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REPORT TO THE CONGRESS

Opportunity For Accelerating Construction⁴¹ And Reducing Cost Of Low-Rent Housing B-114863

Department of Housing and
Urban Development

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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AUG 4, 1970



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-114863

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on opportunity for accelerating construction and reducing cost of low-rent housing, Department of Housing and Urban Development. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Housing Act of 1954 (42 U.S.C. 1435).

Copies of this report are being sent to the Director, Office of Management and Budget, and the Secretary of Housing and Urban Development.

A handwritten signature in cursive script that reads "James B. Peets".

Comptroller General
of the United States

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ABBREVIATIONS

GAO General Accounting Office
GSA General Services Administration
HUD Department of Housing and Urban Development
LHA local housing authority

D I G E S T

WHY THE REVIEW WAS MADE

The Department of Housing and Urban Development (HUD) provides financing to local housing authorities to construct low-rent public housing projects.

Considerable interest has been expressed during recent congressional hearings on housing legislation concerning the need for accelerating the production and reducing the cost of low-rent public housing.

The General Accounting Office (GAO) wanted to see if HUD's budgeting and contracting practices minimized delays and promoted economy in construction of low-rent housing projects.

FINDINGS AND CONCLUSIONS

HUD reviews and approves budgeted construction costs for proposed low-rent housing projects which serve as cost limitations for local authorities. Budgeted costs for a project are frequently based on unrealistically low cost estimates which do not reflect local prevailing construction costs or additional costs due to changes in the project.

As a result, even the low bid in many cases exceeded budgeted costs. (See p. 9.) For example, GAO reviewed construction contracts that had been awarded for 196 projects in HUD Region I (New York) during a period of about 5 years ended July 1969. The low bid for 94 projects (48 percent) exceeded HUD's budgeted costs.

In such cases HUD generally permits a local authority to award the contract only after it either (1) negotiates reductions in the bid price with the lowest bidders for changes in the scope of the contract work, (2) resolicits bids on the basis of revised plans and specifications, and/or (3) obtains HUD's approval of an increased budgeted cost.

These procedures usually delay construction (by an average of about 2 months) ^{and} ~~increase~~ local administrative and financing costs, ~~and add to the workload of the local authority and HUD.~~ Moreover, GAO believes the

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~~practice of negotiating price reductions does not obtain the full benefits of competitive bidding. (See p. 18.)~~

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Such adverse effects could be minimized if HUD ~~regional offices~~ would carefully review ~~cost~~ estimates before approving ~~budgeted~~ construction costs. Such reviews could provide greater assurance that budgeted costs are in line with current costs and could point out needed changes before bids are solicited. (See p. 8.)

Circumstances may arise which would warrant changing a project after bid opening. GAO believes that HUD should have specific criteria to be followed by local authorities in such cases. These rules should limit price negotiation to those cases where it is clearly in the best interest of the Government. Also, HUD should require local authorities to prepare independent detailed estimates of the cost of proposed changes as a basis for negotiation. (See p. 23.)

✓ GAO believes that HUD's internal reviews of regional office operation should specifically include an examination into regional office adherence to HUD instructions--including any instructions that result from GAO's recommendations--regarding controls over budgeted construction costs and contracting practices.

RECOMMENDATIONS OR SUGGESTIONS

HUD should

- base budgeted costs on realistic estimates to minimize costly and time-consuming revisions,
- obtain the benefits of full competition as much as possible, and
- require local authorities to use detailed independent cost estimates as a basis for negotiation. (See p. 23.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

HUD has agreed "in theory" that budgets should be based on realistic cost estimates but has said that it is "at a loss to make it workable" because

- construction estimates are "recognized" to be unreliable,
- results of competitive bidding are uncertain, and
- costs rise steadily.

As a result, local authorities and HUD regional offices are reluctant to change budget limits for projects prior to solicitation of bids except

where it becomes obvious that budgets have been drastically understated. (See p. 27.)

HUD has concluded that the time lapse between approval of budgeted costs and solicitation of bids will continue to produce dilemmas. (See p. 27.)

In December 1967 and May 1968, HUD revised its procedures on planning and developing low-rent housing. The new procedures are intended to accelerate housing production by eliminating processing delays. At the time of GAO's field review (July 1969), only a few projects processed under the new procedures had reached the bid solicitation state. (See p. 15.)

Although GAO recognizes that a reduction in the time period between budget approval and solicitation of bids could minimize the need for budget adjustment, GAO believes that the measure of reliance obtained by HUD as to the acceptability of plans for a project and the reasonableness of the budgeted construction costs will depend primarily on the effectiveness of reviews by its regional offices at the time of budget approval and immediately prior to solicitation of bids. (See pp. 28 and 29.)

HUD has agreed that guidelines are needed where bids exceed the budgeted costs and has stated that criteria will be drafted setting forth the specific circumstances governing the award of contracts under the negotiation method and the resolicitation of bids method. (See p. 29.)

HUD did not agree that local authorities should be required to use independent cost estimates in negotiating prices for changes in a project. HUD said that local authorities and their architects were already required to approve itemized price proposals for such changes. Therefore, HUD assumes that the architect has satisfied himself as to the reasonableness of the bidder's proposals. (See p. 30.)

GAO believes that independent cost estimates will provide greater assurance that negotiated price reductions are equitable to both the Government and contractor. (See p. 30.)

HUD's internal audit staff has begun a pilot audit of regional office activities--including the areas discussed in this report--at one HUD region and will consider similar work at other regions if warranted. (See p. 31.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO is reporting this matter to the Congress because of its continuing interest in the construction of low-rent public housing.

CHAPTER 1

INTRODUCTION

The General Accounting Office has examined into the policies and practices of the Department of Housing and Urban Development (HUD) for approving administrative budgetary limitations and construction cost estimates for the development of planned low-rent public housing projects and for approving the award of construction contracts. The scope of our review is described on page 32 of this report.

The United States Housing Act of 1937, as amended (42 U.S.C. 1401 et seq.), authorizes HUD to conduct a program of assistance for low-rent public housing under which local governments, pursuant to State enabling legislation, establish local housing authorities (LHAs) as independent legal entities to develop, own, and operate low-rent public housing projects.

HUD conducts its low-rent housing assistance activities at (1) the headquarters office in Washington, D.C., (2) seven regional offices located at Atlanta, Chicago, Fort Worth, New York, Philadelphia, San Francisco, and San Juan (Puerto Rico), and (3) one directly operated housing project. The headquarters office establishes the administrative policies and operating procedures, reviews the operations, and maintains the accounting records for the regional offices. Authority for carrying out HUD's activities in the seven regions has been delegated to the regional administrators.

