



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

089781

B-118718

3-6-70



LM089781

MAR 6 - 1970

N212

B-118718

RECEIVED... General
Approval
to keep
CSB
RELEASED

Dear Senator Symington:

On October 16, 1969, you referred for our consideration correspondence from Mr. John S. Ketchum dated October 13, 1969, in which he requested that this Office investigate certain aspects of the activities of the Springfield Housing Authority, Springfield, Missouri, and of the Fort Worth, Texas, regional office of the Department of Housing and Urban Development (HUD).

The matters questioned in Mr. Ketchum's letter involved (1) the increased cost of a public housing project (MO 58-2), (2) the noncompliance by the Springfield Housing Authority with HUD regulations requiring that copies of all project proposals be submitted to HUD, (3) an attorney's concurrent representation of the Springfield Housing Authority and of a private developer, (4) the lack of involvement by a citizens' group in connection with the application for recertification of the local workable program, and (5) the actions of a HUD regional official relating to the appointment of an executive director for the Springfield Housing Authority.

During our interview with Mr. Ketchum, he raised additional questions regarding (1) the amount shown on the building permit issued for project MO 58-2, (2) certain information furnished by the Springfield Housing Authority to the Mayor of Springfield regarding payments in lieu of taxes for project MO 58-2, (3) the Springfield Housing Authority Executive Director's previous status with the Oklahoma City Housing Authority, (4) the prior construction performance of the developer of project MO 58-2, and (5) certain actions of six individuals.

The information obtained in our examination is summarized below in numbered paragraphs corresponding to the numbered items presented above, and is discussed in greater detail in enclosure I to this letter. The information was obtained from records and files at the Springfield Housing Authority, Oklahoma City Housing Authority, HUD's Fort Worth regional office, and the offices of various organizations in Springfield; from discussions with officials and representatives of the authorities, offices, and organizations mentioned above; and from discussions with Mr. Ketchum. We did not interview the developer of project MO 58-2.

The following comments relate to the questions raised by Mr. Ketchum in his letter of October 13, 1969.

~~915427~~ / **089781**

1. The estimated cost of \$1,507,200 originally proposed by the developer in December 1968 for project MO 58-2 was revised to \$1,456,847 in March 1969 and to \$1,742,103 in August 1969. The elimination of six dwelling units from the original total of 104 units was recognized in the March cost proposal. The overall net increase in the cost of the project was attributed by the developer to (1) increased cost of labor, material, and money; (2) addition of a central cooling system; (3) increased cost of the foundation necessitated by unusual subsurface soil conditions; (4) inclusion of additional water service equipment; (5) installation of primary electrical service lines and transformers; and (6) purchase of additional needed land. While the information made available to us during our examination indicated that the foregoing developments contributed to an increase in the estimated cost of project MO 58-2, we were unable to identify how much of the total increase they accounted for.

In accordance with HUD's procedures, the Springfield Housing Authority obtained two appraisals of the value of the proposed site and two cost estimates of the planned improvements, which were considered in negotiating the final contract price. HUD records show that the contract of sale for project MO 58-2 was entered into on November 17, 1969, and contained a contract price of \$1,686,016. The price negotiated for the project complied with that portion of HUD's turnkey regulations which states, in part, that the price shall not be greater than the mid-point of the reconciled and approved cost estimates.

2. The HUD regulations, under which the Springfield Housing Authority and the HUD Fort Worth regional office were operating at the time proposals for the Springfield housing project were solicited and received, did not require that copies of all proposals received by local housing authorities be submitted to HUD.

3. The attorney, designated as legal counsel for the Springfield Housing Authority, was retained on an "as needed" basis and was paid for actual services performed on a fee basis. The attorney also represented the developer (Mid Continent Planners and Constructors, Inc.--a team consisting of the other three firms mentioned in Mr. Ketchum's letter) of project MO 58-2 in checking on the titles of property being acquired for the project; however, his work for the developer was known to, and concurred in by, the Chairman of the Springfield Housing Authority so that

the Authority would not have to duplicate this work when it took over the project and would therefore save money. The attorney also represented the developer before the Springfield Board of Adjustments regarding changes in parking spaces for the project, but he indicated that he did not consider this to constitute any conflict of interest since authority to decide this matter was not vested in the Springfield Housing Authority but in the Board of Adjustments.

A HUD attorney informally advised us that he could not state any opinion as to what position HUD would take on the matter of concurrent legal representation but that, in light of the provisions of section 515 of the Consolidated Annual Contributions Contract between HUD and the local housing authority (enclosure II), a careful study would have to be made of the facts in this specific case.

