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Examination Into The Ferry Oaks Concentrated Code Enforcement Project In Salem, Oregon B-169208

Department of Housing and
Urban Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

FEB. 26, 1971

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

2 Addressees

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C1 Dear Senator Hatfield:

This is our report on our examination into the Ferry Oaks Concentrated Code Enforcement Project in Salem, Oregon. Because of your expressed interest in this matter, we are reporting to you regarding the results of our examination into citizens' complaints that the Ferry Oaks Project has been mismanaged.

Our review was made pursuant to the authority in the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67)

C2 Our report is also being sent today to Senator Robert W. Packwood.

Sincerely yours,

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The Honorable Mark O. Hatfield
United States Senate

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COMPTROLLER GENERAL'S REPORT TO THE HONORABLE MARK O. HATFIELD AND THE HONORABLE ROBERT W. PACKWOOD UNITED STATES SENATE

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D I G E S T

WHY THE EXAMINATION WAS MADE

Because of charges of mismanagement, the General Accounting Office (GAO) reviewed activities in Salem, Oregon, in connection with the city's code enforcement project which was designed to arrest the spread of housing blight in an area of southeast Salem before costly urban renewal, such as large-scale rehabilitation or building clearance, became necessary.

The project in Salem was carried out with grant assistance from the Department of Housing and Urban Development (HUD) under the Housing Act of 1949. The city was responsible for working with property owners to have all properties in the code enforcement project inspected and all code violations corrected.

GAO examined into charges that:

--Housing inspections had been inadequate and resulted in housing code violations' being overlooked.

--Contractors had been paid for unnecessary work, shoddy work, or work not done.

--City inspectors had been forced to overlook deficiencies and poor workmanship or lose their jobs.

--A HUD inspector had whitewashed the problems rather than required that they be corrected.

--The city and HUD had discouraged property owners from reopening closed casés, even though project critics had proven that inspectors had overlooked code violations and that contractors' work had been of poor quality.

--The Neighborhood Improvement Committee's chairman had been threatened that, if she reopened closed cases involving her properties, the city would reinspect her properties and "wipe her out."

Tear Sheet

FEB. 26, 1971

--The city had caused rehabilitation work on one of the properties of the Neighborhood Improvement Committee's chairman to be delayed, which resulted in increased rehabilitation costs.

--The city had required that certain violations on the properties of some property owners be corrected but had not cited similar violations on the properties of others as code violations.

--Landlords who had placed their properties under the leased-housing program had not been required to correct all violations.

--For every $1 that had been spent for housing improvements $2 had been spent for administering the project.

FINDINGS AND CONCLUSIONS

In general, the charges pertained to problems encountered in the early stages of the project. GAO findings are summarized as follows:

--During some inspections made by city inspectors before May 1968, code violations were overlooked. (See p. 8.) The city, however, adopted a new housing code in January 1968 and implemented revised inspection procedures in May 1968 that resulted in improved inspection practices. (See p. 9.)

--No instances were found in which contractors had been paid for unnecessary work. During the early months of the project, however, some of the rehabilitation work paid for was of inferior quality or was not done. (See p. 11.) The causes of these problems were corrected in 1968 when the Congress increased the maximum amount of grants from $1,500 to $3,000 and the city began operating under revised contracting and inspection procedures. (See p. 12.)

--City inspectors told GAO that they never had been told to overlook housing code violations or poor workmanship. No evidence was found to contradict their statements. (See p. 13.)

--GAO was unable to prove or disprove the charges that a HUD inspector had whitewashed the problems. (See p. 14.)

--HUD and the city neither encouraged nor discouraged property owners from having their cases reopened and having additional rehabilitation work done. HUD authorized the city to permit reopening of the cases, and the city assisted those property owners who chose to have their cases reopened to secure the maximum amount of Federal financing to correct all violations cited upon reinspection of their properties. (See pp. 15 to 18.)

--The city official who was charged with threatening that the city would reinspect the properties of the Neighborhood Improvement

Committee's chairman and "wipe her out" denied this charged. (See p. 20.) GAO was unable to prove or disprove the charge. (See p. 22.)

--Most of the delays in the rehabilitation of the chairman's properties apparently were caused by her. (See p. 21.)

--GAO could not confirm or refute charges that the code was sometimes enforced inequitably during the early months of the project, because Salem's old housing code was vague and inspections were not always adequate. (See p. 23.)

--Landlords who placed their properties under the leased-housing program were required to correct not only the cited code violations but also the majority of other identified deficiencies. Owners of properties not under the leased-housing program were required to correct only cited code violations. (See p. 24.)

--Through June 30, 1970, project administrative costs had been about 60 percent of the total amount of approved loans and grants. (See p. 25.) GAO was told, however, that, during 1967 and 1968, the project officials worked about 6 months, at an administrative cost of about $70,000, trying to correct the early problems with inspections. (See p. 26.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

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The Acting Assistant Secretary for Renewal and Housing Management, HUD, stated that the project, after starting rather slowly due to various problems, had become one of the more successful in the area.

The city manager of Salem stated that the project was a good example of one which had overcome early difficulties and had been successfully completed. (For details on agency comments, see p. 27.)

