



Issue Date

January 29, 1999

Audit Case Number

99-FW-201-1003

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 San Antonio
HOPE VI Grants
San Antonio, Texas

As part of a nationwide audit of the HOPE VI Program, we performed an audit of the Housing Authority of San Antonio's (Authority) HOPE VI grants to determine if the Authority: (1) properly procured contracts under its HOPE VI grants; (2) only expended amounts for eligible activities; (3) met the objectives of its Revitalization Plans; and (4) implemented its community and supportive services components effectively, efficiently, and in a manner that will allow the activities to be sustained beyond the grant term.

The audit disclosed serious concerns with the Authority's procurement process. These concerns include the lack of a contract administration system and a comprehensive procurement policy and procedures. This resulted in ineligible and unsupported contract payments totaling \$454,407. The audit also disclosed the Authority's overall progress has been slow in implementing its HOPE VI grants. Also, the Authority has not done much in the area of community and supportive services.

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 San Antonio's (Authority) HOPE VI grants to determine if the Authority: (1) properly procured contracts under its HOPE VI grants; (2) only expended amounts for eligible activities; (3) met the objectives of its Revitalization Plans; and (4) implemented its community and supportive services components effectively, efficiently, and in a manner that will allow the activities to be sustained beyond the term of the grants. The audit disclosed concerns in each of these areas.

In general, the Authority is satisfactorily carrying out its HOPE VI grant activities. However, the audit disclosed the Authority does not have an adequate contract administration system or procurement policy in place. This led to ineligible and unsupported contract payments. Further, we have concerns about the Authority's overall lack of progress on its grants, including its community and supportive services programs.

Ineligible and unsupported procurement charges.

The Authority had ineligible and unsupported procurement charges to the HOPE VI Program. The Authority needs a contract administration system and a comprehensive procurement policy and procedures to ensure its procurements meet HUD and Grant Agreement requirements. The lack of a contract administration system and comprehensive procurement policy and procedures resulted in ineligible and unsupported contract payments totaling \$454,407.

A review of contracts the Authority awarded under HOPE VI found numerous instances where the Authority did not document its selection of contractors for architectural and engineering services, nor perform independent cost estimates to determine price reasonableness. The review also disclosed that the Authority: (1) paid fees over and above those established by contract; (2) used HOPE VI funds to pay for duplicate services provided by another federal program; (3) failed to seek reimbursement for errors, omissions, and flawed design specifications; and (4) paid unnecessary funds above those proposed by the contractor. We are recommending you require the Authority to develop a comprehensive procurement policy and contract administration system, and provide steps (Management Controls) it intends to take to ensure the Authority will follow procurement and contract administration policies and procedures. We are also recommending you require the Authority to perform price analyses of the applicable contracts and reimburse the HOPE VI Program for

ineligible payments and any amounts determined unreasonable.

Authority's progress is slow.

The Authority's overall progress is slow in implementing its HOPE VI grants. It has been 4 years since the effective dates of the Spring View and Mirasol grants and construction has not started. Spring View is still in the demolition phase and HUD has not approved the Authority's Revitalization Plan for Mirasol. Also, the Authority has not done much with the community and supportive services component of its program. The Authority lacked the staff and expertise to handle these redevelopment projects and, until recently, refused to hire an outside expert to handle the project management function. The Authority also failed to submit required documentation to HUD that would allow it to go forward with the redevelopment. In addition, HUD did not do a very good job of administering the Mirasol grant. The slow progress is stressful to development residents and has negatively affected their decision to return to the developments after completion. We are recommending you require the Authority to develop detailed timelines for the development process for both grants and submit monthly status reports. We are also recommending you require the Authority to: (1) submit revised self-sufficiency and community building plans; (2) provide sufficient budget information showing how much it plans to spend on community and supportive services; (3) make every effort to obtain from the City matching funds equal to 15 percent of the HOPE VI grant funds awarded for supportive services; and (4) explain how it will sustain its community and supportive services programs throughout the grant term and beyond.

The Authority partially agreed with the draft findings and recommendations.

