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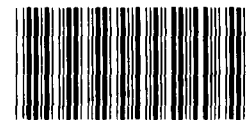
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General Accounting Office

Duplicative And Unnecessary Renovations Made In The HUD-Subsidized Concord Commons Apartments In Rockford, Illinois

The Department of Housing and Urban Development insured a renovation loan of over \$2 million at the Concord Commons apartment complex after having spent \$1 million to renovate many of the same apartment units just 2 years earlier. The application for an insured mortgage was approved by HUD's area office housing development staff, which was not aware of how much renovation was previously done by area office property disposition staff. Further, the staff, in approving the amount of work to be done by the new owner, visited only damaged apartments. As a result, duplicative and unnecessary work was done.

GAO recommends that HUD advise other area offices nationwide of the problems that occurred at Concord Commons and the need to effectively coordinate renovation work among the groups involved. GAO also recommends that HUD determine if Concord Commons-type problems are of sufficient magnitude elsewhere to warrant nationwide corrective actions.



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UNITED STATES GENERAL ACCOUNTING OFFICE
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COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-206378

The Honorable Charles H. Percy
Chairman, Subcommittee on Energy,
Nuclear Proliferation and
Government Processes
Committee on Governmental Affairs
United States Senate

The Honorable Lynn Martin
House of Representatives

In response to Senator Percy's letters of August 12 and September 2, 1981, and Congresswoman Martin's letter of August 13, 1981, this report discusses duplicative and unnecessary repairs approved by the Department of Housing and Urban Development (HUD) at the Concord Commons apartment complex in Rockford, Illinois. The HUD Chicago Area Office has taken some action to preclude unnecessary renovation work in the future by requiring better coordination among area office staffs. We are recommending that HUD also advise other area offices nationwide of the need for effective coordination. Also, we are recommending that the Secretary determine if the problems disclosed regarding the renovations of Concord Commons are of sufficient magnitude elsewhere to warrant additional nationwide corrective actions.

At your request, we did not take the additional time needed to obtain official comments from HUD, the Rockford Housing Development Corporation, and other interested parties on the matters discussed in this report.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days after its issuance. At that time we will send copies to the Director, Office of Management and Budget; the Secretary of HUD; the Rockford Housing Development Corporation; and other interested parties.

Henry Eschwege

Henry Eschwege
Director

D I G E S T

Although the Department of Housing and Urban Development (HUD) spent about \$1 million to renovate 156 of the 216 apartments at Concord Commons in Rockford, Illinois, during 1978 and 1979, all 216 apartments are being renovated again by the Rockford Housing Development Corporation using a HUD-insured loan for \$2.9 million, including \$2.3 million for construction work and architectural services. In addition, HUD has attached section 8 subsidies to 100 percent of the project's units to assist in paying the rents that will be used, in part, to repay the HUD-insured loan. HUD's obligation to provide section 8 assistance to the project once renovation is complete is more than \$14 million over the next 15 years.

GAO's inspection of 20 apartments that HUD repaired as part of the first renovation showed that about half of the individual items scheduled for replacement were still functional. In addition, the replacement cost of these items amounted to \$41,653, or about 43 percent of the estimated \$97,795 replacement cost for items examined. GAO also observed many items that, in its opinion, needed only minor repairs to be functional.

For example, 48 metal closet doors, or 64 percent of the metal closet doors GAO examined in 20 apartments, had no visible defects or only minor dents and scratches. Most of the remaining doors were missing knobs or were off their tracks. These doors are being replaced with wooden doors in all 216 apartments at an estimated cost of \$112,000. A Rockford Housing Authority maintenance man told GAO that the new doors have the same problem as the old ones--they do not close tightly. (See pp. 8 and 9.)

In some instances the original items were identical to and in virtually the same condition as the replacement items. For example, the Rockford Housing Development Corporation is spending approximately \$15,000 to replace medicine cabinets and shower curtain rods in all 216 apartments.

In the 20 apartments GAO visited, 16 had shower curtain rods, none of which was defective. Of the 20 medicine cabinets GAO examined, 7 had no visible defects while the remaining 13 had minor problems, such as missing handles or shelves or minor rusting. The replacement cabinets appear to be the same brand and type as the originals. (See pp. 10 and 11.)

This questionable work was done because HUD's Housing Development staff, in evaluating the new owner's renovation proposal, visited only damaged apartments and did not take into account renovation work performed by HUD's Property Disposition Branch 2 years earlier. Moreover, Housing Development staff reviewed and approved architectural drawings and specifications submitted by the new owner's architect, unaware that this work duplicated much of the work done by an architect hired by the Property Disposition Branch in 1979 when HUD owned Concord Commons. The first architect was paid \$9,300 while the second received almost \$105,000, including an \$8,000 duplicative payment. (See pp. 18 and 19.)

In August 1981, the HUD Chicago Area Office issued instructions for improving coordination between the Multifamily Property Disposition and Housing Development sections. Among other things, a thorough review of the renovation plans is to be made by both parties and a memo concurring in nonduplicative renovation work is to be included in the approval package. GAO is recommending that the Secretary of HUD notify its area offices nationwide of the problems that occurred at Concord Commons and extend the new procedure to all area offices. (See pp. 21 and 24.)

Following publication of critical newspaper articles, the new owner's project manager and HUD attempted to justify the magnitude of the present renovation as necessary to increase the marketability of the apartments. They also maintained that it was more prudent to replace functional items now rather than wait until a later date. (See pp. 25 and 27.)

Although GAO does not question the need for some repairs to Concord Commons, it found that the justifications cited by the new owner's project manager and HUD did not support the magnitude of the second renovation. The second renovation, in GAO's

opinion, was undertaken without adequate regard for cost-effectiveness and without sufficient indication that the marketability goals for renting Concord Commons apartments could be met. Moreover, neither cost-effectiveness nor formal marketability studies were prepared before HUD approved the second renovation.

GAO believes that upgrading projects more than necessary results in fewer housing units that can be repaired and fewer needy people that can be served with available section 8 funds. Because renovation costs must be recovered through rents, making unnecessary renovations increases the rents that must be charged and decreases the number of people that can be served.

