyses, and contracts awarded with no basis for final selection of contractors. As a result, the Authority and HUD have no assurance the Authority received the best services at reasonable prices. Also, the Authority's selection process appears arbitrary, and open to criticism of favoritism.

The Authority misallocated about \$788,482 in costs to its HOPE VI Program, including \$102,501 in public relations costs, and \$685,981 in community and supportive services costs. The misallocated costs represented charges for products and services that did not relate to HOPE VI activities, or related to the entire Authority but were charged only to HOPE VI. These misallocated funds could impair the Authority's ability to successfully complete the

revitalization, which already appears to have insufficient funds.

Questionable land purchase.

The Authority paid \$1.3 million in HOPE VI funds for land that was worth about \$1 million. Further, the Authority did not make the best use of the land, and paid \$27,000 in commissions to an agent even though their agreement with the agent stated the seller would pay the commissions.

Need for improved planning and management of community and supportive services programs.

The Authority has made no plans or efforts for sustaining its community and supportive services programs after HOPE VI funding ends. Also, the Authority: (1) spent \$126,364 for a youth training program that it canceled before any participants completed training and (2) charged HOPE VI with the costs of two programs that did not relate, or only related in part, to HOPE VI activities.

Audit recommendations.

We are recommending you require the Authority to follow federal and Authority procurements requirements, and HOPE VI requirements. We are also recommending the Authority repay the HOPE VI Program for ineligible and questionable costs, and properly plan and manage its community and supportive services activities.

The Authority generally disagreed with the draft report.

We discussed the findings and recommendations at an exit conference with Authority officials on August 13, 1998. Authority officials responded in writing to the draft report on September 24, 1998. Although concurring with some of the findings and recommendations, the Authority generally disagreed with the draft report. We have summarized and evaluated the Authority's response in the findings and included it without the attached documents as Appendix B.

Table of Contents

Management Memorandum	i
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Executive Summary	iii
-------------------	-----

Introduction

1

Findings

1	Improper Procurements and Questionable Costs Impair the Authority's HOPE VI Program	9
2	Authority Makes Questionable Purchase and Use of Land	21
3	The Authority's Community and Supportive Services Programs Need Better Planning and Management	35

Management Controls

41

Issues Needing Further Consideration	43
--------------------------------------	----

Appendices

A	Schedule of Questioned Costs	47
B	Authority's Written Response to Draft Audit Report	49
C	Distribution	

83

Abbreviations

CFR	Code of Federal Regulations
DHA	Dallas Housing Authority
DYS	Dallas Youth Services
FSS	Family Self-Sufficiency Program
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
VNA	Visiting Nurse Association

Introduction

Background

The HOPE VI Program. HUD established the HOPE VI Urban Revitalization Program for the purpose of revitalizing severely distressed or obsolete public housing developments. Congress provided funding for HOPE VI in the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies 1993 Appropriations Act. Over 6 fiscal years, 1993 to 1998, Congress has appropriated over \$3.1 billion to fund planning and implementation grants under HOPE VI. Congress intended HOPE VI to remedy the distress of family developments that are too large to be addressed by HUD's conventional public housing modernization programs. This program provides local communities with up to \$50 million per City¹ to accomplish the comprehensive revitalization of severely distressed developments. Permitted activities include funding of the capital costs of major reconstruction, rehabilitation, and other physical improvements, the provision of replacement housing, management improvements, planning and technical assistance, implementation of community service programs and supportive services, and the planning for any such activities.

The Dallas Housing Authority. The City of Dallas created the Dallas Housing Authority (Authority) in 1938 to provide safe, decent, sanitary, and affordable housing to low-income and elderly families. The Authority administers about 4,700 units of public housing and 10,800 Section 8 certificates and vouchers. A five-person Board of Commissioners, appointed by the Dallas mayor, provides general oversight over the Authority. Ms. Lori Moon, the Executive Director, is in charge of day-to-day operations. Authority administration and records are located at its offices at 3939 North Hampton Road in Dallas, Texas.

The Authority's HOPE VI Program. HUD awarded the Authority \$27 million in HOPE VI funds, including one implementation grant and one planning grant.

In August 1994, HUD awarded the Authority a \$26.6 million HOPE VI implementation grant to provide

¹ For Fiscal Year 1997, the amount of funding for which an Authority could apply was reduced to \$35 million.

replacement units for the Lakewest public housing developments (also known as West Dallas). The HOPE VI funds are to address court requirements resulting from the Walker v. HUD lawsuit.

The 3,500 Lakewest public housing units were built in the 1950's as racially segregated developments, divided into African-American, White, and Hispanic areas. Civil rights laws passed in the 1960's outlawed this segregative practice. In 1985 minority plaintiffs filed a segregation lawsuit (Walker v. HUD). Defendants in the lawsuit included the Authority and HUD. To correct vestiges of segregative practices, the Court issued a *Remedial Order Affecting DHA* in February 1995.² The Remedial Order required the Authority to demolish at least 2,630 Lakewest units and provide replacement units on a one-for-one basis. Lakewest would be reconfigured so that no more than 950 units would remain. To implement the Court's requirements, the Authority decided to demolish all remaining Lakewest units and construct 950 units at the site using Comprehensive Improvements Assistance Program (CIAP) and Comprehensive Grant Program (CGP) funds. Off-site replacement units would consist of 474 new public housing units, including 335 units funded under the HOPE VI program, and the rest Section 8 certificates and vouchers. Consistent with the Court Orders, the Authority plans to develop the new public housing units in predominantly white areas of Dallas.³

Other than the 335 replacement units, the Authority is using HOPE VI funds for community and supportive services.⁴ The Authority's program is unique in that HOPE VI funds comprise only a small part of the entire revitalization, and are only being used for replacement housing and community and supportive services. No HOPE VI funds are being used for construction at Lakewest, the revitalization site.

To date the Authority has purchased three parcels of land in north Dallas with HOPE VI funds on which to build 146 units. Of the 146 units, 76 units at the Frankford/Marsh site

² The Remedial Order supersedes a 1987 Consent Decree and 1990 Supplemental Consent Decree.

³ The Remedial Order also states the Authority will construct or acquire an additional 3,205 public housing units in predominantly white areas. The development of these units is dependent upon future HUD funding.

⁴ The HOPE VI grant initially was to include funding for 165 Section 8 certificates for replacement units; however, in September 1995 HUD provided the Authority with separate funding for 167 Section 8 vouchers.

have been completed. Construction of 70 of the 146 units (40 units at Hillcrest and 30 units at Meandering Way) has been delayed due to homeowner litigation. The Authority purchased the Hillcrest and Meandering Way properties in April 1996. Future plans for the remaining 189 units have been put on hold pending resolution of the litigation and alternative plans are being investigated.

Dallas map here

According to the Remedial Order, the Authority must provide replacement units located in predominantly white areas of Dallas. Specifically, the units must be located in areas of the City where the poverty rate does not exceed 13 percent, and minorities make up less than 37 percent of the population - the non-shaded areas of the map.

The “Frankford Townhomes” public housing development at the Frankford Road and Marsh Lane site.

In June 1995 HUD awarded the Authority a \$400,000 planning grant to plan the comprehensive revitalization of the Roseland Homes public housing development. The Authority applied for an implementation grant in September 1996 and July 1997; however, it was not funded. In June 1998 the Authority again submitted an application for an implementation grant. On September 2, 1998, HUD announced that the Authority had been awarded a \$34.9 million HOPE VI grant to renovate Roseland Homes.

