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*REPORT OF THE
COMPTROLLER GENERAL
OF THE UNITED STATES*

Homes In Santa Fe, New Mexico,
Not Rehabilitated In Accordance
With Federal Requirements

Department of Housing and Urban Development

The Department and the Santa Fe Urban Development Agency did not properly administer rehabilitation loan and grant programs in Santa Fe. As a result, some rehabilitated properties did not meet local standards and the work that was done did not comply with applicable grant or loan program requirements. The Department should require Santa Fe to bring these properties up to standard. If these efforts are not successful, the Department should recover grant funds declared ineligible for reimbursement.

CED-76-158

NOV. 4, 1976



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

B-118718

The Honorable Joseph M. Montoya
United States Senate

Dear Senator Montoya:

Pursuant to your request of October 24, 1975, we reviewed certain aspects of the rehabilitation loan and grant programs in Santa Fe, New Mexico.

We obtained comments on the preliminary report from the Santa Fe Urban Development Agency, which was responsible for the day-to-day administration of the program, and the Department of Housing and Urban Development which is responsible for the overall administration of the program.

This report contains recommendations to the Secretary of Housing and Urban Development which are set forth on page 26. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We will be in touch with your office in the near future to arrange for release of the report so that the requirements of section 236 can be set in motion.

Sincerely yours,

Comptroller General
of the United States

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	<u>ABBREVIATIONS</u>	
HUD	Department of Housing and Urban Development	
PRS	property rehabilitation standards	
UDA	Santa Fe Urban Development Agency	

REPORT OF THE
COMPTROLLER GENERAL

HOMES IN SANTA FE, NEW MEXICO,
NOT REHABILITATED IN ACCORDANCE
WITH FEDERAL REQUIREMENTS
Department of Housing and Urban
Development

D I G E S T

GAO identified complaints on 151 of the 297 homes rehabilitated in Santa Fe under section 312 of the Housing Act of 1964 and section 115 of the Housing Act of 1949. Under these programs, which are administered locally by the Santa Fe Urban Development Agency, owners receive loans and grants to repair and improve their properties to bring them up to the local agency's rehabilitation standards. During the course of the Santa Fe program, the 297 homes were rehabilitated at a cost of \$1,238,198.

GAO judged that complaints on 92 homes dealt with substantive matters affecting health or safety and could not be easily repaired by the homeowners. A Department of Housing and Urban Development official who assisted GAO by inspecting 35 of the 92 homes concluded that the complaints generally were valid. (See p. 5.)

The inspection showed that:

- In 27 homes the local agency's property rehabilitation standards were not met when the work was completed.
- Thirty-two homes had items listed on the work statement of the contract that had not been completed by the contractor.
- Twenty-eight homes showed indications of inferior workmanship.
- Seventeen homes showed evidence of inferior materials and/or improper equipment. (See p. 6.)

With regard to the homes GAO inspected the Department of Housing and Urban Development, relying on the Santa Fe Urban Development

Agency determinations, made eight rehabilitation loans to homeowners and reimbursed the Santa Fe Urban Development Agency for 30 rehabilitation grants to homeowners.

The loans and grants relating to 27 of the homes were then used to pay for work which, although certified by the contractor, owner, and the Santa Fe Urban Development Agency to have been completed, was not in compliance with applicable grant or loan program requirements because the repaired homes did not meet required property rehabilitation standards. (See pp. 17 to 19.)

The Santa Fe Urban Development Agency prepared rehabilitation work statements which did not contain all the items necessary to bring some homes to the local agency's property rehabilitation standards, made inadequate final inspections of rehabilitation work, was largely unsuccessful in having contractors correct deficient work, and did not adequately record and resolve homeowner complaints of contractor work.

Although the Department identified many of the problems and informed the Santa Fe Urban Development Agency repeatedly of the need to correct them, it did not declare any grant funds ineligible for reimbursement pending correction of the identified problems.

The Department terminated the program on March 5, 1974, 4 years after it started. The Department has reimbursed the Santa Fe Urban Development Agency for all of the expenditures in connection with the rehabilitation grants. (See p. 14.)

The best solution to correct the problems noted in this report with respect to the grant program would be for the Department to declare as ineligible for reimbursement the grant funds spent on all homes that did not meet the local agency's property rehabilitation standards or that were not completed according to the terms of the contract. The city would then have the option of repairing the homes at its own expense, refunding the amount of the ineligible grants, or refusing to do either.

Should the city repair the homes, the eligibility of the grants would be restored. If it refuses to repair the homes or refund the money, the Department could reduce Santa Fe's urban renewal grant funds that are due and payable to the Santa Fe Urban Development Agency in the amount of the ineligible grants or offset the debt from other funds that might be due and payable to Santa Fe.

Because of the contractual nature of rehabilitation loans between the Department of Housing and Urban Development and the homeowner, there appears to be no practical remedy for bringing the homes up to property rehabilitation standards.

GAO provided the Department and the Santa Fe Urban Development Agency with an opportunity to comment on the report. The Santa Fe Urban Development Agency indicated that some of the criticism in the report may be justified but disclaimed responsibility for actions by the contractors, homeowners, and the Department. GAO believes that Santa Fe Urban Development Agency is unjustified in disclaiming responsibility for the program. The Department generally agreed that the Santa Fe Urban Development Agency did not properly administer the rehabilitation loan and grant programs in Santa Fe. In addition, they believe that a number of loans and grants were made which ultimately did not comply with the provisions of the respective statutes. The Department stated it will declare the appropriate grant cases GAO reviewed ineligible project expenditures and it is planning to take action regarding the section 312 loans to resolve the unsatisfactory rehabilitation work.

The Department did not agree with GAO's recommendation to inspect the remaining properties judged as having substantive complaints because of the cost involved and shortage of staff. GAO believes that the benefits from these inspections would be worth the cost. (See p. 20.)

RECOMMENDATIONS

GAO recommends that the Secretary of Housing and Urban Development:

- Declare as ineligible for reimbursement the total grant funds spent on the 29 homes identified in this report which either did not meet the property rehabilitation standards when the work was completed, or for which the work was not completed according to the terms of the contract.
- Inspect the remaining homes on which GAO identified substantive complaints and determine the eligibility of the grants for reimbursement.
- Reduce Santa Fe's urban renewal grant funds that are due and payable to the Santa Fe Urban Development Agency in the amount of the rehabilitation grants declared as ineligible or offset the debt from other funds that might be due and payable to Santa Fe. This would occur in those cases where the city fails to repair the homes or refund the grant funds declared ineligible.
- Emphasize to its regional and area offices the importance of assuring that deficiencies noted in its monitoring of the program are corrected before releasing additional grant and loan funds.
- Instruct its regional and area offices, as part of their monitoring the program, to declare ineligible for reimbursement those grants that do not meet the objectives of the programs.
- Require local public agencies to establish formal complaint and followup systems on rehabilitation programs. (See p. 27.)

CHAPTER 1

INTRODUCTION

In an October 24, 1975, letter, Senator Josepn M. Montoya requested us to examine the rehabilitation grants and loans made in Santa Fe, New Mexico. (See app. I.) As subsequently agreed with his office our review was directed principally to identifying the

- roles and responsibilities of the Department of Housing and Urban Development (HUD) and the local public agency,
- complaints of the homeowners and determining whether the complaints were valid and what actions were taken to resolve them, and
- remedies available to the homeowner and HUD.