HUD's procedures governing repair of multifamily properties are vague and permit field office staff considerable latitude in determining the extent of needed repairs. The procedures establish minimum levels of repair to bring the properties up to a decent, safe, and sanitary condition but do not require that decisions to repair above that level or to replace instead of repair be justified. (See p. 25.)

GAO recommends that the Secretary of HUD direct the appropriate HUD office(s) to determine if the renovation problems found at Concord Commons are of sufficient magnitude elsewhere to warrant nationwide corrective actions. In this determination, the Secretary should direct that current policies, guidelines, and standards for the renovation of multifamily projects sold with HUD-insured loans and subsidies be reviewed to determine if further clarification is needed for

- controlling renovation work, including approval of repairs beyond those necessary to provide decent, safe, and sanitary housing, and
- evaluating the reasonableness of proposed renovation work, including requirements for conducting cost-effectiveness and marketability studies as part of the decisionmaking process.

By making it clear that renovation work should not exceed the level needed to bring a property being sold up to decent, safe, and sanitary condition, HUD could serve more people under its programs. (See p. 35.)

GAO also identified a number of deficiencies in contracting procedures and practices used during both the first and second renovations. Because of actions taken and planned, GAO is not making any recommendations on these matters at this time. (See ch. 4.)

- - - -

GAO reviewed the HUD-financed renovation of the Concord Commons apartment complex, a former HUD-owned property in Rockford, Illinois, at the request of Senator Charles H. Percy, Chairman, Subcommittee on Energy, Nuclear Proliferation and Government Processes, Senate Committee on Governmental Affairs, and Congresswoman Lynn Martin. At their request, GAO did not follow its normal practice of obtaining official comments on the report from HUD, the Rockford Housing Development Corporation, and other affected parties.

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ABBREVIATIONS

GAO

General Accounting Office

HUD

Department of Housing and Urban Development

CHAPTER 1

INTRODUCTION

At the request of Senator Charles H. Percy, Chairman, Subcommittee on Energy, Nuclear Proliferation and Government Processes, Senate Committee on Governmental Affairs (requested Aug. 12, 1981) and Congresswoman Lynn Martin (requested Aug. 13, 1981) we reviewed the renovation of the Concord Commons apartment complex in Rockford, Illinois. Their concerns over the work were raised by a series of investigative reports in the "Rockford Register Star" newspaper. The newspaper reported that just 2 years after the Department of Housing and Urban Development (HUD) spent about \$1 million renovating the complex, the Rockford Housing Development Corporation, which purchased the property from HUD, was spending \$2.1 million in federally insured money to do much of the same work. The requestors were also concerned about whether tenants would be willing to pay the rents that would have to be charged after the renovation and whether contracting procedures used during both renovations were proper.

HUD RESPONSIBILITIES FOR DISPOSING OF ACQUIRED MULTIFAMILY PROPERTIES

Under the National Housing Act (12 U.S.C. 1701 et seq.), as amended, HUD provides insurance for private lenders against losses on mortgages for financing multifamily as well as other projects. After a determination that the mortgage and the property meet underwriting standards and requirements, HUD issues a commitment to the mortgagee setting forth the conditions under which the project will be insured. In the event that the project defaults, HUD pays the mortgagee (lender) all or most of the remaining mortgage and generally the mortgage is assigned to HUD. If HUD is unsuccessful in reinstating the defaulted mortgage, it proceeds with foreclosure to acquire title to the property. After acquisition, HUD operates and maintains its projects through private real estate firms and area management brokers called "project managers" until it sells or otherwise disposes of its projects. Project managers are responsible for the day-to-day management of the projects, including collecting rents, paying project expenses, and maintaining control over project property.

Until 1977, HUD's policy was to perform minimal repairs to the properties and sell them without a subsidy. In 1977, however, HUD changed its policy and began to undertake major repairs and sell the projects with commitments of section 8 subsidies in order to preserve their low-income character. Under the section 8 program, HUD makes up the difference between what a lower income household can afford and the fair market rent for an adequate housing unit. No eligible tenant need pay more than 30 percent of adjusted income toward rent.

In an effort to reduce the time projects remained in its inventory, HUD in 1979 also began to allow repairs to be made by the purchaser after the sale and to provide insured mortgages for repairs. Additional instructions issued in November 1981 specify that, to the extent feasible, all HUD-owned multifamily properties are to be sold under the condition that the purchaser make any necessary repairs.

In order to qualify for section 8 assistance, repairs, whether made by HUD or the purchaser, have to bring the property up to a decent, safe, and sanitary condition. Additionally, properties for which HUD will provide mortgage insurance must meet HUD's underwriting standards.

During fiscal year 1981, the HUD Chicago Area Office sold 12 properties; 9 projects were sold fully repaired while the remaining 3, including Concord Commons, were sold under the condition that the buyer would perform any necessary renovations and HUD would insure the mortgage.

HISTORY OF CONCORD COMMONS

Concord Commons was constructed in 1970 and consists of 216 units of two- and three-bedroom apartments in 12 buildings. The complex is located on the west side of Rockford, Illinois, in an area known as Washington Park.

HUD took possession of the mortgage in 1975 after the owners, a group of private investors, defaulted on a \$3.5 million HUD-insured mortgage. Major problems cited by HUD for the project's failure included:

- Poor management and maintenance, as well as problem tenants, caused expenses to exceed cash flow.
- The project's location and its proximity to another project plagued by gangs made it difficult to attract tenants, especially nonminorities.
- A shopping center adjacent to the project closed.

HUD received title to Concord Commons in September 1977. During 1978-79 HUD's Property Disposition Branch conducted a repair program at the apartment complex. A construction contract was awarded to a local contractor to renovate five vacant buildings. Other apartments in the remaining seven buildings were repaired by the property manager using purchase orders.

While the renovation work was going on, negotiations were initiated with the Rockford Housing Authority for the sale of the project and in late 1979 an agreement was reached. Because, according to HUD, the housing authority was not authorized to have any outstanding indebtedness, it formed a nonprofit corporation, the Rockford Housing Development Corporation, to purchase Concord

Commons. Actual day-to-day management of the project was to be handled by the housing authority. Initially the board members of the nonprofit corporation were also board members or staff of the housing authority. However, in May 1981 the board was replaced by persons independent of the housing authority in order to comply with requirements for obtaining tax-exempt financing under section 11(b) of the National Housing Act of 1937.

