



U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

District Inspector General for Audit

April 9, 1996

Audit Related Memorandum
No. 96-PH-209-1814

MEMORANDUM FOR: Malinda Roberts, Acting Director, Office of
Public Housing, 3APH

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

SUBJECT: Schuylkill County Housing Authority
Property Acquisition and Proposed Disposition of the
Female Grammar School Building
Pottsville, PA

On the advice of Headquarters, your office requested we review the transactions covering the Female Grammar School Building, property acquisition by the Authority.

We reviewed the information provided by your staff, and performed a survey of the Authority's purchase and proposed disposition of the Female Grammar School Building.

The purpose of the survey was to: (1) determine if the purchase of the building was an arm's length transaction, and whether the Authority's former Executive Director and Board prudently evaluated the purchase, and (2) evaluate the appraisals and property value assigned.

We interviewed the current Executive Director, Board Members, and property appraisers. We reviewed Authority files and performed a deed search of Schuylkill County records.

Our survey disclosed that:

- The Authority purchased the Female Grammar School Building for the purpose of consolidating and relocating their administrative offices, maintenance warehouse, and Section 8 offices to a central downtown location.
- Appraisal reports and property records support the

Authority's purchase price of \$100,000. No evidence was found to indicate that the purchase was other than an arm's length transaction.

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- The former Executive Director acted independently in the purchase and planned rehabilitation of the property.
- A professional estimate of rehabilitation costs, necessary to prepare the building for occupancy, was not performed prior to purchase. Rehabilitation costs were estimated by the former Executive Director. There was no documentation to support his rehabilitation estimate of the building.
- Oversight by the Board of Commissioners was minimal. The Commissioners accepted the former Executive Director's proposal and estimate of rehabilitation costs without challenge.
- Contractor bids for rehabilitation work disclosed that rehabilitation and occupancy of the building was prohibitive.
- Attempts to dispose of the property, to date, have failed to realize the Authority's original purchase price. Action on the disposition of the property has been suspended pending direction from your office.

Based on our review we have concluded that the former Executive Director did not act in the best interest of the Authority. Purchasing the building without first obtaining a professional estimate of rehabilitation costs to determine the feasibility to convert the building to office space, within the comprehensive grant budget, represents significant mismanagement. The absence of oversight by the Board of Commissioners in our opinion contributed to, rather than prevented, mismanagement. As a result, the Authority is now in a position to incur a substantial loss in the disposition of the property.

Accordingly, the following course of action is recommended:

1. The property be readvertised for bid in an attempt to realize a higher sales price.
2. The Department recover any shortfall, between the disposition price and the purchase price, from Authority Section 8 administrative fee funds, and restore the funds to the Comprehensive Grant Program.

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3. Advise the Authority that rehabilitation cost estimates will be prepared and reviewed prior to approval of future property acquisitions.

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

Attachment - Distribution

cc: OSWALD
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3AGA:GUSS:AMP:04/05/96

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 Pottsville, PA

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ISSUE DATE: April 9, 1996

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