Under section 115 of the Housing Act of 1949, as amended (42 U.S.C. 1466), which was terminated on January 1, 1971, and section 312 of the Housing Act of 1964, as amended (42 U.S.C. 1452b), grants and loans, respectively, may be made to individuals for repairs and improvements necessary to bring their properties up to the local public agency's rehabilitation standards established for the project area.

The overall objectives of the rehabilitation program include renewing deteriorating areas; improving living conditions to a safe, healthful, and physically sound level; and creating employment opportunities for area residents.

To be eligible for assistance, the properties must be located in areas receiving Federal financial assistance to eliminate or prevent the spread of slums and urban blight. This includes areas participating in HUD's urban renewal programs such as the neighborhood development program.

Santa Fe Urban Development Agency (UDA) was established by the city council in July 1963 to administer urban development programs. The rehabilitation program began in April 1970. Grants, which accounted for about 78 percent of the total funds used on this program, were financed by the city through a commercial loan guaranteed by HUD. Eligible expenditures were reimbursed by HUD. In March 1974, HUD terminated the program because of inconsistent, incomplete, and faulty records; inferior construction work by certain contractors; and disregard of HUD manual requirements for the performance of rehabilitation activities.

During the course of the program, UDA administered the rehabilitation of 297 homes at a cost of \$1,238,198. The sources of funds consisted of:

- Section 115 grants that HUD made to UDA in amounts up to \$3,500 per home upon completion of the rehabilitation contract. Grants to 281 homeowners totaled \$963,650.
- Section 312 loans that HUD made to the homeowner through UDA. Loans to 28 homeowners totaled \$214,350.
- Model Cities supplemental grants provided by HUD. These were sometimes used in connection with other sources when the rehabilitation cost was \$4,500 or less but over \$3,500. Model Cities grants to 33 homeowners totaled \$33,000.
- Homeowner participation. In 34 cases, the homeowners supplemented the grant or loan with personal funds if the cost of the rehabilitation exceeded the amount of available assistance. Homeowner participation totaled \$27,198.

HUD reimbursed UDA for the grants it made to homeowners and made loans to homeowners based on data UDA furnished.

ROLES AND RESPONSIBILITIES OF HUD
AND THE LOCAL AGENCY

Local agency

Before any homes were rehabilitated, UDA, in consultation with HUD regional office staff, Federal Housing Administration staff, and local building code officials, developed the property rehabilitation standards (PRS). These became the minimum property standards used by the agency to assure housing that is livable, healthful, safe, and physically sound.

UDA was responsible for the day-to-day administration of the program. HUD guidelines require the local public agency to

- advise each property owner in the project area of the rehabilitation objectives and the availability of rehabilitation loans and grants;
- inspect the property of owners interested in participating in the programs and prepare a work statement showing the type and estimated cost of work necessary to bring the property up to PRS;

- assist homeowners in applying for rehabilitation loans and grants;
- obtain bids for the rehabilitation work and negotiate contracts between homeowners and contractors;
- inspect the work in process and after completion and certify that all work required by the contract has been satisfactorily completed;
- assist homeowners in making final payments to contractors after rehabilitation work has been certified as complete; and
- perform followup inspections (to be made within 60 days after final inspection) to detect defects that may have shown up after final payments had been made, ascertain whether homeowners had any complaints, and assist them in obtaining prompt corrective action from the contractors.

HUD

HUD is responsible for assuring that programs conform to applicable Federal statutes and other major Federal requirements and that the objectives of the programs are achieved.

HUD's area offices are responsible for assuring that properties designated for rehabilitation in federally aided areas are actually being brought up to the applicable standards on which provision of assistance is based, that local agencies are periodically inspecting rehabilitation activities, and that all the work required by the construction contract has been satisfactorily performed. The area office is also responsible for providing technical assistance to the local agency.

HUD's regional offices are responsible for periodically monitoring the area office's systems for assuring conformance of local agency operations to Federal statutes and requirements for programs.

HUD headquarters is responsible for periodically evaluating the regional offices' monitoring of the conformance review system.

SCOPE OF REVIEW

We made our review at HUD's Headquarters in Washington, D.C.; its regional and area offices in Dallas, Texas; and at

UDA in Santa Fe, New Mexico. We reviewed pertinent policies, procedures, and records relating to rehabilitation grants and loans maintained at these offices.

We interviewed HUD and UDA officials and owners of houses rehabilitated under the programs. We also accompanied a HUD senior construction analyst during inspections of homes judged to have substantive complaints.

CHAPTER 2

REHABILITATION WAS NOT COMPLETED AND

HOMES DID NOT MEET PROPERTY REHABILITATION STANDARDS

We identified complaints on 151 of the rehabilitated homes and judged that complaints on 92 of these were substantive. We accompanied a HUD construction analyst who inspected 35 of the 92 homes and found that 19 homeowners had unresolved complaints. In addition, the inspections showed that 27 homes did not meet PRS when the work was completed; 32 homes had items on the work statement that had not been completed; 28 homes evidenced inferior workmanship; and 17 homes evidenced use of inferior materials and/or improper equipment.

HOMEOWNER COMPLAINTS

Our analysis was directed toward the validity of the homeowner complaints about the rehabilitation work and UDA's actions to resolve them.

UDA did not maintain, nor did HUD require, a formal system of registering complaints and followup actions. Some UDA case files, however, did contain indications of complaints. In addition to these files, we identified complaints through such sources as HUD files, the local newspaper, the legal aid society, the State Construction Industries Commission, and the Consumer Protection Division of the State Attorney General's Office. However, we have no assurance that we identified all of the homeowners who complained.

We identified complaints on 151, or 51 percent, of the 297 rehabilitated homes. We judged that complaints about the rehabilitation work on 92 of these homes were substantive. A substantive complaint was defined as one that could affect health or safety and could not be easily repaired by the homeowners. Examples are improperly installed flooring and heaters and leaking roofs. We classified such things as broken window glass and screens and leaking faucets as nonsubstantive because they did not seriously affect the health and safety of the homeowner or could be easily repaired by the homeowner.

RESULTS OF INSPECTIONS

To assess the seriousness of the complaints, 35 of the 92 homes judged to have substantive complaints were inspected. Five were selected because of the widespread publicity they had received; the remaining 30 were selected randomly. The total rehabilitation costs for the 35 homes was about \$167,190.

The inspections were made to answer the following questions.

- Were all of the items on the work statement completed?
- Did the home meet PRS when the work was completed?
- Had the complaints been resolved?
- Were outstanding complaints valid?
- Was the workmanship adequate?
- Were proper materials used?

A senior construction analyst from the HUD Dallas area office made the inspections. Also present for the inspections were the Santa Fe City building inspector and a representative of the State Construction Industries Commission. The city and the State representatives made independent assessments; we did not consider their opinions in forming our judgments but their assessments closely paralleled our own. We considered the complaints on the 35 homes we inspected to be valid.

Of the homes inspected 19, or 54 percent, had unresolved complaints.

In addition, the inspection showed:

- Twenty-seven (77 percent) of the homes did not meet PRS when the work was completed. This was a result of deficient work statements that did not require the correction of all deficiencies or in some cases, because items on the work statement had not been completed.
- Thirty-two homes (91 percent) had items on the work statement that had not been completed although UDA certified that the work was satisfactorily completed in accordance with the contract. In some cases the contractor never finished the job; in others the homeowner and the contractor may have agreed to substitute items not on the statement. The terms of the contract, however, prohibit changes to the work statement without the written approval of UDA; deviations should have been noted and documented either before or during the final inspection.
- Twenty-eight (80 percent) of the homes evidenced inferior workmanship.