4. The workable program for Springfield was approved by HUD in October 1969. The involvement of citizens in the program was to be accomplished through the efforts of seven community groups. The particular community group, identified by Mr. Ketchum as being all but inactive regarding workable program involvement, held five committee meetings subsequent to January 23, 1969, the last date for which Mr. Ketchum was able to find minutes of the committee's meetings. A representative of the group told us that the group's chief interest had been in generating support and involvement of citizens in a proposed turnkey housing project during its earlier planning stages. We were told that once the project had advanced beyond those early stages, the group's job was largely accomplished.

5. The Springfield Housing Authority sent letters of inquiry to various individuals, including an official of the HUD Fort Worth regional office, regarding the qualifications of the person who was being considered for appointment as the Springfield Housing Authority's executive director. In replying to the inquiry, the HUD official stated that the individual should prove to be a valuable addition to the Springfield Housing Authority in the event he was appointed as executive director. He also stated that the inquiry was made of him in his capacity as a HUD official and that he therefore replied on official stationery.

The following comments relate to the additional questions raised by Mr. Ketchum during our discussion with him.

B-118718

1. Regarding the amount of \$1 million shown on the building permit issued for project MO 58-2, an inspector for the city of Springfield told us that the value of improvements included on a building permit should include the estimated cost of constructing the buildings, and should exclude such things as the cost of the site, site improvements, and building fixtures. The developer's proposal showed that \$1,180,202 was allocated to constructing the building (dwelling and non-dwelling space) but did not show how much of that amount applied to fixtures.

2. Information furnished by the Springfield Housing Authority to the Mayor of Springfield regarding payments in lieu of taxes on project MO 58-2 and taxes which would be levied if the property were privately owned was based on estimates. The rental rates which would be used in computing the Springfield Housing Authority's payments in lieu of taxes had not been established for project MO 58-2 and, according to the Executive Director, were based on his best guess as to what the rents would be. The value of the project for tax purposes had not been established by the tax assessor's office. The Executive Director computed an estimated value by making certain adjustments in the project contract price.

The city tax assessor stated that he would not know the value of the project property for tax purposes until after the building was constructed and his office made an independent appraisal.

3. Regarding the Springfield Housing Authority Executive Director's previous status with the Oklahoma City Housing Authority, the Chairman of the Oklahoma City Housing Authority stated that the Executive Director did not leave his former position at the Oklahoma City Housing Authority under any pressure from the commissioners or his supervisors. The Springfield Housing Authority Executive Director's personnel file at the Oklahoma City Housing Authority showed that the commissioners expressed their appreciation for his dedicated service and did not contain any derogatory information.

4. According to officials of HUD's Fort Worth regional office, the prior construction performance of the developer of project MO 58-2 in connection with certain work in Oklahoma had not been investigated by the regional office and no investigation was in process or contemplated.

5. Mr. Ketchum's questions regarding four of the six individuals he named related to their previous association with the Springfield Housing

B-118718

Authority Executive Director in his former position with the Oklahoma City Housing Authority. As previously noted, we found no information at the Oklahoma City Housing Authority which would indicate that the executive director of the Springfield Housing Authority left his former position under questionable circumstances. Mr. Ketchum's questions regarding the remaining two individuals had not been substantiated by HUD-initiated investigations of the individuals.

- - - -

We did not obtain formal written comments from any of the parties involved in the matters discussed in this letter or the enclosures; this fact should be taken into consideration before any use is made of the information in the letter and the enclosures.

As requested in your referral, we are returning the correspondence which you submitted for our consideration.

Sincerely yours,



Assistant

Comptroller General
of the United States

Enclosures - 2

The Honorable Stuart Symington
United States Senate

GENERAL ACCOUNTING OFFICE
EXAMINATION INTO CERTAIN ACTIVITIES
OF THE SPRINGFIELD MISSOURI HOUSING AUTHORITY
AND OF THE DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT, FORT WORTH REGIONAL OFFICE

INCREASE IN PROJECT COSTS

Statement 1. "A turnkey proposal was accepted in January 1969, to construct 104 public housing units at Market and Mt. Vernon Streets, at a cost of \$1,507,200 (\$14,492.31 per unit) by Mid-Continent Planners and Constructors, Inc., Hudgens-Thompson [sic] and [sic] Ball and Associates, Cowden Construction, and Montin Construction Company. A contract was signed by the Local Housing Authority October 2, 1969, for 98 units, same location, same structure, at a cost of \$1,692,215 (\$17,267.50 per unit) or an increase of \$2,775.19 per unit or 19.1% increase. However, the Dodge Reports, (as per Springfield News & Leader, 10/12/69) indicate only a maximum increase of 8.5% for labor and materials since September 1, 1968."