The development and administration of federally subsidized low-rent public housing projects are primarily the responsibility of the LHAs. HUD provides financial and technical assistance to the LHAs in the development of the projects and reviews the administration of the project after construction is completed to determine whether the projects are being operated and maintained in conformance with statutory requirements and in a manner which promotes efficiency, economy, and serviceability. Pursuant to contracts with the LHAs, financial assistance is furnished by HUD in the form of loans for the development of low-rent housing projects and in the form of annual contributions (subsidies)

which, to the extent they are not offset by residual receipts from project operations, will be sufficient to pay the principal and interest on bonds and notes sold by the LHA to finance the cost of developing the projects.

The total cost of providing low-rent public housing is controlled by HUD through its review and approval of development cost budgets which the LHAs are required to prepare and submit to HUD showing the estimated cost of developing a planned housing project, including its estimated construction cost. The amount of the contributions provided for in the annual contributions contract which HUD enters into with an LHA is based on the estimated total project cost as shown in the development cost budget approved by HUD. Construction costs generally represent the major cost involved in the development of a project. When project construction costs are minimized, the amount of annual contributions is also minimized.

✓ The development cost budget approved by HUD serves as a cost limitation within which an LHA must develop a low-rent public housing project. The annual contributions contract provides that the LHA may not incur costs for any project in excess of the total amount of the development cost budget or in excess of costs shown for any of the main budget account classifications, including the construction and equipment budgetary classification.

The annual contributions contract requires an LHA to contract for the construction of low-rent housing projects on the basis of full and open competition. In contracting for the construction of a project on the basis of competitive bidding, the LHA is precluded from awarding the construction contract in an amount that exceeds the construction and equipment budgetary cost estimates and which would result in incurring costs in excess of the total estimated development cost for the project.]

[When the amount of the low bid for a construction contract is within the approved budgetary limitations, HUD generally authorizes the LHA to award the contract to the lowest bidder.] However, when the lowest bid exceeds the budgeted amount, HUD may (1) require the LHA to reduce the construction costs by making reductions in the scope of the project,

or (2) approve an increase in the amount of the budgeted costs if justified, or (3) do both.

For the fiscal year ended June 30, 1969, HUD's annual contributions to all the LHAs which were operating projects under the conventional low-rent public housing program amounted to about \$312 million, or about 92 percent of the maximum allowable Federal subsidy. Accordingly, HUD is paying the major cost of providing for the development of low-rent housing projects throughout the nation.

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What is total cost?

HUD's statistics showed that at June 30, 1969, there were about 2,450 LHAs located in the 50 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands. These LHAs had about 784,600 dwelling units under management, about 74,700 units under construction, and about 123,950 units under contracts with HUD providing for future construction. HUD's statistics showed also that, during fiscal year 1969, construction of approximately 34,200 dwelling units was started at an estimated total development cost of approximately \$602 million.

What is development cost?

Principal officials of HUD responsible for the administration of activities discussed in this report are listed in appendix II.

CHAPTER 2

BUDGETING AND CONTRACTING CONTROLS

FOR LOW-RENT HOUSING CONSTRUCTION

HUD frequently approved the solicitation of bids by the LHAs for contracts for the construction of low-rent housing projects on the basis of approved budgeted construction costs which, according to HUD records, were based on cost estimates that were unrealistically low and did not give effect to (1) the level of construction costs prevailing in the various areas at the time bids were solicited and/or (2) additional construction costs applicable to changes made in the scope of the projects between the dates that HUD approved the budgeted construction costs and the dates that the LHAs solicited competitive bids for the construction contracts. As a result, the lowest competitive bids in response to the solicitations for bids for contracts for the construction of the housing projects exceeded, in many cases, HUD's approved budgeted construction costs for the project.

In such cases, HUD generally permitted an LHA to award the construction contract only after it had either (1) negotiated reductions in the contract bid price with the lowest bidders on the basis of modifications in the scope of the contract work, (2) resolicited bids on the basis of the revised plans and specifications, and/or (3) justified and obtained HUD's approval of an increase in the budgeted construction cost.

The processes involved in awarding a construction contract under any of the aforementioned procedures generally tended to delay the start of construction of a project, increase LHA administrative and financing costs related to the planning and development of the project, and add to the workload of HUD and the LHAs. Moreover, we believe that the practice of negotiating price reductions with the lowest bidders for modifications in the scope of a project after the competitive bids for the construction contract have been opened does not result in attaining the full benefits of competitive bidding.

We believe that the adverse effects cited above could be minimized through more effective HUD reviews of project plans and specifications and related cost estimates before approving the budgeted construction costs and authorizing the LHAs to solicit bids for construction contracts. Such reviews could provide a greater measure of assurance that the approved budgeted construction costs are in line with prevailing costs and with the approved plans and specifications and could point up any need for modifications in the plans and specifications and for adjustments in the budgeted construction costs to hold project costs to an acceptable level.

We recognize that circumstances may arise which would warrant modification of the scope of a project after bid opening. We believe, however, that HUD should establish specific criteria governing contracting actions to be taken by the LHAs under such circumstances and should aim toward limiting the negotiation of contract price reductions for changes in the scope of a project with the lowest bidders to those cases where such negotiations can be clearly shown to be in the best interests of the Government. We believe also that, in cases where such negotiations are considered justified, HUD should require the LHAs to prepare independent detailed estimates of the cost of the proposed changes for use by the LHAs as a basis for negotiating equitable price adjustments with the low bidders.

NEED FOR REALISTIC CONSTRUCTION COST ESTIMATES

Our review of construction contracts, awarded for 196 low-rent public housing projects in HUD Region I during a period of about 5 years ended July 1969, showed that for 94 projects (48 percent) the lowest competitive bids for the contracts exceeded HUD's approved budgeted construction costs by amounts ranging from about \$14,000 to about \$2.7 million.

For 63, or 67 percent of the 94 projects, the lowest bids exceeded the budgeted construction costs by 10 percent or more, as shown below.

Percentage by which the lowest bid exceeded the approved <u>construction budget</u>	<u>Number</u>	<u>Percent</u>
Less than 10 percent	31	33
10 to 19 percent	32	34
20 percent or more	<u>31</u>	<u>33</u>
Total	<u>94</u>	<u>100</u>

In order to award construction contracts for the 94 projects for which the lowest competitive bids exceeded the approved budgeted construction costs, the LHAs had to either (1) negotiate contract price reductions with the lowest bidders for modifications in the scope of the contract work, (2) resolicit bids on the basis of revised plans and specifications, and/or (3) justify and obtain HUD's approval of increases in the budgeted construction costs.