We issued a draft report to the Authority on September 24, 1998, and discussed the draft with Authority officials at an exit conference on October 1, 1998. The Authority issued a written response to the draft report on October 13, 1998. At the exit conference, and in its written response, the Authority concurred with parts of the findings and recommendations and disagreed with others. Regarding the ineligible and unsupported charges, the Authority agreed that corrective steps needed to be taken but disagreed with most of the questioned costs. The Authority agreed with the finding on slow progress and said it will take corrective

action. Also, based on corrective action taken by the Authority and additional information the Authority provided OIG staff, we removed one of the draft report findings. We have summarized the Authority's response in the findings and included it without the attached documents as Appendix B.

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Abbreviations

CFR Code of Federal Regulations

HUD U.S. Department of Housing and Urban Development

OIG Office of Inspector General

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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 to the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies in the 1993 Appropriations Act. Over 6 fiscal years, 1993 to 1998, Congress has appropriated \$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 program. 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 San Antonio Housing Authority. The Housing Authority of the City of San Antonio (Authority) was established under Texas statute in 1937. The Authority administers over 8,300 units of public housing and 9,400 Section 8 certificates and vouchers. A five-person Board of Commissioners provides general oversight of Authority activities, while Mr. Melvin Braziel, President and Chief Executive Officer, is in charge of day-to-day operations. Authority administration and records are located at its offices at 818 South Flores in San Antonio, Texas.

The Authority's HOPE VI Program. HUD has awarded the Authority \$98.6 million in HOPE VI funds, including two planning grants, one demolition grant, and two implementation grants. The planning grants involve the development of master plans for the Mirasol, Cassiano, and Wheatley public housing sites. The demolition grant was approved in September 1996 for Menchaca Homes to demolish distressed units.

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

The Spring View implementation grant includes planning provisions, the demolition of 421 existing low rent units, additional land acquisition, and the construction of replacement housing. Land acquisition provides for acquiring adjacent dilapidated properties and other sites within the neighborhood for single and multifamily construction. The construction provides one-for-one replacement including multi- and single family residences using mixed financing². The Mirasol implementation grant did not include planning provisions, because a separate grant was awarded for that purpose. Other than that difference, the implementation grants were similar, except Mirasol has 500 units scheduled for demolition and reconstruction. The following table summarizes the Authority’s HOPE VI grant awards:

Grant Site	Grant Type	Grant Date	Grant Amount
Spring View	Implementation	9/7/94	\$48,810,294
Mirasol	Implementation	2/1/95	48,285,500
Mirasol	Planning	8/12/94	244,550
Cassiano/Wheatley	Planning	6/15/95	400,000
Menchaca	Demolition	9/96	840,726
Total			\$98,581,070

Audit Objectives, Scope, and Methodology

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

² The term mixed financing refers to a combination of HOPE VI funds, Low Income Housing Tax Credits, Tax Exempt Bonds, Private Mortgages, and Federal Housing Administration Mortgage Insurance.

To achieve the audit objectives we: (1) reviewed HOPE VI regulations and guidelines, Authority procurement policies, contract files, accounting records, and any related documentation and correspondence; (2) interviewed Authority, HUD, and contractor officials; and (3) made site visits to the HOPE VI developments. Our audit procedures included:

- Examining the selection and award process for 20 of 39 HOPE VI contracts awarded during the review period. The sample of 20 contracts represents \$5.51 million out of a total of \$9.41 million.
- Reviewing support for administrative costs charged to the HOPE VI grants. We reviewed 31 disbursements totaling \$105,805 from a total of \$1.44 million expended by the Authority from August 1994 through July 1997.
- Reviewing the Authority's Revitalization Plans for Spring View and Mirasol Homes to determine if: (1) the Plans met HOPE VI requirements; (2) the Authority will be able to successfully complete the revitalization on time; and (3) the Authority has adequate procedures to monitor the progress and performance of the grants.
- Visiting the sites to determine the strengths and weaknesses and work in progress.
- Reviewing the community and supportive services programs for the implementation grants. The review included determining whether the programs: (1) are eligible; (2) have a clear and measurable result; (3) are being adequately monitored; (4) will be sustainable after the grant; and (5) are receiving the required City matching contributions.

We performed field work at the Authority and HOPE VI sites during August through December 1997. The audit generally covered the period September 1994 to December 1997, although the period was extended as appropriate. We performed the audit in accordance with generally accepted government auditing standards.