**Audit Objectives, Scope,
and Methodology**

Our audit objectives in reviewing the Authority's HOPE VI grants were to determine if the Authority: (1) effectively, efficiently, and economically used its HOPE VI funds; (2) properly procured contracts under its HOPE VI grants; (3) only expended amounts for eligible activities; (4) met the objectives of its Revitalization Plan; and (5) implemented its community and supportive services components in accordance with applicable rules and regulations, and in a manner that will allow the activities to be sustained beyond the grant term.

To achieve the audit objectives we: (1) reviewed HOPE VI regulations and guidelines, Authority procurement policy, contract files, and any related documentation; (2)

interviewed Authority, HUD, and contractor officials; (3) made site visits to the HOPE VI developments; and (4) reviewed appraisals of a land acquisition. Our audit procedures included:

- Reviewing purchases made under the HOPE VI grants to determine if the Authority properly procured products and services.

The Authority did not maintain a contract log or other record of contracts let under the HOPE VI grants. Therefore, we reviewed HOPE VI procurements based on expenditure listings and our knowledge of work completed.

As of June 1998 the Authority had spent \$9,957,871 of the \$26,600,000 implementation grant. We reviewed contracts and purchase orders for 11 vendors totaling \$6,006,506.

As of June 1998, the Authority had spent \$187,382 of the \$400,000 planning grant. We reviewed one contract for \$125,000. The Authority has completed planning grant activities and does not expect to draw down the remaining \$212,618 (i.e., HUD will retain the unused balance).

- Reviewing support for travel and administrative costs the Authority charged to its HOPE VI grants.

As of June 1998, the Authority had spent \$350,783 for administrative costs. We reviewed 19 payments totaling \$254,322. In addition, we reviewed four travel payments totaling \$12,080 (of \$22,671 total travel expenditures).

- Reviewing the Authority's Revitalization Plan and related documents for the implementation grant to determine if: (1) it met HOPE VI requirements; (2) the Authority will be able to successfully and timely complete the program; and (3) the Authority has adequate procedures to monitor the progress and performance of the grant.

- Determining if the Authority is using its HOPE VI construction and modernization funds effectively, efficiently, and economically by: (1) visiting the three sites acquired by the Authority to build replacement housing; (2) comparing actual construction costs to the Authority's budget, HUD's Total Development Costs limits, and industry standards; (3) reviewing the City's commitment to the revitalization; and (4) reviewing Authority reports for monies previously spent on the development.
- Interviewing personnel and reviewing Authority records regarding the community and supportive services programs for the implementation grant. The review included determining whether the programs: (1) are eligible; (2) have clear and measurable results; (3) are being adequately monitored; (4) will be sustainable after the grant term; and (5) are receiving required matching contributions from the City.

We performed most of the field work at the Authority offices during December 1996, May and June 1997, and January 1998. The audit generally covered the period August 1994 to June 1997, although the period was extended, as appropriate. We performed the audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Executive Director of the Housing Authority of the City of Dallas.

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Improper Procurements and Questionable Costs Impair the Authority's HOPE VI Program

The Authority needs to strengthen controls over procurements and costs charged to its HOPE VI Programs. Improper procurements included sole-source contracts and purchase orders, purchases made without cost analyses, and contracts awarded with no basis for final selection of contractors. Further, the Authority misallocated about \$788,000 in public relations and community and supportive services costs. As a result: (1) the Authority and HUD do not have assurance the Authority received the best services at reasonable prices; (2) the Authority's selection process appears arbitrary and open to criticism of favoritism; and (3) the improper use of funds may impair the Authority's ability to successfully implement its revitalization activities.

Federal and Authority procurement requirements

The Grant Agreement requires the Authority to comply with procurement guidelines contained in the Code of Federal Regulations (24 CFR §85.36). In addition, the Authority has its own procurement policy. The federal regulations and Authority procurement policy state that:

- Competition and price reasonableness:
 - All procurement transactions must be conducted in a manner providing full and open competition (24 CFR §85.36 (c)).
 - Purchases exceeding \$15,000 must go through a formal contracting process using sealed bids or competitive/noncompetitive proposals (Section III, A. of Authority procurement policy).
 - For small purchases between \$2,500 and \$15,000, price quotes will be solicited from at least three businesses. The names, addresses, and/or telephone numbers of the businesses and persons contacted, and the date and amount of each quotation shall be recorded and maintained as a public record (Section III, 1.b. of Authority procurement policy).

- The Authority must perform a cost or price analysis for every procurement action. A cost analysis will be necessary when adequate price competition is lacking, and for sole-source procurements, including contract modifications or change orders (24 CFR §85.36(f)). If only one bid is received from a responsible bidder, award shall not be made unless a cost or price analysis verifies the reasonableness of the price (Section III, A.2. of Authority procurement policy).
- Each procurement based on noncompetitive proposals shall be supported by a written justification for using such procedures (Section III,A.4. of Authority policy).
- Procurement records and basis of selection:
 - Grantees and subgrantees will maintain sufficient records to detail the significant history of a procurement. These records must at least include the following: rationale for method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price (24 CFR §85.36 (b)(9)).

Improper procurements raise concerns about whether the Authority is getting the best product at a reasonable price, and whether contractor selection is impartial.

The audit procedures included reviewing charges to 12 contractors to determine if the Authority properly procured products and services. The charges reviewed totaled \$6,131,506 (23 percent of the \$27 million planning and implementation grants). A review of charges for 12 contractors found numerous instances of procurement improprieties. These improprieties included sole-source contracts and purchase orders, purchases made without cost analyses, and contracts awarded with no basis for final selection of contractors. As a result, the Authority and HUD have no assurance the Authority received the best services at reasonable prices. Also, the Authority's selection process appears arbitrary and open to criticism of favoritism.

Sole-source contracts and purchase orders. For 8 of the 12 contractors reviewed, the Authority's procurement policy required competition either via a formal procurement process (over \$15,000) or by soliciting price quotes

(\$2,500-\$15,000).⁵ However, for three of these eight contractors (E&K Home Health, GAF Advertising, and Accent Printing) the Authority made 12 sole-source purchases without soliciting competition, and did not document the necessity for doing so. In addition, for five purchases over \$15,000 involving GAF Advertising and Accent Printing, the Authority issued purchase orders instead of using a formal procurement process:

Sole Source Purchases				
	E&K	GAF	Accent	Totals
# purchases reviewed	1	8	3	12
# purchases over \$15,000	1	3	2	6
# purchases \$2,500-\$15,000	-	5	1	6

For E&K Home Health, the Authority awarded a \$44,000 sole-source contract. The Authority stated it thought E&K Home Health was a nonprofit organization, for which no competition was required. For GAF Advertising and Accent Printing, the Authority issued purchase orders totaling \$171,090 without advertising or obtaining price quotes.

The payments to GAF Advertising and Accent Printing represent public relations costs. According to the Authority, the law firm of Haynes and Boone handled all public relations matters so the Authority could use Attorney/Client privilege to protect it from having to release sensitive information. In the case of GAF Advertising, Authority officials said Haynes and Boone contracted with a public relations consultant, EB Harrison, who in turn subcontracted with GAF Advertising. Authority officials further stated they did not believe Haynes and Boone or EB Harrison was required to follow federal procurement regulations. However, the Authority made payments directly to GAF Advertising, which indicates the firm was not a subcontractor. The Authority maintains GAF Advertising was a subcontractor of EB Harrison, and the direct payments were made in error. Regardless of any error, the Authority had to follow federal and its own

⁵ The Grant Agreement allows housing authorities to contract non-competitively with certain nonprofit providers for community and supportive service activities. Three of the 12 contractors were nonprofit entities. For one of the nine profit-making firms, Video Monitoring, there were no charges exceeding \$2,500, so the Authority did not have to obtain competitive quotes.

procurement requirements and ensure that the public relations costs were obtained competitively. Authority officials state a former Authority staff member contracted with Accent Printing.