Tear Sheet

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COMPTROLLER GENERAL'S REPORT TO THE HONORABLE MARK O. HATFIELD AND THE HONORABLE ROBERT W. PACKWOOD UNITED STATES SENATE

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CHAPTER 1

INTRODUCTION

The General Accounting Office has examined into charges of mismanagement of the federally supported Ferry Oaks code enforcement project in Salem. The scope of our review is described on page 28.

Section 117 of the Housing Act of 1949, as amended (42 U.S.C. 1468), authorizes the Secretary of Housing and Urban Development to make grants to cities, other municipalities, and counties to assist these local governments in carrying out projects of concentrated code enforcement in deteriorating areas. Cities are responsible for inspecting all properties in the code enforcement project and then working with the property owners to have all code violations corrected. Cities are to offer assistance to the property owners in obtaining contractors to correct the code violations and in obtaining Federal rehabilitation loans and grants, if the property owners desire and are eligible for such Federal financial assistance.

The concentrated code enforcement program is expected to arrest the spread of blight before more intensive urban renewal, such as major rehabilitation or clearance, becomes necessary. A minimum of property demolition and dislocation of residents is intended under the program.

Salem contracted with HUD for a concentrated code enforcement project in November 1966. Under this contract, the city agreed to undertake a program of concentrated code enforcement in a 36-block area of southeast Salem--Ferry Oaks--containing 406 structures, nearly all of which were residential. The contract required that the project be completed, with all the structures meeting Salem's housing code, by October 6, 1969. The completion date was subsequently extended to October 6, 1970. The contract also placed a limitation of $900,579 on the amount of Federal financial participation, which included $678,779 for the code enforcement project and a maximum of $17,800 and $204,000 for relocation grants and rehabilitation grants, respectively.

These amounts do not include Federal rehabilitation funds loaned to property owners at 3-percent annual interest under section 312 of the Housing Act of 1964 (42 U.S.C. 1452b).

At June 30, 1970, 357[1] structures had been certified by city inspectors as meeting Salem's minimum housing code, 31 structures had been demolished, and 17 structures were being rehabilitated. Rehabilitation work had not been started on one structure. Of the 357 structures certified as meeting the code, 83 had been rehabilitated using Federal grants totaling $162,443, 95 had been rehabilitated using Federal funds (loaned at an interest rate of 3 percent) totaling $325,150, and 12 had been rehabilitated using combined Federal loans and grants totaling $82,317.

Rehabilitation of the area was directed and controlled by the Ferry Oaks Project Office of Salem's Department of Community Development. The project office was established in November 1966, but rehabilitation work in Ferry Oaks was not begun until March 1967. The first rehabilitation grant was approved in May 1967, and the first loan was approved in August 1967.

Progress on the project was slow, and through May 31, 1968--about 18 months after the project was authorized and about 14 months after rehabilitation work started--only 71 structures had been certified as meeting the code or had been demolished and the cases closed. At that date the project office had approved 34 grants for $39,880, seven loans for $12,533 and one combined loan-grant for $2,250.

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[1]This number includes two structures which do not meet the code. Because of the advanced age and/or poor health of the owners-occupants, the city's Community Board of Appeals waived the requirements that the properties be improved until after the present occupants ceased to live there. For reporting purposes, however, the city considers the properties as meeting the code because the Board of Appeals waived the code requirements.

City officials attributed the slow progress to several factors, principal of which were (1) the code enforcement program was new to both HUD and the city and, as a result, it was being administered by trial and error, (2) some of the project personnel appointed by the city in the early stages of the project were not qualified to carry out the duties assigned to them, (3) the former director of the city's Department of Community Development had not delegated required authority to the project staff to permit them to do their jobs, (4) numerous project staff changes, particularly in project leadership, and (5) much of the work had to be reinspected because inspections in the early stages of the project had been inadequate.

Criticism of the Ferry Oaks project began in the summer of 1967 and continued throughout our fieldwork which was completed in September 1970. The principal critics of the project were members of the Ferry Oaks Neighborhood Improvement Committee, particularly the chairman, Mrs. J. N. Watkins, and one of her close personal friends, Mrs. M. W. McGladrey. Mr. Allen "Bud" Morrison, staff writer for Salem's Oregon Statesman, and other newspaper reporters also criticized the project in newspaper articles.

After considering the complaints about the project by Mrs. McGladrey and the criticism of the project by newspaper reporters, we identified the following basic charges made by critics of the project. These charges are discussed in detail in subsequent chapters of this report.

1. Federal code enforcement project funds had been used to rehabilitate houses in the project area that, after rehabilitation, still did not meet minimum housing code standards which they were required to meet by the city's contract with HUD. (See p. 8.)

2. Mrs. Watkins had been constantly harassed by project personnel, and rehabilitation work on her property had been delayed, which had caused her to incur additional costs--all because she had criticized the management of the project. (See p. 20.)

3. Code requirements had been enforced capriciously and inequitably by the project staff. In some cases

property owners had been required to make certain improvements, while similar deficiencies on other properties had not been cited as code violations; landlords had been treated more favorably than owners-occupants; requirements had been enforced on Mrs. Watkins' property as punishment for her criticizing the project, but similar requirements had not been enforced on the properties of other owners. (See p. 23.)