On November 30, December 1, December 7, and December 8, 1968, the Springfield Housing Authority (SHA) placed advertisements in the local newspaper inviting proposals from developers to design, develop, and construct any or all of 540 units (180 units for general occupancy and 360 units for elderly persons) of low-rent housing for ultimate purchase by SHA. The invitation stated that proposals would be accepted until January 1, 1969. Information in SHA files showed that 45 proposals from 10 developers were received in response to the above invitation. Included in these proposals was one from Mid Continent Planners and Constructors, Inc. (Mid Continent), for the development and sale of 104 units of low-rent housing for the elderly to the SHA at an estimated cost of \$1,507,200.

SHA records showed that the 45 proposals were reviewed by the SHA Board of Commissioners and the City Planning and Zoning Board, and that, as a result of these reviews, seven proposals from five developers were chosen and approved by the SHA Board of Commissioners on February 7, 1969, for submission to HUD for its approval. The records also showed that one of the approved proposals was submitted by Mid Continent.

Our review of HUD's records showed that Mid Continent submitted its original proposal on December 31, 1968, and subsequently submitted revised proposals on March 20, March 26, and August 7, 1969. HUD's records

indicated that the March 26 proposal dealt with a change in the distribution of unit sizes, rather than a change in estimated cost. The following is a comparison of the estimated costs contained in the original, the March 20, and the August 7, 1969, proposals submitted by Mid Continent for project MO 58-2.

<u>Date of proposal</u>	<u>Estimated total cost</u>
December 31, 1968	\$1,507,200
March 20, 1969	1,456,847
August 7, 1969	1,742,103

The reduction in the total number of dwelling units from 104 to 98 was provided for in the cost reduction shown in the March 20, 1969, proposal.

In submitting its August 7, 1969, proposal, Mid Continent set forth certain developments which had transpired since its original proposal was submitted and which had resulted in an increase in its development cost estimate for the project. In summary, the reasons given by Mid Continent for the increase in the estimated project cost were (1) increased cost of labor, material, and money; (2) addition of a central cooling system; (3) increased cost of foundation necessitated by unusual subsurface soil conditions; (4) inclusion of additional water service equipment; (5) installation of primary electrical service lines and transformers; and (6) purchase of additional land to satisfy city requirements regarding density.

During our review, we obtained the following information on each of the developments mentioned in Mid Continent's proposal of August 7, 1969.

Increased cost of labor, material, and money

We obtained a listing of wage rates prevailing at various dates for building and construction trades in the Springfield area from the Missouri Division of Employment Security. The listing showed that wage rates for various classes of building and construction workers had increased as much as 6.4 percent during the year ended June 1969. Construction cost indices used by a HUD cost analyst for multifamily projects such as MO 58-2 showed that overall construction costs increased 6.5 percent during the 9 months ended July 1969.

In commenting on the increase in labor and material costs, Mid Continent stated that as a result of the iron workers' strike in the

Springfield area, competition with other projects for labor and materials was a major factor in the pricing of this project.

We discussed the possible impact of the iron workers' strike upon new construction with an official of the Springfield Chamber of Commerce who stated that the strike had caused a situation that resulted in definite increases in the cost of labor and material in the Springfield area. He stated that all of the construction projects that previously had been shut down had started to move ahead at the same time and had created an unusually great demand for labor and material. He further stated that labor and material were available, but at a higher cost than before the strike. A research analyst at the Missouri Division of Employment Security agreed with the above information regarding the labor and material market in Springfield.

With respect to the increase in the cost of construction money from December 31, 1968, through August 1969, we discussed this matter with the President of the Southern Missouri Trust Company. He stated that, in his opinion, the cost of money had gone up approximately 2 percent in the Springfield area. He stated that information contained in one of his banker's magazines indicated that the cost of money had gone up more than 2 percent in other locations.

Addition of central cooling system

Our review of Mid Continent's original proposal and the March 1969 revision to its original proposal revealed that central air cooling for the high-rise structure was not included. The original proposal contained the following statement:

"The Community and Management areas will be cooled with a circulating chilled water system piped to individual air handling units in the areas. Should the LHA and HAA desire and budget permit, central cooling for the individual living units could easily be provided by the addition of a central chiller."

In May 1969, SHA approved the inclusion of a central air cooling system in the project. In a letter forwarded with its August 7, 1969, proposal, Mid Continent stated that provision had been made for the inclusion of a central cooling system in the project plans.

The increased cost attributable to the installation of a central cooling system was not specifically set out in Mid Continent's proposal of August 7, 1969, except for an increase of approximately \$5,000 in related architectural fees.

Increased cost of foundation necessitated by
unusual subsurface soil conditions

Mid Continent's proposal of August 7, 1969, included the following information:

"Upon receiving the detailed soil analysis of the site it was found that an exotic formation of underground rock exists which requires an extensive and unanticipated amount of hand excavation and special drilling and casing procedures of the pier foundation. In addition, when the building permit was applied for the City of Springfield required 10 foot probe holes drilled at each pier in lieu of the 5 foot probe holes as originally anticipated and requires unusual special testing be done in several of the holes. Also, the City has very exacting procedures for the installation of the pier foundation. The amount of hand excavation at the bottom of these pier holes is very expensive and the possibility of additional excavations being required as a result of the probe holes and additional tests has increased the foundation costs considerably. The unusual subsurface soil conditions and the items noted above has resulted in a most expensive foundation for this building to bear upon."