HUD and LHA records for these projects show that these processes have resulted in prolonging the period between the opening of bids and the awarding of the contracts by an average of about 2 months which thereby delayed the start of construction. Also, we believe that awarding contracts under these circumstances imposed added administrative burdens on HUD and the LHAs, consumed administrative manpower resources that would otherwise have been available for use in the planning and development of additional low-rent housing

projects or for other needed purposes and, in the case of price negotiations with the lowest bidders, did not result in achieving the full benefits of competitive bidding.

Since an LHA continues to incur administrative and financing costs applicable to the planning and development of a project during the entire period that the construction of the project is deferred, the delay in awarding a construction contract results in increasing the project's total development cost. That this is the case is indicated by HUD records which showed that project administrative and financing costs had increased substantially because unexpected delays had extended the planning and development periods beyond the date initially projected. Also, HUD's studies of project administrative and financing costs conducted several years ago showed that such costs generally increased as the period of development was prolonged.

We believe that the adverse effects cited above could be minimized if approved budgeted construction costs were based on cost estimates which realistically reflect both the prevailing construction costs and the current approved plans and specifications. Realistic estimating would provide greater assurance that contract bids would be in line with the approved budgeted construction costs, and would tend to reduce the need to revise the plans and specifications and/or the budgeted costs after the opening of bids.

Data available in HUD's records for 65 of the 94 projects where the lowest bids for the construction contracts exceeded the HUD approved budgeted construction costs showed that the budgeted costs in effect at the time bids were solicited did not provide for (1) increases in construction costs which had occurred since the budgeted costs had been approved and/or (2) increases in costs resulting from modifications made in plans and specifications after the budgeted costs had been approved. HUD records did not indicate whether these same factors were applicable in the remaining 29 cases.

For 59 of the 94 projects, the initial approved budgeted construction costs were still in effect at the time HUD authorized the LHAs to solicit competitive bids for the

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construction contracts, even though for 43 of the projects more than a year had elapsed since the budgeted costs had been approved, as shown below.

<u>Elapsed time--budget approval to bid advertisement</u>	<u>Number of projects</u>
Less than 1 year	16
Between 1 and 2 years	20
Between 2 and 3 years	18
Over 3 years	<u>5</u>
Total	<u>59</u>

For the remaining 35 projects, the amounts initially budgeted for construction had been revised during the development of plans and specifications, but over a year elapsed before bids for construction contracts for 14 of the projects were solicited.

The following two examples illustrate the problems that can arise when budgeted construction costs for a project are not based on costs prevailing at the time bids are solicited for the construction contract.

In the first case an LHA solicited bids for the construction of a low-rent public housing project about 3-1/2 years after HUD had approved the budgeted construction cost of approximately \$327,000. The lowest bid received (\$435,000) exceeded the budgeted construction cost by \$108,000 (33 percent). The LHA had to reduce the scope of the contract work, negotiate price reductions for these changes in scope with the lowest bidder, and obtain HUD's approval of an increase in the budgeted construction cost before the contract could be awarded. The contract was awarded about 6 months after the construction bids had been opened.

With regard to the authorized increase in the budgeted construction cost for this project, HUD records showed that, even though the level of construction costs in the locality had increased during the 3-1/2-year period, the approved

budgeted construction costs had not been adjusted to reflect the higher prevailing construction costs at the time bids were solicited. HUD records showed also that the budgeted costs had not been adjusted to provide for additional site improvement costs that became known to the LHA prior to the time that the bids were solicited.

In the other case, and LHA had to reduce the scope of the construction contract for the project after the opening of the bids because the lowest bid exceeded by about \$323,000 (27 percent) the budgeted construction cost that had been approved by HUD approximately 21 months earlier. The LHA had to negotiate a price reduction of about \$69,400 with the lowest bidder on the basis of changes in the contract scope and obtain HUD's approval of an increase in the budgeted construction costs before the contract could be awarded. The contract was awarded about 3 months after the bids had been opened.

HUD records showed that the budgeted construction costs had not been adjusted, prior to the time competitive bids were solicited, for the estimated cost of additional dwelling units that had been added to the project and for certain additional foundation work found to be necessary on the basis of subsoil tests that had been made at the proposed site.

Information obtained during our review showed that the situation in HUD Region I regarding the LHA's budgeting and contracting procedures was also prevalent in other HUD regions. In two other HUD regions, about 56 percent of the lowest bids for contracts for the construction of housing projects, during a period of more than 5 years ended March 1969, exceeded the HUD approved budgeted construction costs, and the LHAs involved had to resort to negotiating price reductions with the lowest bidders, resolicitating bids, and/or justifying and obtaining HUD's approval of increases in the budgeted construction costs for the projects, before the construction contracts could be awarded.

We believe that the high incidence of projects where unrealistic construction cost estimates have necessitated revisions in the scope of the project and/or of the approved

budgeted construction costs after competitive bids had been opened indicates a need for a more effective HUD review of project plans and specifications and related construction cost estimates prior to authorizing the LHAs to solicit bids for construction contracts.

We believe also that the need for the LHAs to undertake time-consuming and costly revisions in project plans after bids for a construction contract are opened could be minimized if HUD, on the basis of its review of LHAs project plans and specifications and cost estimates, would require that (1) the budgeted construction costs be adjusted to reflect current construction costs and/or (2) project plans and specifications be modified, to the extent necessary, to hold the budgeted construction costs to a level acceptable to HUD.

HUD procedures provide for control over the total cost of low-rent public housing on the basis of its review and approval of development cost budgets prepared and submitted by the LHAs which show the estimated cost of developing planned housing projects, including estimated construction costs.

HUD procedures in effect during the development of projects initiated prior to December 1967 required that an LHA submit the initial development cost budget for a project--the basis on which HUD determined the maximum amount of financial assistance to be authorized for the project--before detailed plans and specifications were developed. Also, an LHA was required to submit a revised development cost budget for a project for review and approval at the time preliminary plans and specifications were submitted if, on the basis of its detailed current cost estimates, the LHA had reason to believe that the construction costs would exceed the budgeted construction costs previously approved by HUD.

HUD procedures provided for HUD to review the final working plans and specifications and related detailed cost data submitted by the LHA for a project to determine whether the plans and specifications were consistent, from the standpoint of cost, with the previously approved budgeted

construction costs. The procedures provided also that, if HUD's review of the cost data showed that the construction costs were expected to be higher than the budgeted construction costs, the LHA must either revise the plans and specifications to reduce the scope and cost of the project, or submit a revised budget to HUD for approval.