HUD proposed to sell the project with a section 8 subsidy allocated to 100 percent of the apartment units. Additional repair work needed would be done by the nonprofit corporation after the sale, with HUD providing mortgage insurance for the rehabilitation.

In March 1980, the mortgagee submitted an application to HUD for insured mortgage financing. Included as part of the proposal was a recommendation by the housing authority to renovate apartments uniformly in seven buildings, some of which had been renovated by HUD's property manager under purchase orders. The remaining apartments in the five buildings repaired by HUD under the formal construction contract were to receive floor tile and carpeting. During application processing, HUD's Housing Development staff approved the uniform renovation of all apartments in the 12-building complex.

In May 1981, HUD sold Concord Commons to the Rockford Housing Development Corporation for \$1 with the agreement that the purchaser would rehabilitate the apartment units and HUD would insure the renovation loan. HUD's commitment for mortgage insurance totals \$2,919,700 and includes \$2,294,800 for construction work and architectural fees. HUD's obligation to provide section 8 assistance to the project once renovation is complete is over \$14 million over the next 15 years.

Actual renovation work began in July 1981 and is scheduled to be completed in May 1982.

OBJECTIVES, SCOPE, AND METHODOLOGY

As requested by Senator Percy and Congresswoman Martin, and as modified through subsequent discussions with their staffs, we reviewed the HUD-financed renovation of the Concord Commons apartment complex located in Rockford, Illinois. The objectives of our review were to

- examine whether the second renovation was needed and whether adequate justification existed for replacing functional items,
- evaluate HUD's oversight concerning occupancy history and whether claims about the ability to rent the project in the future are reasonable, and
- assess the propriety of contracting procedures used in both renovations.

Our review was made in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." Our audit work was conducted between September 1981 and January 1982. At the HUD Chicago Area Office we reviewed legislation, regulations, policies, procedures, and directives concerning HUD's programs for the disposition and renovation of multifamily properties. We also reviewed HUD's files on Concord Commons and held numerous discussions with officials in the Housing Division.

We contacted officials from the HUD Office of Inspector General during the review; obtained copies of their reports and; where appropriate, considered their findings in our study.

We interviewed officials of the Rockford Housing Authority and the new owner of Concord Commons, the Rockford Housing Development Corporation. We did not contact the mortgagee (lender). We reviewed housing authority files related to the purchase and ongoing renovation of Concord Commons. Additionally, we contacted city and county community development officials and the Rockford Apartment Association, and we interviewed HUD's former property manager as well as architects and contractors involved in the renovation work.

We visited the Concord Commons complex on several occasions and inspected a variety of apartments, including vacant and occupied apartments and apartments where renovation work was underway or almost complete. We judgmentally selected 20 apartments for inspection which were repaired by HUD in 1978-79 and in which work had not yet started under the second renovation. In making our selection we picked 10 apartments that were previously repaired under a formal construction contract and 10 that were repaired through purchase orders which, according to HUD records, had the largest dollar amount of renovation work performed. During our inspections, we took many photographs to document our observations of the renovation work being performed. Several of these photographs are included in the report.

At the request of Senator Percy and Congresswoman Martin, we did not follow our normal practice of obtaining official comments on the report from HUD, the Rockford Housing Development Corporation, and other affected parties. The matters covered in the report were discussed with various responsible officials and their comments have been incorporated in the report where appropriate.

Finally, we reviewed the legal basis cited by HUD and the Rockford Housing Development Corporation regarding whether the scope of the remaining renovation work to be performed at Concord Commons could be stopped or reduced.

CHAPTER 2

INADEQUATE COORDINATION AND REVIEW BY HUD

RESULTED IN DUPLICATION OF WORK AND

REPLACEMENT OF FUNCTIONAL ITEMS

During 1978-79, HUD's Property Disposition Branch spent approximately \$1 million renovating the Concord Commons apartments including 156 of the 216 apartments in the complex. Only 2 years later, in May 1981, HUD approved a Federal Housing Administration-insured loan for \$2.9 million, including \$2.3 million for architectural services and renovation work, so that the Rockford Housing Development Corporation, a nonprofit corporation formed by the Rockford Housing Authority, could rehabilitate all 216 apartments in the complex. The application for an insured mortgage was processed by HUD Housing Development staff, who were not aware of the degree of renovation work previously done by the Property Disposition Branch. In addition, Housing Development staff, in approving the amount of work needed to be done by the new owner, visited only damaged apartments.

Our inspection of 20 apartments which were repaired by HUD as part of the first renovation showed that 344 of 645 individual items, or about 53 percent of the individual items we looked at, were functional yet scheduled for replacement under the second renovation. We estimated the replacement cost for these functional items to be \$41,653, or 43 percent of the estimated replacement costs of \$97,795 for all items examined. In addition, many of the remaining items, in our opinion, needed only minor repairs to be functional.

Inadequate coordination by these two HUD groups also resulted in duplication of design work. We found that design work performed by the development corporation's architect duplicated much of the work done by another architect hired by the Property Disposition Branch in 1979. The first architect was paid \$9,300 while the second received almost \$105,000 including an \$8,000 duplicative payment. The development corporation's architect admitted to us that he copied major portions of the earlier architect's work, that his \$97,000 design fee was probably too high, but that the fee for supervising construction work was too low and that he was overpaid \$8,000 due to a bookkeeping error. (The \$8,000 overpayment was refunded in January 1982).

The HUD Chicago Area Office issued instructions in August 1981 that provided guidance for improving coordination between the Multifamily Property Disposition and Housing Development sections. The instructions require that in all future cases where HUD-owned properties are to be sold and rehabilitated with HUD providing insured mortgage financing, there is to be close coordination between the two sections as well as a thorough review of the

repair plans included in the insured mortgage. Special care must be taken to assure that work completed by the Property Disposition Branch is not needlessly duplicated by any further rehabilitation contemplated by the new proposal. A memorandum will be prepared and signed by the deputy directors for Housing Management and Housing Development concurring in the nonduplicative rehabilitation costs. According to HUD headquarters officials, consideration will be given to directing area offices throughout the country to use this new procedure to prevent duplication of renovation work.