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Lack of Contract Administration System Resulted in Ineligible and Unsupported Charges

The Authority had ineligible and unsupported procurement charges to the HOPE VI program. Specifically, the Authority: (1) did not adequately document its selections of contractors; (2) did not perform independent cost estimates to determine price reasonableness; (3) paid fees in excess of those established by contract; (4) used HOPE VI funds to pay for duplicate services provided by another federal program; (5) failed to seek reimbursement for errors, omissions, and flawed design specifications; and (6) paid additional funds above those proposed by the contractor. The Authority also did not properly solicit and award professional and personal service contracts. This occurred because Authority management did not ensure adherence to procurement requirements and did not have a contract administration system to monitor contract compliance. Also, the Authority did not establish a comprehensive procurement policy and procedures. This resulted in ineligible and unsupported contract payments totaling \$454,407.

Program requirements

The Grant Agreements require the Authority to comply with procurement guidelines contained in the Code of Federal Regulations (24 CFR 85.36). These regulations require grantees to:

- Have and use their own procurement standards that reflect applicable state and local laws and regulations, provided that the standards also conform to applicable federal laws and standards (85.36(b)(1)).
- Conduct all procurement in a manner to provide full and open competition (85.36 (c)(1)).
- Maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders (85.36(b)(2)).
- Maintain sufficient records to detail the significant history of a procurement to show the rationale for the method of procurement, selection of contractor type, contractor selection or rejection, and the basis for the contract price (85.36(b)(9)).

- Perform a cost or price analysis in connection with every procurement action including contract modification (85.36(f)(1)).
- Incorporate several specific provisions, such as: administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms and termination for cause and for convenience (85.36(i)(1)).³

The Grant Agreements, Article IV, also say the Grantee will ensure that HOPE VI grant funds are not used to duplicate work which is funded under any other federal program and will establish controls to assure non-duplication of funding.

Twenty contracts selected for review.

OIG selected 20 contracts for review to determine if the Authority complied with HUD and Authority requirements for procurement of goods and services. The contracts selected equated to over ½ of the 39 contracts the Authority awarded during calendar years 1994 through 1997. The 20 contracts totaled \$5.51 million, or about 60 percent of the total awarded dollar value of \$9.41 million. The selection process included all contracts over \$100,000 (7 contracts), and 13 contracts under \$100,000. The following schedule shows the contracts by type and amount:

Contract Type	Number Reviewed	Contract Amounts
Construction	3	\$ 3,280,950
Professional Services	2	157,000
Architectural/Engineering	11	1,826,498
Other Services	4	247,154
Totals	20	\$5,511,602

³ Certain required provisions are dependent upon type and dollar amount of the contract - such as compliance with the Davis-Bacon Act for construction contracts in excess of \$2,000.

Authority's did not properly administer its contracts.

Authority management did not ensure adherence to procurement requirements and did not have a system to monitor or administer its contracts. The Authority operated without a comprehensive procurement policy. HUD requires housing authorities to develop a procurement policy in accordance with federal requirements and the authorities Board of Commissioners must formally give its approval.⁴ Instead, Authority staff used two different policies and a variety of memorandums. One policy, dated April 27, 1994, had two different unsigned Board of Commissioners resolutions and was not comprehensive. The second procurement policy was not dated and did not include key chapters and sections. Without a complete procurement policy and procedures to implement them, the Authority cannot carry out its responsibility to effectively procure its needed goods and services. As a result, the Authority did not effectively administer its HOPE VI grants, resulting in unnecessary and ineligible payments of \$454,407. Identified below are the problems attributable to the lack of a contract administration policy and procedures.

Selection of architectural and engineering firms not documented.

The Authority did not document its contractor selections for any of the 11 procurements of architectural and engineering services reviewed. The Authority used competitive proposals under the qualifications based selection procedures. Using this method, the Authority sent out requests for proposals to firms and listed a variety of rating and selection factors. However, the Authority did not place any relative importance or rank any of the selection factors. As a result, the Authority cannot ensure it gave respondents a fair opportunity to present their qualifications. In addition, the Authority did not establish methods for evaluating and selecting firms from the proposals received. The Authority did not have support for its ranking or score for each proposal. For example, the Authority awarded six contracts to one firm totaling over \$1.1 million. One of these contracts included the firm's use of a subcontractor for a master plan market analysis. The Authority did not conduct an independent price analysis to determine the reasonableness of this subcontract. The Authority gave this