4. Administrative costs of the project had been excessive--for every $1 that had been spent for housing improvements, $2 had been spent for administering the project. (See p. 25.)

CHAPTER 2

EFFECTIVENESS OF FERRY OAKS PROJECT

Critics of the project charged that Federal code enforcement funds were being spent for rehabilitating houses which, after rehabilitation, still did not meet minimum housing code standards they were required to meet by the city's contract with HUD. City officials attributed the failure of the houses to meet project objectives to certain project management deficiencies, each of which are discussed in this chapter. Our conclusions regarding how effectively the city met project objectives are discussed on page 18.

ADEQUACY OF INSPECTIONS

The critics charged that city inspections of houses had been inadequate and that, as a result, serious housing code violations had not been detected and cited. They cited the cases of eight property owners as evidence to support their charges. Six cases which had been closed were reopened and the structures were reinspected; a total of 119 additional code violations were disclosed. In another case the inspector had failed to detect rotten joints and an inadequate foundation which later caused some of the flooring to partially collapse. In the eighth case the inspector had overlooked a deteriorated portion of the foundation.

We found that all of these structures initially had been inspected between the middle of May and early October 1967 and that all but one of the cases had been closed before May 31, 1968. (In that one case the structure would have been considered as complying with the code if the flooring had not collapsed before the structure was certified.) City officials (both former and present) told us that the inspections during the early months of the project often had not been as good as they should have been. They attributed these inadequacies to two principal causes.

First, the inspections at that time were made by property improvement counselors from the Ferry Oaks project staff. These counselors were not experienced in building inspection procedures, nor were they trained by the city's Department of Public Works. Furthermore, the counselors,

after making inspections, citing code violations, and ordering the owners to correct them, were in the awkward position of working with the owners to get the violations corrected. In some instances the counselors, because they knew the owners probably could not afford to correct all the code violations, would cite only as many violations as could be corrected with available Federal funds--$1,500 in the case of grants. (All but one of the examples cited by the critics were cases in which the rehabilitation work was financed through grants.)

Second, the city's housing code was vague as to what constituted an unsafe or unhealthy condition to be cited as a code violation. As a result the counselors applied their own interpretations of the code on a case-by-case basis, which resulted in an inconsistent application of the code. Because the code was vague, it was difficult to enforce correction of code violations; therefore the counselors tended to cite only the most obvious violations and the violations that the property owners wanted corrected.

During the first 5 months of 1968, the city improved its inspection procedures by:

1. Adopting a new housing code in January 1968 that was more specific than its predecessor in defining minimum housing code requirements.

2. Establishing a policy of strict code enforcement which provided for the inspectors to cite all housing code violations.

3. Instituting an instruction program to train inspectors in proper inspection procedures.

4. Relieving the counselors in May 1968 of the responsibility for inspecting houses and transferring this responsibility to the city's Department of Public Works where the teams of inspectors who made the inspections were knowledgeable of plumbing, electrical, and structural requirements.

We randomly selected and then interviewed 24 owners whose properties had been inspected under the city's revised

inspection procedures. Of these 24 owners, all but four told us that they believed that their properties had received very thorough inspections which had resulted in the detection of all health and safety hazards and in the assurance that all violations had been cited. Two of the 24 owners told us, however, that they thought the inspections had been too stringent and that they had been required to correct items which were not hazardous.

We reviewed the reports of a number of inspections and found that many more violations had been cited under the revised procedures than under the old procedures. We compared inspection reports for all properties which had been inspected under both the old and the revised procedures and found that, in all cases, the latest reports had been more inclusive. We did not find any instances in which property owners had complained to the city, to the newspapers, or to others about inadequate inspections after the inspection procedures had been changed.

QUALITY OF CONTRACTOR WORK

The critics charged that contractors had been paid for unnecessary work, shoddy work, or work not done. The examples they cited in support of their charges principally involved complaints about the quality of the contractors' work and, to a much lesser degree, about work not done or unnecessary work.

We accompanied Mrs. Watkins on visits to several houses which she selected to demonstrate the critics' complaints. We observed instances in which the work done by contractors appeared to be of inferior quality and several examples in which the work specified in the contracts had not been done. We did not see any examples of what we considered unnecessary work, although there may have been some instances in which more important work should have been done instead of that which had been done.

We described our observations to city and project officials. They advised us that during the early months of the project some inferior quality work sometimes had been done by contractors and accepted by the project staff. They attributed this to three major causes.

First, the cost of all the necessary work in many cases had exceeded the $1,500 maximum grant allowed to property owners at that time. (Most of the complaints pertained to grant cases.) As a result, in some instances the project staff had permitted contractors to do work which would improve the appearance of the property, rather than work which would correct more serious deficiencies, and to cut corners--do poor finish work or neglect to do some required work--in an effort to keep costs under the $1,500 limit.

Second, contractors had been awarded contracts through competitive bidding; therefore the project staff had been required to award the contract to the low bidder on each job. Often the reason contractors were able to underbid their competitors was that the contractors did poor work which cost them less.