Our review of correspondence supplied to us by the Building Inspector, city of Springfield, showed that Mid Continent was required to change its foundation plans. For example, the correspondence indicated that the depth of the probe holes was changed from 5 feet to 10 feet and that special compression tests were required. Mid Continent's proposal did not set forth a detailed cost breakdown to show the cost attributable to these changes.

Inclusion of additional water service equipment

In its August 1969 proposal, Mid Continent stated that the water supply system of the city of Springfield was not adequate to serve the fire protection needs of the nine-story project building.

We obtained correspondence from City Utilities of Springfield, Missouri (City Utilities), which showed that a combination service for domestic and fire water needs was planned for the project. On May 27, 1969, the water department of City Utilities notified a consulting firm retained by Mid Continent that a combination meter for fire and domestic water service was not used in the water department's systems and that the domestic service must be separated from the fire service. The correspondence also indicated that, because of the height of the building, it would be necessary to pump the water.

Mid Continent's proposal of August 7, 1969, stated that the water pressure for the project was inadequate and that pumps were needed to increase water pressure for fire and domestic needs. Records showed that Mid Continent revised its plans and specifications to provide for fire pumps and related equipment, and a house pump with related equipment.

Installation of primary electrical
service lines and transformers

In its proposal, Mid Continent stated that it is normal practice for the electrical utility company to install primary service lines and transformers for a building of this nature, but that the utility company, in this case, would not provide the installation. Therefore, the cost would have to be borne by the developer.

We spoke to an official of City Utilities who informed us that while the electrical department normally would be responsible for providing the primary lines and transformer for a new building, the determining factor would be the amount of electrical output required for the building. He stated that in view of the large output required in the case of this building, it was determined that installation of the primary service lines and transformer would not be the responsibility of the electrical department.

The official supplied us with a copy of a letter from the electrical department to Mid Continent confirming that Mid Continent had been informed by telephone on June 24, 1969, that the housing authority would be responsible for the installation of the conduit, pothead, underground primary line, and pad-mounted transformers.

Purchase of additional land to satisfy
city requirements regarding density

Mid Continent's proposal contained a statement that additional land was acquired for the project to meet city requirements regarding density.

Records at the Office of the County Recorder of Deeds showed that the approximately 1.7 acres of land involved in Mid Continent's original proposal were purchased in several parcels during July and August 1969. The additional land referred to by Mid Continent, amounting to about .25 acres, was purchased in November 1969. The Recorder of Deeds told us that the purchase price of the land could not be determined from information contained on the deeds.

- - - - -

In accordance with HUD's requirements, the SHA obtained two appraisals of the value of the proposed site and two cost estimates of the planned improvements. The SHA selected two professional appraisers --Alva E. Koch and Robert L. Harrison--to appraise the site. The appraisals showed the estimated fair market value of the site to be \$84,000 and \$80,000, respectively.

The site cost of \$75,000 included in the final contract price for the project was equal to the amount included in Mid Continent's proposal of August 7, 1969, and was \$7,000 less than the mid-point of the two site appraisals.

The two cost estimates for this project were prepared by Datamating, Inc., and McCaleb Engineering Company. Datamating, Inc., estimated the cost of the proposed improvements--including such items as developer's fee and overhead, taxes, and interim financing--at \$1,603,633 and McCaleb Engineering estimated the cost at \$1,638,423.

We interviewed an architect-engineer who assisted in the preparation of the McCaleb Engineering estimate and he informed us that the primary source of cost data used in calculating the estimated cost of the project was the Dodge Report--a publication of the McGraw-Hill Information Systems Co. containing cost and specification data on all categories of buildings. For example, the number of cubic yards of concrete needed for the project was calculated from the architect's plans, and the cost of a cubic yard of concrete was obtained from the Dodge Report. The unit cost was applied to the total cubic yards of concrete to arrive at the estimated cost of all concrete needed for the project.

We scanned the files of McCaleb Engineering relating to this project and noted that they contained information regarding the various developments which Mid Continent had cited as the reasons for increasing its estimate of the cost for the project. The architect-engineer informed us that the firm's cost estimate gave consideration to these developments.

Records at the HUD Fort Worth regional office indicated that the final negotiated contract price of \$1,686,016 for this project was established as follows:

Site	\$ 75,000
Architectural and engineering services	63,600
All other	<u>1,547,416</u>
Total contract price	<u>\$1,686,016</u>

HUD's records indicated that the amount of \$63,600 allowed for architectural and engineering services was computed on the basis of HUD's standard fee for architects. This amount was about \$10,000 less than the mid-point of the cost for this item included in the cost estimates prepared by Datamating, Inc., and McCaleb Engineering.