--Seventeen (49 percent) homes evidenced use of inferior materials and/or improper equipment.

About \$142,200 was spent on those homes that were either not completed according to the terms of the rehabilitation contract or did not meet PRS when rehabilitation was completed.

The following cases illustrate the types of problems that were prevalent in the homes inspected.

Case #1

The rehabilitation work on this home was completed in October 1973 at a cost of \$4,500 (\$3,500 rehabilitation grant and \$1,000 Model Cities supplemental grant). The homeowner complained to UDA of a leak in the bedroom ceiling; a hole in the kitchen floor; roof, walls, and ceiling that needed to be patched; a bathroom vent that needed to be replaced; and a commode and shower which did not drain. All of these items were included on the work statement for this home. The homeowner repaired the hole in the kitchen floor; the other complaints were unresolved at the time of the inspection.

The following additional problem areas were noted during the inspection.

Items in work statement not completed

A wall of the house was not stuccoed.



There was no tile on the shower walls.

The work statement called for a new gas range to replace the existing hazardous stove. The old stove was still in place and the owner stated she was not given a new one.

Deficient work statement

The work statement did not call for foundation vents even though they are required by PRS. The kitchen floor was buckled and rotted out in one area.

Substandard workmanship

The vent for the bathroom plumbing was not properly installed; it did not extend the proper distance above the roof.



The roof was not properly installed. It consisted of a mixture of roofing materials and did not meet standard specifications.



Improper equipment used

The work statement called for installation of a dual wall heater (50,000 Btu) to heat the living room and kitchen, but a single wall heater (35,000 Btu) was installed in the living room instead.

In the opinion of the HUD inspector, this home was not brought up to standard.

Case #2

The rehabilitation work on this home was completed in July 1973 at a cost of \$5,963 (\$3,500 rehabilitation grant, \$1,000 Model Cities supplemental grant, and \$1,463 owner participation). After completion, the homeowner complained to UDA of problems with the doors, floors, and ceiling. All of these items appeared on the work statement but none of the complaints had been resolved.

During the inspection of this home the following additional problem areas were noted:

Items on work statement not completed

The dilapidated gutters and downspouts were not replaced.

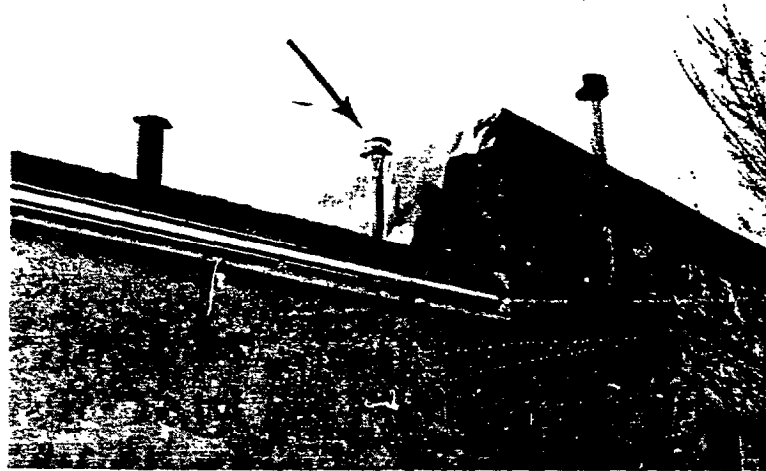
The bathroom walls were not patched.

The bathroom sink was not replaced.

Substandard workmanship

The roof of the storage shed was not properly installed and some of it had come off.

The vent to the living room gas heater was improperly installed. It did not extend far enough above the roof to provide adequate ventilation.



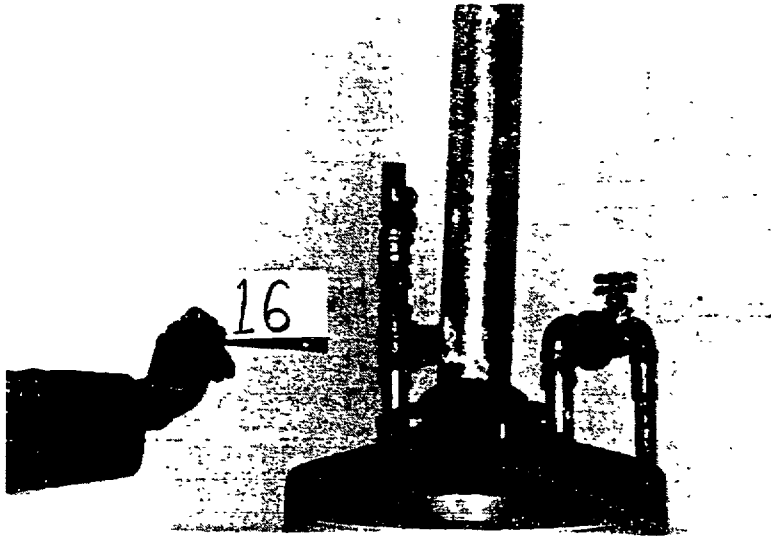
Deficient work statement

An exterior wall was bulging severely. The work statement did not include an analysis of the main structural defects.

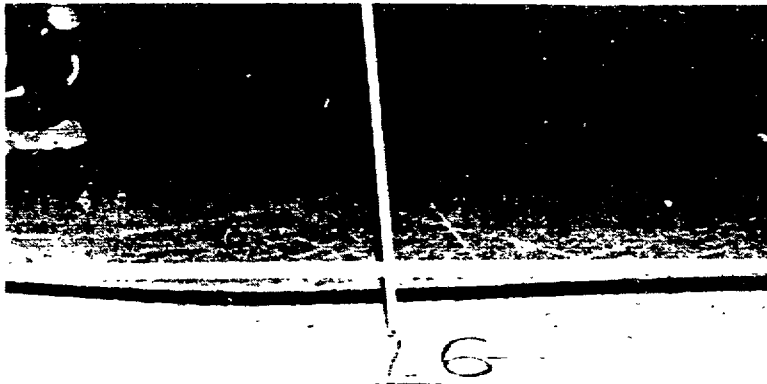


Some windows had deteriorated and should have been replaced. The work statement required only painting.

The water heater pressure relief valve was not vented to the outside to prevent flooding of the area; the work statement did not require it.



This home had no foundation vents and the work statement did not call for them. The living room floor was buckled making the exterior door unusable. The bedroom floor was also severely buckled due to moisture under the floor.



The HUD inspector said that this home did not meet PRS when it was rehabilitated and, because of the structural deficiencies, it will soon be in danger of collapsing.

Case #3

The rehabilitation work on this home was completed in June 1973 at a cost of \$3,700 (\$3,500 rehabilitation grant and \$200 owner participation). The homeowner had complained to UDA of a broken water heater and said he waited 3 months without hot water. He eventually had the water heater replaced at his own expense.

The inspection of this home identified the following additional problem areas.

Deficient work statement

The work statement called for replacement of two basement windows; however, no provision was made for window wells or curbing around the windows which would prevent flooding of the basement in the event of a storm.



Substandard workmanship

The work statement called for replacement of the window screens. This was done by tacking screen wire over the window frames.