We were advised by HUD officials in Region I that, in practice, the budgeted construction cost approved by HUD for a housing project was based on construction costs in effect at the time the development of the project was first approved by HUD and that generally the budgeted costs were not revised to reflect the higher construction costs prevailing in the locality at the time bids were solicited for the construction contract. The HUD officials stated that, since the level of construction costs in Region I had been steadily increasing in recent years, the approved budgeted construction costs in effect for many projects at the time bids were solicited might have been unrealistically low, which accounted for the relatively large number of projects where the lowest competitive bid exceeded the budgeted construction cost.

During the period covered by our review, HUD advised its regional offices, on a number of occasions, of the need for the LHAs to prepare realistic construction cost estimates and for the regional offices to carefully evaluate such estimates prior to authorizing the LHAs to solicit bids for construction contracts. HUD pointed out that unrealistic construction cost estimates frequently resulted in the need for subsequently (1) increasing the amount of funds authorized for a project, thereby reducing the amount of funds available for other proposed projects, and (2) negotiating cost reductions with the lowest bidders for changes in the scope of the project, thereby delaying the start of construction and appreciably increasing the regional office workload.

HUD regional offices were informed that--if, during their reviews of the LHAs' project plans and cost estimates, it appeared that the budgeted cost estimates for a project would be exceeded--the LHA should be required to revise the project plans to achieve all possible economies or to submit

to HUD a revised construction cost budget and request an increase in project funds.

We noted, however, that, for 15 (58 percent) of 26 projects initiated by the LHAs in Region I during a 1-year period (January through December 1967) after the latest of the HUD instructions cited above had been issued, the lowest competitive bids for the construction contracts exceeded the budgeted construction costs by amounts ranging up to \$1.6 million (38 percent).

In December 1967 and May 1968, HUD issued circulars revising its aforementioned procedures relating to the planning and development of low-rent housing projects, including the establishment and approval of development cost budgets. The new procedures were intended to assist HUD in accelerating the production of low-rent public housing by eliminating program-processing delays caused by various procedural requirements which HUD no longer considered necessary. As of February 1969, a number of pertinent sections of HUD's low-rent housing manual had been revised to incorporate the new procedures established by the circulars.

Under the revised procedures, an LHA is required to submit the initial development cost budget for a project--the basis on which HUD establishes the maximum amount of financial assistance to be authorized for the project--only after detailed plans and specifications and construction cost estimates have been developed.

We were advised by a HUD headquarters official that, under the new procedures, the period of time between HUD's approval of the initial development cost budget for a project and the date HUD authorized the LHA to solicit competitive bids for the construction contract should be reduced significantly and, therefore, the budgeted amount in effect at the time bids are solicited should generally reflect the current level of construction costs in the project area.

At the time of our field review only a limited number of projects processed under the December 1967 and May 1968 procedures had reached the construction contract bid solicitation stage. For 31 (50 percent) of 62 projects that had

reached that stage in all HUD regions during the period January 1968 through October 1969, the lowest competitive bids for the construction contracts exceeded the approved budgeted construction costs by amounts ranging up to about \$451,000 (36 percent). To award the contracts for these 31 projects, the LHAs had to resort to negotiating price reductions with the lowest bidders, to resoliciting bids, and/or to obtaining HUD's approval of an increase in the budgeted construction costs for the projects.

For 49 (65 percent) of the 76 projects initiated by the LHAs after December 1967 but which had not reached the construction contract bid solicitation stage as of June 1, 1969, the HUD-approved budgeted construction costs had been in effect for periods ranging from 6 to 18 months, or an average of about 9 months.

We recognize that any significant reduction in the period between the time that HUD approves the budgeted construction costs for a project and the time that HUD authorizes the solicitation of bids for a construction contract for the project could minimize the need to adjust the budgeted construction costs to reflect prevailing construction costs and/or to modify the design or scope of the project. HUD records showed, however, that the lowest bids for project construction contracts continued to exceed the HUD-approved budgeted construction costs by substantial amounts and that the time lapse between HUD's approvals of the initial budgeted construction costs and the solicitation of bids for construction contracts might not, in many cases, have been sufficiently reduced to eliminate the need for adjustments in the approved budgeted amounts to reflect changes in the level of construction costs.

We therefore believe that, in the final analysis, the measure of reliance obtained by HUD as to the acceptability of plans for a project and the reasonableness of the budgeted construction costs will depend primarily on the effectiveness of reviews by its regional offices of planned projects and budgeted construction costs at the time the budgeted costs are approved and immediately prior to the time bids for construction contracts are solicited.

NEED FOR GUIDELINES FOR THE AWARD
OF CONSTRUCTION CONTRACTS

We analyzed the actions taken by the LHA, with HUD approval, in the case of the 94 projects (see p. 9) in Region I where the competitive bids for the construction contracts for the projects exceeded the budgeted construction costs that had been approved by HUD for the projects.

For 23 of the projects (25 percent), the LHAs awarded the contracts to the lowest bidders subject to change orders for previously negotiated contract price reductions resulting from modifications in the scope of the contract work (referred to hereinafter as the "negotiation method").

For 37 projects (39 percent), the budgeted construction costs were increased and the LHA awarded the contract in the amount of the lowest bid without changing the scope of the contract work. For the remaining 34 projects (36 percent), the LHA rejected all bids, changed the scope of the project, and resolicited bids for the construction contracts on the basis of the revised plans and specifications.

The annual contributions contract between HUD and an LHA provides that the LHA give full opportunity for open and competitive bidding in connection with the award of contracts for the construction of low-rent housing projects and award such contracts to the lowest responsible bidder subject to the approval of HUD.

The HUD low-rent housing manual contains the following provision regarding situations where all competitive bids exceed the budgeted amount approved by HUD for construction of a project.

"a. If the award of a contract cannot, because of excessive cost, be authorized on the basis of the lowest acceptable bid received, the Local Authority shall promptly consult with the Regional Office [HUD] and reach mutual agreement upon the changes to be made in the contract documents, if any, for the purpose of readvertising for bids. ***"

The manual does not specifically provide for the negotiation of contract price reductions with the lowest responsible bidder for modifications in the scope of the contract work in order to award a contract.