Nonetheless, renovation work at Concord Commons continues. According to area office officials, HUD is only insuring the loan for the lender and is not a party to the construction contract. Therefore, it does not have authority to stop or reduce the scope of the work.

Legal analysis by our Office of General Counsel confirms HUD's position that it cannot unilaterally terminate or reduce the scope of work in the existing contract between the development corporation and the construction contractor. HUD cannot interfere with contract terms and provisions that it previously approved.

In February 1982, after our findings were brought to its attention, the HUD Chicago Regional Office inspected Concord Commons and confirmed that unneeded renovation work was being done. In addition, the Rockford Housing Development Corporation agreed in February 1982 that unnecessary renovation work was taking place and should stop. However, after considering this matter further, the development corporation board members concluded that little could be done to reduce the scope of the remaining work because many items were custom made for Concord Commons or were subject to expensive cancellation or restocking charges.

CURRENT RENOVATION DUPLICATES
WORK PERFORMED BY HUD
DURING 1978-79

The ongoing renovation of 216 apartments in the Concord Commons complex by the Rockford Housing Development Corporation duplicates much of the work completed by HUD only 2 years earlier. All 156 of the apartments previously repaired by HUD are being redone. While repairs during the first renovation were performed on an as-needed basis, the current renovation includes the uniform replacement of items in all apartments regardless of condition.

First renovation performed by HUD
covered 156 apartments and was
conducted on a repair-as-needed basis

During 1978-79, HUD spent approximately \$1 million to repair and renovate the Concord Commons apartment complex. The renovation included repair of 156, or 72 percent, of the project's 216 apartments. Eighty-two apartments were repaired as part of a

formal construction contract at an average cost of \$5,568 per unit. The remaining 74 units were repaired by the property manager at an average cost of \$1,948. The actual work done depended on the condition of a particular apartment. Most were painted and cleaned and items such as cabinets, countertops, doors, windows, and other fixtures were repaired or replaced as needed. In addition to the construction work, the property manager purchased new ranges and refrigerators for 105 apartments. Air conditioners and window screens were bought for all 216 units.

The following table shows some of the major items that were repaired or replaced in 20 apartments we inspected.

<u>Item repaired or replaced</u>	<u>Number of apartments</u>
Entrance doors	20
Paint	20
Medicine cabinets	20
Electrical light fixtures	20
Closet bifold doors	18
Ranges	13
Refrigerators	11
Windows	10
Kitchen cabinets	10
Exhaust fans	10
Plumbing fixtures	10
Floor tile	9
Countertops	5

According to HUD procedures, repairs were to be sufficient to bring the units up to a decent, safe, and sanitary condition. HUD's former property manager also told us that the units were in move-in condition when the work was completed. As further discussed in chapter 3, in 1979 HUD spent almost \$9,000 for television ads in which the apartments were described as beautifully redecorated units.

Besides interior apartment work, other repairs were made to building exteriors and common areas. For example, boilers were replaced in five buildings and were repaired in the other seven. Washers, dryers, and water heaters were replaced in most buildings.

Second renovation by the development corporation covers all 216 units in the complex

The estimated construction cost of the present renovation work at Concord Commons is \$2,165,697 and involves work in common areas such as landscaping, construction of stairwell enclosures, and replacement of boilers and water heaters not replaced as part of the earlier renovation. It also includes rehabilitation of all 216 units in the complex. As shown by the following schedule, the estimated cost of work in the apartments is \$1,641,265, or \$7,598 per unit.

<u>Type of work</u>	<u>Estimated cost</u>
Interior apartments	\$1,641,265
Exterior, common areas, general requirements	<u>524,432</u>
Total	<u>\$2,165,697</u>

Items being replaced or installed in each of the 216 units include kitchen cabinets and countertops, entrance and closet doors, ranges and refrigerators, carpeting and floor tile, windows, and plumbing and electrical fixtures. Each apartment will be repainted.

FUNCTIONAL ITEMS BEING REPLACED
AS PART OF SECOND RENOVATION

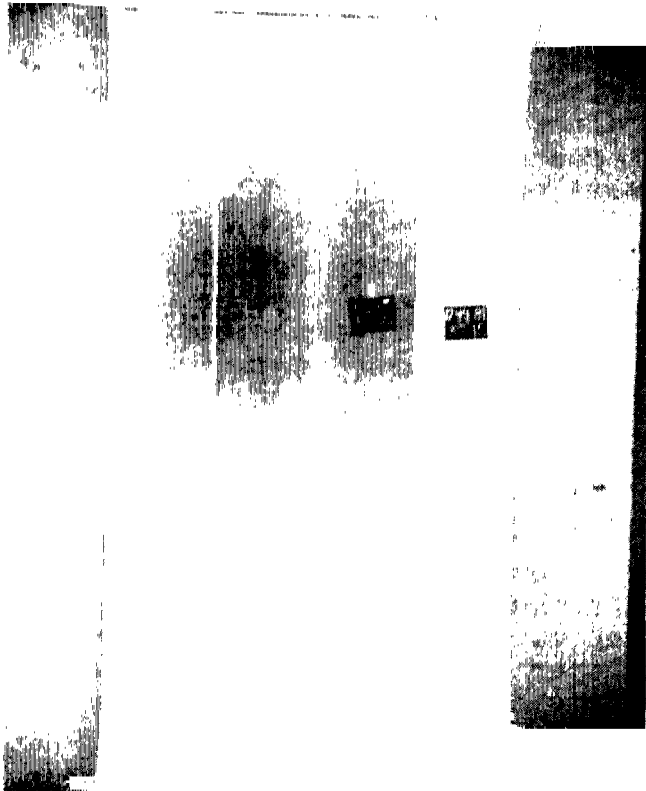
Our inspection of 20 apartments repaired by HUD as part of the first renovation revealed numerous instances where equipment, appliances, and fixtures in good condition were scheduled for replacement under the second renovation. Over 50 percent of the items we examined were in functional condition. In some instances, we observed that replacement items appeared to be the same brand and type as the originals. We estimate the cost of replacing functional items in the 20 apartments to be \$41,653.

		<u>Estimated replacement cost</u>
Items examined	645	\$97,795
Items in functional condition	344	41,653
Percent	53.3	42.6

The actual amount of unneeded work is probably higher, as we observed many other items that in our opinion needed only minor repair or maintenance.