Third, because some of the property owners had been satisfied with the work, project improvement counselors had

accepted contractors' work which, the counselors believed, was of inferior quality or was unfinished.

In 1968 the city began taking positive action to improve the quality of the contractors' rehabilitation work. The city also began negotiating contracts with contractors, which enabled the city, in effect, to bar those contractors who previously had done work of inferior quality. This practice was facilitated when the Congress increased the maximum grant amount from $1,500 to $3,000 by the Housing Act of 1968 (and further increased it to $3,500 by the Housing Act of 1969). City officials told us that contractors that did higher quality work would not work in the project when the grant was limited to $1,500. Transferring the inspection function to the city's Department of Public Works resulted in more independent and critical final inspections and in freeing counselors to more closely supervise contractors' performance--both results making it more difficult for contractors to do inferior quality work or to not do the required work.

We interviewed 37 property owners (including Mrs. Watkins and Mrs. McGladrey) whose houses had been rehabilitated under the project. Of these 37 owners, 11 were those whose properties had been rehabilitated before the city's inspection and contracting procedures were revised and 26 were those whose properties had been rehabilitated after the procedures had been revised. Only two of the 37 owners told us that they were not satisfied with the work done on their properties (including one whose property had been rehabilitated under the revised procedures).

It appears that early in the project some of the rehabilitation work was of inferior quality or was not done; however, we believe that the problems were not as significant or as widespread as the critics implied. Furthermore, after the maximum amount of a grant was increased by the Congress and the project began operating under the city's revised contracting and inspection procedures, the problems were corrected.

RESPONSIVENESS TO COMPLAINTS

The project critics charged that uncorrected code violations and shoddy workmanship had been covered up by city

and HUD officials. According to the critics (1) inspectors had been forced to overlook code violations and shoddy work and to certify that houses met the code or face disciplinary action, including losing their jobs, and (2) a HUD inspector had whitewashed the problems rather than required that they be corrected. These charges pertained to the same eight cases discussed on page 8.

We asked several city inspectors, as well as property improvement counselors who had made some of the early inspections, if they had ever been instructed to overlook code violations or poor workmanship and thus enable cases to be closed more rapidly. All of them said they had not.

We also interviewed a former project improvement counselor who made some of the early inspections and asked him if it were true that he had been fired because he had told the Neighborhood Improvement Committee that he had been instructed to overlook code violations so that houses could be certified as meeting the code. He told us that he had been asked to resign because he could not work with other project staff members. He said that he never had been instructed to overlook or cover up code violations but that in some instances his inspection reports had been rewritten by his supervisors and items he had cited had been omitted from the list of deficiencies requiring correction. We did not find any evidence contradictory to the statements of the inspectors or the improvement counselors.

We also interviewed a city inspector who, according to project critics, had been ordered to intercept a letter which he had sent to a property owner citing uncorrected deficiencies that continued to exist even though the rehabilitation work had been done and the case closed. He said that it was true that he had asked the property owner to return the letter unopened but that he did this on his own initiative--he had not been ordered to recover it. He said that he had decided to retrieve the letter because, after he had sent it, he realized that he had not followed the practices prescribed for handling these matters. The letter was not returned to the property owner; instead, the city required the contractor to correct every cited deficiency that he had not corrected when rehabilitating the property.

We interviewed the HUD inspector who, according to the critics, had whitewashed the mistakes of the project rather than required their correction. The inspector had reported that 98 percent of the city's original inspections of the 41 closed cases that he had reinspected appeared adequate under the former city code. He said that his reinspections had not been comprehensive, that he had spent about 15 minutes at each location, and that he had looked only for obvious violations and at the items cited by city inspectors. He said also that he could not make thorough inspections, including crawling under houses, because he had had a limited amount of time.

The HUD inspector said further that the former city housing code had been very vague. For example, he said that the code had not been clear as to whether faulty foundations could be cited as code violations. The inspection reports he examined had been prepared under the former code, and, in evaluating the adequacy of the inspections, he had to consider them in the light of the code under which they had been made--not under the revised code adopted in January 1968. The inspector said that, considering the code in effect at the time, the original inspections had been adequate. We were unable to prove or disprove these statements.

The Acting Regional Administrator of HUD's Region VI, however, in trying to explain to Mrs. Watkins why the HUD inspector had not noticed certain code violations, made an inaccurate statement which provided the critics with support for their charge of whitewash. The Acting Administrator explained that the inspector had not detected dry rot at one house because his visit there had been in the evening and it was dark and rainy. Project records do not show the time of day when the inspection was made, but a resident of the neighborhood told us that the HUD inspector had visited the house during the early afternoon of a clear day. Weather records for Salem show that the city had no rain and almost no cloudiness during the day of the inspector's visit.

REOPENING OF CLOSED CASES

Critics of the project charged that, even though they had proven that the inspectors' and contractors' work was poor on some of the first-closed cases and that code violations still existed, the city and HUD tried to avoid reopening these early cases. From our discussions we learned that Mrs. Watkins and the Neighborhood Improvement Committee wanted every case that had been closed before May 31, 1968, reopened (a total of 71), the properties reinspected, and the additional rehabilitation work done so that the properties would meet Salem's revised housing code.