The work statement called for the installation of gutters and downspouts. These were installed but no elbows or splash-blocks were provided. The downspout in the rear discharges water next to a basement window and could contribute to flooding the basement in the event of a storm.

CHAPTER 3

CAUSES OF THE PROBLEMS IN THE REHABILITATION PROGRAM AND POSSIBLE REMEDIES

UDA did not properly follow HUD guidelines in carrying out its responsibilities for administering the rehabilitation program. It failed to (1) properly prepare rehabilitation work statements in that some homes did not meet PRS when completed, (2) make adequate final inspections of rehabilitation work, and (3) obtain corrective action from contractors after making followup inspections in many cases.

HUD reimbursed UDA for 24 rehabilitation grants and these funds were used to pay for work which, in our opinion, was not in compliance with basic rehabilitation program requirements specified in the grant agreement between HUD and UDA. HUD, relying on UDA determinations, provided rehabilitation loans for six homes and the funds were used to pay for work which, in our opinion, was not in compliance with basic rehabilitation program requirements specified in the grant agreement between HUD and UDA. This loan- and grant-funded work did not comply with basic rehabilitation program requirements because the homes did not meet required PRS when the work was certified to have been completed.

Although HUD identified many of the problems it did not take adequate action to correct the deficiencies. HUD eventually terminated the program on March 5, 1974.

IMPROPER UDA ADMINISTRATION OF THE REHABILITATION PROGRAM

Rehabilitation work did not conform with PRS

According to HUD guidelines, rehabilitation should not be attempted unless the home can be brought up to PRS with the available funds. Seventy-seven percent of the homes we inspected did not meet PRS when completed. For example, the standards state that sagging or out-of-plumb floors shall be restored as near as practicable to an acceptable level or plumb position and supported or braced so as to prevent a recurrence of these conditions. In addition, electrical service shall be provided with a system of wiring, wiring devices, and equipment to safely supply electrical energy; water heating and storage equipment shall be in good serviceable condition and a temperature pressure relief valve shall be installed according to the plumbing code or

otherwise replaced. Nevertheless, deficiencies such as improperly repaired floors, frayed electrical wiring and unsafe light fixtures, and improperly installed temperature pressure relief valves on water heaters were noted during the inspections.

Work statements were incomplete

During the early processing stages, UDA personnel were to inspect the property and prepare a work statement and cost estimate of the work needed to make the homes meet PRS.

However, these functions were not always properly done. For example, in many cases the work statements did not require foundation or attic vents. It was the opinion of the HUD inspector who assisted us that the lack of foundation vents was probably the primary cause of the many cases of buckling floors. In addition, we found electrical service that was unsafe and did not meet PRS; new electrical service, however, was not required by the work statement.

Inadequate final inspections of rehabilitation work

HUD guidelines require a final inspection of all rehabilitation work by the local agency to insure that it has been fully and satisfactorily completed in accordance with the rehabilitation contract. In all cases, the files contained certifications by UDA officials that the inspections had been made, the construction work was satisfactorily completed in accordance with the construction contract, and the property conformed to the local code. However, as stated before, ninety-one percent of the homes we inspected had items on the work statement that had not been completed.

Conditions noted during our inspections caused the HUD inspector who assisted us to question, in many cases, whether the final inspection actually had been made. It was his opinion that there were obvious defects which any competent inspector would have found.

UDA files contained evidence that problems with the inspection process surfaced as early as February 1971. At that time, the deputy director of UDA checked every home that had been rehabilitated and, in many cases, had found that the work was not complete although the final inspection had certified that the work was completed. A former UDA rehabilitation officer told us it was standard practice for the UDA inspector to certify a home as complete, even though it was not, based upon contractor assurances that it would be completed before the final payment was processed.

Since our inspections identified numerous instances of work not fully and satisfactorily completed, the above described practice probably continued throughout the term of the program. We believe that if UDA had properly implemented administrative procedures when it recognized weaknesses in the inspection process many of the problems discussed in this report may have been prevented.

Because the HUD inspector who assisted us questioned whether inspections were made by competent personnel, we attempted to determine whether UDA's inspectors were qualified to inspect rehabilitation work. We were unable to make this determination because of the general nature of UDA's position descriptions and employment applications. We did learn, however, that:

- HUD guidelines do not require the use of inspectors who have obtained a State certificate of competency.
- The UDA inspectors were not certified.
- New Mexico State law requires that all municipalities employ inspectors who have secured certificates of competency from the State.
- The Santa Fe City building inspector's office employs certified inspectors.
- The Santa Fe building inspector issued building permits for virtually every rehabilitation project but did not make the required inspections because he was told by the UDA executive director his services were not needed.

Inability to obtain corrective action by contractors

HUD guidelines require that a followup inspection be made within 60 days after final inspection and that the homeowner be assisted in obtaining corrective action from the contractor if there were any complaints. Followup inspections were made but UDA personnel told us they were largely unsuccessful in obtaining corrective action from the contractors. Even though the contract provided for a 1-year guarantee, 54 percent of the homes we inspected still had unresolved complaints. UDA did not properly document these complaints and specifically cite them when formally dealing with contractors. We believe this approach hindered the agency's efforts to resolve the complaints.

HUD monitoring

Beginning in October 1970, and during the course of the program, HUD officials made at least 18 trips to Santa Fe to provide direction and assistance. Many of the problem areas we noted were written up by HUD and brought to the attention of UDA officials. On November 12, 1973, HUD, after repeated attempts to obtain the cooperation of the agency in solving its problems, warned of possible suspension action unless UDA took immediate action to correct its problems. Finally, on March 5, 1974, HUD terminated the program.

Although HUD was aware of many of the problems cited in this report and brought them to the attention of UDA officials, it did not declare any grant funds as ineligible for reimbursement pending correction of the problems by UDA. If HUD had taken such affirmative actions in dealing with UDA as the problems were identified many of the problems discussed in this report may have been prevented or would have resulted in the program being terminated earlier.

REHABILITATION NOT IN COMPLIANCE WITH PROGRAM REQUIREMENTS OF THE GRANT AGREEMENT

Grants

Of the 35 homes we inspected, HUD had reimbursed UDA for its rehabilitation grants to 24 homeowners whose homes did not meet PRS when UDA made final payment determinations. The homes did not meet PRS because the work statements did not include all of the work necessary and/or the work was not completed according to the terms of the rehabilitation contract. Therefore, in our opinion, these HUD grant reimbursements were used to pay for work which, although certified completed by the contractor, owner, and UDA, was not in compliance with basic rehabilitation program requirements specified in the grant agreement between HUD and UDA.

Section 115(a)(1) of the Housing Act of 1949, as amended, provides in part, that

*** Any such grant may be made only to an individual or family, as described in subsection (c) of this section, who owns and occupies real property 1/ in an urban renewal area and only for the purpose of covering the cost of repairs and improvement necessary to make such real property 1/ conform to public standards for decent, safe, and sanitary housing as required by applicable codes

or other requirements of the urban renewal plan for the area. * * * (Underscoring supplied.)