The \$1,547,416 shown above represents the mid-point of the two cost estimates after deducting the amounts that were included in the estimates for architectural and engineering services.

We were informed by a HUD Fort Worth official that the negotiation conference for this project was held on September 12, 1969, at which time a price of \$1,686,016 was agreed upon. He stated that no letter of intent was entered into for this project since it is being undertaken under an acceleration feature of the turnkey program which provides for the elimination of certain procedural steps otherwise required, such as the letter of intent. Our review showed that this is in accordance with HUD's procedures. The final contract of sale was entered into at the agreed price on November 17, 1969.

The price negotiated for the project, therefore, complied with HUD's turnkey regulations which state, in part, that:

"The price agreed upon shall not be greater than the price established at the Negotiation Conference and included in the Letter of Intent, nor shall the price be greater than the mid-point of the reconciled and approved updated cost estimates as determined by the Housing Assistance Office, HUD, unless justification for a price above the mid-point is established in writing and approved by the Assistant Regional Administrator for Housing Assistance."

SUBMISSION OF PROPOSALS TO HUD

Statement 2. "All requested proposals on the Springfield project were not submitted to HUD in accordance with HUD Regulations (Low Rent Housing Manual 221.1). According to the Chairman of the LHA, HUD in Fort Worth approved legality in spite of this."

The SHA published an invitation for proposals in the local newspapers on November 30, December 1, December 7, and December 8, 1968, which stated that proposals would be accepted until January 1, 1969. According to records at the HUD Fort Worth regional office, 45 proposals were submitted by 10 developers on 45 sites, and HUD was furnished information on 34 proposals submitted by 9 developers.

Under HUD regulations in effect at the time of advertising for the proposals, local housing authorities were not required to submit copies of each proposal to HUD. A revision to section 221.1 of HUD's Low Rent Housing Manual, dated December 1968, included a requirement that as soon as the deadline for receipt of proposals had passed, the housing authority would advise HUD by telephone as to the responses received and would immediately send two copies of each proposal to HUD. We were informed by a HUD headquarters official that the revised procedures were not sent to the field until 1969. A HUD news release showed that the procedural change was announced by HUD on February 12, 1969.

Records at the HUD Fort Worth regional office showed that HUD was aware of the action taken by the SHA with respect to all 45 proposals received. The HUD production representative responsible for inspecting the sites that were recommended for approval by the SHA board included in a memorandum to the HUD production coordinator the following information, in addition to his recommendations regarding the sites which were approved by the SHA board and inspected by him on March 12 and 13, 1969.

"The Housing Authority received 45 proposals submitted by ten Developers on 45 sites. The sites submitted were reviewed by the LHA Board and the City Planning and Zoning Board. As a result of the reviews on the part of the local governing bodies, 7 sites and four Developers were chosen and approved by LHA. One developer (Prima) withdrew his proposals which represented 11 sites. Other sites and proposals were eliminated because of excessive cost, and not being properly zoned or recommended by the zoning board."

HUD's turnkey procedures provide that the selection of the developer will be the responsibility of the housing authority, subject to HUD approval. The HUD production representative recommended approval of all the sites selected by the SHA board.

In commenting on this point, Mr. Ketchum stated that he was advised by a representative of Prima, Inc., a group of local developers, that their bid had been returned to them by SHA.

Our review of records available at HUD showed that Prima, Inc., had submitted 11 proposals for a total of 540 units to be developed on 11 different sites. On January 6, 1969, the Executive Director of SHA wrote to the President of Prima, Inc., stating that, in order for SHA to evaluate specific proposals, it would be necessary that additional information be furnished. On January 7, 1969, the President of Prima, Inc., responded to the above letter and stated that since SHA had requested proposals for "any or all" of the units, Prima, Inc., felt that a single proposal was the best and most flexible solution to SHA's housing needs. The letter stated that its proposal was not to be considered as a group of separate proposals.

On February 3, 1969, the SHA Executive Director wrote to the President of Prima, Inc., and stated that after much deliberation and study of all the proposals received, it was the unanimous opinion of the SHA board that 2 of the 11 sites proposed by Prima, Inc., were acceptable for the construction of a project for general occupancy and for a project for elderly occupancy. The President of Prima, Inc., stated in a letter dated February 4, 1969, that since its proposal covered a total of 540 dwelling units to be constructed by four separate local general contractors, there would be no feasible way to divide two projects among the four contractors. The letter further stated that it was the decision of Prima, Inc., to withdraw its proposal and to request return of its plans and specifications.