HUD and LHA records relating to the 23 projects for which contracts were awarded on the basis of the negotiation method showed that the bid prices for the contracts were reduced by about \$800,000 through negotiations. It appeared to us, however, that many of the negotiated price reductions were for significant changes in the scope of the contract work. We are of the view that, whenever a significant change is made in the scope of a contract for the construction of a housing project subsequent to the opening of competitive bids, the practice of awarding the contract to the lowest bidder subject to previously negotiated contract price reductions for modifications in the scope of the contract work does not provide assurance as to the reasonableness of the contract price that would be attained by resoliciting new bids on the basis of the revised plans and specifications.

In cases where negotiation with the lowest bidders may be practicable because the proposed changes in the scope of the contract work are not of a major nature, we believe that the LHA project architects should be required to prepare detailed cost estimates for the planned changes for use as a basis for negotiating contract price adjustments that would be most advantageous to the LHAs and to HUD.

Benefits achieved through competitive bidding

It is our opinion that contracting based on full and open competition normally results in achieving the most reasonable prices. We were unable to demonstrate conclusively, however, that, under the circumstances discussed in this report, modifications in the scope of a project after competitive bids for a construction contract have been opened could be most economically contracted for through resolicitation of bids rather than through negotiation with the lowest bidder.

We noted three cases, however, where proposed modifications to the contract plans and specifications had been subjected to preliminary negotiations with the lowest bidders before the decisions were made by HUD regional officials to require the LHAs to resolicit new bids. We estimated that, by resoliciting bids for the three contracts, the LHAs realized construction cost savings aggregating about \$166,800 in excess of the total contract price reductions that apparently would have been realized if the LHAs had awarded the construction contracts to the former lowest bidders on the basis of negotiated price reductions for the changes in the scope of the project as it was initially contemplated. Details regarding the estimated savings realized in one of these cases are discussed below.

In response to an invitation for contract bids for the construction of a project, the LHA received seven bids ranging from \$1,050,000 to \$1,133,000 which exceeded the budgeted construction cost of \$803,000 that had been approved by HUD for the project. Since the lowest competitive bid exceeded the budgeted construction costs by about \$247,000, the LHA's project architect proposed a number of revisions in the plans and specifications and requested the lowest bidder to furnish price quotations for the proposed modifications.

The LHA subsequently furnished the HUD regional office with a list of the proposed contract modifications and an itemized tabulation of the price reductions that the architect estimated would be realized through negotiation with the lowest bidder. The estimated cost reductions, totaling about \$139,500, were based on the price quotations furnished by the lowest bidder for many of the proposed modifications to the scope of the project and on cost estimates furnished by the project architect for certain proposed modifications for which the lowest bidder did not furnish price quotations.

The LHA's Executive Director informed us that, after HUD regional officials had evaluated the proposed modifications in the contract plans and specifications and the cost estimates, the LHA was requested to reject all bids and resolicit bids on the basis of revised plans and specifications. According to the Executive Director, HUD regional

officials would not permit the LHA to award the construction contract to the lowest bidder on the basis of negotiated reductions in the contract price for the proposed modifications because (1) certain of the modifications involved major changes in the scope of the project, (2) the estimated cost reduction of approximately \$139,500 was considered to be too large an amount to negotiate, and (3) two of the contractors who had submitted bids that were only \$9,000 higher than that submitted by the lowest bidder might protest if they were not given an opportunity to bid on the revised plans and specifications.

The LHA subsequently resolicited bids after (1) making most of the modifications in the plans and specifications that had initially been contemplated and (2) restoring to the plans and specifications some of the items that had initially been considered for deletion or modification. LHA records showed that the restorations were made to improve the livability of the project, to comply with the local building code requirements, or to satisfy some other requirement.

In response to the resolicitation of bids under the revised construction plans and specifications, the LHA received seven bids ranging from \$822,615 to \$962,000. The construction contract was awarded to the lowest bidder, with HUD's approval, for \$822,615. Since the former lowest bid was \$1,050,000, the LHA realized a cost reduction of about \$227,400 by resoliciting bids for the construction contract on the basis of the revised plans and specifications. The former lowest bidder did not submit a bid for the construction contract.

On the basis of our analysis of the price quotations that had been submitted to the LHA by the former lowest bidder and by the project architect relative to the revisions that were subsequently made in the project plans and specifications, it appeared that, if the LHA had awarded the construction contract to the former lowest bidder on the basis of the proposed modifications to the project and the negotiated price reductions, as had been initially contemplated, the LHA would have realized a price reduction of only about \$107,000. Approximately \$32,000 of the initial estimated cost reduction of \$139,500 was applicable to

items initially proposed for deletion which were subsequently restored to the plans and specifications. Thus, by resoliciting bids for the construction contract, cost savings of about \$120,000 were realized in excess of the price reduction that apparently would have been realized under negotiations with the former lowest bidder.

The foregoing illustration is not intended to show the overall extent of savings that can be realized by the LHAs through resolicitation for bids for a construction contract on the basis of revised plans and specifications; rather, it is intended to demonstrate that benefits can be achieved by obtaining competitive bids in those cases where significant changes need to be made in the plans and specifications for projects to obtain reduced contract prices.

Of the 34 projects where LHAs had resolicited bids for construction contracts, two contracts were awarded at higher prices than the preceding low bids. In both of these cases, however, the number of dwelling units to be constructed had been increased.

We also noted that, for a number of the projects for which bids were resolicited, the contracts were awarded to the new lowest bidders at substantially lower prices than the former lowest bidders had bid for the modified contracts. The differences between the new bidders' prices for the contracts and the second bids by the former lowest bidders, in our opinion, are indicative of the benefits that may be gained through competitive bidding that would not have been realized by negotiating price reductions with former lowest bidders, since we do not believe that negotiations with the former lowest bidders would have resulted in any greater reductions than the reduction reflected in their second bids.

HUD's low-rent housing manual does not specifically provide for the negotiation of contract price reductions with the lowest bidder in order to award a contract. HUD has not established guidelines as to when an LHA should use the negotiation method and when it should resolicit bids. HUD regional officials advised us that, in cases where the competitive bids for a construction contract for a housing project had exceeded the budgeted construction costs

approved by HUD, the regional offices were not provided with specific criteria as to what factors should be considered in determining whether an LHA should negotiate with the lowest bidders for a reduction in the bid price based on changes in the scope of the project or whether the LHA should resolicit bids under the revised plans and specifications. The officials pointed out that each case was evaluated in the light of the particular circumstances existing at the time competitive bids for the construction contract were opened.