The percentage of items in functional condition ranged from 20 percent for entrance doors to 100 percent for shower rods. The following illustrates what we found:

--Forty-eight, or 64 percent, of the metal closet doors we examined had no visible defects or only minor dents or scratches. (See p. 9.) Most of the remaining doors had defects such as missing knobs or were off their tracks. These doors are to be replaced with wooden doors. The cost of replacing these doors in all 216 apartments is estimated to be \$112,000. A housing authority maintenance man told us that the new doors have the same problem as the old ones--they do not close tightly.

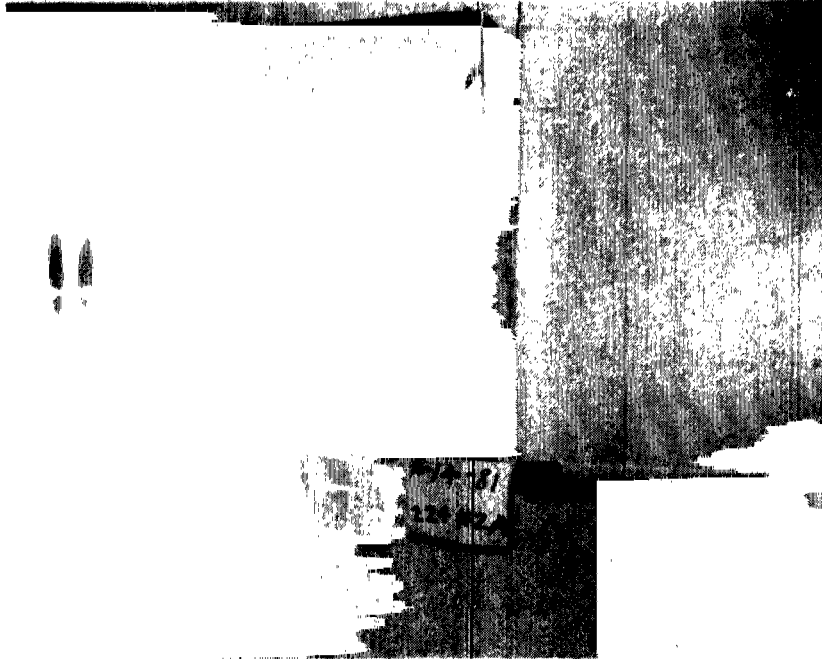


Original metal closet bifold doors repaired or replaced as needed during first renovation and which still appear to be in good condition.

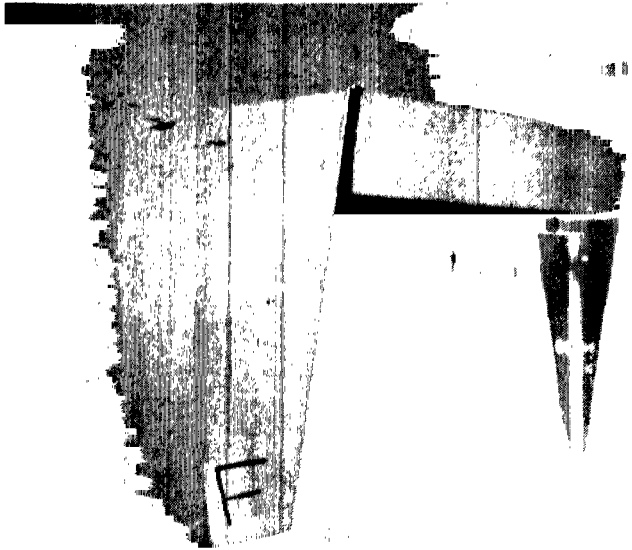


Wood closet bifold doors being installed in all apartments as part of the second renovation.

- The development corporation plans to spend approximately \$15,000 to replace medicine cabinets and shower curtain rods in all apartments. In the 20 apartments we visited, 16 had shower curtain rods that were not defective. Of the 20 medicine cabinets we examined, 7 had no visible defects while the remaining 13 had minor problems such as missing handles or shelves or minor rusting. The replacement cabinets appear to be the same brand and type as the originals. (See p. 11.)
- Thirty, or 79 percent, of the kitchen and bathroom fans examined were in working condition and appeared adequate. Nevertheless, all fans are to be replaced regardless of condition. (See p. 12.) According to a housing authority official, when fans break down in the authority's housing they are repaired, not replaced. Replacement cost of fans for all apartments is \$12,000.
- Renovation plans call for the replacement of existing metal kitchen cabinets with wooden ones in all apartments at a cost of \$114,000. In six apartments in our sample, the cabinets had no visible defects. (See p. 13.) In another five apartments either the upper or lower set of cabinets had no defects. Damage to remaining cabinets generally involved rusting to varying degrees.
- We found that countertops in seven or, 35 percent, of the apartments had no known defects. (See p. 14.) The countertops in the remaining 13 apartments had burns or scratches, but in no case was the damage extensive. The contractor is installing new countertops in all 216 apartments at an estimated cost of \$46,000.
- A total of \$59,000 is budgeted for the replacement of plumbing fixtures, including shower heads and bathtub, lavatory, and kitchen sink faucets, in all apartments. In our sample, 52 of the 60 faucets and 19 of the 20 shower heads were in good operating condition. (See p. 15.)
- Although 18 of the 20 apartments visited had no electrical light fixtures in need of replacement, all are scheduled to be removed and replaced. We observed that the new light fixtures the contractor was installing appeared to be exactly the same as the originals. (See pp. 16 and 17.) The cost of replacing light fixtures in all 216 apartments is \$29,000.
- The contractor is replacing entrance doors and frames in all apartments at a cost of \$97,000. Four of the 20 doors and frames we examined had either no visible defects or only scratches. Damage to other doors generally involved missing locks or knobs or broken door jambs.

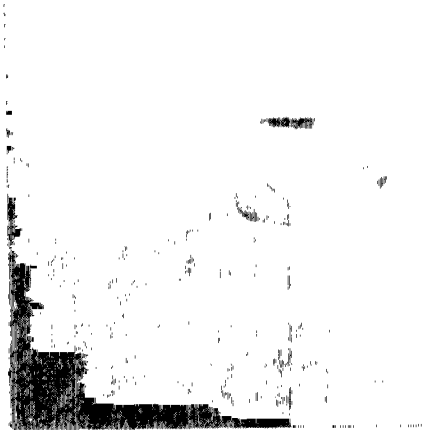


Original medicine cabinet repaired or replaced as needed during the first renovation and which still appears to be in good condition.