CONCURRENT LEGAL REPRESENTATION

Statement 3. "The attorney for the Housing Authority has concurrently represented the Authority and Mid-Continent Planners and Constructors, Inc., Hudgens-Thompson [sic] and [sic] Ball and Associates, Cowden Construction, and Montin Construction Company."

Our review of SHA files showed that Mr. Leland C. Bussell was designated legal counsel for SHA on an "as needed" basis and was paid for actual services performed on a fee basis.

We interviewed Mr. Bussell to discuss the nature of the legal services performed for Mid Continent (a team consisting of the other three firms mentioned by Mr. Ketchum). Mr. Bussell advised us that Mr. Cantrell of the firm of Cantrell, Douglas, Thompson & Wilson of Oklahoma City, Oklahoma, had retained him to check the title on real estate being acquired by the developer (Mid Continent) for project MO 58-2. He stated that he discussed this matter with the Chairman of SHA who agreed that it would save SHA money if Mr. Bussell checked the titles for the developer because SHA would not have to duplicate the work at the time it took over the completed project. Mr. Bussell stated that he and the Chairman of SHA did not see any conflict of interest because the end result would be beneficial to both the developer and SHA.

Mr. Bussell also informed us that he had represented the developer, on a fee basis, before the Springfield Board of Adjustments concerning changes in parking spaces for the project. He indicated that his work for the developer regarding changes in parking spaces did not constitute any conflict of interest since authority to decide this matter was not vested in SHA but in the Board of Adjustments.

A HUD attorney informally advised us that he could not state any opinion as to what position HUD would take on the matter of concurrent legal representation but that, in light of the provisions of section 515 of the Consolidated Annual Contributions Contract between HUD and the local housing authority (enclosure II), a careful study would have to be made of the facts in this specific case.

CITIZEN INVOLVEMENT

Statement 4. "Citizens Involvement Committee required for recertification of the local Workable Program has been all but inactive, yet recertification has been applied for and in all probability will be approved."

Title I of the Housing Act of 1949, as amended, provides in part that no contract shall be entered into for any loan or capital grant under this title, or for annual contributions or capital grants pursuant to the United States Housing Act of 1937, as amended, for any project or projects not constructed or covered by a contract for annual contributions prior to August 1, 1956, unless:

- (1) there is presented to the Secretary by the locality, a workable program for community improvement (the official plan of action for dealing with the problems of urban slums and blight within the community), and
- (2) on the basis of his review of such program, the Secretary determines that such program meets the requirements of this subsection and certifies that the Federal assistance may be made available in such community.

One of the requirements contained in HUD's workable program application is evidence that the community provides and continues to expand opportunities for citizens, especially those who are poor and members of minority groups, to participate in all phases of the related HUD-assisted renewal and housing programs. The particular organizational means for community involvement is left to the discretion of each community, but the community must demonstrate in its workable program submission that it provides clear and direct access to decisionmaking, relevant and timely information, and necessary technical assistance to participating groups and individuals in programs covered.

Our review of the workable program application for Springfield, Missouri, showed that the involvement of citizens in the program was to be accomplished through the efforts of the following seven committees or organizations:

1. Citizen's Advisory Committee for the Workable Program
2. Commercial Street Development Committee
3. Downtown Springfield Association
4. South Central "A" Project Area Committee
5. Drury College Project Area Committee
6. Calhoun Family Center Executive Committee
7. Most Wonderful Prince Hall Grand Lodge of Missouri

The application makes no mention of a Citizens Involvement Committee.

In discussing this matter with Mr. Ketchum, he advised us that the most recent minutes of the Citizens Involvement Committee he could find related to a meeting held on January 23, 1969. Copies of the minutes supplied by Mr. Ketchum were actually minutes of the Citizen's Advisory Committee.

We reviewed the files of the minutes of the Citizen's Advisory Committee and found that, up to the time of our examination into this matter in December 1969, five committee meetings had been held subsequent to the meeting of January 23, 1969--the last being held on June 9, 1969. The Secretary of the Committee advised us that the seven organizations responsible for involvement of citizens in the workable program had varying functions and interest in phases of that program, and that the chief interest of the Citizen's Advisory Committee had been in generating support and involvement of the citizens in the proposed 540-unit turnkey housing project during its earlier planning stages. The Secretary added that once the project had advanced beyond those early stages, the Citizen's Advisory Committee's job was largely accomplished.

By letter dated October 29, 1969, the Mayor of the city of Springfield was notified that the Assistant Secretary for Renewal and Housing Assistance, HUD, had approved the community's Workable Program for Community Development for the period ending November 1, 1971.

APPOINTMENT OF SHA EXECUTIVE DIRECTOR

Statement 5. "High official of HUD in Fort Worth recommended local Executive Director on HUD stationery."