HUD guidelines state that:

* * * A rehabilitation grant may be made only to cover the cost of rehabilitation necessary to make an owner-occupied one- to four-dwelling-unit residential property conform to public standards for safe, decent and sanitary housing as specifically required by Property Rehabilitation Standards (PRS), and other costs as provided in this section. As a result of the rehabilitation work financed, in whole or in part, by a rehabilitation grant, the property must, at a minimum, conform to PRS. * * *

The contract between HUD and UDA provided for UDA to be reimbursed for the rehabilitation grants that were made to homeowners and expended. Under the contract, UDA obtains reimbursement for rehabilitation grants made to homeowners by submitting a request to HUD for an amount which should reflect only those rehabilitation grants that have been made and expended for work which has been fully and satisfactorily completed in accordance with the above guidelines. HUD has reimbursed UDA for all of the expenditures in connection with the rehabilitation grants authorized by their contract.

Loans

HUD rehabilitation loans were provided for 8 of the 35 homes after relying on UDA determinations. Six of these homes did not meet PRS when UDA final payment determinations were made because the work statements did not include all of the work necessary and/or the work was not completed according to the terms of the rehabilitation contract. We therefore believe these HUD loans were used to pay for work which, although certified complete by the contractor, owner, and UDA, was not in compliance with basic rehabilitation program requirements specified in the grant agreement between HUD and UDA.

Section 312(a) of the Housing Act of 1964 provides, in part, that:

* * * No loan shall be made under this section unless * * * the rehabilitation is required to make the property conform to applicable code requirements or to carry out the objectives of the urban renewal plan for the area * * *

HUD guidelines state that:

"* * * A rehabilitation loan may be made only with respect to a property which needs to be brought up to Property Rehabilitation Standards (PRS) and, in an urban renewal area the objectives of the Urban Renewal Plan. After rehabilitation, the property must, at a minimum, conform to PRS * * *"

POSSIBLE REMEDIES

One remedy available to the homeowner is to sue the contractor for noncompliance with the terms of the rehabilitation contract. This, however, is not practical because most of the homeowners cannot afford this alternative. Those who have used the legal aid society have not obtained satisfaction; their cases were complicated because the homeowners indicated the contractors had completed the rehabilitation work in accordance with the contract by signing the certificate of completion. We believe the following administrative remedy offers the best opportunity to correct the problems noted in this report with respect to the grant program. HUD could declare as ineligible for reimbursement the grant funds spent on all homes that were not completed according to the terms of the rehabilitation contract or did not meet PRS when completed. The city would then have the options of (1) repairing the homes at their own expense, (2) refunding the amount of the ineligible grants to HUD (HUD has already reimbursed UDA for all of the grants), or (3) refusing to do either. If the city completes the repairs to the homes, the eligibility of the grants would be restored. If they refuse to repair the homes or to refund the money, HUD could then reduce Santa Fe's earned urban renewal grant funds that are due and payable to UDA in the amount of the ineligible grants. As of April 23, 1976, Santa Fe's unused urban renewal grant funds amounted to \$492,231. If the earned urban renewal grant funds should be insufficient to cover the amount of the ineligible expenditures, HUD could recoup the amount of the ineligible grants by deducting them, where appropriate, from other Federal funds that might be due and payable to Santa Fe. These procedures can be used for grants because HUD fully reimbursed UDA for these grants.

Because of the contractual nature of the rehabilitation loans--the loans are between HUD and the homeowner--there appears to be no practical remedy for bringing the homes up to PRS.

CHAPTER 4

CONCLUSIONS, RECOMMENDATIONS, AND

AGENCY COMMENTS

CONCLUSIONS

Both HUD and UDA did not properly administer the rehabilitation loan and grant programs in Santa Fe. UDA prepared incomplete rehabilitation work statements, made inadequate inspections of completed work, and did not adequately record and resolve homeowners' complaints about work performed. As a result, some properties that were rehabilitated failed to meet PRS. In our opinion, the loans and grants to these property owners were used to pay for work which was not in compliance with basic rehabilitation program requirements. We believe the implementation of proper administrative procedures by UDA after HUD brought weaknesses in the inspection process to UDA's attention may have provided the control necessary to prevent many of the problems discussed in this report. In addition, we believe the manner in which UDA dealt with contractors when seeking to satisfy homeowner complaints hindered its efforts to resolve the complaints.

Although HUD identified many of the problems discussed in the report and informed UDA repeatedly of the need to correct them, HUD did not declare any grant funds as ineligible for reimbursement pending correction of HUD-identified problems. HUD finally terminated the program 4 years after it had started.

AGENCY COMMENTS AND OUR EVALUATION

On June 24, 1976, we provided UDA and HUD with copies of the report and requested that they provide us with any comments.

UDA

UDA indicated that some of the criticism contained in our report may be justified but disclaimed responsibility for

- actions by the contractors,
- actions by the homeowners, and
- actions by HUD.

The following discussion summarizes these and other UDA comments on our report and our evaluation thereof. See appendix II for the complete text of UDA's response to our report.

Actions by the contractors

UDA said that it had no control over any of the contractors after final payment had been approved by the property owner. UDA said it was unsuccessful in forcing the contractors to return to make necessary repairs or adjustments although it exhausted all the available authorities to achieve that end, that there was no legal vehicle by which UDA could force the contractors to comply with their contracts, and that UDA was not a party to the contract but merely a vehicle for the conduit of money and to get the homeowners and contractors together.

Although UDA was not a party to any contract for rehabilitation, its responsibilities (summarized on pp. 2, and 3) under the program clearly encompass much more than serving as a conduit for money and as a means of bringing the contracting parties together. HUD guidelines required UDA to prepare work statements, estimates of costs, contractual documents, and to perform other administrative services to exercise proper control over the rehabilitation work, including making final inspections to determine whether the work was satisfactorily completed in accordance with the contract before making final payments to the contractors. The property owner's approval of final payment does not relieve UDA from determining that the work was satisfactorily completed. Furthermore, the homeowners should, and often do, place some reliance on UDA's inspection of the home in making their approvals of final payment for the rehabilitation work. Proper inspections by UDA would have identified work not satisfactorily completed and final payment could have been withheld as leverage to have the contractor make the necessary repairs or adjustments. Instead, we noticed that while UDA was attempting to get contractors to return to a house to complete it satisfactorily, UDA continued to award other rehabilitation work to the same contractors.

UDA stated further that the concept and philosophy of the rehabilitation program directed that it be established to provide employment for small or minority contractors who were encouraged to employ workmen without skills thereby affording the workmen an opportunity for on-the-job training. UDA said that some of the deficiencies noted occurred because

the contractors did not have the necessary technical skills or knowledge and their employees were, in most instances, unskilled in the work which was undertaken.

HUD encourages providing employment for all its programs to small and minority contractors and, although such objectives are worthwhile and commendable, they cannot, in our opinion, justify noncompliance with the rehabilitation program's objectives and the terms of the rehabilitation work contracts. According to HUD guidelines, UDA was required to exercise care and good judgment in selecting contractors. The guidelines specify that selected contractors should be of good reputation, financially sound, and qualified to do the required work. The selection of small and minority contractors lacking in certain skills and knowledge should have impressed upon UDA the need to exercise greater care in inspecting the homes as the rehabilitation work progressed and at final inspection to insure that the work was being satisfactorily done.

Actions by the homeowners

UDA said the contractors were all selected or approved by the homeowners, that trade-offs between the homeowner and the contractor were unknown to UDA until after the fact, and that, except for a few complaints received by UDA after expiration of the year guarantee period, the great majority of property owners were satisfied with the work done.