Purchases made without cost analyses. For 5 of the 12 vendors reviewed, including the 3 vendors that were awarded contracts and purchase orders non-competitively, the Authority did not perform cost analyses. As a result, the Authority and HUD do not have adequate assurance that the Authority paid reasonable prices for the goods and services provided.

Contracts awarded with no basis for the final selection of contractors. For contracts awarded to 4 of the 12 vendors, the Authority did not document the basis for the final selection of the contractor. In these four instances, the Authority evaluated and ranked the contractors based on their proposals submitted. After this initial evaluation, the Authority had the finalists make presentations, then awarded the contract to one of the finalists. However, although the Authority documented its rankings after the initial evaluations, it did not document its rankings or basis of selection of the vendor that was awarded the contract. In two of the four instances, the Authority selected a contractor that was not the highest ranked applicant after the initial evaluation. One of the contractors received the second lowest (of 6) ratings, 17 points less than the highest rated contractor.

Regarding Authority procurements, it should be noted that the more serious deficiencies (sole source, no contracts, no cost analyses) were from purchases made by the Authority's Client Services (community and supportive services purchases) and Executive Offices (public relations purchases) departments. Purchases made by the Planning and Development department (construction, architectural, and engineering contracts) did not document the basis for final contractor selection, but otherwise were clean. The Authority does not have a central procurement department.

Improper use of funds may impair the Authority's ability to successfully implement its revitalization activities.

The Authority misallocated about \$788,482 in costs to its HOPE VI Program. The \$788,482 includes \$102,501 in public relations costs, and \$685,981 in community and supportive services costs. These misallocated funds could

impair the Authority's ability to successfully complete the revitalization, which already appears to have insufficient funds (see Issues Needing Further Consideration).

Misallocated public relations costs. A review of 19 payments for administrative costs totaling \$254,322 found \$102,501 in questionable payments to 3 vendors, all relating to public relations. These included:

- Unsupported charges for two firms, GAF Advertising and Accent Printing, totaling \$97,695. These charges related to the printing of the Authority's Development Profiles booklet. Although some of these booklets may have been used at public meetings related to HOPE VI, the Authority printed the booklets for general distribution. If the Authority wanted to charge part of these costs to HOPE VI, it would have to come up with a reasonable basis for doing so.
- An ineligible payment of \$3,500 to GAF Advertising for photography work for the Authority's 1994 Annual Report. These services do not relate to HOPE VI.
- An unsupported payment of \$1,306 to Video Monitoring Services for videocassettes covering the resignation of the former Executive Director.

Misallocated community and supportive services costs. The Authority charged the HOPE VI grant \$139,802 for a community and supportive services program that did not relate to HOPE VI. In addition, the Authority charged the entire cost of another program to HOPE VI, even though the program was for all Authority residents, not just HOPE VI residents. This resulted in an estimated \$546,000 in misallocated charges to the HOPE VI Program.

The Authority contracted with the Visiting Nurse Association of North Texas for a wellness program that related to non-HOPE VI sites. From February 1995 to May 1996, the Authority paid the VNA from Turnkey Sales Proceeds. However, in June 1996 the Authority reclassified the payments to HOPE VI, and subsequently charged HOPE VI for the wellness program. The wellness program relates to the Audelia Manor, Cliff Manor, Forest Green Manor, and Park Manor sites, which are not part of the

Authority's HOPE VI Program. Total charges from February 1995 to April 1997 amounted to \$139,802.

The Family Self-Sufficiency Program (FSS) is open to all Authority residents. At the time of the audit, 1,499 Authority families participated in the program, including 101 Lakewest families (6.7 percent). However, the Authority charged the HOPE VI Program with the entire cost of the program, which totaled \$585,401 as of April 30, 1997. Based on this number of participants, the HOPE VI program's share of the FSS program should be \$39,222 (6.7 percent X \$585,401) and \$546,179 charged to non-HOPE VI activities. However, given that the number of FSS participants varies over time, the \$546,179 is only an estimate of the misallocated costs through April 1997.

Authority officials stated they charged the costs to HOPE VI because all Authority residents were potential residents for the newly constructed HOPE VI units. However, the Authority's application and revised Revitalization Plan only provide for 250 participants under the HOPE VI Program. Authority officials said they have started to charge the Family Self-Sufficiency Program costs to other sources besides HOPE VI. As of June 1998, the Authority has charged over \$800,000 in FSS costs to HOPE VI.

**Auditee Comments
and OIG Evaluation**

Although the Authority acknowledged some of the reported procurement problems, it generally disagreed with the finding and recommendations. The comments indicate the Authority either believes the OIG is mistaken, or that the results reflect relatively minor oversights or rare exceptions. However, although the Authority appears to be a well-run organization, the audit results raise significant concerns regarding the need for the Authority to pay closer attention to its procurement practices and the charging of costs to federal programs.

The following are highlights and excerpts of the Authority's written comments regarding Finding 1 of the draft report, and OIG's evaluation of the Authority's comments. Appendix B includes the full text of the Authority's written comments, excluding attachments which were too voluminous to include in this report.

Authority Comments (page 2): Need to strengthen procurement controls and costs.

The Authority has procedures and control mechanisms in place to ensure it adheres to federal and Authority procurement requirements and monitoring of the HOPE VI Program. The Authority has a budget exceeding \$100 million, and annual audits have revealed minimal operational deficiencies for the past 10 years.

OIG Evaluation: Need to strengthen procurement controls and costs.

The audit results show the Authority did not always follow federal and Authority procurement requirements. For example, as noted in the finding, the Authority did not perform cost analyses for 5 of 12 vendors reviewed. The relative frequency of procurement exceptions indicates a significant issue the Authority needs to address.

Authority Comments (page 3): Sole-source contracts and purchase orders.

The Authority incorrectly assumed the firm was a non-profit organization. HUD allows grantees to contract with nonprofit organizations for community services. The Authority properly procured the services of Haynes and Boone. EB Harrison was a subcontractor of Haynes and Boone and the Authority cannot find, nor did the OIG provide, regulations showing that contractors must follow regulations in the selection of subcontractors.

OIG Evaluation: Sole-source contracts and purchase orders.

The Authority needs to ensure subgrantees for community services are nonprofit organizations. Regarding the GAF Advertising and Accent Printing procurements, the Authority should have obtained competitive bids. The Authority is correct in stating that its contractors do not have to follow federal procurement regulations in selecting subcontractors. However, the Authority issued purchase orders, and received and paid billings directly with both firms. This indicates the firms directly contracted with the Authority, and are not subcontractors as the Authority

claims. Therefore the firms are subject to federal procurement regulations at 24 CFR §85.36, and the Authority's procurement policy. In the case of Accent Printing, Authority officials stated that former Authority staff members contracted with the firm, which is further evidence the firm is not a subcontractor. Whatever role Haynes and Boone played in obtaining services from GAF Advertising does not absolve the Authority from ensuring the services were obtained in accordance with federal procurement requirements.

Authority Comments (page 4): No cost analyses or basis for final selection of contractors.

The Board approved the contracts reviewed the evaluations and rationale for final selection. The Authority developed a form to ensure it has adequate documentation to support the final selection.

OIG Evaluation: No cost analyses or basis for final selection of contractors.

The Director of Planning and Development told OIG staff the system of ranking finalists was informal and based on discussions between Authority panelists after contractor presentations; however, the final rankings were not documented. The Authority needs to ensure final selections are documented.

