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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

RESOURCES AND ECONOMIC
DEVELOPMENT DIVISION

DEC 5 1972

Dear Mr. Watson

The General Accounting Office recently completed a review of selected aspects of the Department of Housing and Urban Development's (HUD) modernization program for low-rent public housing.

This review was conducted at the HUD headquarters in Washington, D. C., and at its field offices located in Philadelphia, Pennsylvania, and Chicago, Illinois. Also included in this review were a number of local housing authorities operating under the jurisdiction of these field offices.

During our review, we noted certain weaknesses in the administration of the program relative to the Federal funding of modernization activities and the use of architects by certain local housing authorities (LHAs). Details of these findings are presented below.

FEDERAL FUNDING OF
MODERNIZATION ACTIVITIES

HUD field offices in Chicago and Philadelphia continued to allocate modernization program funds for LHAs even though the LHAs did not initiate their modernization programs within the time periods established in HUD-approved modernization program budgets. During the time that these funds were allocated for specific modernization projects, other LHAs had requested financial assistance from HUD to modernize their housing projects but were advised by HUD that funds were not available

In addition, we found that, contrary to HUD regulations, LHAs requested and received funds for the modernization of low-rent housing projects in excess of their current operating needs.

Need for HUD to Monitor
Allocations of Modernization Funds

Under HUD procedures, Federal funds are allocated for modernization programs of the LHAs primarily on the basis of the modernization program budgets they submit to HUD. These budgets, which must be

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approved by HUD before any Federal funds are allocated, describe the work to be performed and show the estimated dates for the completion of the work.

Although LHAs do not receive funds from HUD at the time their modernization budgets are approved, HUD area offices allocate Federal funds for such work. Funds allocated by HUD under these procedures for specific projects are not available for other housing authorities. However, we found that the work to be performed was not completed and, in some cases, was not started during the time specified in the modernization budgets and HUD did not reallocate the funds to other LHAs.

Examples of LHAs' failure to use the funds allocated by HUD for modernization purposes within the time periods set forth in their modernization budgets are presented below.

Philadelphia

On July 22, 1969, \$6.5 million was allocated by the HUD Philadelphia regional office for the modernization program of the Philadelphia Housing Authority. The budget approved by HUD showed that most of the work was to be completed by December 1970. As of September 1971--26 months after the funds were allocated by HUD and 9 months after the work was to be completed--the LHA had obligated only \$2.6 million of the \$6.5 million allocated by HUD.

Baltimore, Maryland

On October 28, 1968, HUD allocated \$3.2 million for modernization activities of the Baltimore Department of Housing and Community Development. Most of this work, according to the HUD-approved budget, was to be completed by December 1969. In June 1969, HUD increased the amount of modernization funds allocated to the housing authority to \$7.0 million with certain additional work to be completed by June 1970.

As of December 1969--the original estimated completion date for the work--only \$235,000 of the funds allocated for modernization activities had been obligated by the LHA. In addition, only \$4.2 million of the \$7.0 million had been obligated by the LHA at September 1971--which was about 15 months after the estimated completion date for most of the work.

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Our review showed that during the period that funds were allocated by HUD for specific LHAs in the Chicago and Philadelphia regions, other LHAs in these regions had requested about \$4 million in Federal funds to

modernize their housing projects but were advised by HUD that funds for such purposes were not available. The following schedule shows the amounts of funds that several LHAs in the Philadelphia and Chicago regions requested for modernization activities but which were not allocated by HUD.

| <u>Local housing authorities</u> | <u>Amounts requested</u> |
|----------------------------------|--------------------------|
| Bethlehem, Pa. | \$ 200,000 |
| Easton, Pa. | 294,640 |
| Harrisburg, Pa. | 1,249,618 |
| LaSalle County, Ill. | 1,171,290 |
| Quincy, Ill. | <u>1,055,635</u> |
| Total | <u>\$3,971,183</u> |

Because the above funds were not allocated for the modernization programs of these LHAs when requested, essential improvements were delayed from 1 to 2 years.

Our review showed that the above LHAs requested funds for improvements and/or repairs which, in our view, were essential to the safety and welfare of the housing project occupants. For example, records at three of the LHAs showed a need for improvements and modifications in the heating and electrical distribution systems of the projects. Records at the other two LHAs showed that funds were requested for storm windows and for repairs to the roofs of the buildings.

We discussed the above matters with HUD officials at both the Philadelphia area and regional offices in September 1972. We were advised that although procedures had not been established by HUD for the reallocation of funds from one LHA to another, certain procedures were being considered by HUD to help correct this situation.