City officials were opposed to requiring all the affected property owners to reopen their cases. These officials told us that they believed that the property owners had been bothered enough by inspections. They also said that they believed that most of the property owners involved were happy with the work that had been done and that the city, to force them to reopen their cases, would have been required to take legal action, including the use of search warrants, which would have caused so much adverse publicity that the project might have been abandoned.

The city officials told us, however, that they believed that affected property owners who felt that the inspections or work done on their houses was not adequate should have had the opportunity to reopen their cases and should have been permitted to have the additional necessary rehabilitation work done and paid for with Federal funds. On July 30, 1968, Salem's director of community development requested permission from HUD's Region VI to reopen, on a case-by-case basis, any of the first 71 closed cases which owners requested to be reopened. The justification for reopening these cases centered around Salem's revised housing code which was more specific than the old code in defining minimum housing code requirements.

On October 21, 1968, HUD's Region VI informed the city that the 71 closed cases could be reopened and further

Federal financial aid provided, subject to the following conditions.

1. Cases could be reopened only for those property owners specifically making written requests.

2. Work to be financed with grants and loans would be limited to correcting violations of the revised code that had not been considered as violations under the old code.

HUD's Region VI instructed the city not to urge or induce the individual property owners to request that their cases be reopened. HUD advised the city that it was not HUD's intention to finance reopened cases in which compliance with the former code had been accomplished and in which the owners were satisfied with the work, even though the properties might not fully comply with the revised code.

In registered letters dated November 4, 1968, the city notified the 71 property owners that HUD had authorized reopening their cases subject to the conditions previously mentioned. In addition, the city cautioned the property owners that, even though HUD had authorized reopening the cases, it had not guaranteed that Federal funds would be made available to correct all code violations. The city stated that in the extreme hardship cases, the Federal Government might increase the amounts of Federal grants but that:

> "*** if the Federal Government disapproves the request, the property owner will still be obligated to comply with the necessary rehabilitation using his own financing or funds."

Of the 71 property owners, 11 initially indicated to the city that they were interested in having their cases reopened. Of these 11 property owners, however, five did not request that their cases be reopened. We interviewed one of the five property owners who told us that she had decided not to have her case reopened because she was satisfied with the work done earlier. The other four could not be interviewed--one had died, two had moved away from Salem, and one could not be located.

Of the 11 property owners, six had their cases reopened and had substantial amounts of additional rehabilitation work done. It appeared to us from a review of the case files that the project staff had assisted these owners in securing the maximum amount of Federal financing possible to correct all code violations.

Mrs. Watkins charged, however, that more property owners would have requested that their cases be reopened but were afraid to because of threats made by the project staff that the repair work would probably have to be paid for by the owners. She said that these threats were made in the November 4, 1968, letter, in private conversations by project staff with property owners, and at two meetings held in November 1968 to explain HUD's conditions for reopening cases.

We asked 11 of the property owners (excluding Mrs. Watkins) whose cases had been closed whether they had been warned not to request that their cases be reopened or whether they felt that they had been threatened in the November 4 letter. Of these 11 property owners, three (two of whom were close associates of Mrs. Watkins) said that they personally had been warned by project staff not to have their cases reopened and two felt that the registered letters or statements made at the November 1968 meetings had conveyed threats to discourage them from reopening their cases. One of the three did reopen his case, however, and received a substantial amount of additional Federal financial assistance.

We asked the remaining 10 property owners and Mrs. Watkins why they had not had their cases reopened and had additional rehabilitation work done. Mrs. Watkins said that she had been afraid to because of the threats. Two owners told us that they had wanted to have their cases reopened but had not done so because they had feared that they might not get Federal funds and would be forced to use their own. One owner said that he had wanted to have his case reopened but that the project staff had told him that it would be too much trouble to do so. City officials advised us that they could not recall telling this to any

property owner. The remaining seven owners told us that they were satisfied with the work done on their properties and did not want to have their cases reopened.

CONCLUSIONS

We found that the charges of inadequate inspections and shoddy workmanship were true in a few of the cases closed before May 31, 1968. This was most prevalent in those cases in which the rehabilitation work had been done under grants limited to a maximum of $1,500. If the eight cases cited by the critics as evidence to support their claims were representative of the condition of houses rehabilitated and certified as meeting the code during this early period, it is likely that other houses in the area were certified as complying with Salem's minimum housing code even though significant code violations still existed.

The conditions which permitted houses with uncorrected code violations to be certified as meeting the code during the early months of the project--poor inspections, inadequate housing code, unskillful contractors, and insufficient grant funds--have been alleviated. This is substantiated by the fact that during our interviews we heard only one complaint pertaining to these problems from the many property owners in the Ferry Oaks project whose properties had been rehabilitated under the revised procedures.

We were unable to prove or disprove the charges that a HUD inspector had whitewashed the problems of the project. The inaccurate statement made by the Acting Regional Administrator of HUD's Region VI, however, did provide Mrs. Watkins and others with a reason to believe that this charge was true.