The Authority's response does not adequately address the issue of cost analyses. Board review and approval of contracts does not constitute cost analyses of procurement transactions.

Authority Comments (pages 5-7): Misallocated costs - general and public relations.

The OIG needs to be more specific as to which revitalization activities they believe the Authority will not be able to successfully implement. The remaining activity is the development of the remaining 259 public housing units. The Authority cannot proceed with this activity until there is a ruling by the Fifth Circuit Court of Appeals.

Only \$22,296 (Accent Printing) and \$3,500 (GAF Advertising) may possibly be construed as not being directly related to the HOPE VI Program. Booklets and information packets relate to public meetings and information for the new HOPE VI sites. The video cassettes primarily related to video broadcasts on June 13 and 14, and June 19 and 20, on the development of public housing in north Dallas.

The Authority incurred mail, staff, and legal costs not charged to HOPE VI.

OIG Evaluation: Misallocated costs - general and public relations.

As reported in the Issues Needing Future Consideration section, Authority officials have stated they would not be able to build all of the 335 HOPE VI units with available funding. The misallocated costs make the situation worse.

The OIG maintains the booklets and information packets did not solely relate to HOPE VI and the Authority would need a reasonable basis for allocating part of the costs to the program. The report only questions the June 13-14 video cassette costs, not the broadcasts for June 19-20. Documentation provided by the Authority identify the June 13-14 cassettes as pertaining to the former Executive Director's resignation. However, based on the Authority's comments, the \$1,306 has been changed from ineligible to unsupported.

If the Authority has legitimate costs relating to HOPE VI that have not been charged to the program, it may seek reimbursement for these costs. However, the OIG has an obligation to identify costs misallocated to the program.

Authority Comments (pages 7-9): Misallocated community and supportive services costs.

The Authority incorrectly charged the wellness program to HOPE VI and will remove the expenses from the program.

Regarding the Family Self-Sufficiency program, the Dallas Housing Authority has a unique situation in that the units in question have been demolished, and due to the federal court

order requiring families transferring to the Frankford-Marsh site to be enrolled in the program. A HUD HOPE VI staff member agreed with the Authority's approach. HOPE VI is not the only source of funding for the Family Self-Sufficiency program. Although the Authority's revised Revitalization Plan only provided for 250 participants, it would be an exercise in futility to submit a revised plan when court documentation has mandated the changes.

OIG Evaluation: Misallocated community and supportive services costs.

The OIG commends the Authority for correcting the wellness program charges.

The Authority's Family Self-Sufficiency program is an Authority-wide program. As such, the OIG maintains that HOPE VI should only pay for its share of the program costs (i.e., only costs for participating families in Lakewest and the new HOPE VI properties). This does not conflict with the Court Order which states that "DHA shall require every resident of the Frankford/Marsh Development to participate in the Family Self-Sufficiency Program..." The OIG cannot rely on verbal comments that HUD officials allegedly made to the Authority. As stated in the finding, the Authority had charged all Family Self-Sufficiency program costs to HOPE VI through at least April 1997, but informed OIG staff that they have begun to charge costs to other programs besides HOPE VI. The OIG does not object to the Authority exceeding 250 participants for the Family Self-Sufficiency Program, as long as costs relate to residents of HOPE VI sites.

Recommendations

We recommend you require the Authority to:

- 1A. Take steps to ensure it will adhere to federal and Authority procurement requirements, including: (1) soliciting competition; (2) determining price reasonableness; (3) documenting its basis for contractor selection; and (4) following its procurement policy regarding formal contracting procedures;

- 1B. Implement controls to ensure its HOPE VI Program is allocated and charged for only those costs that relate to HOPE VI activities;
- 1C. Repay the HOPE VI Program \$3,500 for ineligible public relations costs and \$139,802 for ineligible community and supportive services costs;
- 1D. Repay the HOPE VI Program for that portion of the \$99,001 in questionable public relations costs not related to the program based on an allocation basis that is reasonable and supported; and
- 1E. Review participant records of the Family Self-Sufficiency Program and determine how much of the costs are allocable to the HOPE VI Program. Repay the HOPE VI Program for amounts unrelated to HOPE VI participants.

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Authority Makes Questionable Purchase and Use of Land

The Authority paid \$1.3 million in HOPE VI funds for land that was worth about \$1 million. Further, the Authority did not make the best use of the land, and paid \$27,000 in commissions to an agent even though their agreement with the agent stated the seller would pay the commissions. As a result, the Authority did not make the best use of scarce federal funds that could have been used for other HOPE VI activities.

Federal cost principles

Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes standards for determining costs. The basic guidelines state that to be allowable costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded (Attachment A, C. 1. and 2.).

Chronology of the land purchase.

In order to comply with the court requirement to provide replacement housing in non-minority areas of the City, the Authority, through a real estate agent has tried to purchase properties in north Dallas. The Authority used a real estate agent, DFW Advisors, to act on its behalf to keep hidden the fact that the Authority was the buyer (due to concerns about homeowner opposition). The Authority purchased three properties: Frankford-Marsh, to build 76 housing units; Hillcrest - 40 units; and Meandering Way - 30 units. This finding relates to the purchase of the Frankford-Marsh property.

- January 24, 1995: The Authority enters into an agreement with DFW Advisors authorizing DFW Advisors to act as trustee in the acquisition of the Frankford Road - Marsh Lane property. The agreement states the commission is to be paid by the seller, and that the Authority "...shall have no duty, obligation or

liability to pay you a commission or other fee in connection with this transaction or the property.”

- January 25, 1995: Acting on behalf of the Authority, a DFW Advisors official made an offer of \$750,000 to Northern Trust Bank of Texas for the Frankford-Marsh property.
- February 1, 1995: Northern Trust Bank of Texas sold the Frankford-Marsh property to Michael D. Hoffman for \$887,500, including commissions and closing costs.
- March 24, 1995: Marfrank, LP, a Texas limited partnership (Michael D. Hoffman is president of Harland, LLC - Marfrank's General Partner), and DFW Advisors entered into an earnest money contract where DFW Advisors obtained a 45-day option to purchase the property for \$1.3 million. Under the contract, DFW Advisors agreed to pay half of the sales commissions.
- April 10, 1995: Mark Donoho Company submitted an appraisal assignment to the Authority, estimating the market value of Frankford-Marsh property at \$1.3 million as of April 7, 1995.
- May 2, 1995: The Authority purchased the property from Marfrank, LP for \$1.3 million. In connection with the purchase, the Authority paid DFW Advisors \$27,000, half of the sales commissions.
- July 5, 1995: Crosson Dannis, Inc. submitted to the Dallas Morning News a report on its review of the Mark Donoho appraisal. The report estimated the Frankford-Marsh property's market value at between \$945,000 to \$1,015,000 as of April 7, 1995.
- August 24, 1995: The Board of Commissioners approved the Frankford-Marsh purchase.
- August 28, 1995: The Authority requested HUD's approval of the land purchase for the development of about 75 HOPE VI housing units.
- August 30, 1995: HUD approves the land purchase. Because of the controversy caused by the land purchase,

HUD had planned to perform its own appraisal of the property, but then decided to accept the Authority's appraisal "In order to avoid micro-management and expedite public housing development . . .".

- July-September 1995: The Dallas Morning News published 3 articles (July 23rd, September 16th, and September 19th) criticizing the Authority's purchase of the Frankford-Marsh property and HUD's approval of the purchase.

The Authority paid significantly more than the property was worth.