Premature Requests for
Modernization Funds by LHAs

Our review showed that, in a number of cases, LHAs had requested and received funds for their modernization programs in excess of their current needs and HUD did not determine, at the time the funds were requested, whether the amounts were reasonable and appropriate.

HUD procedures require that LHAs request funds for only the current (about 6 months) operating period and HUD is required to insure that LHAs requests for funds are reasonable and necessary for their current operating needs. Following are details on two LHAs which requested and received, with HUD's approval, funds in excess of their current needs.

Philadelphia

In June 1970, the Philadelphia Housing Authority received \$2.6 million for modernization work. This amount, according to HUD's regulations, was to represent the amount of funds needed by the LHA to carry out its modernization program for a 6-month period. However, our review showed that after 6 months the housing authority had incurred costs of only about \$300,000. After a year, the authority had incurred costs of only \$1.8 million of the \$2.6 million it received.

We noted that about \$1 million of the funds expended were used for items, such as repairs to vandalized dwellings, which were not authorized under the modernization program budget.

Chicago

During the period from June 1969 to November 1969, the Chicago Housing Authority received \$16.1 million for modernization work. However, as of December 1970, the housing authority incurred costs of only \$3.5 million. In September 1971, the Chicago Housing Authority received an additional \$5.3 million for its modernization program, bringing the total amount it received to \$21.4 million. These additional funds were authorized by HUD even though costs of only \$8.2 million of the original \$16.1 million had been incurred by the housing authority for modernization work at that time.

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We discussed the above matters with HUD officials in Philadelphia and Chicago in September 1972, and were advised that a concerted effort would be made by the HUD field staffs in their monitoring of LHAs' requests for modernization funds to help improve the above situation.

In a HUD Office of Audit report, dated June 30, 1971, the HUD Chicago Regional Administrator was requested to establish procedures to prevent LHAs in that regional area from drawing down modernization funds in excess of their current needs. It was also reported that, if LHAs were not able to show steady progress on their modernization plans and HUD continued to authorize funds beyond the reasonable needs of the LHAs, then modernization funds were not effectively being used. This situation, the audit report concluded, could result in an inequitable distribution of fund allocations among LHAs and would unnecessarily defer improvements, by other LHAs, which were necessary to meet the tenants' needs.

CONCLUSIONS AND RECOMMENDATIONS

HUD has not established procedures for the reallocation of funds between LHAs in cases where LHAs do not demonstrate satisfactory progress under their modernization programs. Also, LHAs requested and received funds in excess of their current needs, therefore, in our view, HUD has not effectively monitored and controlled the funding of projects under its modernization program.

We recommend, therefore, that you require HUD field offices

- to analyze the current status of modernization work to help identify LHAs who are not making satisfactory progress under their programs and, based on the results of this analysis, establish procedures for the transfer of funds between LHAs as is appropriate under the circumstances,
- to examine into the justifications submitted by LHAs when they request funds to help insure that such requests do not result in payments of excess funds to LHAs, and
- periodically examine into the type of expenditures made by LHAs to help insure that modernization funds are used only for work that is included in the HUD-approved modernization program budgets.

USE OF ARCHITECTS BY LHAs IN MODERNIZING HOUSING PROJECTS

HUD guidelines to LHAs on the modernization program state that architects should be paid only for original design services and that they should not be used for routine maintenance even if this type of work is performed on an extensive scale.

Generally, modernization of low-income housing projects does not entail new designs or major redesign work requiring the services of an architect. The HUD Chicago area office, in approving LHAs modernization budgets, generally did not approve the use of architects for routine maintenance work. The HUD Philadelphia area office, however, frequently approved LHAs requests for funds for architectural services in connection with items of a routine nature that were to be performed under the modernization program.

LHAs, under the jurisdiction of the HUD Philadelphia area office paid for architectural services rendered in connection with the installation of storm windows and floor tile. This type of work was previously performed by the LHAs, under their normal maintenance programs, without

the assistance of an architect. In addition, the cost of the work, on which the architect's fees were based, included the cost of the materials to be installed as well as the installation charges.

Following are examples from the Philadelphia area office, of the type of services for which LHAs paid architects under the modernization program.