We were informed by HUD officials that the awarding of construction contracts under the negotiation method would generally be recommended by HUD if the contemplated changes in the scope of the project were considered not to be of major significance or if the price reduction expected to be obtained through negotiation with the lowest bidder was less than the cost differential between the lowest and the next-to-the-lowest bidders. We were informed also that the negotiation method would generally be recommended in cases where HUD believed that it would be beneficial to the LHA to expedite the start of construction work. The HUD officials also pointed out that the delay involved in awarding a construction contract under this method was usually shorter than the delay that would be incurred by resoliciting bids on the basis of the revised plans and specifications.

LHA and HUD files generally did not contain documentation showing the factors considered by HUD in recommending whether an LHA should negotiate with the lowest bidder or resolicit bids in those cases where changes in the scope of the project had to be made to reduce construction costs.

With regard to the contracts for the 23 projects in Region I for which construction contracts were awarded under the negotiation method (see p. 18), it appeared to us that many of the modifications constituted significant changes in the scope of the projects. For 13 of the 23 projects, the price reductions realized through negotiation were greater than the cost differentials between the lowest and the next-to-the-lowest bids. For example, an LHA awarded a contract for a project to the contractor who submitted the lowest bid price, subject to deductive change orders of approximately \$69,700 for contract price reductions that had

previously been negotiated with the bidder; the differential between the lowest and the next-to-the-lowest bids, however, amounted to only \$18,000.

Regarding the matter of expediency in awarding contracts under the negotiation method, we found that it generally took an average of about 2 months less to award a contract under that method than under the resolicitation procedure. In view of the favorable contract price reductions that generally can be achieved through competitive bidding, it may be financially advantageous for an LHA to resolicit bids even though an additional period of delay may result. In such event every effort should be made to minimize the delays so as to maximize the benefits to the LHAs and to HUD.

Need for detailed cost estimates
for changes in the scope of a project

We recognize that, where changes in the scope of a project to bring the cost within the budgeted construction costs approved by HUD are not of a major nature, the awarding of a construction contract for the project under the negotiation method may be practicable.

We believe, however, that in such instances, LHA project architects should be required to evaluate the reasonableness of the bidders' price proposals on the basis of the architects' detailed cost estimates of the proposed changes, and to recommend disapproval of the award of the contract when the proposed price reductions do not represent a reasonable reduction for the modifications in the scope of the contract work. A number of project architects and LHA officials have informed us that, in negotiating price reductions with low bidders, their experience showed that the bidders often tended to understate the cost of the proposed changes in the scope of a project.

HUD procedures require LHAs to submit all change orders involving contract modifications to the appropriate HUD regional office for approval. Each change order is required to be supported by an itemized, written proposal--from the contractor--that shows a detailed breakdown of quantities, amounts, and prices of labor and materials.

However, the LHAs are not required to have their architects independently prepare itemized cost estimates for use by the LHAs and by HUD as a basis for evaluating the reasonableness of contractors' price proposals.

With regard to the 23 housing projects for which reductions in the contract bid price for modifications in the scope of the projects had been negotiated with lowest bidders, most of the LHAs did not have documentation showing the basis on which the reasonableness of the bidders' price proposals for the reductions in project scope had been evaluated. The LHA architects for 14 of the 23 projects told us that they had not prepared independent cost estimates for the proposed changes in the scope of the project.

Our analysis of the cost estimates prepared by the architects for five of the nine remaining projects showed that the architects had estimated that the total reductions in the contract bid prices for certain modifications in the scope of the projects amounted to about \$183,000, or approximately 40 percent more than the total price reductions of about \$132,000 that were proposed by the bidders and subsequently approved by HUD. It would therefore seem that either the architects' estimates of the costs of the reductions in the scope of the projects were inadequate or the LHAs did not obtain a sufficient reduction in the contract bid prices for the modifications in the scope of the projects.

For one project an LHA accepted a contractor's proposal to reduce his bid price of a construction contract by \$700 because of the elimination of a brick wall and an adjoining planting curb from the project plans and specifications, even though the project architect had estimated that the construction of these items would cost about \$3,000. About 15 months after construction work had started, the local redevelopment agency requested the LHA to have the brick wall and the adjoining planting curb built and paid the contractor approximately \$3,200 to have the work done.

It therefore appears that the architect's previous estimate of the cost of the items to be eliminated from the scope of the project was reasonable and that a greater price reduction than \$700 should have been obtained from the

contractor. During our review we did not try to determine the extent to which deleted contract items were subsequently reinstated; therefore, we have no knowledge as to how often this practice may occur.

During our review we requested the Estimates Branch of the Public Buildings Service, General Services Administration (GSA), to evaluate price reductions totaling \$103,000 for 18 selected change-order items that had been negotiated by the LHAs with lowest bidders on five projects.

GSA subsequently furnished us with cost estimates totaling about \$145,000 for the 18 change-order items, or approximately \$42,000 (41 percent) more than the negotiated price reductions of \$103,000. The GSA cost estimates were based on catalog price quotations that were in effect at the applicable bid opening dates and on its experience in estimating composite labor and material prices for similar types of work.

In our opinion, the GSA cost estimates and the previously discussed architects' estimates (see pp. 23 and 24) provide support for our view that the LHAs may not be obtaining the most advantageous contract price adjustments in their negotiations with the lowest bidders. In the case of projects for which the award of contracts under the negotiation method may be appropriate because the proposed modifications in the scope of the projects are not considered to be of a major nature, we believe that an LHA's decision as to whether to accept the price adjustments offered by a bidder should be made on the basis of detailed cost estimates prepared by the LHA's project architect. We believe also that, if the spread between the lowest bid and some of the higher bids is relatively small, it may be advantageous for an LHA to also negotiate for reduced contract bid prices with several of the bidders, instead of just the lowest bidder.

To determine the extent to which the LHAs in Region I were using the negotiation method in awarding construction contracts for those projects, we compared the contracting actions taken by the LHAs for construction contracts awarded during the 2 years ended July 1969, with those taken by the LHAs during a prior 3-year period ended December 1966. For

the period ended 1966, the negotiation method was used by the LHAs in awarding contracts for about 33 percent of the projects for which the lowest bids for the contracts exceeded the budgeted construction costs, while this method was used only for about 9 percent of the projects for which contracts were awarded during the period ended 1969.

We believe that, if the LHAs in Region I continue to limit the use of the negotiation method, HUD will have greater assurance that low-rent public housing construction costs in that region will be based on full and open competition. In two other HUD regions, however, the negotiation method was used for about 37 percent of the projects for which the lowest bids exceeded the budgeted construction costs during a period of about 2 years ended 1969.