⁴ HUD Handbook 7460.8 REV-1, paragraph 3-2.A., states: "Among the specific policies which shall be established by the HA Board of Commissioners is the HA's procurement policy. The procurement policy is one of the most important documents developed by the HA as it directly controls how funds are spent." It further states that the procurement policy must be consistent with 24 CFR 85.36. Paragraph 3-2.B., requires that the procurement policy be established by Board resolution and entered into the minutes of the Board meeting.

firm the same score as two other firms but did not document the selection. The selection process for these contracts appears arbitrary.

Ineligible payments made on public relations contract.

The Authority executed a \$72,000 public relations contract without following procurement requirements. The Authority did not publicly advertise for the contract. Instead, it solicited proposals over the phone. The contacted firms did not submit written proposals but made their verbal presentations before the Authority's Board. Also, the Authority did not perform an independent cost estimate and did not document its basis for selection. In addition, the contract did not contain required clauses regarding remedies for contract breach and record access and retention requirements. More serious, the Authority made payments to the contractor in excess of amounts authorized in the contract. The ineligible payments totaled \$6,680. The Authority's Vice President of Investment Initiatives questioned the excessive rates and hours billed. She said the President told her the increased rates and hours billed were "negotiated" and she should approve the invoices. The local HUD office addressed these issues in a monitoring review performed in March 1997.⁵ The report said the contractor performed services not related to the HOPE VI Program. The Authority took partial corrective action when OIG reviewed this contract by reallocating \$5,496 to other programs. However, the Authority did not make adjustments for the excessive payments. In a related matter, the Authority made payments to the public relations contractor 3 months prior to the contract date. The contractor said it acted on the authority of the President and began working before the signing of the contract. The contract specified a starting date 3 months prior to the date of the contract.

HOPE VI funds used for duplicate services.

The Authority awarded four contracts to one nonprofit entity to provide recreational and academic services to Spring View Apartments. The contracts totaled \$247,154 and did not meet HUD requirements. The Authority entered into these subgrantee agreements without obtaining

⁵ HUD's Public Housing Division, San Antonio Office, performed the review at the request of the Office of Economic Development and Supportive Services, Washington, D.C. The report, titled HOPE VI, Community and Supportive Services - Spring View Grant, identified the same problems addressed by OIG. The report also concluded that the Authority used HOPE VI funds to pay for services outside the scope of the contract and the HOPE VI Program. The report recommended a full internal review to determine the extent of the excessive payments.

required approval from HUD. The Authority did not solicit proposals from other providers. Instead, it reviewed the activities and expenses (i.e., budgets) of an existing provider. The Authority was paying the existing provider for similar services with funds obtained from the Authority's Drug Elimination Grant Program. The Authority modified the scope of services and reduced the costs of the existing provider enabling the provider's service to comply with HOPE VI requirements and the Authority's budget parameters for the grant. Also, the Authority did not perform independent cost estimates of the four contracts and did not include the required record access and retention clause. The Grant Agreements prohibit the Authority from using HOPE VI funds to pay for duplicate services. When asked why, an Authority official said the nonprofit provider's President "had a connection on the Authority's Board" and the Board of Directors requested the Authority contract with the provider. Since the OIG review, the Authority switched the funding for this service back under its Drug Elimination Grant Program and to the same nonprofit entity.

Lack of contract administration leads to additional costs.

The Authority used HOPE VI funds to pay for unnecessary construction costs. The additional costs are related to a \$3 million construction contract to build a 59-unit apartment complex. The Authority's failure to properly administer the contract resulted in \$140,573 of increased costs due to the project architect's errors and omissions. These costs included a \$46,900 contract to fix a serious drainage problem at the site. Also, the Authority did not prepare an independent cost estimate for the original contract or for any of the ten change orders. Instead, the Authority relied on the project architect to evaluate the reasonableness and necessity of the change orders. During the construction phase, the Authority did identify architectural errors, omissions, and flawed design specifications that led to the increased costs. The Authority notified the architect of the problem but did not take action to recover the additional costs. The Authority's Senior Architect agreed they should seek recovery of the additional costs through the architect's errors and omissions insurance policy.