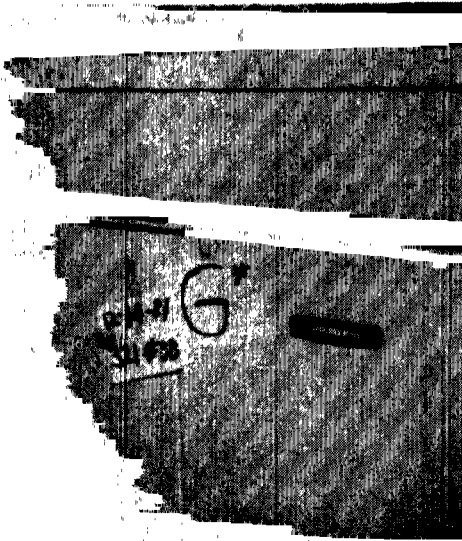


Medicine cabinet being installed in all apartments as part of the second renovation.

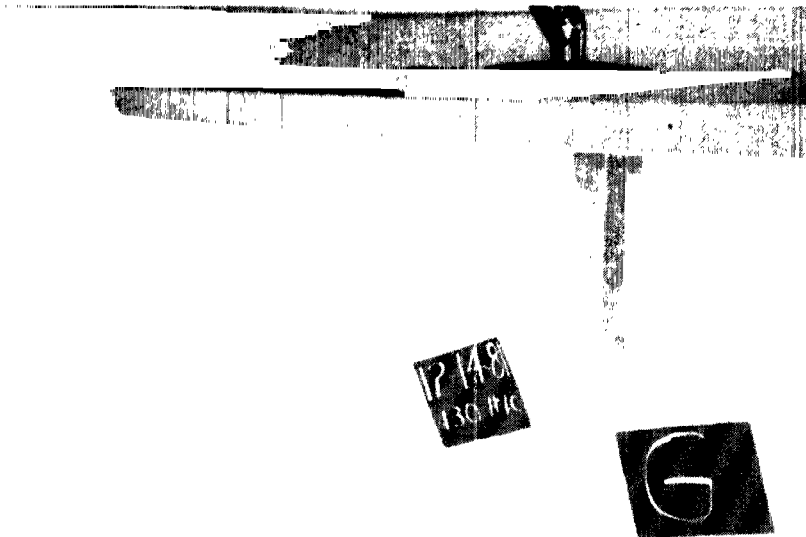
Original exhaust fan repaired or replaced as needed during the first renovation and which still appears to be in good condition.



Exhaust fan being installed in all apartments as part of the second renovation.



Original kitchen cabinets repaired or replaced as needed during the first renovation and which still appear to be in good condition.



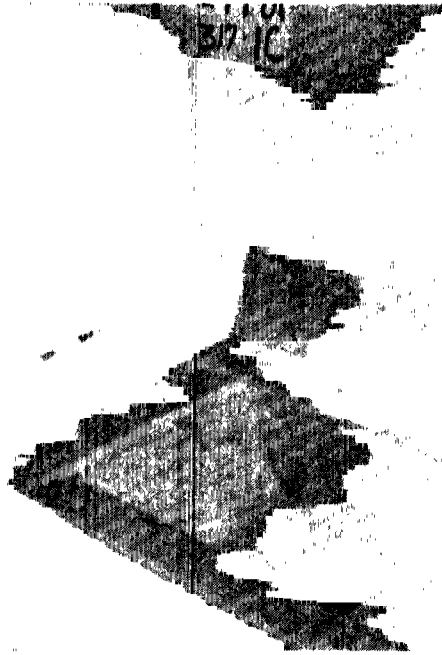
Wood kitchen cabinets being installed in all apartments as part of the second renovation.



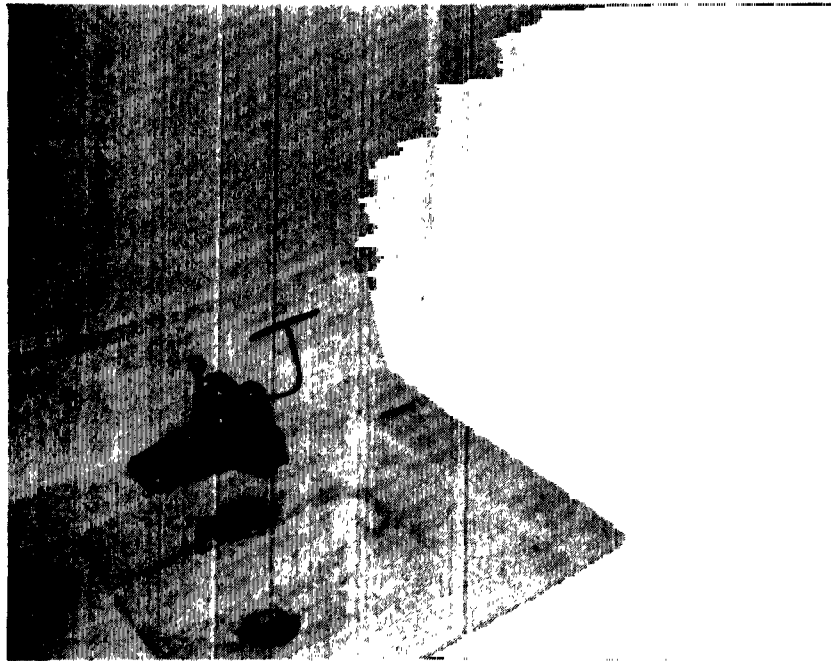
Original countertop repaired or replaced as needed during the first renovation and which still appears to be in good condition.