CHAPTER 3

RECOMMENDATIONS, AGENCY COMMENTS,

AND OUR EVALUATION

We recommend that the Secretary of Housing and Urban Development take appropriate action to ensure that (a) approval of budgeted construction costs for low-rent public housing projects is based on realistic cost estimates to minimize costly and time-consuming revisions of project plans and of the budgeted construction costs after bids for the construction contracts have been opened and (b) benefits of full competition for the contracts are obtained to the maximum extent practicable.

HUD's comments on our report were submitted to us by the Acting Assistant Secretary for Renewal and Housing Assistance in a letter dated December 22, 1969. (See app. I.) The Acting Assistant Secretary informed us that, although HUD agreed in theory with our recommendation that approval of budgetary limitations for the construction of low-rent public housing projects be based on realistic cost estimates to minimize revisions in the project plans and budgeted amounts after bids for construction contracts have been opened, HUD was at a loss to make it workable, especially in consideration of local authority autonomy and the need for public housing.

HUD indicated that, because of the recognized unreliability of construction cost estimates, the uncertainty of competitive bidding results, and the effects of the steady rise in construction costs, both LHAs and HUD regional offices were reluctant to propose revisions in the initially approved budgetary limitations prior to the solicitation of construction bids, except where it became obvious that the approved budgets had been drastically understated. HUD has concluded that, unless there is a capability for instant housing, the time lapse between HUD's approval of the budgeted construction costs and the solicitation of construction contract bids will continue to produce dilemmas at the time of contract awards.

We recognize that, at times, the procedures involved in budgeting and contracting for the construction of low-rent public housing projects are subject to, and may be affected by, circumstances and conditions which are not always readily foreseeable and/or controllable by HUD. We believe, however, that the high proportion of projects requiring costly and time-consuming modifications in the approved plans and specifications and/or the budgeted construction costs after competitive bids have been opened, demonstrates the importance of and need for maintaining effective control over project plans and costs at all stages of development.

We noted that, in other phases of its low-rent housing activities, HUD approves expenditures of large sums of money primarily on the basis of construction cost estimates--as in the case of HUD's turnkey program where cost estimates are used as a basis for negotiating the final contract price for projects and in evaluating the reasonableness of the cost of changes that result from revisions to construction specifications. HUD must therefore consider cost estimates as a reasonable basis for establishing limitations on expenditures.

We believe that HUD's revised procedures for submitting project development budgets (see p. 15), if properly implemented, should contribute significantly toward eliminating many of the difficulties regarding escalating construction costs cited in HUD's comments. In addition, we note that HUD has recently contracted for the periodic development of construction cost data on the basis of 30 types of dwelling structures in 200 localities throughout the country. According to HUD directives, the cost data, initially made available to the HUD regional offices in November 1968, is to be used by the offices as a tool for evaluating project development proposals and for predetermining construction budgets.

Accordingly, we believe that budgeted construction costs approved by HUD can and should reflect a high degree of reliability, provided that greater efforts are made by HUD regional offices to effectively review and evaluate project plans and related construction cost estimates and that decisive action is taken to ensure that any necessary

revisions in construction plans and/or approved budgets are effected before authorizing the LHAs to solicit construction bids.

We believe also that, in the interest of maintaining effective budgetary controls, HUD regional offices should make realistic evaluations of the estimated construction cost of a project at the time of its review and approval of LHA plans and specifications and should take appropriate action, at that time, to ensure that consistency exists between the approved budgetary limitation and the approved construction plans and specifications, instead of deferring such action until the time of awarding the contract.

In addition, to minimize the number of cases where the low bid exceeds the budget amount, HUD may wish to consider whether it would be feasible for local housing authorities, when soliciting bids, to make use of additive or deductive items. Under this procedure of soliciting bids, the contracting officer may provide in the invitation for a first or base bid item covering the work, in general, as specified and for one or more additive or deductive bid items which progressively add or omit specified features of the work in a stated order or priority.

Secondly, we recommend that HUD establish guidelines setting forth specific circumstances governing the award of construction contracts under the negotiation method and under the resolicitation of bids based on revised plans and specifications.

With regard to this recommendation, the Acting Assistant Secretary informed us that HUD had agreed that such guidelines were advisable and that criteria would be drafted setting forth the specific circumstances under which the LHAs would be permitted to award contracts under either method. This action appears to be consistent with our recommendation.

Thirdly, we recommend that HUD require the LHAs to develop detailed cost estimates for use in evaluating the reasonableness of proposed reductions in bid prices for project revisions where negotiation with the lowest bidder is considered appropriate.

HUD did not agree with this recommendation. The Acting Assistant Secretary has informed us that the present procedures require change orders' to be countersigned by the LHA architect and by the LHA after review of an itemized price proposal submitted by the contractors. HUD has stated that it considers compliance with such requirements as evidence that the architect has satisfied himself through all available means, that the proposed change-order price is equitable, and that HUD cannot assume either incompetence or dereliction of the architect's professional standards in this regard.

We believe that the protection of the Government's interest in promoting economies in construction is best served by requiring that the LHAs have the benefit of their architects' cost estimates when evaluating proposed change-order prices. Independent cost estimates prepared by an LHA architect would provide a basis for raising questions regarding a proposed price that might otherwise not have surfaced. In obtaining cost estimates for turnkey housing projects HUD requires that two independent cost estimates be obtained. We believe that a similar procedure, using independent cost estimates by the architect and by the contractor, would provide greater assurance that negotiated price reductions for modifications in the scope of construction contracts are equitable to both the Government and the contractor.

We therefore believe that, as part of their normal duties and responsibilities, LHA architects should be required to prepare cost estimates of all proposed changes in the scope of a project and that such estimates should be used by the LHA as a basis for negotiating prices with the bidders and/or contractors.

Our final recommendation to HUD was that HUD require that, during internal reviews of regional office operations, specific attention be given to determining whether existing instructions regarding the development and approval of budgetary construction costs, and any additional instructions issued as a result of the foregoing recommendations, are being followed.

With regard to this recommendation, the Acting Assistant Secretary informed us that a pilot audit of regional office production activities, including the areas discussed in our report, was begun in Region VI by the HUD Office of Audit. We were advised that the undertaking of similar audit work in other regions would be considered after an evaluation of the results of the pilot audit. This action appears to be in agreement with our recommendation.

CHAPTER 4

SCOPE OF REVIEW

We examined into applicable laws, HUD regulations, and HUD and LHA administrative policies and practices relating to the establishment of budgetary controls and the award of contracts for the construction of low-rent public housing projects. Our review also included discussions with HUD and LHA officials and a number of project architects. We also examined HUD and LHA records relating to the planning and development of housing projects.