Authority paid an additional \$60,000 for advisory services.

The Authority contracted for advisory services regarding the revitalization plan for the Spring View grant. The Authority paid the \$85,000 contract with HOPE VI funds

even though it originally proposed to pay only \$25,000. The proposal was in response to a letter from the contractor that said the \$85,000 fee would be defrayed by grants totaling \$60,000. The contractor said the Authority would be responsible for contributing the remaining \$25,000. Discussions with Authority and contractor staff did not explain why the Authority's President chose to pay the additional \$60,000.⁶ The President told us it would take 6 months or longer to obtain the \$60,000 in grant funds. He also said HUD wanted the Authority to hurry up and complete the advisory services study. As a result, the Authority paid the entire contract amount. In addition, the Authority did not perform an independent cost estimate for this contract and the contract did not contain required clauses such as termination for cause, breach of contract, and retention and access to records.

Auditee Comments

The Authority partially agreed with the draft findings and recommendations:

- Selection of architectural and engineering firms not documented. The Authority agreed with the finding and stated it had implemented corrective measures. In addition, the Authority will perform a price analysis to determine the reasonableness of the architectural and engineering firm's subcontract for a master plan market analysis.
- Ineligible payments made on public relations contract. The Authority concurred and provided the OIG with documentation showing it has recovered the ineligible payments. Also, the Authority stated it has taken internal control measures to insure it does not happen again.
- HOPE VI funds used to duplicate services. The Authority disagreed with the finding and questioned costs, stating that it obtained appropriate approvals from HUD to switch funding from the Drug Elimination

⁶ Authority staff included the Vice President for Architect/Engineering and Construction and the Vice President for Investment Initiatives. The contact person for the contractor was the Vice President.

Program to HOPE VI. However, the Authority agreed a price analysis should be and is being done.

- Lack of contract administration leads to additional costs. The Authority concurred and stated they are seeking recovery of \$140,573 from the architectural firm.
- Authority paid \$60,000 for advisory services. The Authority disagreed with the finding and questioned costs, but said it will conduct a price analysis to determine the reasonableness of the cost.

In addition, the Authority said it now has a comprehensive procurement policy and procedures system in place, and approved by the Board of Commissioners. The Chief Operating Officer is implementing the necessary internal controls to insure future procurement practices are proper and cost analyses are performed.

OIG Evaluation of Auditee Comments

The OIG commends the Authority for taking action to resolve most of the issues of concern. OIG staff verified the Authority's repayment of ineligible public relations costs and deleted the related recommendation.

As regards the duplicate services, although the Authority has provided documentation showing it requested HUD's approval to use HOPE VI funds for a program that had been operating under a Drug Elimination grant, it has not provided any evidence that HUD approved the request.

Regarding the \$60,000 in questionable advisory services costs, the Authority said it disagreed, but did not state why it disagreed or provide any other information to refute the finding.

Recommendations

We recommend you require the Authority to:

- 1A. Develop a comprehensive procurement policy and contract administration system, properly approved by its Board of Commissioners.

- 1B. Provide steps (Management Controls) it intends to take to ensure the Authority will follow procurement and contract administration policies to avoid future recurrences of problems discussed in this finding, especially in regards to: (1) full and open competition; (2) full documentation of the procurement process, including independent cost/price analysis and price reasonableness; (3) proper approval of contracts; and (4) the review of invoices, billings, and change orders to ensure expenditures are proper, eligible, and non-duplicate.

- 1C. Perform a price analysis to determine the reasonableness of the architectural and engineering firm's subcontract for a master plan market analysis. Reimburse the HOPE VI grant any unreasonable amount.

- 1D. Perform a price analysis of the four contracts awarded to the nonprofit entity for recreational and academic services at Spring View. Provide adequate support and justification why it switched funding for these services from the Drug Elimination Grant Program to HOPE VI. Reimburse the HOPE VI grant \$247,154 if the Authority cannot adequately justify the switch in funding.

- 1E. Identify all costs attributable to the architect's errors and take action to recover at least \$140,573 from the architect's "errors and omissions" insurance policy. Reimburse this amount to the HOPE VI grant from nonfederal funds if the Authority fails to take the above action. Perform a price analysis of the \$3 million construction contract and reimburse the HOPE VI grant any unreasonable amount.

