



U.S. Department of Housing and Urban Development
Office of Inspector General
Region 7 Office of Audit, 7AGA
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MEMORANDUM NO: 2004-KC-0802

March 2, 2004

MEMORANDUM FOR: Herman S. Ransom, Director, Kansas City Multifamily HUB, 7AHM

FROM: Ronald J. Hosking, Acting Regional Inspector General for Audit, 7AGA

SUBJECT: St. Louis Office of Multifamily Housing's Monitoring of its
Construction Analyst Contracts

INTRODUCTION

We have completed a survey of the St. Louis HUD Multifamily office's outsourcing of its Construction Analyst duties. Our objective was to determine whether the St. Louis HUD Multifamily office properly and efficiently monitored its construction analyst contracts. We determined that overall the St. Louis HUD Multifamily office appears to have properly and efficiently monitored its construction analyst contracts, but did not always retain evidence of the receipt and review of the contract inspectors' trip reports. However, HUD's implementation of its planned actions should ensure that construction monitoring is better documented in the future.

METHODOLOGY and SCOPE

During our survey we conducted interviews with appropriate field staff in both St. Louis and Kansas City. In addition, we reviewed the Multifamily Accelerated Processing Guide, HUD Handbook 4460.1, the Federal Acquisition Regulations, and OMB Circular A-76. We also reviewed a small sample of project files to determine whether trip reports were properly completed and reviewed. A sample of three project files was selected from the outsourced projects that were active during fiscal year 2003. We selected the two projects with the highest mortgage amount, and the highest mortgage amount project that we were told the second Construction Analyst monitored. We selected high mortgage amount projects because they provide the greatest financial exposure to HUD. We later learned that the second Construction Analyst was not responsible for monitoring any contracted inspectors during FY 2003, but instead only had responsibility for conducting in-house inspections. The survey period was October 1, 2002 through September 30, 2003. We conducted our survey from October 2003 through January 2004. We provided a discussion draft memorandum to the Director, Kansas

City Multifamily HUB, on February 23, 2004. He responded that he did not feel an exit conference was necessary and provided an acceptable management decision in his written comments on February 27, 2004.

BACKGROUND

We assessed the conclusions drawn from a previous complaint review, identified HUD's current process, and determined that the situations from which the conclusions of the previous review were drawn no longer exist.

Assessment of Previous Survey Results

In 2001, HUD-OIG auditors reviewed contracting practices related to an anonymous complaint, to determine if allegations concerning improprieties in the outsourcing of the Construction Analyst functions by the St. Louis HUD office were valid. The auditors recommended conducting a detailed review of the contracting out and monitoring procedures, including cost comparison requirements, relating to the St. Louis Office of Multifamily Housing construction analyst functions. We conducted our survey in part to determine whether the same conditions still existed before proceeding with an audit.

Current HUD Practices

We found that the following changes to the St. Louis Multifamily Office's outsourcing process have taken place since the previous review:

- Purchase orders are awarded, rather than contracts. Purchase orders do not require a cost study to be performed. Cost studies are required when HUD staff are replaced by contractors, but not when contractors are just providing HUD with extra capacity.
- Since fiscal year 2002, there are two Construction Analysts on staff. The Construction Analysts have received two years of on-the-job training; there are no formal classes for the position.
- Since fiscal year 2003, all new construction inspections have been performed by the in-house Construction Analysts.
- The purchase orders still in effect during fiscal year 2003 totaled \$186,879 (\$23,530 awarded in FY99, \$44,010 awarded in FY00, \$79,924 awarded in FY01, and \$39,425 awarded in FY02).

SURVEY RESULTS

By reviewing a small sample of the project files, we found that seven of the required trip reports were not prepared or maintained in the project files. Guidelines for both traditional application processing (TAP) and multifamily accelerated processing (MAP) projects require that trip reports be prepared periodically. The inspector, who is either an in-house or contracted construction analyst, must prepare trip reports twice per month. The monitor of the construction analyst must prepare at least two field review inspection reports during the project's construction. In some instances, the reports were either not prepared or not maintained to evidence completion of the

required inspections. The HUD employee responsible for MAP projects only feels its necessary to prepare a report of his field review inspection if he observes a problem. We received no explanation for the seven missing trip inspection reports. When asked about them, the St. Louis staff was able to obtain four of them from the contractor. Without preparing or maintaining the required trip reports, HUD has no reasonable assurance that projects are consistently inspected and monitored.