Our work was performed at HUD headquarters in Washington, D.C.; at HUD's regional office in New York (Region I); and at a number of the LHAs under the administrative authority of the regional office. We also obtained statistical data and other information regarding contracting practices of LHAs under the administrative authority of two additional HUD regional offices (Philadelphia and San Francisco).

APPENDIXES



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON D C 20410

DEC 22 1969

OFFICE OF THE ASSISTANT SECRETARY
OR RENEWAL AND HOUSING ASSISTANCE

IN REPLY REFER TO

Mr. Max Hirschhorn
Associate Director
Civil Division
U. S. General Accounting
Office
Washington, D. C. 20548

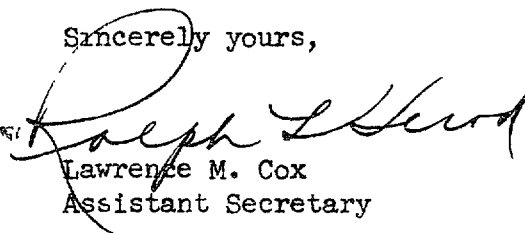
Dear Mr. Hirschhorn:

The Secretary has asked me to respond to your letter of October 30, 1969, requesting the Department's comments on your draft of a proposed report to the Congress entitled: "Budgeting and Contracting Controls for Low-Rent Housing Construction, Department of Housing and Urban Development."

The enclosed statement contains our comments on the material presented in the proposed report. We appreciate the opportunity to review the proposed report before it is presented to the Congress.

Sincerely yours,

ENCLOSURE


Lawrence M. Cox
Assistant Secretary

Enclosure

Statement By The
Department of Housing and Urban Development

GAO Draft Report to Congress

"Budgeting and Contracting Controls
For Low-Rent Housing Construction"

The draft report on budgeting and contracting controls is a reasonable report on procedures of our Regional Offices related particularly to the bid process and award of contracts. The report includes four recommendations on which we wish to comment.

The first recommendation concerns the need to ensure that realistic budgets are approved based upon the documents to which bidders respond so as to minimize revisions to the documents after bidding.

2 (After the approval of a project's initial budget,) the Low-Rent Housing Construction Handbook provides for the submittal of interim budgets before costs are incurred in excess of any amounts shown in the latest approved budget. This also provides an opportunity for the local authority to submit interim budgets when it becomes evident that certain anticipated costs will exceed budgeted items because of major changes in elements of the project. However, with the recognized unreliability of estimates, and the extreme uncertainty of bid results, interim budgets are utilized only when it becomes very obvious that approved budgets have been drastically underestimated. In these times it happens frequently that the architect who is responsible for keeping the planned project within approved figures maintains a position that budgets are sufficient, only to have bids reveal otherwise. These vagaries related to estimating and bidding also encourage our Regional Offices to wait until bids are received to ascertain what additional funds are required to award the contract and if the contract award budget can be justified by increased costs of labor and materials during the development period or regionally approved major changes in the planning and design.

4 It is actually believed, assuming that efforts are made to keep costs down during the development of plans and specifications that a deductive change order, usually of a minor and rather superficial nature, negotiated with the low bidder, may be far less time consuming and possibly less costly than readvertisement. These instances rarely involve any change in working drawings, but are restricted to items which can be changed by specification addendum.

There are several reasons why approved budgets are often too low, besides those of rising construction costs. First, there is the optimism of the architect, the local authority and the Regional Office that first estimates

based upon schematic documents are reasonably accurate and adequate. The time lapse between the first estimates and the projected bid date is always considered at the initial budget stage and an amount is included to provide for the escalation of construction costs. Unfortunately, the higher amount becomes, psychologically, a level to which the architect works and the cushion provided to meet rising costs is not available at bidding time. Further, if first estimates included a realistic cushion, which for the last year might have been 15% plus contingency, submitted costs would have been so high as to cause hesitation in approval.

We agree with the first recommendation, in theory, but are at a loss to make it workable - especially in consideration of local authority autonomy and the need for public housing. Although not a valid excuse for overruns, the drastic cost rise is evident in practically all construction these days and must be accepted as a way of life. The percentage of projects requiring additional funds has increased yearly because of the unstable market. Unless there is a capability of instant housing, the time lapse will continue to produce dilemmas at the time of award. A possible, but in public housing a probably unacceptable solution, would be -- no project if budget is exceeded. This conclusion would leave an uncollectable housing authority debt for land and other development costs incurred and an impalatable political situation in many localities.

A second recommendation concerns the establishment of guideline material for negotiation. We agree that such guidelines are advisable and shall draft criteria setting forth the specific circumstances under which change orders to reduce the construction contract cost would not be permitted and where revision of plans and specifications and readvertising would be required.

The report also contains a recommendation requiring independent cost estimates to evaluate negotiated cost reductions. A requirement that LHA's obtain detailed independent estimates of the value of the work to be deleted by change order in order to support the amount of the change would appear to be unjustified. Our present procedures require that any change order reducing the contract amount must be countersigned on its face by the architect and the LHA after review of the itemized proposal submitted with the change. This must be considered as evidence that the architect has satisfied himself through all the means available to him that the price of the change has been analysed and found to be equitable. This represents one of the architect's responsibilities and is consistent with professional practice in the private sector. One cannot assume either incompetence or dereliction of the architect's professional standards in this regard.

With regard to the recommendation concerning internal reviews of Regional Office operations, the Office of Audit has started a pilot audit of the

HAO Production Division in Region VI. The scope of the audit extends to areas discussed in this report. Additionally, a copy of your draft report has been furnished the Region VI Audit Office for utilization during their audit. After evaluating the results of this pilot audit, the Office of Audit will consider whether to perform similar audit work in other Regions.

APPENDIX II

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT (formerly Administrator, Housing and Home Finance Agency):		
Robert C. Weaver	Feb. 1961	Dec. 1968
Robert C. Wood	Jan. 1969	Jan. 1969
George W. Romney	Jan. 1969	Present
ASSISTANT SECRETARY FOR RENEWAL AND HOUSING MANAGEMENT:		
Don Hummel	May 1966	Feb. 1969
Howard J. Wharton (acting)	Feb. 1969	Mar. 1969
Lawrence M. Cox	Mar. 1969	Present
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT AND FEDERAL HOUSING COMMISSIONER:		
Eugene A. Gulledge	Oct. 1969	Present