- 1F. Perform a price analysis of the advisory services contract regarding the revitalization plan for the Spring View grant. Reimburse the HOPE VI grant for any unreasonable amount. Provide support for why the Authority chose not to use \$60,000 in grant funds offered by the contractor in its proposal. Take action to obtain the \$60,000 in grant funds and reimburse the HOPE VI grant any amounts collected.

Authority's Overall Progress is Slow in Implementing Its HOPE VI Grants

The Authority has been slow in implementing its HOPE VI grants. The Spring View and Mirasol grants had effective dates of September 1994 and February 1995, respectively. As of June 1997, Spring View was still in the demolition phase and HUD had yet to approve the Authority's Revitalization Plan for Mirasol. Also, the Authority has not done much in the area of community and supportive services. The slow progress is attributed to the Authority's: (1) failure to submit documentation requested by HUD; (2) lack of expertise and staff to handle large-scale redevelopment projects; and (3) refusal, until recently, to hire an outside contractor to handle the project management function. In addition, because of limited staffing, HUD failed to adequately administer the Mirasol grant. HUD established the HOPE VI Program to target severely distressed and obsolete public housing developments. This was the main reason HUD funded the Spring View and Mirasol grants. HUD did not intend for the Authority to take 4 years getting started. The slow progress results in increased costs and increased stress for the residents. The slow progress has also affected the resident's decision to return to the developments after completion. Residents are worried the Authority will never finish the development process.

HOPE VI intended to address severely distressed public housing.

HUD Notice PIH 95-10, February 22, 1995, addresses the reasons for the HOPE VI Program. One of the main purposes of HOPE VI is to address the problems of severely distressed public housing developments and their residents. The Notice also points out that low-income families residing in severely distressed public housing developments are suffering from enormous stress and many of the communities in which these developments are situated are severely stressed as well. This is why HUD chose Spring View and Mirasol for HOPE VI funding. It stands to reason that by taking 4 years to get these projects started the Authority has only increased the level of stress for the families and communities involved.

A low percentage of original residents plan on returning to the new Spring View and Mirasol developments. At Spring View only 8 percent of the original families plan on returning and at Mirasol only 11 percent plan on returning. This is a very low percentage since the HOPE VI Program was designed to target these particular residents. Instead the majority of these residents elected to take Section 8

certificates and move away from the developments. Residents had high hopes but the length of time that has passed without any visible results has eroded those hopes. If the residents could see some construction progress they might be more inclined to return. Also, many residents do not want to be obligated contractually by the required Family Self-Sufficiency Program.

Spring View grant.

HUD awarded the Authority a \$48 million HOPE VI grant on September 7, 1994, for the redevelopment of Spring View. On July 10, 1995, HUD approved the Authority's Revised Revitalization Plan. On July 18, 1995, HUD approved the Authority's Demolition and Relocation Plan. So, within 1 year of the effective date of the grant, HUD had approved two of the major requirements necessary to implement the revitalization process. However, it is now 3 years later and the Spring View site is still in the demolition phase.

It appears the slow progress in the redevelopment of Spring View can be attributed to the Authority's lack of adequate staffing and ability to handle a large-scale redevelopment project like Spring View. Also, the Authority's former President wanted everything done "in house" and was unwilling to hire outside experts to handle the project management function. This resulted in the Authority's failure to provide HUD with pertinent documentation as requested over the 3-year period.

The Authority hired a new President in January 1998. The President chose to hire an outside expert to oversee the Spring View redevelopment. The Authority signed a contract with the Project Manager on May 27, 1998. HUD's Program Manager for Spring View said under the former President the Authority's management was very centralized and strict. He said it was the Authority's philosophy to proceed with something and obtain HUD's approval later. The Program Manager said the new President has made a complete turnaround in the Authority's relationship with HUD. He said Authority senior staff and managers have been open, direct, and honest in their dealing with HUD. With the Authority's hiring of the Project Manager, the Program Manager expects the Spring View redevelopment to proceed at a much faster pace.

Mirasol grant.