Criteria

The Multifamily Accelerated Processing Guide, Chapter 13 "Construction Period", Section 3 "Construction Monitoring", Subsection D "Inspector's Duties," requires that the inspector make at least two job site visits each month, and that the inspections be recorded on the trip report form. Subsection C "HUD Construction Manager/Coordinator Duties, Part 2 "Field Supervision", requires that HUD conduct a minimum of two field review inspections, which are to be documented on a trip report form HUD-5379. The handbook for traditional application processing, HUD Handbook 4460.1, "Architectural Analysis and Inspections for Project Mortgage Insurance", Chapter 3 "Architectural Inspection", contains these same requirements.

Inspections Not Always Documented

Either a contract inspector or an in-house Construction Analyst (when there is no contract inspector) performs twice monthly inspections. We found that trip reports were properly prepared for two of the three projects reviewed. For the third project, only one of the two required trip reports per month was located in the HUD project files for seven of 29 months that the project was under construction. However, HUD was able to obtain copies of four of the missing reports from the contractor. HUD personnel did complete trip reports to document their field reviews for all three projects.

In the St. Louis Multifamily office, the in-house Construction Analysts have been delegated the responsibility of performing field review inspections of the contract inspectors for TAP projects. For MAP projects, the Construction Manager in Kansas City is responsible for performing field review inspections.

Documentation not Emphasized

The HUD employee responsible for MAP projects only feels its necessary to prepare a report of his field review inspection if he observes a problem. We received no explanation for the seven missing trip inspection reports. When asked about them, the St. Louis staff was able to obtain four of them from the contractor. It is important that project files contain complete documentation of all inspections performed in order to evidence that the required inspections were completed and what was observed.

Incomplete Audit Trail of Inspections

As a result of not always preparing or maintaining the required trip reports, HUD has no reasonable assurance that projects are consistently inspected and monitored.

AUDITEE COMMENTS

The following is an excerpt of the comments provided by HUD. See attachment 1 for the complete text of this response.

HUD has provided a specific list of corrective actions to be completed by July 31, 2004 to ensure that:

- All field reviews are documented in accordance with the MAP Guide and HUD Handbook 4460.1, and
- All trip reports are documented and retained in the project files.

HUD will monitor the progress of the St. Louis Program Center and the Construction Manager at 90 days and 120 day to ensure that all findings and recommendations noted in our report are being implemented.

OIG EVALUATION OF AUDITEE COMMENTS

HUD's implementation of its planned actions should ensure that construction monitoring is better documented in the future. HUD has provided sufficient information for a management decision, therefore, we have input July 31, 2004 as the planned final action date for both recommendations in the Department's Audit Resolution and Corrective Action Tracking System.

RECOMMENDATIONS

We recommend the Director, Kansas City Multifamily HUB, develop and implement procedures to ensure that:

- 1A. Required documentation is prepared during all field reviews.
- 1B. Documentation is properly retained in the project files.

Attachment 1

Auditee Comments/Management Decision



Herman S.
Ransom/HSNG/KAN/HUD@H
UD

02/27/04 11:57 AM

To Carrie Gray/STL/HUDOIG@HUDOIG
cc Ron J. Hosking/IG/KAN/HUD@HUD, Linda
Loria/HSNG/KAN/HUD@HUD, Brenda L.
Waters/HSNG/KAN/HUD@HUD, Lavern C.
Hester/HSNG/STL/HUD@HUD, Donald
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bcc

Subject Office of Inspector General/St. Louis Audit

I have reviewed the findings and recommendations noted in the audit report received from your Office regarding the St. Louis Office of Multifamily Housing's Monitoring of its Construction Analyst. In response to your recommendations, we are prepared to take the following action to insure that concerns noted in your report do not occur again.

1A. To ensure that all field reviews are documented in accordance with the MAP Guide and Handbook 4460.1 we will meet with all Construction Analyst and Third Party Fee Inspectors to insure that they are cognizant for their duties. In addition, we will require the Construction Manager to review and monitor all trip report to insure that the number of inspections are being conducted and documented in accordance with handbook requirements. Also, during all field monitoring inspections the Construction Manager will submit a copy of the Trip Report to the St. Louis Program Center Director and the Hub's Operations Officer.

1B. To ensure that all trip reports are documented and retained in the project files, I have instructed the Construction Manager to review the project construction files in the St. Louis Program Center as part of his on-site field monitoring duties and report any missing or undocumented trip reports. All missing construction project files observed by the Construction Manager will be reported to the Program Center Director and the Hub Operations Officer in a written addendum to the Trip Report.

We will monitor the progress of the St. Louis Program Center and the Construction Manager at 90 days and 120 day to ensure that all findings and recommendations noted in your report are being implemented.

We will provide copies of all trip reports conducted during this time period to the ALO no later than 7/31//04 to ensure compliance with the management decision.