Chester, Pennsylvania

In January 1969, HUD approved the Chester Housing Authority's request to use an architect for the following work included in the Authority's modernization program budget.

| <u>Work items</u> | <u>Amount</u> |
|-------------------------------|------------------|
| Painting of building exterior | \$132,000 |
| Termite control | 36,600 |
| Install new roofs | <u>236,880</u> |
| Total | <u>\$405,480</u> |

The total budget for the housing authority's modernization work, which included the above items, amounted to about \$1 million. In accordance with the terms of the architect's contract, the housing authority agreed to pay the architect 6 percent of the contract bid price or about \$60,000. The architect, therefore, received about \$24,000, based on the costs of the above routine work, which, in our opinion, and according to HUD criteria, should not have been authorized under the modernization program.

Scranton, Pennsylvania

In June 1972, HUD approved the Scranton Housing Authority's modernization budget of about \$1.1 million. The architect's fee of about \$62,000 was based on the total modernization budget of \$1.1 million. This work, however, included a significant number of items which, in line with existing HUD criteria, did not require the services of an architect.

For example, the HUD-approved modernization budget included the following

| <u>Work items</u> | <u>Amount</u> |
|--|------------------|
| Yard lighting | \$ 7,300 |
| Windows and screens | 256,500 |
| Entrance doors and hardware | 54,800 |
| Install showers | 24,200 |
| Storm and screen doors | 20,300 |
| Painting | 66,000 |
| Floor covering | 45,600 |
| Medicine cabinets | 6,100 |
| Closet doors | 25,800 |
| Sidewalks | 52,000 |
| Install water connections and drains in utility rooms | 40,600 |
| Total | <u>\$599,200</u> |

As shown by the above schedule, \$599,200 or about 54 percent of the housing authority's total modernization budget of \$1.1 million was for work which would not require the services of an architect

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As previously mentioned, the HUD Chicago area office in its review and approval of LHAs' modernization budgets did not authorize LHAs to pay architects for routine maintenance work. Following are some examples of the items for which architectural fees are excluded from the LHAs' modernization budgets during their review by the Chicago area office.

| <u>Work items</u> | <u>Amount</u> |
|------------------------|------------------|
| Yard lighting | \$ 6,450 |
| Front entrance doors | 56,250 |
| Storm and screen doors | 29,150 |
| Install showers | 58,250 |
| Closet doors | 137,700 |
| Storm windows | 70,290 |
| Medicine cabinets | 20,400 |
| Total | <u>\$378,490</u> |

The above schedule shows that items such as the installation of storm doors and closet doors, which were included in LHAs modernization budgets and for which architectural fees were allowed by the Philadelphia area office, were rejected by the Chicago area office in its review of LHAs requests for modernization program funds

We discussed the above matters with HUD officials in Chicago and in Philadelphia, and were advised by a Philadelphia regional office official that, according to his interpretation of HUD guidelines, an architect could be used for work such as the installation of new roofs, storm windows, and floor tile. He said that he preferred that LHAs always use an architect to coordinate their modernization programs, except in those cases where LHAs had a staff that was large enough to do some of this work without the assistance of an architect. The Philadelphia Assistant Regional Administrator for Housing Management, however, advised us that in the future, architectural fees would be approved only for work that requires design services.

Chicago area office officials said that most LHAs, in their opinion, could, with some HUD assistance, effectively contract for and carry out their modernization programs when design services were not involved. These officials added that they did not, therefore, authorize LHAs to use architects in the performance of most modernization work.

CONCLUSIONS AND RECOMMENDATIONS

In our opinion, HUD's existing requirements on the use of architects under the modernization program do not authorize Federal funds for architects' services for routine maintenance work. However, as we have demonstrated, the Philadelphia field offices generally were not following the criteria.

In the past, a number of LHAs accomplished--without the service of an architect--the type of work discussed in the above examples. Because other HUD field offices also may be unnecessarily increasing the modernization program costs to the Federal Government by approving the use of architectural services for routine maintenance items, we recommend that you reemphasize the need for all HUD field installations to carefully review future modernization program fund requests and, in accordance with existing HUD regulations, approve the use of architects only when such assistance is necessary -- for example, in cases where the modernization work would require new designs or major redesign services.

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We wish to express our appreciation for the cooperation and courtesies extended to our staff during this review. We shall be pleased to discuss with you or members of your staff any of the above matters and would also appreciate receiving, within 30 days, your comments and views on any actions taken or planned with regard to the matters discussed in this report.

A copy of this report is being provided to the HUD Inspector General.

Sincerely yours,

B. E. Birkle

B. E. Birkle
Associate Director

The Honorable Norman V. Watson
Assistant Secretary for Housing Management
Department of Housing and
Urban Development