HUD awarded the \$48 million Mirasol grant to the Authority on February 2, 1995. By May 12, 1995, the Authority had submitted its Revitalization Plan and Demolition and Relocation Plans to HUD. Almost 2 years later on December 31, 1996, HUD finally approved the Demolition and Relocation Plans. But, as of June 1998, HUD had not given its approval of the Authority's Revitalization Plan for Mirasol. This administrative process has continued for over 3 years with little progress. In addition, the Authority received a separate Planning Grant for Mirasol for \$244,550. The Authority said it paid for the Mirasol Revitalization Plan out of the Planning Grant funds.

The records indicate the Authority sought approval to proceed with the Mirasol grant on numerous occasions between May 1995 and December 1996. The series of letters show the Authority asked HUD what it needed to do to obtain HUD's approval. For the most part, HUD did not respond to these requests. In December 1996 HUD assigned a new Program Manager to oversee Mirasol. The new Program Manager quickly reviewed the Authority's Demolition and Relocation Plans and approved them within the month. The Program Manager also indicated in January 1997 that HUD was close to approving the Authority's Revitalization Plan. As previously mentioned, this never happened. The Authority said one of the primary reasons for all the delays was the number of various HUD personnel it had to deal with on the grant. The Authority listed eight different individuals it had to work with over the 3-year period.

HUD's Program Manager for Mirasol said the Authority and HUD did not have adequate staff to devote to the grant. He said the Fiscal Year 1995 HOPE VI application process was also a contributing factor. Under that process, the Authority only had to submit an abbreviated application that did not contain the normally required components. The Program Manager said HUD was not receiving the necessary information from the Authority and HUD did not adequately monitor the situation. The Authority has begun the process of hiring a Project Manager for the Mirasol grant to speed up the redevelopment. The Program Manager said this demonstrates the Authority's willingness to take the necessary action to complete the project.

Community and Supportive Services Programs.

The Authority has been slow in implementing its community and supportive services programs. HUD placed special conditions on the Authority based on insufficient development of the community services components in its revitalization plans. A year later the Authority still had not complied with the special conditions. As of June 1998, the Authority does not have its plans for community and supportive services approved by HUD. Also, the Authority: (1) did not obtain the City's commitment for the required 15 percent supportive services match on the Mirasol grant; (2) cannot document what funds the City provided to satisfy the supportive services match on the Spring View grant; and (3) may not be able to sustain its community and supportive services programs. As a result, the Authority may not be able to achieve its goal of providing residents with the opportunity to attain economic and social self-sufficiency, which is an integral part of the HOPE VI Program. This situation exists because the Authority did not adequately plan for maintaining and sustaining its community and supportive services programs.

The Grant Agreements require the Authority to have a community services program throughout the term of the revitalization project. Also, HUD encourages grantees to continue the community services plan beyond the term of the revitalization project. The Grant Agreements state that one of the overall HOPE VI objectives is to:

“...address the condition of people in public housing, 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.”

The Grant Agreements also state:

“The Grantee will use best efforts to cause the City in which the Grantee is located to provide contributions for supportive services in the amount equal to 15 percent of the HOPE VI grant funds awarded to the Grantee for supportive services under the Revitalization Plan.”

In addition, the Grant Agreements say that failure of the City to provide the contributions for supportive services, to the extent it constitutes a material breach or occurrence, will constitute a default by the grantee.

The Corporation for National Service⁷ approved the Authority's community services plans for the Spring View and Mirasol grants on September 23, 1996, and December 5, 1996, respectively. The Authority signed community services agreements with the Corporation for National Service on the same dates. Both agreements contained a section of special conditions because of weak designs and unclear budgets in the Authority's community services plans. The Authority never submitted the information required by the special conditions although it had a year to do so. HUD's Deputy Assistant Secretary for the Office of Public Housing Investments sent the Authority a letter on September 26, 1997. The letter identified the Authority's failure to satisfy the special conditions of the community services agreements. The letter also requested the Authority's attendance at a HOPE VI workshop on self-sufficiency and community building. The workshop was to help the Authority get its program in compliance and develop new self-sufficiency and community building plans that would reflect recent changes in welfare policy. HUD approval of the new plans will cure any non-compliance under the Authority's old community services plan. The Authority completed its new plans for both grants on November 17, 1997.

HUD reviewed the plans and responded to the Authority in a letter dated December 31, 1997. The letter identified weaknesses in the plans and asked the Authority to incorporate HUD's concerns and develop a full plan for the next 6 months and beyond. The letter also asked the Authority to submit its revised plans within 30 days. As of June 1998 HUD has still not received these plans.