Although homeowners may select contractors, all selections are subject to final approval by UDA. In many instances, the homeowner's approval was a technicality because UDA selected and negotiated with the contractors for the work to be done. With respect to the trade-offs agreed to between the homeowners and contractors, the contract prohibited work changes without prior UDA approval. Proper UDA inspections would have disclosed deviations from the contracted work and such work should not have been approved for payment by UDA. Such action early in the program would have prevented trade-offs (if they in fact did occur) from becoming a problem.

Finally, it is obvious from the houses we inspected that deficient and unsatisfactory work was done in more than a few instances and that the unsatisfactory work should have been immediately evident during the final inspection. For example, 27 of the 35 homes inspected were not brought up to PRS as required by HUD procedures and included deficiencies such as a wall of a house was not stuccoed and tile on the bathroom walls was not installed. In addition, 74 of

the 92 complaints considered to be substantive (see p. 5.) were made within the warranty period.

Actions by HUD

UDA indicated that probably one of the factors contributing to the contractors' failure to comply with the contract and PRS was that audits by HUD or independent public accountants failed to make this finding. It is difficult for us to see any causal relationship between the lack of audit disclosures and the contractors failure to comply with the contracts and PRS. As pointed out on page 17 of our report, however, many of the deficiencies noted in our report were brought to UDA's attention by HUD representatives, including the failure to comply with PRS, before the program was terminated.

UDA stated further that the factors contributing to the seemingly low quality of building inspectors were (1) under the administration guidelines set up for the program, the salaries were not competitive and (2) the concept and philosophy of the rehabilitation act was to hire minorities and their qualifications were not an actual factor or criterion in their employment.

There is nothing in the act or HUD guidelines relating to the rehabilitation program which provides that minorities should be hired or that persons hired as inspectors need not be qualified to do the work required by that position. Neither we nor HUD officials are aware of HUD guidelines establishing salary limitations for inspectors under the program. The hiring of inspectors was left to UDA. Furthermore, the Santa Fe Building Code requires city inspectors to inspect work such as that done under the rehabilitation program. But according to the Santa Fe building inspector, city inspections of the houses repaired under the HUD program were not made because the UDA director informed him that the inspections were not needed.

General comments

UDA stated that rehabilitating old substandard adobe homes requires different standards than those applicable to frame-stucco construction and that there were hidden items that needed to be repaired, removed, or replaced which could not be discovered until after repair of the home had begun. No additional or escrowed funds were available to cover these hidden items.

Authorizing legislation for both the rehabilitation loan and grant programs provides that repaired homes should

be brought up to local property rehabilitation standards. The standards used in the Santa Fe program were developed by Santa Fe officials and should have provided for any conditions unique to the housing in Santa Fe. Concerning the hidden items, HUD guidelines state that contract documents prepared by the local agency may provide for "alternates" which increase and decrease the contract price to cover an item of work, the need for which cannot be determined until some time during the course of rehabilitation work. Had UDA used this procedure, and coupled it with proper assessments of work required to bring homes up to PRS, the problem of hidden items could have been minimized.

UDA took exception to our proposals for corrective action in Santa Fe on the basis that the cost of accomplishing the same work intended under the original grant has tripled, the grants made to homeowners in most cases were insufficient to bring the homes up to PRS, and that the 35 homes in the report have deteriorated to such an extent that bringing them up to PRS without considering demolition would be almost impossible.

It is unfortunate that the cost of accomplishing the original work intended has increased and that demolition of the homes would have to be considered. However, if UDA had properly administered the program, the high cost of completing the originally intended work would not be a problem. Furthermore, if UDA is correct in saying that the grants were insufficient to bring the homes up to PRS, then the grants should not have been made because HUD guidelines clearly specify that rehabilitation work financed, in whole or in part by a grant, should not be attempted unless it results in bringing the property up to PRS.

Finally, UDA stated that our report failed to mention that the deficiencies noted in the Santa Fe program could be found in all other places where there was a rehabilitation program under urban development and that no credit was given to UDA in our report for providing good construction in the great majority of the rehabilitated homes. UDA concluded by questioning our capability to evaluate the housing conditions existing in Santa Fe.

Our review was made in Santa Fe; we have no information that would show the Santa Fe deficiencies are applicable to other communities' rehabilitation programs. The results of our review in Santa Fe, which revealed serious deficiencies in the quality and extent of work performed in a significant number of houses inspected, prevent us from concluding that good construction was provided in the great majority of the rehabilitated homes.

Concerning our capability to evaluate the Santa Fe program, a senior construction analyst from the HUD Dallas area office inspected the homes in our sample for us. He is a well qualified inspector who has had extensive experience inspecting housing construction, including many years served in Albuquerque, New Mexico, with HUD's Federal Housing Administration. Furthermore, his judgments regarding the rehabilitation work in Santa Fe were closely paralleled by the assessments made by inspectors from Santa Fe and the New Mexico Construction Industries Commission, officials who were familiar with local conditions.

HUD

HUD generally agreed that UDA did not properly administer the rehabilitation loan and grant programs in Santa Fe. In addition they believe that a number of loans and grants were made which ultimately did not comply with the provisions of the respective statutes which essentially require that the property rehabilitated must comply with PRS for the project. HUD also agreed with the basic conclusion of the preliminary report that additional steps are necessary and appropriate regarding the individual properties noted in our report that received loan and grant assistance. Furthermore, HUD agreed with most of the actions recommended in the report.

HUD believes it acted in a reasonable manner in its administration of the program because its field office in charge made 18 visits to the project, recognized the inadequacy of the rehabilitation work, reported this to project officials, gave notification to correct the situation or lose the authority to process loans and grants, and finally withdrew the authority when compliance was not obtained.

On the surface, the HUD area office approach to the situation in Santa Fe seems reasonable. However, there appears to be an inordinate amount of time which lapsed between identifying inadequate rehabilitation work, among other deficiencies, and withdrawing the authority to process loans and grants. Although HUD identified problems in UDA operations as early as October 1970, it was almost 3-1/2 years later before HUD finally terminated the program. In addition HUD did not take affirmative actions in dealing with UDA, such as declaring grant funds ineligible for reimbursement pending correction of the problems by UDA.

Although HUD agreed that the work we had done on the 35 homes would be sufficient for the purpose of declaring the grants ineligible as project expenditures, it stated that the cost of inspecting the remaining homes identified

by us as having substantive complaints would not be justified by the possible refunds of further ineligible expenditures. In addition, HUD said that it does not have the available staff to inspect the properties not covered by the report.

We recognize that the inspections may be costly; however, we believe that HUD would not be fulfilling its responsibilities under the program and to the property owners if it does not inspect the remaining homes which had substantive complaints and take appropriate action. We judged that there were substantive complaints about the rehabilitation work on 92 homes, but we selected only 35 of these homes for inspection. We believe the conditions of the remaining 57 homes would be similar to the conditions we found at the 35 homes discussed in this report.

Furthermore, UDA indicated (see app. II p. 32) that the grants made to homeowners, in most cases, were insufficient to bring the homes up to PRS. We believe that the potential benefit to the Government from inspecting the remaining homes in terms of increased public trust as well as possible refunds of ineligible expenditures would be worth the inspection cost.

HUD said it was considering a number of possible actions regarding section 312 loans found to be unsatisfactory; they include (1) investigating the validity of each complaint, (2) requesting the city to have the original contractor correct the work, (3) applying administrative procedures to get the contractors to complete the work, and (4) taking legal action, in coordination with the Department of Justice, against the contractors and/or city. If properly implemented, HUD's approach on this subject appears to be reasonable.