In support of this statement, Mr. Ketchum furnished us with a copy of a letter dated October 14, 1968, to Mr. Floyd Mattlage, Acting Director, SHA, discussing the qualifications of the Executive Director. The letter was on HUD stationery and was signed by Charles C. Barnes, Acting Director, Production Division, Housing Assistance Office, Fort Worth, Texas.

SHA records showed that on August 28, 1968, the Board of Commissioners, SHA, met to discuss the employment of an executive director. A motion approved by the Board of Commissioners, SHA, provided that a letter would be prepared relative to the position of executive director and mailed out with an application form. The motion also provided that applications would be sent to HUD, the Department of Community Affairs in Jefferson City, and any other possible sources. It further provided for advertising the position in newspapers in Springfield, Memphis, St. Louis, Kansas City, Little Rock, Wichita, and Tulsa, if the cost was not prohibitive.

Subsequently, on October 1, 1968, SHA interviewed four applicants from the local area and reviewed an application from Mr. Clark of Oklahoma City, Oklahoma. SHA decided that Mr. Clark was the best qualified applicant and that, if the personal data and references furnished SHA did not reveal derogatory information, he would be offered the position. Mr. Mattlage subsequently sent letters of inquiry to, and received replies from, various individuals, including Mr. Charles C. Barnes, regarding Mr. Clark's qualifications.

We interviewed Mr. Barnes and he advised us that Mr. Mattlage had requested his opinion of Mr. Clark's ability, not from a personal standpoint, but in his capacity as an official of HUD's Housing Assistance Office. He therefore sent his reply on official stationery. Mr. Barnes' letter, while complimentary to Mr. Clark, did not recommend that he be appointed to the position but stated, in part, that Mr. Clark should prove to be a valuable addition to SHA in the event he is selected as the executive director.

As noted above, Mr. Mattlage also requested information on Mr. Clark's qualifications from a number of other sources; of the replies which we reviewed, all but one appeared to be written on official stationery. All of the replies we reviewed were complimentary to Mr. Clark.

OTHER MATTERS

Statement 6. "This is but a fraction of the total picture that begs for investigation in the best interest of Federal spending."

Mr. Ketchum, in discussing this matter with us, raised questions regarding the building permit issued to Mid Continent, certain information furnished by SHA to the Mayor of Springfield, and Mr. Clark's status with the Oklahoma City Housing Authority (OCHA). Mr. Ketchum also raised questions concerning six specific individuals and certain prior work performed by Mid Continent. These items are discussed below.

Building permit issued to Mid Continent

Mr. Ketchum furnished us with a copy of a building permit issued by the city of Springfield, dated October 6, 1969, to Mid Continent. He pointed out that the permit was issued in the amount of \$1 million, whereas the developer's proposal was in the amount of about \$1.5 million.

We were informed by an inspector for the city of Springfield that the difference in fee for an additional \$500,000 valuation would have amounted to about \$300. The inspector stated that the value of improvements included on building permits should normally include the estimated cost of constructing the buildings and should exclude such items as site, site improvements, and fixtures included in the buildings. Mid Continent's original proposal of \$1,507,200 included estimated costs of \$1,180,200 allocated to constructing the building (dwelling and non-dwelling space). The proposal did not contain information as to what portion of the estimated cost of \$1,180,200 applied to fixtures and what portion applied to construction.

The Superintendent of Buildings, city of Springfield, told us he issued the permit for the amount declared by the applicant, and that he had no basis for questioning this amount.

Information supplied to the Mayor of Springfield

Another statement made by Mr. Ketchum was that SHA had furnished the Mayor of Springfield erroneous information concerning payments in lieu of taxes.¹ By letter dated October 6, 1969, SHA advised the Mayor that the

1/

Federally assisted low-rent public housing projects are exempt from real and personal property taxes; however, local housing authorities pay the local governing or taxing bodies 10 percent of the annual shelter rents charged in such projects as payments in lieu of taxes.

annual payment in lieu of taxes for project MO 58-2 was estimated at \$4,704, compared with estimated taxes of \$27,528 which would be levied if the property were privately owned. Mr. Ketchum told us the correct figures, according to his computations, would be \$2,564 and \$35,266, respectively.

The information furnished by SHA to the Mayor of Springfield regarding payment in lieu of taxes on project MO 58-2 and taxes which would be levied if the property were privately owned was based on estimates prepared by the Executive Director of SHA. The Executive Director of SHA informed us that the \$40 monthly rental rate he used in computing the payment in lieu of taxes represented his best estimate of what the rental for project MO 58-2 would be, and that the rental rates for the project had not been established at the time the letter was sent to the Mayor. He stated that the lower rental rates used by Mr. Ketchum represented the rents paid by elderly tenants under the leasing program, and did not include the cost of utilities.