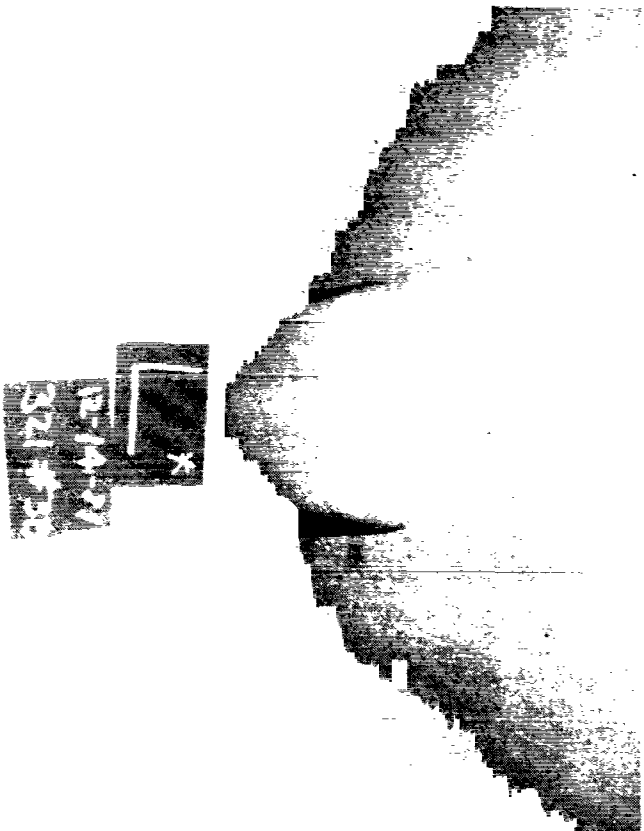
Countertop being installed in all apartments as part of the second renovation.



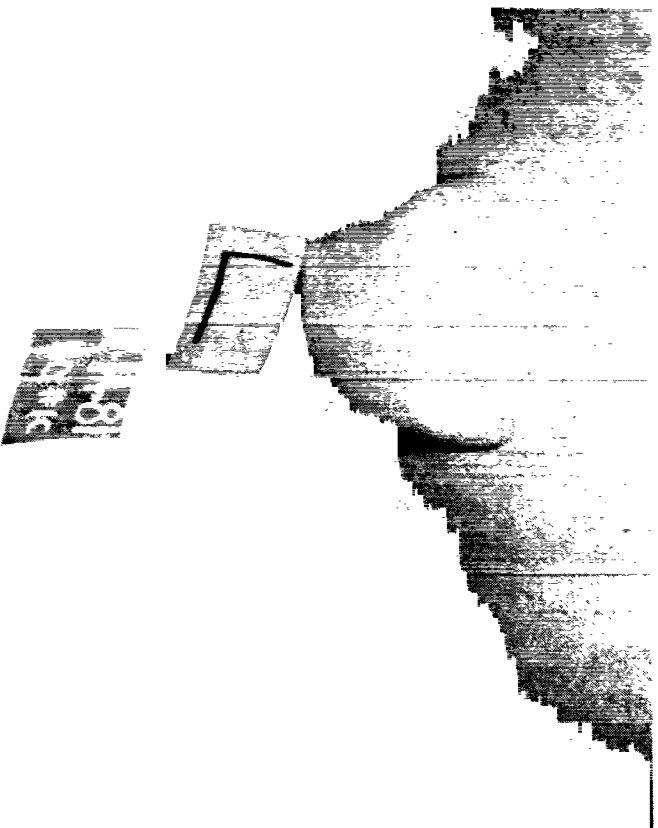
Original bathtub and lavatory faucets repaired or replaced as needed during the first renovation and which still appear to be in good condition.



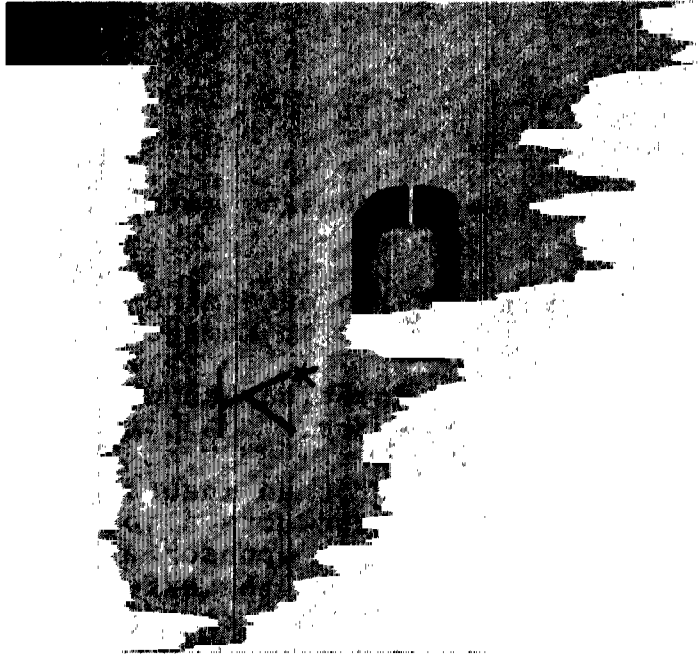
Bathtub and lavatory faucets being installed in all apartments as part of the second renovation.



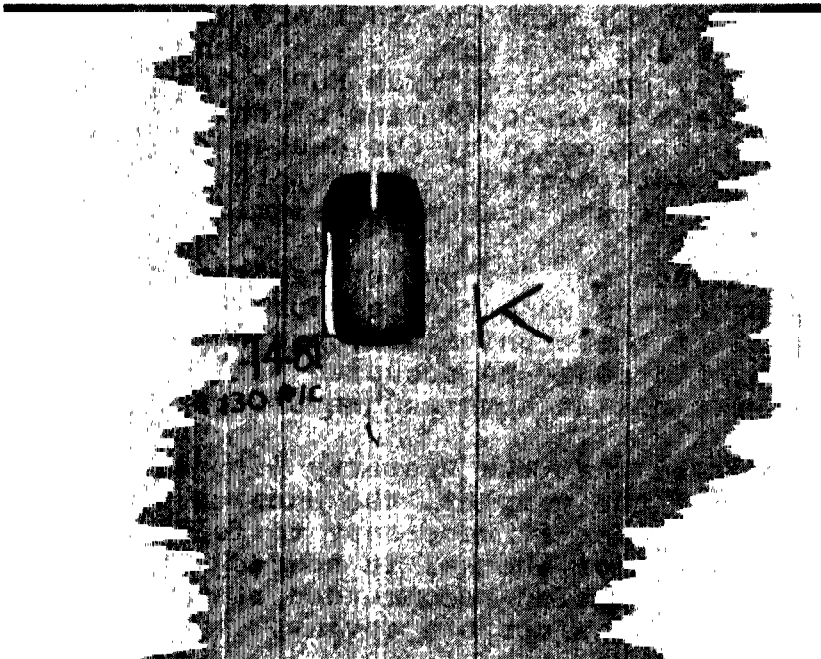
Original ceiling light fixture repaired or replaced as needed during the first renovation and which still appears to be in good condition.