RECOMMENDATIONS

We recommend that the Secretary of Housing and Urban Development:

- Declare as ineligible for reimbursement the total grant funds spent on the 29 homes identified in this report, which either did not meet PRS when the work was completed, or for which the work was not completed according to the terms of the contract.
- Inspect the remaining homes on which we identified substantive complaints and determine the eligibility of the grants for reimbursement.

- Reduce Santa Fe's urban renewal grant funds that are due and payable to the Santa Fe Urban Development Agency in the amount of the rehabilitation grants declared as ineligible or offset the debt from other funds that might be due and payable to Santa Fe. This would occur in those cases where the city fails to repair the homes or refund the grant funds declared ineligible.
- Emphasize to its regional and area offices the importance of assuring that deficiencies noted in its monitoring of the program are corrected before releasing additional grant and loan funds.
- Instruct its regional and area offices, as part of their monitoring the program, to declare ineligible for reimbursement those grants that do not meet the objectives of the program.
- Require local public agencies to establish formal complaint and followup systems on rehabilitation programs.

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United States Senate

COMMITTEE ON APPROPRIATIONS
 WASHINGTON, D.C. 20510

October 24, 1975

B-118718

Honorable Elmer B. Staats
 Comptroller General of the
 United States
 Washington, D. C. 20548

Dear Mr. Staats:

I would like to bring to your attention a situation presently existing in Santa Fe, New Mexico, which I feel merits an investigation by your agency.

This matter has been discussed with Mr. Sebastian Correia of your staff who suggested that this official request be made outlining the basic problem and the areas to be investigated.

The problem revolves around the Grant and Loan Rehabilitation Program of the Department of Housing and Urban Development. The City of Santa Fe received funds under this program in 1972, and these funds were used to rehabilitate homes in the Santa Fe area which qualified under the criteria of the program. Shortly after the completion of the repairs on the homes in question, complaints began to pour into the Santa Fe Housing Office about the quality of the work done and the quality of materials used in doing the repairs.

The Housing Authority contacted the contractors involved and requested that they return and redo the repairs, but most of them refused. No leverage was ever exerted by HUD to persuade these contractors to redo these repairs for which they were handsomely compensated.

This controversy has now reached its peak and the people involved have requested the assistance of State Senator Alex Martinez and me.

APPENDIX I

APPENDIX I

Recently, Senator Martinez and Bob Baca, my Administrative Assistant, toured these homes and reported to me the intolerable conditions of these homes. It was because of this that I decided to seek your help.

I would like to have your agency prepare an investigation into the nature of the loans and grants which were made to the residents of Santa Fe. I also request an investigation into the quality of the repairs, looking specifically at HUD's role in inspecting these repairs as they were being made. What all this amounts to is an evaluation of the program from the standpoint of HUD and the roles played by the City of Santa Fe.

I have directed Bob Baca of my staff to meet with Mr. Correira and specifically outline the problem areas to be looked into.

As always, I appreciate your prompt attention and response.

Sincerely,


Joseph M. Montoya
United States Senator

In Response Refer to:
PR-DC-rbb

Santa Fe Urban Development Agency

BOARD OF COMMISSIONERS
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 SANTA FE, NEW MEXICO 87501
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July 29, 1976

DOE E. SERVIS
 EXECUTIVE DIRECTOR
 JERRY E. DAVEY
 DEPUTY DIRECTOR

Mr. Henry Esclwege
 Director
 United States General Accounting Office
 HUD Audit Site
 Room 8254 - HUD Building
 451 - 7th Street, S.W.
 Washington, D.C. 20410

Subject: Review of Draft Report
 GAO Audit
 Rehabilitation Program
 Santa Fe, New Mexico

Dear Mr. Esclwege:

Pursuant to our telephone conversation and your invite contained in your letter of June 24, 1976, wherein you transmitted copies of your report regarding rehabilitation problems encountered within the Santa Fe Urban Development Agency program, and which report is addressed to the Honorable Joseph M. Montoya, United States Senator from New Mexico.

In response to the matters contained in said report, we feel that although some of the criticisms contained therein may be justified, there are a number of areas in which this Agency disclaims responsibility, these areas being:

A. Actions on the part of the contractors.

1. The Agency had no control over any of the contractors engaged in the rehabilitation work after final payment had been approved by the property owner. Although complaints were made by some property owners, the Agency was unsuccessful in forcing the contractor to return to the job to make the necessary repairs or adjustments although it exhausted all of the available authorities to achieve this including complaints to the New Mexico Construction Industries Commission who licenses and regulates contractors in an attempt to persuade the said Commission to compel the contractors to return to the job or suffer the loss of his license or liability under his bond. The Construction Industries Commission had a deaf ear at said times, and has just recently entered the picture when the GAO staff started its investigation.

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RE: GAO Audit - Rehab Program
July 29, 1976
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2. The Agency also attempted to force the contractors to return to the job by filing complaints with the New Mexico Consumer Protection Agency which is the division under the Attorney General of the State of New Mexico.
 3. Thought must also be weighed with regard to the concept and philosophy of the rehabilitation program which directed that it be established to provide employment for small or minority contractors who were encouraged to employ workmen without skills thereby affording the workmen an opportunity for on-the-job training. Some of the deficiencies noted were caused by the fact that the contractors were such that did not have the necessary technical skills or knowledge and that their employees were, in most instances, unskilled in the work which was undertaken. Established contractors did not show any interest or inclination nor did they bid for any of the jobs offered under the Santa Fe rehabilitation program.
 4. Irrespective of all the efforts made by the Agency in an attempt to require the contractor to return to the job and make the necessary corrections, the Agency could not, and the contractors knew it, under any existing law, force them to comply because there was no legal vehicle by which the Agency could have a judicial order requiring the contractor to comply with the contract or suffer damages. It is a fact that the Agency was merely a vehicle for the conduit of money and to get the homeowners and contractors together, and was not a party (could not legally be) to any contract for rehabilitation.
- B. Actions by the homeowners.
1. The contractors were all selected or approved by the homeowners.
 2. Trade-offs between the homeowner and the contractor occurred which this Agency had no knowledge of until after the fact.
 3. Authorization by the homeowners for final payment when to their knowledge, they knew or should have known that the contractors had not completed the work in accordance with their contract.
 4. In the great majority of instances, the property owner generally professed to be satisfied with the work done by the contractor. In those few complaints that were received by the Agency after the year guarantee period, the homeowners were advised that their remedy was through legal proceedings in a court of law for any damages caused by the contractor's failure to perform in accordance with the contract.
- C. Supervisory matters for which the Department of Housing and Urban Development is primarily responsible.
1. Although the Department of Housing and Urban Development terminated the rehabilitation program on March 5, 1974, this was done to a great extent, due to the Agency Board's request, the Board having requested the discontinuance of said program because of the difficulties encountered up