In estimating the taxes that would be paid if project MO 58-2 were privately owned, Mr. Ketchum placed a value of \$1,822,500 on the project for purposes of computing the amount of taxes that would be paid. This figure represented the total amount included in SHA's development budget for the project. SHA used a value of \$1,422,672 in computing the tax amount. This amount was determined by deducting architectural fees, developer's profit, and other costs from the contract price of \$1,686,000.

We discussed the values used by Mr. Ketchum and SHA with the Springfield tax assessor. He stated that he would not know the value of the property for tax purposes until after the building was constructed. He informed us that his office would make an independent appraisal which would establish the value of the building for tax purposes; therefore, he was unable to state whether SHA's or Mr. Ketchum's estimate was the most reasonable.

Mr. Ketchum indicated that the purpose of the erroneous information was to get the city council to approve 1,000 more public housing units. The City Manager of Springfield informed us that construction of additional public housing units would be based on need and not on the amount of revenue the city would receive or not receive from SHA.

Mr. Clark's status with the Oklahoma City
Housing Authority (OCHA)

Mr. Ketchum stated that he understood that Mr. Clark, the Executive Director of SHA, may have left his former position with OCHA involuntarily.

Our review of Mr. Clark's personnel file at OCHA revealed that in Resolution No. 235, adopted on October 16, 1968, the Commissioners of OCHA

expressed their appreciation to Mr. Clark for his dedicated service. In addition, the file contained letters of commendation for outstanding service from his superiors. We found no information of a derogatory nature in the file we reviewed.

We interviewed Mr. Larry Wolf, Chairman of OCHA, who stated that Mr. Clark did not leave OCHA under any pressure from the commissioners or his supervisors.

Miscellaneous statements of Mr. Ketchum

Mr. Ketchum stated that Mid Continent was under investigation by HUD's Fort Worth regional office for questionable construction at Miami, Oklahoma, and McAlister, Oklahoma.

Officials of the Fort Worth regional office told us that no such investigation had been made, was being made, or was contemplated.

Mr. Ketchum stated that four of the six individuals he had some questions about had worked with Mr. Clark at OCHA and that two of the four had furnished references for Mr. Clark. He stated that because of the cloudy conditions under which Mr. Clark left OCHA he felt that using the two men as references was suspicious. He made no additional comment regarding the other two individuals who had worked with Mr. Clark. As discussed earlier, our review disclosed no information which would indicate that Mr. Clark was forced to leave OCHA under questionable circumstances.

Mr. Ketchum's questions concerning the remaining two individuals concerned possible favoritism granted to an architect by the Fort Worth regional office of HUD and possible conflict of interest involving the low bidder on a low-rent housing project. These questions had not been substantiated by HUD-initiated investigations of the individuals.

SECTION 515 OF THE
CONSOLIDATED ANNUAL CONTRIBUTIONS CONTRACT
BETWEEN THE LOCAL AUTHORITY
AND THE
UNITED STATES OF AMERICA

Sec. 515 Interest of Members, Officers, or Employees of Local Authority, Members of Local Governing Body, or Other Public Officials

(A) Neither the Local Authority nor any of its contractors or their subcontractors shall enter into any contract, subcontract, or arrangement, in connection with any Project or any property included or planned to be included in any Project, in which any member, officer, or employee of the Local Authority, or any member of the governing body of the locality in which the Project is situated, or any member of the governing body of the locality in which the Authority was activated, or any other public official of such locality or localities who exercises any responsibilities or functions with respect to the Project during his tenure or for one year thereafter has any interest, direct or indirect. If any such present or former member, officer, or employee of the Local Authority, or any such governing body member or such other public official of such locality or localities involuntarily acquires or had acquired prior to the beginning of his tenure any such interest, and if such interest is immediately disclosed to the Local Authority and such disclosure is entered upon the minutes of the Local Authority, the Local Authority, with the prior approval of the Government may waive the prohibition contained in this subsection: Provided, That any such present member, officer, or employee of the Local Authority shall not participate in any action by the Local Authority relating to such contract, subcontract, or arrangement.

(B) The Local Authority shall insert in all contracts entered into in connection with any Project or any property included or planned to be included in any Project, and shall require its contractors to insert in each of its subcontracts, the following provision:

"No member, officer, or employee of the Local Authority, no member of the governing body of the locality in which the Project is situated, no member of the governing body of the locality in which the Local Authority was activated, and no other public official of such locality or localities who exercises any functions or responsibilities with respect to the Project, during his tenure or for one year thereafter shall have any interest, direct or indirect, in this contract or the proceeds thereof."

(C) The provisions of the foregoing subsections (A) and (B) of this Sec. 515 shall not be applicable to the purchase or sale of Temporary Notes or the Bonds, or to the General Depositary Agreement, fiscal agency agreements, the trusteeships authorized under this Contract, or utility services the rates for which are fixed or controlled by a governmental agency.