Possibly HUD or the city should have required that all 71 cases be reopened, as was contended by Mrs. Watkins and by the Ferry Oaks Neighborhood Improvement Committee, to ensure that all the houses met the city's minimum standards for housing. We believe, however, that the approach taken with respect to these cases--permitting voluntary reopening on a case-by-case basis--was reasonable. On the basis of what we were told during interviews with property owners,

most of the people who would have been affected did not want to have their cases reopened because they were satisfied with the work that had been done. We believe, as do city officials, that, had the city tried to force the property owners to have their cases reopened, have their property reinspected, and have additional work done, it might have created so much adverse publicity that the project might have been abandoned.

CHAPTER 3

NEIGHBORHOOD IMPROVEMENT COMMITTEE

CHAIRMAN'S PROBLEMS WITH PROJECT STAFF

Mrs. McGladrey charged that the Neighborhood Improvement Committee's chairman, Mrs. Watkins, had been subjected to almost constant harassment by project personnel and that the rehabilitation work on one of her rental properties had been delayed, which caused her to incur additional costs--all because she had criticized the management of the project.

Mrs. Watkins advised us that this was true--that the rehabilitation on the property, a duplex, had been completed 2 years later than it should have been. She said that most of the delays had resulted from her being required to appear before the Community Development Board of Appeals concerning whether the duplex should be rehabilitated to the standards required of new buildings. She also told us that one city official had warned her that, if she wanted to reopen closed cases involving two of her other properties, the city would make reinspections and "wipe her out."

Project and city officials denied these charges. They advised us that Mr. and Mrs. Watkins had caused most of the delays in rehabilitating her duplex and that the Watkinses had benefited from those delays. The city official who purportedly had threatened Mrs. Watkins about the reinspections told us that he had not made the statement attributed to him.

We found no evidence that Mrs. Watkins had been singled out for harassment, only that she and her husband had been required to comply with city regulations concerning rehabilitation of extensively damaged or deteriorated buildings. At the time Mrs. Watkins' building was being rehabilitated, the city ordinance required that damaged or deteriorated buildings, for which repair costs within any 12-month period would exceed 50 percent of the appraised values, either be removed or be rebuilt to the standards established for new structures.

We reviewed the case files on three other structures which had been rehabilitated at costs exceeding 50 percent of their appraised values. In each instance, the property

owners were required to rehabilitate their structures to conform to the standards for new structures.

In accordance with the city's Uniform Building Code, the Watkinses were requested to voluntarily remove the building. They appealed this request to the Community Board of Appeals and asked that they be allowed to rehabilitate the building. The Ferry Oaks project staff supported the Watkinses' appeal. The board of appeals granted them permission to rehabilitate the building on the condition that it meet standards for new buildings. The Watkinses appeared before the board of appeals only one more time concerning the need to meet standards for new buildings--that time to request and receive a waiver of one building code standard. The Watkinses, however, were ordered to appear before the board of appeals three more times during the period December 11, 1968, through June 25, 1969, to show cause why rehabilitation work had not been started by the dates set by the board of appeals.

We found no evidence that the project staff had caused any "costly delays" of the Watkinses' rehabilitation work but instead found evidence that the delays apparently had been the results of the Watkinses' actions. For example, it took the Watkinses about 3 months to prepare plans, specifications, and estimates for rehabilitating the building and converting it from a single-family dwelling to a duplex; nearly 9 months to prepare three different bid solicitations and receive bids; and about 5 months to do the actual rehabilitation work. (They acted as their own general contractor.)

Finally we found that, although delays might have resulted in increased rehabilitation costs, the Watkinses also benefited from the delays. The Watkinses used the additional time to convince project and HUD staff to permit them to convert the building from a single-family dwelling to a duplex and thus receive a 3-percent Federal loan to finance the entire cost of the rehabilitation-conversion--$15,800. Without permission to convert the property, the Watkinses would have been entitled only to a maximum loan of $10,000 to rehabilitate the building as a single-family dwelling and would have had to finance all the costs of converting it to a duplex. The Watkinses also benefited

in that the converted building could rent for about twice as much as a single-family dwelling.

With respect to the purported threat to wipe out Mrs. Watkins, we were unable to prove or disprove the charge.

CHAPTER 4

ENFORCEMENT OF HOUSING CODE

Mrs. McGladrey and Mrs. Watkins charged that the city housing code was being enforced capriciously and inequitably. They stated that some property owners had been required to install handrails, sump pumps, downspouts, driveways, and other items to correct cited code violations similar to code violations which had not been cited on other properties. They also claimed that landlords who had placed their properties in Salem's leased-housing program for low-income tenants had been given preferential treatment and had not been required to correct all code violations. Finally Mrs. Watkins stated that she had been required to rehabilitate her duplex to the standards required of new buildings, although other property owners, whose buildings were equally as deteriorated, had not been required to rehabilitate their buildings to the new standards. (See p. 20.)

We were not able to confirm the charge that some property owners had been required to correct code violations similar to code violations which had not been cited on other properties. Most of the cases cited in support of this charge were closed prior to May 31, 1968, when there were problems with the city's inspections. During the early stages of the project, the inspections were made by inexperienced inspectors using a vague housing code, and, as a result, the inspectors often made code interpretations on a case-by-case basis which led to inconsistent application of the code. (See p. 9.)