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- to that point, and the Board not being willing to continue the program when it appeared to the Board that such continuance would result in compounding the deficiencies already existing.
2. Probably one of the factors contributing to the contractors failure to comply with the contract and the Property Rehabilitation Standards is the fact that on all the audits made by the Department of Housing and Urban Development or independent public accountants, there was never any mention or finding made with regard to these so-called deficiencies.
 3. A contributing factor to the seemingly low quality of building inspectors is the fact that under the administration guidelines set up under the HUD Program, was that salaries were not competitive in the open market.
 4. Also to be considered within the scope of the rehabilitation program is the fact that there were and are no guidelines for the selection of inspectors under the Rehabilitation Act. Again, in this area, the concept and philosophy of the law was to hire persons to be considered minority and their qualifications were not an actual factor or criterion in their employment. Journeyman quality of work cannot be guaranteed from untrained labor hired as directed by the Standards.
- D. General comments on the audit report.
1. No credit was given the Agency in the GAO report for the successes in providing good construction in the great majority of the rehabilitated homes and in providing the people who live therein with a cleaner and safer environment.
 2. Although not mentioned in the report, the deficiencies noted are applicable in all places where there was a rehabilitation program under Urban Development.
 3. In considering the effect of the recommendations contained in the report, among which is a recommendation that the City be required to rehabilitate the homes or pay back the money expended, a realistic look at this recommendation requires us to look at the current market which has more than tripled the cost of accomplishing the same work that was intended to be done under the original grant; and further, that the grants made to individual homeowners in most cases, were insufficient to bring the homes in this area up to the Property Rehabilitation Standards; and that to bring those homes up to the said standards under present cost, would be far in excess than the triple market condition heretofore referred to. The present condition of the homes would also be a factor since either through lack of interest and certainly lack of proper maintenance, the 35 homes singled out in the report have deteriorated to such an extent that bringing them up to Property Rehabilitation Standards without considering demolition would be almost impossible.

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4. Consideration must also be given to the fact that rehabilitating old substandard adobe homes require different standards than those that would be applicable to a frame-stucco type construction, taking into consideration that many homes have thick, crooked, mud walls, many of which have sod roofs.
5. At the time that the rehabilitation program was initiated, the persons responsible did not foresee that in its implementation, there were hidden items that would have to be repaired, removed or replaced which could not be discovered until after the rehabilitation of the home had begun, and no additional or escrowed funds were available to cover these "hidden items".
6. The lapse of so many years between the date of construction and the current request for inspection as to compliance under the contract, poses an almost impossible task of determining which items of construction were not made in accordance with the contract.
7. In order to understand the nature of the construction and aesthetic value and the soundness and stability of the structure, it is important that it be looked at through eyes capable of understanding what they see. For a person totally unfamiliar with a scene to take a look and attempt to evaluate what he does not understand is not a true evaluation of the condition as it actually exists.

It is regrettable that there were no means available to the Agency by which it could have corrected the matters complained of. Had there been such means available, the Agency would have exerted every effort to remedy legitimate complaints, although the Agency did attempt to do so within the limits of the means afforded.

Respectfully submitted,


 Henry Esclwege
 Chairman


 Don E. Ervis
 Executive Director

/fr



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

October 1, 1976

OFFICE OF THE ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

IN REPLY REFER TO:

Mr. Henry Eschwege
Director, Resources and Economic
Development Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your letter of June 24, 1976, to Secretary Mills transmitting a draft audit report entitled "Homes in Santa Fe, New Mexico, Not Rehabilitated in Accordance with Federal Requirements," asking for our comments on the report prior to finalization of the report by your office.

With the exception of a few technical comments contained in the report which we cover in the attached list, we generally agree with the main theme of the report that the Santa Fe Urban Development Agency did not properly administer the Section 312 loans and the Section 115 grants which were made in connection with the Neighborhood Development Project (NDP) (New Mexico, A-4). There is no doubt in our minds that the program was poorly managed by the city and that a number of loans and grants were made which ultimately did not comply with the provisions of the respective statutes that essentially require that the property rehabilitated must comply with Property Rehabilitation Standards (PRS) for the project. As pointed out by the report, HUD's recognition of this factor was one of the principal reasons that the project's authority to use Section 115 and Section 312 assistance was withdrawn on March 5, 1974, four years after its inception.

The report also questions HUD's administration as an overseer of the project and the loan and grant activity. HUD's responsibility with regard to the categorical renewal programs, under which NDP projects fall, is spelled out in Field Management Procedures Handbook, 7399.1 SUPP 1, Chapter 2, Section 4, Paragraph 3:

3. MAJOR AREAS OF EMPHASIS IN CONFORMANCE REVIEW. In the renewal assistance programs, there are certain execution activities in which HUD has special responsibilities because of the public impact of these activities or because of special emphasis placed on these functions by legislation. Special attention shall be directed to assuring that: . . .

2

- f. Properties designated for rehabilitation in federally aided areas are actually being brought up to the applicable standards on which provision of assistance is based and local agencies are providing periodic inspections by supervisory staff of operations staff activities (in the urban renewal, neighborhood development, code enforcement, and certified area programs). If the rehabilitation work is financed with a loan and/or grant, all the work required by the construction contract has been satisfactorily performed.

Although the project's rehabilitation activity was in execution for approximately four years, a relatively short period for a program of this type, a fair number of loans and grants were made during this period. The HUD field office in charge did make 18 visits to the project, recognize the inadequacy of the rehabilitation work, report this to the project officials for corrective action, give notification to the project managers to correct the situation or have their authority to process loans and grants withdrawn, and finally withdrew the authority when compliance was not obtained. In this respect, we feel that the Department acted in a reasonable manner in its administration of the program. However, we agree with the basic conclusion of the report that additional steps are necessary and appropriate with respect to the individual properties in Santa Fe that received Section 312 or Section 115 assistance.

At this point we agree with most of the remedies recommended in the report with the exception of the recommendation for extensive additional HUD inspection of properties not covered by the report.

We agree that it would probably be useless (more so for the grants than the loans) to pursue the individual contractors for compliance since that has already been tried and because such an action would put most of the burden on the homeowners.

Project funds expended for Section 115 grant assistance for the rehabilitation of properties which are not brought into compliance with PRS are not eligible project costs and are subject to disallowance on final audit. We are advised that this project is substantially in a position to be closed out, pending final cost eligibility determinations and satisfactory resolution of the repayment of disallowed costs. Any surplus grant funds which may otherwise become available to the locality under a financial settlement of the project pursuant to Section 112(b) of the Housing and Community Development Act of 1974 would be withheld until full repayment of such costs.

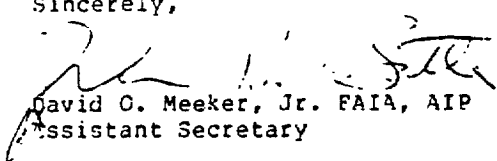
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The Department at this time does not have the available staff to mount an additional survey of grant cases to find further complaints. We believe that your large scale effort to find complaints, which was accomplished in part with the assistance of HUD staff, is sufficient for the purpose of declaring the grant cases reviewed ineligible as project expenditures. Given the added costs of finding the remaining grant complainants, we do not believe the survey's cost would be justified for the government by the possible refunds of further ineligible costs.

With respect to Section 312 loans found to be unsatisfactory in Santa Fe, of which there are only a very small number, the situation is very different. There are a number of actions that we are considering taking to accomplish the goal of resolving the unsatisfactory rehabilitation work; they include: (1) investigating each complaint identified by your study to determine whether we believe the individuals have a valid claim, (2) asking the city to have the original contractors correct the work, (3) intervening directly using HUD staff and applying administrative procedures to get the contractors to complete the work, and all else failing, (4) taking some form of legal action against the contractors and/or city. Of course, any legal action considered must be worked out in close coordination with the Department of Justice.

We appreciate the opportunity to review the draft report.

Sincerely,



David C. Meeker, Jr. FAIA, AIP
Assistant Secretary

Attachment