A review of the Frankford-Marsh land purchase by an OIG Appraisal Specialist found the Authority paid at least \$300,000 too much for the property. Authority officials argued that the land value is a matter of differing opinions. In our opinion the Authority used a flawed appraisal.

An OIG specialist concludes the Authority paid at least \$300,000 too much. Based on a request by OIG audit staff, an Office of Inspector General Appraisal Specialist performed a field review of the Frankford-Marsh purchase and reviewed the Donoho appraisal and Crosson appraisal review. The OIG specialist found significant deficiencies with the Donoho appraisal, and concluded that the value of the property at that time of the sale should have been no more than \$1 million, and possibly substantially less:

"(Donoho's comparable No. 5 is)...in the City of Irving. The parcel is many miles southwest of the subject property. The extreme distance and dissimilarity of the locations make this a very poor comparable and the data from this sale is totally irrelevant... ."

None of the Donoho comparables are in the area immediately around the subject property. Crosson's Comparables No. 7 and 8 and the HUD/OIG Comparable No. 1 are all within a few blocks of the subject property and are; therefore, the most accurate indicators of value. Crosson's Comparables No. 7 and 8 both sold after the date of the Donoho appraisal and were; therefore, unavailable to Mr. Donoho as sales data. However, they do show relative land trends in the area and Mr. Donoho should have researched the possible asking prices of these parcels when he was developing data for his appraisal. These three

comparables indicate that the subject property should have sold for between \$1.50 and \$2.25 per square feet. Donoho's Comparables No. 1, 2, and 3 and Crosson's Comparables No. 2, 4, and 5 are in the same general area, although in better locations and, with reasonable adjustments would seem to support a value of between \$2.00 and \$2.50 for the subject property.

The lack of an adequate number of sales of really comparable properties in the proper time frame make any truly accurate analysis impossible. Given all the limitations noted herein, it appears that a reasonable value for the subject property as of April 1995 should have been at between \$2.00 to \$2.50 per square foot or between \$732,940 and \$916,175 for the entire parcel.

This indicates that the purchase price of \$1,300,000 is as least \$300,000 excessive.”

Also, according to a news article by the Dallas Morning News, the Denton and Dallas Central Appraisal Districts valued the land at \$936,443 and \$916,176, respectively.

Authority states the land value is a matter of opinion.

Authority officials have argued that the Crosson review was not an appraisal, and was therefore outside the guidelines of standard appraisal practices. Also, the former Executive Director stated that appraisal districts often carry raw land at low values. Regarding the OIG review, the Authority stated such values are a matter of differing opinions. In our opinion the Authority used a flawed appraisal that appears to have valued the land at the purchase price. An after-the-fact appraisal that exactly equals the price offered gives the appearance that the appraisal may have been an exercise in justifying the offer price, rather than an objective estimate of the land's market value.

The Authority did not make the best use of the land.

Although the Authority overpaid for the Frankford-Marsh property, it could have mitigated the high land cost by building more units on the property, or selling part of the land. Instead, the Authority built 76 units on a property zoned for approximately 200 units, and used a part of the property to build a \$1.3 million learning center.

The Authority could have built more units. Authority officials state the \$1.3 million offer to purchase the land was based on multiplying the number of units allowable for the land (200) times the selling price per unit (\$6,500) for that area. However, the Authority purchased the property to build 76 units. The OIG specialist's report states:

“A survey of raw land purchased for the construction of apartment complexes in this area (gleaned from the Donoho appraisal and the Crosson appraisal review) indicates that such complexes usually have a density of between 18 and 30 units per acre. Based on this range, it appears that the Housing Authority would need a site for their 76 units of between 2.53 acres and 4.2 acres. Thus, it would appear that they purchased a parcel that is somewhere between twice and three times as large as needed.”

Authority officials stated they have made a commitment not to build more than 100 units per site. However, in light of the difficulty the Authority has had trying to find scarce and high priced land in north Dallas, and the high legal costs it has incurred related to these purchases, it seems the Authority should have constructed more units on the Frankford-Marsh site. The Authority could have been significantly closer to completing its plan of building 335 replacement units had it constructed more units on the property.

Authority could have sold part of the land. Although the Authority bought more land than needed to build 76 units, it could have recovered some of the excess funds paid by selling part of the land. The OIG specialist's report states:

“The subject property is located on the corner of an intersection which potentially has great value as a commercial site. If Frankford Road is cut through to the west, this intersection will probably develop as the intersection of two very busy streets. Thus, the site probably has a higher value as a commercial site based on the potential development of this intersection. Currently a lawsuit is pending to force the extension of Frankford Road west. All of this does not preclude the use of the site as a residential apartment complex, but it does indicate that a premium price might have been paid

to purchase a site which has a possible highest and best use as a future commercial development rather than that of residential use. The purchase of land with value above and beyond that of normal residential use is typically a factor in the development of such a site for a luxury development. The use of federal funds to pay such a location premium is generally not acceptable.”

The report cites a recent illustration where a piece of property was subdivided and sold for a large sum of money:

“...a 15.556 acre site was purchased for \$1,525,000 just one month prior to the purchase of the subject property. This parcel is located along Frankford Road between Vail Street (the next street east of Marsh Lane) and Midway Road, the nearest major street east of Vail Street. The site is just a short distance (less than one-half mile) east of the subject property. This sales price represents a per square foot cost of \$2.15.

Just 15 months later, a 1.77 acre site directly on the corner of Frankford Road and Midway Road was subdivided out of the 15.556 acre parcel and sold to a commercial entity, Walgreens Drug Stores, for \$1,000,000. This sales price represents a per square foot cost of \$12.99. This much higher per square foot selling price may be partially attributable to land appreciation over the 15 months, but the bulk of the increase is due to the prime commercial location on the corner of two very busy streets. All indications are that this site, although very similar to the subject, is somewhat superior due to its proximity to shopping and bus routes.”

Authority officials stated they initially intended to sell part of the land. In an August 5, 1995 letter to Texas Senator Hutchison, defending the Authority because of negative press coverage of the land purchase, the former Executive Director wrote: “I might add that we have hopes of selling a portion of the land, and which will allow us to recoup some of the dollars we spent. Indeed, it is entirely possible that we could wind up paying less than \$1 million the paper says is the rightful value.” However, instead of selling part of the land to reduce the land acquisition costs, the Authority built a Learning Center on the property.

Authority's decision to build a Learning Center questionable. As of June 1998, the Authority had paid \$556,681 of a budgeted \$1,281,000 in HOPE VI funds for the Learning Center, which was completed around the end of August 1998. In a November 14, 1995 letter to the HUD Secretary, the (then) Executive Director stated that the Authority and Brookhaven College proposed the satellite campus to provide college preparatory and degree and certificate support courses, and professional development. The Learning Center would be open to "Residents in the Marsh/Frankford Road area, including Housing Authority clients, middle school and high school students, retirees, employees, and employers." The former Executive Director requested funding assistance from HUD for the endeavor. A HUD Assistant Secretary responded to the letter, stating that the Department could not act on the funding request, but encouraged the Authority to work toward its goal of establishing a Learning Center.

picture of learning center here

Learning Center at the northeast corner of Frankford Road and Marsh Lane.

In May 1997, and again in January 1998 the Authority submitted revised budgets to HUD, requesting \$1,281,000

in construction and architectural and engineering costs for the Learning Center. Authority officials said HUD has not approved the revised budgets, but that the former Authority Executive Director had obtained verbal approval from the former HUD Assistant Secretary. Although the Authority cannot be faulted for HUD's non-responsiveness, it would seem incumbent upon the Authority to have HUD's written approval for such a significant revision to their Revitalization Plan. The Grant Agreement (Article XI, paragraph 1) requires the Authority to obtain HUD's approval to any revision to the scope or objectives of the Revitalization Plan. The Learning Center constitutes a significant revision to the Authority's Revitalization Plan.