The Authority did not ensure the City contributed the required 15 percent match for supportive services on both grants. For the Mirasol grant the Authority did not obtain the City's commitment to the match. As of November 25,

⁷ The Corporation for National Service is a congressionally-established organization that administers national service programs that provide community services. HUD required grantees to obtain Corporation for National Service approval of their community service plans.

1997, the City said it has not received a request from the Authority for a specific commitment for Mirasol. For the Spring View grant, the City committed to provide \$624,300 in matching funds to help implement supportive services. But, the Authority could not provide adequate documentation to support what, if any, match the City made. The Authority did know about the City using Community Development Block Grant funds to construct a \$1.37 million community center near the Spring View site. The community center supposedly provides social and recreational services. The community center is for neighborhood use and only a portion of its services would be available to Spring View residents. Further, current plans for the Spring View site include the construction of an indoor recreational facility with outdoor playing fields. As a result, usage of the City's community center by Spring View residents will be reduced by the on-site facility. The Authority does not know if any portion of the center's cost would qualify in meeting the City's match. The City claims other contributions for the match totaling around \$195,000. The Authority has not evaluated these contributions either.

We reviewed the Authority's budgets for both grants and could not calculate a figure for the 15 percent match. The Authority had budgets approved by HUD for each grant. The Authority also submitted revised budgets for each grant. However, the budgets did not have sufficient detail to determine how much the Authority planned in the area of supportive services. Also, HUD noted the same budgetary problems when they performed a site review of the Spring View grant in March 1997.

The Authority has not identified how it will sustain certain components of its community and supportive services program for Spring View and Mirasol. The Authority's redevelopment plans for both sites include the construction and renovation of on-site non-dwelling facilities to accommodate supportive services. Also, under the Authority's family self-sufficiency programs for the sites, it plans to provide child care and transportation to participants of the programs. However, the Authority does not have specific plans on how the services will be continued and buildings maintained after revitalization is complete and HOPE VI funds are expended.

For example, the Authority plans recreational facilities at both sites. The Authority contemplates user fees to cover daily operations (i.e., salaries, utilities, and routine maintenance). However, the Authority did not have any pro forma financial data identifying anticipated cash flows, operating costs, and long-term maintenance or renovation costs. For the non-dwelling facilities the Authority could not provide documentation on how it plans to pay for the long-term upkeep of the facilities. As a result, it is doubtful the Authority can sustain its program for community and supportive services.

Auditee Comments

The Authority agreed with the draft finding and recommendations and stated it has, or is taking corrective measures to resolve reported concerns.

Recommendations

We recommend you require the Authority to:

- 2A. Develop detailed timelines for the development process for both grants and submit monthly status reports so HUD can monitor the progress.
- 2B. Submit revised self-sufficiency and community building plans that are satisfactory to HUD.
- 2C. Provide sufficient budget information showing how much the Authority plans to spend on community and supportive services for the Spring View and Mirasol grants.
- 2D. Make every effort to obtain from the City contributions for supportive services in an amount equal to 15 percent of the HOPE VI grant funds awarded to the Authority for supportive services under the Revitalization Plan.
- 2E. Explain how it will sustain its community and supportive services programs throughout the grant term and beyond, and take measures, such as obtaining commitments from businesses and leveraging private and public support, to obtain funding for these programs.

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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, award, and monitoring of contracts
- ♦ Eligibility of grant activities and costs
- ♦ Monitoring of programs
- ♦ Measurement of program results
- ♦ Sustainability of the supportive services component

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:

- ♦ The Authority lacks internal administrative controls to ensure procurements of goods and services are: (1) selected and awarded using full and open competition; (2) properly monitored; and (3) reviewed for price reasonableness (Finding 1).
- ♦ The Authority lacks internal administrative controls to ensure the timely progress of its grants. Also, the Authority lacks internal administrative controls to ensure adequate planning for community and supportive services under its HOPE VI Program so that these services can be sustained after the grant term (Finding 2).

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Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Unsupported</u> ¹
1D	\$247,154
1E	140,573
1F	<u>60,000</u>
TOTAL	<u>\$447,727</u>

¹ 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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