In addition, inconsistencies in citing violations also resulted because the city's housing code, as interpreted by the city's Public Works Department, did not require gutters and downspouts; however, the code required that, if they were on a house, they be in good repair. Since the code did not require gutters and downspouts, owners of houses which did not originally have them could not be required to add them. If, however, a house had gutters and downspouts which were in need of repair, the owners were required by the code to repair, replace, or remove them and the costs could be paid with Federal funds since the code required the correction.

With respect to the second charge concerning houses placed under the leased-housing program, we found no instances in which landlords had been given preferential treatment or had not been required to correct all code violations. The city building engineer, who is responsible for all housing code inspections, told us that all residential properties receive the same degree of inspection, regardless of who the owners are or the use to be made of the properties. He said the project's compliance letter sent to the property owner listed all code violations that the property owner was required to correct and also recommended correction of other deficiencies to make the house more livable.

The city building engineer and the city's supervisor of housing and relocation said that all property owners must correct the code violations and that those owners who place their properties under leased housing might be required to correct the other deficiencies recommended for correction as well, if it would make the properties more livable. City officials explained that, even though houses might meet the requirements of the minimum housing code, they might not meet those for leased housing. We reviewed several case files on houses placed under leased housing and found these statements to be true. Information in the files indicated that all code violations had been corrected, as were the majority of the deficiencies recommended for correction--especially those inside the houses.

CHAPTER 5

PROJECT ADMINISTRATIVE COSTS

Mrs. McGladrey reported to us that newspaper surveys had shown that for every $1 that had been spent for housing improvement $2 had been spent for administering the project. The results of one survey referred to were published in the April 4, 1968, issue of the Oregon Statesman.

The newspaper article reported that city records showed that for every $1 spent for home improvements in the area it had cost the city $1.67 to administer the project. The article stated that through February 29, 1968, administrative costs had totaled $108,775, while home improvement loans and grants had totaled only $64,935. The article stated, however, that the amounts did not include costs of $201,374 for public improvements (streets, sidewalks, alleys, etc.) nor amounts other than grants and loans spent by homeowners to correct deficiencies. Furthermore, the article stated that the seemingly high administrative costs included the cost of inspecting more than 200 houses for which, in most instances, loans and grants had not yet been approved for home improvements.

We analyzed the June 30, 1970, progress report prepared by the city and submitted to HUD's Region VI. The report showed that loans and grants of about $594,000 had been approved. Total project administrative costs had been about $358,000, or 60 percent of the amount of approved loans and grants. We also compared the project administrative costs with the total estimated cost of capital improvements in the area--about $1.2 million.[1] The cost of these improvements was 3.45 times greater than the administrative costs.

The apparent marked improvement in the ratio of the amount of administrative costs to the amount of loans and

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[1] Includes costs of public improvements, such as streets and alleys, and estimated costs of improvements made by homeowners with their own funds.

grants approved was the result of loans' and grants' being increased by about $529,000 during the 28-month period March 1968 through June 1970 while administrative costs were increased by a much lesser amount, $249,000, during the same period. We were told by the project staff that the ratio of administrative costs to loans and grants approved, such as the one reported by the Oregon Statesman on April 4, 1968, would be greater when a project was just starting than it would be after the project had been in force a year or two.

We found, however, that the project administrative expenses had been increased, principally because of project officials' efforts to correct problems which had resulted from inadequate inspection procedures. One of the former project supervisors told us that he estimated that project officials had spent about 6 months (November 1967 through April 1968), at an administrative cost of about $70,000, trying to correct these problems. He said that during that period (1) all inspections were halted for 2 months, (2) project officials spent about 2 months teaching the project staff how to properly inspect houses, and (3) the project staff spent about 2 months reinspecting 40 homes. Also, as stated on page 9, in May 1968 the project staff was relieved of inspection responsibilities and all houses which had been inspected but for which cases had not been closed--a total of about 150--were reinspected by city inspectors. The cost of these reinspections is not included in the $70,000.

CHAPTER 6

AGENCY COMMENTS

In a letter dated November 3, 1970 (see app. I), the Acting Assistant Secretary for Renewal and Housing Management commented on the matters discussed in our draft report and indicated agreement with our findings. He stated that the project, after starting rather slowly due to staffing problems, inexperience with Federal programs, and incomplete guidelines on how to proceed, had become one of the more successful in the area.

In a letter dated November 2, 1970 (see app. II), the city manager of the City of Salem, Oregon, in commenting on our draft report indicated agreement with our findings. He stated that (1) the city had readily admitted that there were problems with this project in its early stages, both at the local level and with some of the direction and support from HUD, (2) the project was a good example of one which had overcome early difficulties and had been successfully completed, and (3) the city of Salem, working with HUD, had recognized the project's problems and had taken positive and corrective steps to solve them.

CHAPTER 7

SCOPE OF REVIEW

Our review was conducted at the Ferry Oaks project office and at other city offices in Salem and at HUD's Central Office in Washington, D.C., and regional office (Region VI) in Seattle, Washington. Our review included an examination of pertinent project records and observations of housing in the project area. We also interviewed HUD officials, city officials, former city officials who had been responsible for the administration of the project during its early stages, and property owners in the project area--including the principal project critics.