An Authority official said that the Authority will provide the land and facilities for the Learning Center, and Brookhaven College would pay for operating costs, although the Authority would share part of the first year's operating costs. However, Authority officials said they do not yet have a written agreement with Brookhaven College.

The Learning Center will help Authority residents. However, given that: (1) the Authority has already indicated it will not have enough funds to build all its HOPE VI units (see Issues Needing Further Consideration); (2) the Center may largely be used for non-public housing residents; (3) the Authority has not received HUD's written approval for the Learning Center, which constitutes a major revision to its Revitalization Plan; and (4) the Authority does not yet have a written agreement with Brookhaven College, the Authority's decision to build a Learning Center appears questionable.

The Authority should not have paid real estate commissions.

As cited in the chronology section above, the Authority paid DFW Advisors a \$27,000 commission for the Frankford-Marsh land purchase even though its agreement with the real estate agent stated the seller should pay the commission.

The Authority needs to more closely adhere to federal guidelines regarding what is necessary and reasonable.

The questionable land acquisition shows a need for Authority management to more closely adhere to federal cost principles. Federal cost principles require allowable costs to be *necessary* and *reasonable* for proper and

efficient administration of federal awards. Authority officials have had difficulty trying to buy property in non-minority areas and have met with homeowner opposition, and the OIG is sympathetic to their plight. However, the Authority could have avoided paying an unreasonable amount for the property by obtaining an appraisal prior to making an offer. Further, the Authority could have avoided an unnecessary loss of HOPE VI funds by: (1) not buying more land than necessary; (2) building more units on the land; or (3) recouping some of the costs by selling part of the land.

Auditee Comments and OIG Evaluation

The Authority disagreed with the finding and recommendations. Excerpts from the Authority's written comments, and OIG's evaluation of the comments follow (see Appendix B for the full text of the Authority's comments).

*Authority Comments (pages 12-13) and OIG Evaluation:
The Authority paid significantly more than the property was worth.*

Authority. The OIG Appraisal Report was conducted more than 2 years after DHA purchased the property and cannot accurately reflect 1995 property values.

OIG. The Authority did not state its basis for making this determination.

Authority. Property values listed by Central Appraisal Districts are known to be below actual market value.

OIG. This appears to be the opinion of the Authority's appraiser.

Authority. The court determined the fair market value to be \$1.3 million and ordered HUD to reimburse the Authority for all costs associated with the purchase. The court found the Crosson Dannis, Inc. appraisal review performed for the Dallas Morning News to be invalid.

OIG. Authority officials told us the court did not even review the appraisal but made its determination based on testimony by the seller and an Authority official.

Authority. Possible asking and sales prices vary greatly. In conducting appraisals, the actual sales price is accepted as the value to determine the market value of the property.

OIG. The Authority appraiser reportedly considered the contract price in preparing his appraisal. However, using this logic, *any* contract price may be accepted as the market value.

Authority. The Authority obtained an appraisal from a State Certified Appraiser even though not required by HUD. HUD accepted the appraisal.

OIG. The Authority used a flawed appraisal that supported the contract price. Unfortunately, HUD did not perform its own appraisal.

Authority. Mar-Frank testified in Court that he had a subsequent offer for \$1.15 million after the contract was executed with Authority.

OIG. According to court testimony documents provided by the Authority, the seller claimed to have received a written offer for \$1.05 million, not \$1.15 million. In any event, this supports the OIG's conclusion that the Authority significantly overpaid for the property.

Authority. It appears the OIG chooses to ignore data, material, legal documents, and contracts which will support and confirm that the Authority paid an appropriate amount for the land.

OIG. The OIG has evaluated and considered all available information. The highly irregular events and circumstances surrounding the Authority's purchase of the Frankford-Marsh property, as stated in the Chronology section of this finding, justified further review by OIG staff. The OIG bases its conclusion that the Authority overpaid for the property on the OIG Appraisal Specialist's report.

Authority Comments (pages 14-15): The Authority could have built more units.

The Authority agrees it could have built more units, but doing so would not meet the goals of the HOPE VI Program or the *Walker et al.* lawsuit to integrate public housing families into the neighborhood. The Authority's

method is to build no more than 100 public housing units per site. Additional units at the site would only strengthen the negative response of the existing homeowners. The Authority is under court restrictions to provide housing opportunities for low-income African American families in areas that are not black or predominantly black or minority concentrated. Increasing the number of public housing units at Frankford-Marsh would be contrary to the Court's intent. Finally, the court ordered the Authority to proceed with the development of 75 family units at the site.

OIG Evaluation: The Authority could have built more units.

There's nothing wrong with the Authority's method of building no more than 100 units per site. But if this is the case, the Authority should buy properties that are more or less commensurate in size with the number of units it plans to build (or sell part of the land). In the case of Frankford-Marsh, the Authority bought 2-3 times more land than it needed. Even with this much land the Authority built 24 units less than its 100-unit limit. The issue reported in the finding does not conflict with HOPE VI goals, or the court's intent. The issue has to do with being resourceful with limited HOPE VI funds.

Authority Comments (page 15): Authority could have sold part of the land.

The Authority had considered selling part of the property; however, HUD strongly encouraged the Authority to develop a Campus of Learners Program at its HOPE VI sites. The Authority presented the proposed learning center to HUD and was encouraged by (then) Assistant Secretary Marchman to proceed with the development.

Another reason why the Authority decided not to sell the property was to control development next to Authority families - it did not want a service station or convenience store located next to the development.

OIG Evaluation: Authority could have sold part of the land.

In a November 14, 1995 letter to the (then) HUD Secretary, the former Executive Director outlined his proposal to develop a Learning Center at the Frankford-Marsh site. The letter concluded by saying “To incorporate this concept into our design, we are in need of additional funding. I would greatly appreciate exploring our options to obtain adequate funding to bring this project to fruition.”

In a December 15, 1995 response to the Authority on the Secretary’s behalf, Mr. Marchman stated “At the present time, Campus of Learners is not a separately funded program. The Secretary’s announcement in August was a challenge to public housing authorities (PHAs) to make linkages with educational and private sector institutions in order to institute a Campus of Learners concept without the benefit of additional funding from the Department....While the Department cannot yet act on your funding request, we still encourage the DHA to work towards its goal of establishing a Learning Center.”

Therefore, it appears that HUD’s encouragement was nothing more than a polite reply to the Authority’s request for additional funds.

The Authority uses after-the-fact reasoning regarding its desire to control adjacent development. The Authority buys more land than needed, then justifies not selling the excess because of a desire to control adjacent development.

Authority Comments (pages 16-17): Authority’s decision to build a Learning Center questionable.

The possible shortage of funds may be caused by a variety of reasons.

The Learning Center would provide classes for both Authority residents and the surrounding neighborhood. The development of the Learning Center would accomplish several objectives of the court and the HOPE VI Program including integrating the public housing site, providing self-sufficiency and other skills training to assist public housing

residents to move off of government welfare assistance, and provide activities for youth at the public housing site.

The Authority has included the Learning Center in its budget revisions and quarterly reports.

The Authority proceeded with developing the Learning Center with HUD's encouragement.

The Authority does not believe the Learning Center constitutes a major revision to its Revitalization Plan. The Center is a means to accomplish the supportive services and community services components of the HOPE VI Program.

The Authority has had to work around the shortage of HUD staff. It has reviewed the Learning Center with HOPE VI officials, and assumes if there was an objection, HUD would have noted it by now.

OIG Evaluation: Authority's decision to build a Learning Center questionable.

The OIG recognizes the shortage of funds may be in part due to factors beyond the Authority's control. However, some of the Authority's decisions, such as building the Learning Center instead of selling off part of the land, add to the funds shortage problem.

The OIG does not dispute the many benefits a Learning Center can provide. Nevertheless, we question the Authority's decision to spend such a significant amount of money, without HUD's written approval or a written agreement with Brookhaven, for a Center that may be to a significant degree for non-public housing residents.

Authority Comments (pages 17-18): The Authority should not have paid real estate commissions.

It was the Authority's objective to have the real estate commissions be paid by the seller, but the seller was not willing, through negotiations, to absorb the total cost of the commissions. Since the Authority and the seller contracted to split the payment of the commissions, the initial arrangement to pay all of the commission was superseded in

the final Contract of Sale. The \$27,000 is part of the \$1,332,949 the court ordered HUD to pay the Authority.

OIG Evaluation: The Authority should not have paid real estate commissions.

The Authority never modified the original trustee agreement. DFW Advisors superseded the trustee agreement when they entered into the earnest money contract. The OIG doubts the court would be aware of the trustee agreement between the Authority and DFW Advisors.

Recommendations

We recommend you require the Authority to:

- 2A. Take steps to ensure that significant purchases, including land acquisitions, are reasonable and necessary for proper and efficient performance and administration of federal awards;
- 2B. Repay the HOPE VI Program \$300,000 for the improper and unreasonable purchase of the Frankford-Marsh property; and
- 2C. Repay the HOPE VI Program \$27,000 for the commission improperly paid DFW Advisors in connection with the Frankford-Marsh land acquisition.

The Authority's Community and Supportive Services Programs Need Better Planning and Management

The Authority has no plans to show how it will sustain its community and supportive service activities when HOPE VI funding ends. In addition, the Authority has not always efficiently managed community and supportive services funds. The Authority spent funds for a program that had no contract and that did not benefit residents, and misallocated costs for two other programs.

The Authority's community and supportive services program

The Family Self-Sufficiency Program, run by Authority staff, is the supportive services component of the Authority's community and supportive services programs. The goal of the Family Self-Sufficiency Program is to help families become self-sufficient within 5 years. The program requires participants to develop a personal plan with a case manager that includes goals for self-sufficiency and how to meet them. Participants must sign an agreement with the Authority that they will work to meet these goals. The case manager will refer residents to available service providers, and follow up with them monthly. Some of the supportive services available to residents include remedial education, job training, child care, transportation, and parenting skills.

The Authority submitted to HUD its Community Service Implementation Plan in November 1994, and a revised Plan in June 1995. HUD, through the Corporation for National Service,⁶ approved the Plan on April 30, 1996. The Plan includes training and service opportunities for residents in community maintenance and beautification (roof installation, grass cutting, property maintenance), teaching and child care, and home health care for the elderly and homebound. The Authority contracted with outside providers to provide community service training.

The Authority's Department of Client Services, Family Self-Sufficiency Program, oversees the community and supportive services programs. According to the

⁶ The Corporation for National Service is a congressionally-established organization that administers national service programs that provide community services.

Community Service Implementation Plan: “The supportive services provided equip the participants with the skills to conduct meaningful community service...” The Authority budgeted \$1,406,428 for supportive services,⁷ most of it for staff salaries, and \$1,767,200 for community services, including staff salaries and program contracts.

The Authority has no plans for sustaining community and supportive services.

HOPE VI provides funding for community and supportive services and encourages grantees to continue community service plan activities beyond the term of the revitalization period. The Authority’s Community Service Implementation Plan states that the program Coordinator will work to obtain commitments from foundations and the private business sector to continue the program beyond the term of the revitalization period. However, the Authority has made no plans or efforts for sustaining these services after HOPE VI funding ends.

Without plans for sustaining its Community Service Implementation Plan activities, the Authority may not be able to achieve one of the key overall objectives of the HOPE VI Program, as stated in the Grant Agreement:

“HOPE VI is intended to address the condition of people in public housing developments, and not merely of the bricks and mortar themselves. The parties will emphasize community and supportive services, as well as other means appropriate to each community, so as to have the broadest possible effect in meeting the social and economic needs of the residents and the surrounding community.”

Terminated program did not benefit residents and results in questionable costs.

The Authority canceled a youth training program before any participants completed training and after spending \$126,364 in HOPE VI funds. Authority officials terminated services provided by the Dallas Youth Services Corps because the services did not exclusively benefit Authority residents. However, the Authority never had a contract with the Dallas Youth Services Corps, which would have spelled out the scope of services.

In its May 1993 HOPE VI application, the Authority described the Dallas Youth Services Corps’ role as the

⁷ The \$1,406,428 includes \$180,000 in City matching contributions. The City has assigned a case manager to work at the Authority as an in-kind matching contribution.

provider for its community service program. The DYS Corps would provide training for two ten-person crews of young people in basic skills including tool handling, project planning, basic carpentry and landscaping. The trainees would also perform volunteer work and receive instruction leading to a high school diploma or G.E.D. certificate. After 6-12 months, the corpsmember was expected to translate newly acquired job skills into permanent employment, or to pursue advanced vocational training or education. The proposed budget for the program amounted to \$1,767,204 over 5 years.

The Dallas Youth Services Corps started implementing the program in September 1994, and training began in November 1994. For September through December 1994 the DYS Corps submitted \$126,364 in billings to the Authority. Start up costs totaled \$65,718, including \$45,588 for two vans purchased by DYS Corps to be used for transportation, and \$4,000 for uniforms. The remaining start up and other costs were for salaries, overhead, operational costs, and stipends. In December 1994, the Authority removed DYS Corps from its community service program.

In a December 20, 1994 letter to the Dallas Youth Services Corps, the former Executive Director stated that it was terminating DYS Corps from the HOPE VI Program because DYS Corps' services did not exclusively benefit Authority residents. Also, an Authority official said the Dallas Youth Services Corps was removed because it wanted to broaden the services, based on recommendations by HUD and the Corporation for National Service. However, it appears the Authority did not have a clear idea what services it wanted. For one thing, the Authority paid DYS Corps \$126,364 without a contract. A contract would have included an agreed upon scope of work and budget. Also, the Authority did not obtain approval of its Community Service Plan before implementing the program, as required by law. The Corporation for National Service did not approve the Authority's Community Service Plan until April 30, 1996.

In January 1995 the Authority notified DYS Corps it would continue to work as a HOPE VI subgrantee in a redefined role based on recommendations from the Corporation for

National Service and the Lakewest residents. However, according to a chronology of events prepared by the DYS Corps, from January to June 1995 the Authority reduced the program scope and funding to the point that the DYS Corps was unable to perform the services. The Authority asked the DYS Corps to return the two vans the Authority paid for; however, Authority officials said the DYS Corps ignored their request. On June 7, 1995, the Authority submitted a revised Community Service Plan to the Corporation for National Service, replacing the DYS Corps with the West Dallas Neighborhood Development Corporation.

Unrelated community and supportive services costs charged to the HOPE VI Program.

The Authority charged the HOPE VI grant \$139,802 for a wellness program provided by the Visiting Nurse Association of North Texas. This community and supportive services program did not relate to HOPE VI residents but to residents of other Authority developments. In addition, the Authority charged the entire cost of its supportive services, the Family Self-Sufficiency program to HOPE VI, even though the program was for all Authority residents, not just HOPE VI residents. This resulted in an estimated \$546,000 in misallocated charges to the HOPE VI Program. Finding 1 discusses the misallocated charges for these two programs in more detail.