APPENDIXES

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20413

OFFICE OF THE ASSISTANT SECRETARY
FOR RENEWAL AND HOUSING MANAGEMENT

NOV 3 - 1970

IN REPLY REFER TO:

Mr. B. E. Birkle
Assistant Director, Civil Division
United States General Accounting
Office
Washington, D. C. 20548

Dear Mr. Birkle:

This letter is to furnish you with the Department's comments on your draft of a proposed report to the Congress entitled: "Examination into the Ferry Oaks Concentrated Code Enforcement Program in Salem, Oregon," forwarded by a letter of September 30, to Secretary Romney.

The Ferry Oaks project was one of the first federally assisted code enforcement projects in the country. It was initially approved for execution by a letter of consent, October 6, 1966, followed by contract between the city of Salem and the Department of Housing and Urban Development for a Federal grant of $734,109 for arresting blighting conditions, making public improvements and stabilizing the substantially sound neighborhood of Ferry Oaks. The Federal Government contributes three-fourths of the cost of the project and the city one-fourth of the cost.

A code enforcement program is ordinarily of three years duration; however, an extension of time was granted to allow for the completion of the residential rehabilitation. After starting rather slowly, due to staffing problems, inexperience with Federal programs, and incomplete guidelines on how to proceed, the project has become one of the more successful in the area. Several problems occurred in the early months of the project and a few residents cited these problems as examples of poor management and administration.

When inspection began, the city had an inadequate housing code and the work write-ups and rehabilitation activities and Federal funds did not raise certain properties to the standards of a code which the city later adopted. The code has more stringent requirements, particularly those concerning the under-pinning of houses and bathing facilities. Several residents complained that the workmanship

was shoddy and that since the Federal grants were raised from $1,500.00 to $3,000.00 by later legislation, they wanted their cases reopened and more and better workmanship. The Regional Office personnel requested authority and granted waivers to those persons who desired to reopen their cases and who had actually suffered. In reality, we believe the original cases were brought up to the existing code.

Since the project was initiated, it has been almost one hundred percent completed with new sidewalks, curbs and gutters, alleys fixed, and storm sewers repaired. The public works have been completed and similar work is now proceeding in the Richmond neighborhood immediately adjacent to the Ferry Oaks area.

Improvements to the structures have been manifold, including new electrical service and circuits, painting, floor repairs, bathing facilities, roof repairs, and new installations where necessary. New construction is evident in the area; one indication that the community is a viable neighborhood and a good place to live.

We think that one area of criticism arose from the fact that some members of the community did not want leased housing adjacent to their premises. However, the complainers also benefited from the project.

The Regional Office staff performed its surveillance properly and did not attempt a whitewash as was indicated in the complaint letters. They made suggestions for improvements which were carried out by the Ferry Oaks staff.

We believe the Ferry Oaks project has accomplished the purpose of the federally assisted code enforcement program for stabilizing a basically sound community and preventing the spread of blighting conditions. The rehabilitation of the entire neighborhood was accomplished with a minimum of dislocation.

Sincerely,

Norman V. Watson

Norman V. Watson
Acting Assistant Secretary

city of SALEM, OREGON
TELEPHONE (503) 581-5123 • ZIP CODE 97301

November 2, 1970

Mr. B. E. Birkle, Assistant Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Birkle:

The City of Salem has reviewed the copies of your proposed report on your examination into the Ferry Oaks Code Enforcement Project in Salem. The report has been reviewed by this office as well as several members of the staff of our Department of Community Development who have been involved directly in supervision of this Code Enforcement project.

We have no specific suggestions as to the wording of the report other than to suggest that it might be appropriate to include the City's correspondence and the Department of Housing and Urban Development correspondence relating to the reopening of the closed cases as part of the material to be included in an appendix.

General speaking, the City of Salem has welcomed this review by your office of the operation of the Ferry Oaks project. We have readily admitted that there were problems with this project in its early stages, both at the local level here in Salem and with some of the direction and support from the Department of Housing and Urban Development. However, we feel that this project is also a good example of a project which overcame these early difficulties and was successfully completed. We feel that we here in Salem working with the Department of Housing and Urban Development recognized those problems and took positive and corrective steps to solve them. The project has now been successfully completed and is closed.

The City also appreciated the objectivity in which the entire report was written and the way in which the investigations by your field auditors took place. We feel that many of the accusations and criticisms raised through the press by several persons living in the area were for the most part unfounded and we are glad to see that the report takes specific recognition of this fact.

We very much appreciated the opportunity to review and comment on your draft report and have taken care to see that information included in it has not been released and the report itself has been adequately safeguarded. We will, of course, look forward to the release of all or part of the information included in this report at a later time and through the appropriate federal channels.

Yours very truly,

Robert S. Moore

Robert S. Moore
City Manager

cc: Mr. Harlan Mann
Mr. Ralph Rogers

OREGON'S SALEM ALL AMERICA CITY 1960 CAPITAL

U.S. GAO Wash., D.C.