Auditee Comments and OIG Evaluation

Authority Comments (pages 20-23): The Authority has no plans for sustaining community and supportive services.

The Authority is unclear how the OIG derived this conclusion since they have failed to provide no specific examples of non-compliance. The Authority has a long history of forming community partnerships with community service and business entities to meet the needs of its residents. With the considerable efforts made by the Authority, both prior to receipt of HOPE VI funding and after, to ensure that the self-sufficiency and community service programs are available to its residents, and commitment of the Authority to provide these programs, it is difficult to understand how the OIG can draw the conclusion that the Authority has made no plans or efforts for sustaining the services after HOPE VI funding ends.

A HUD contractor and others have spoken positively about the Authority's services and resources. The Authority has concluded that the OIG staff assigned to perform this audit lacks necessary experience in community/public revitalization to make the subjective decisions contained in the Draft Report.

OIG Evaluation: The Authority has no plans for sustaining community and supportive services.

The OIG regrets the Authority appears to have taken offense where none was intended. The draft report made no criticism of the quality of the Authority's community and supportive services. As part of the audit, OIG staff reviewed the Authority's HOPE VI community and supportive services (specifically, the Family Self-Sufficiency program and its community service programs as stated in Community Service Implementation Plan) and inquired how the Authority planned to sustain these services once HOPE VI funds were exhausted. This particularly concerned OIG staff since the Authority had been charging the entire cost of the Family Self-Sufficiency program to HOPE VI. Authority officials indicated they did not have plans in place for sustaining the programs. The finding recommends the Authority develop concrete plans for sustaining the programs.

Authority Comments (pages 23-25): Terminated program did not benefit residents and results in questionable costs.

The Authority and the Dallas Youth Services Corps (Youth Corps) had worked together to develop the plan which included the scope of services and budget. The Authority canceled the program because the Youth Corps had no intention of limiting the program to primarily public housing residents. The Authority subsequently revised the Community Services Plan, replacing the Youth Corps with the West Dallas Neighborhood Development Corporation. The WDND program was terminated due to poor resident participation, not through any fault of the Authority.

Because of pressure from the Youth Corps to start the program, the Authority received verbal approval from the former HUD Assistant Secretary, and was informed there

would be no written authorization since approval had come from the Assistant Secretary.

The Authority did not pursue recovery of the vans because the legal costs would exceed the value of the vans.

OIG Evaluation: Terminated program did not benefit residents and results in questionable costs.

Whatever plans or informal agreements the Authority and the Dallas Youth Services Corps had, these could not take the place of a legally binding and enforceable contract. The Authority should repay the HOPE VI Program for these costs.

Authority Comments (pages 25 and 26) and OIG Evaluation: Unrelated community and supportive service costs charged to the HOPE VI Program.

See Finding 1 for a discussion of this issue.

Recommendations

We recommend you require the Authority to:

- 3A. Develop concrete plans on how it will sustain its community and supportive services activities when HOPE VI funding ends and
- 3B. Repay the program \$126,364 for the terminated Dallas Youth Services Corps program.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Significant Controls

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

Administrative Controls

- ♦ Selection and award of contracts
- ♦ Eligibility of grant activities
- ♦ Procedures for land acquisitions
- ♦ Sustainability of community and supportive services
- ♦ Monitoring of programs
- ♦ Ability to timely complete the program

We assessed all of the relevant controls identified above.

Significant Weaknesses

It is a significant weakness if internal 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. Based on our review, we believe the following items are significant weaknesses, in that the Authority lacks internal administrative controls to ensure:

- ♦ Major procurements are: (1) awarded using full and open competition; (2) processed using formal contracting procedures, as required; (3) adequately reviewed for price reasonableness; (4) evidenced by written, supported selection procedures; and (5) consistent with HOPE VI requirements (Findings 1 and 3).
- ♦ Costs are allocated to appropriate programs (Findings 1 and 3).

- ♦ Land purchases are made in accordance with federal cost principles (Finding 2).
- ♦ Adequate planning for community and supportive services under its HOPE VI Program so that these services can be sustained after the grant term (Finding 3).

Issues Needing Further Consideration

In addition to the findings, the audit identified issues needing further consideration. Although important, we did not think these issues warranted being reported as audit findings. However, these issues could become significant if not timely addressed.

Lack of funds will make completing the planned revitalization difficult.

An Authority official said he did not think they would be able to build all of the 335 units with available funding. The official could not even guess how many units they would be able to build since the biggest variable - the cost of land - was unknown.

A HUD official also does not believe the Authority will be able to construct the 335 units and stressed the high legal fees due to the lawsuits. The Authority had previously paid for these fees from its operating reserves. However, the Authority has begun paying for legal fees from HOPE VI funds. As of June 1998 the Authority had charged \$55,345 in legal fees to HOPE VI. According to information provided by the Authority, legal costs charged or chargeable to the HOPE VI Program total \$388,701.

The OIG's evaluation of costs incurred at the Frankford-Marsh development found that the Authority exceeded its budget by 38 percent. Therefore, the audit results also indicate the Authority will not be able to complete their HOPE VI Program with available funding.

The Authority is pursuing alternative approaches, such as partnering with developers to purchase units within their developments that will be used as public housing units. The Authority conducted negotiations with a developer to purchase 88 units of a 306-unit development for use as public housing. However, the developer backed off because the Authority would not put up hard cash to hold the units while waiting for a decision on the homeowner lawsuit.

A baseline assessment of the Dallas HOPE VI Program, prepared by a HUD consultant and citing the legal and financial problems the Authority has encountered, offers the following "Observations":

- Given the legal environment and the barriers they have presented thus far, the DHA should invest its time and

resources into identifying alternative approaches to acquisition such as partnering with private developers. This would enable the PHA to acquire the units it requires while deferring the risk and responsibility for the project to the developer.

- The housing authority must do an analysis of legal fees incurred to date to project the potential financial burden on the HOPE VI Program. These fees have not been previously budgeted and would have a real impact on the amount of funds available for construction under this grant.
- A new budget should be constructed that accurately reflects the status to date and realigns line items to reflect current plans. A revised Revitalization Plan that accurately reflects any new projections with regard to units being produced or schedule changes should be submitted to HUD.

We believe these are sound observations that should help the Authority address its problems with timeliness and funding.

HOPE VI Program will not be timely completed.

The Authority will not be able to timely complete the HOPE VI revitalization due to the difficulty in finding land sites in north Dallas on which to build housing, and because of homeowner lawsuits. The Authority has only purchased 3 properties to date on which to build 146 of the 335 units included in the revitalization plan. The Authority has completed 76 units at the Frankford-Marsh property. However, due to lawsuits by area homeowners, the Authority has thusfar been unable to construct any units at the other two properties, purchased in April 1996.

HUD did not establish a specific time frame for the Authority to complete its grant activities. According to a HUD official, grantees are generally given 54 months from

the date of the signing of the Assistance Award Amendment. The Authority's Assistance Award Amendment was signed in August 1994. This would mean that the Authority would have until January 1999 to complete its plan in a timely manner. With less than a quarter of its planned units completed, the Authority will not be able to timely complete its HOPE VI revitalization.

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Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Ineligible</u> ¹	<u>Unsupported</u> ²
1C	\$143,302	
1D		\$ 99,001
1E		546,179
2B		300,000
2C		27,000
3B	<u> </u>	<u>126,364</u>
TOTALS	<u>\$143,302</u>	<u>\$1,098,544</u>

¹ 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.

² Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

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Auditee Comments

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