Ceiling light fixture being installed in all apartments as part of the second renovation.



Original wall light fixture repaired or replaced as needed during first renovation and which still appears to be in good condition.



Wall light fixture being installed in all apartments as part of the second renovation.

HUD'S REVIEW OF RENOVATION
PROPOSAL WAS INADEQUATE AND DID
NOT CONSIDER WORK DONE PREVIOUSLY

HUD did not properly review the housing authority's renovation proposal because

- an inspection of the property to determine the extent of work needed only included visits to damaged apartments and
- the scope of the proposed renovation was expanded without taking into account previous work.

Before approving an application for an insured mortgage to renovate a multifamily property, HUD conducts a joint inspection of the property with the sponsor and the sponsor's architect. The purpose of the inspection is to determine the extent and nature of the work required for rehabilitation and to reach an agreement as to what will be done. Although HUD procedures do not specify the number of units that must be inspected, they require that sound judgment be exercised to assure that units selected are representative of those in the project.

In May 1980, a Housing Development inspection team consisting of a design representative from the Architecture and Engineering Branch and a representative from the Cost Branch visited the property. Also attending were the Rockford Housing Authority's Director of Planning and Development, the architect, the property manager, and a realty specialist from HUD's Property Disposition Branch. The only record we could find of this inspection was a one-page work writeup prepared by the design representative outlining the scope of work needed. The report did not document the number and condition of the apartments examined.

When we questioned the design representative, he told us that about 20 to 25 apartments were visited during the inspection. He also said that all of these units were vacant and in dirty and damaged condition. Entrance to occupied units was not permitted because tenants were not at home and keys were not available.

Although informed that the Property Disposition Branch had undertaken repairs at the complex, the Housing Development inspection team did not consider it necessary to follow up to determine what work had been done or whether it needed to be redone. Moreover, the scope of renovation recommended as a result of this inspection received only a cursory review.

The application submitted by the lender to HUD for an insured mortgage in March 1980 included a \$1.8 million estimate for rehabilitation work. The estimate, prepared by the housing authority's architect, recommended the uniform rehabilitation of 126 apartments in seven buildings. Sixty-six of these apartments recently had been repaired by HUD. The remaining 90 apartments in the other five buildings were to receive only floor tile and carpeting.

The design representative concluded that the architect's recommendation for uniform rehabilitation should be applied to all 216 units. When we questioned the design representative, he told us that he was informed that some work had been done but decided that all 216 units needed to be repaired to the same degree the architect was recommending for 126 apartments because he wanted to be sure the units were in good condition and to ensure that the apartments were uniform. In our opinion, the design representative may have had a different opinion if his inspection had not been limited to vacant apartments.

The Cost Branch representative told us that he also was aware that work had been done to Concord Commons by the Property Disposition Branch. However, he claimed that this did not matter because in housing projects what is repaired one day can be destroyed the next. Again, we believe that the Cost Branch representative's opinion might have changed if he had visited the occupied units at Concord Commons.

While acknowledging that the recommendations made by the design representative received only a cursory review, HUD's Chief Architect stated that because of the Architecture and Engineering Branch's heavy workload, considerable reliance is placed on an architect's recommendation that work is needed. He added that the architect has an obligation to the owner to keep costs down.

We question the degree of reliance placed on the architect's recommendation for renovation work. As the architect's fee was based on construction cost, the more rehabilitation work recommended, the higher the fee. Thus, it is imperative that HUD thoroughly review a renovation proposal to insure that work recommended does in fact need to be done. Moreover, in the case of Concord Commons the Rockford Housing Development Corporation has no investment in the property. The property was sold for \$1 and the cost of the renovation will be recovered through tenant rents and section 8 subsidies paid by HUD.

Another example of the lack of review and coordination within HUD involving architectural design work for the renovation of the apartment complex is discussed below.

ARCHITECTURAL SERVICES POORLY MONITORED

As part of the application for an insured mortgage to finance the proposed renovation, the Rockford Housing Authority submitted architectural drawings and specifications which described the work to be done and the materials to be used. Housing Development staff reviewed and approved these documents as well as the 4-1/2 percent design fee, unaware that the architect's work duplicated much of the work done by another architect hired by the Property Disposition Branch in 1979. The first architect was paid \$9,300 while the second received almost \$105,000, including an \$8,000 overpayment.

Duplication of architectural work

In May 1979, HUD authorized its property manager to hire an architect recommended by the housing authority to develop repair recommendations to complete work needed but not included in a previously awarded construction contract. HUD paid this firm \$9,304 after it completed a cost estimate, drawings, and a set of specifications describing the work it was recommending. Later that same year, HUD authorized the housing authority to hire its own architect. The second architect also prepared a cost estimate, drawings, and specifications. An initial set of documents was prepared in March 1980 and a revised set was completed the following August.

When we compared the drawings and specifications prepared by both architects, we found many similarities. For example:

- A drawing for the design of stairway enclosures prepared by the housing authority architect appeared to be almost an exact copy of the one prepared by the HUD architect. The actual drawings, relative position, measurements, scale, and most of the wording were the same.
- Both sets of specifications contained individual apartment worksheets on 126 apartments in seven buildings. The format and wording used was very similar.
- The first architect's specifications contained written descriptions and instructions for performing 21 different work items such as painting, installing carpeting, and replacing electrical fixtures. The housing authority architect's initial specifications contained 22 work items. Of these, eight were exact word-for-word copies of what the first architect prepared and another nine were very similar in wording or exact copies in part. In the final set of specifications submitted by the housing authority architect and approved by HUD, 5 additional work items were added and only minor changes were made to the wording in 6 of the original 22 work items.

We showed this information to HUD's Chief Architect in the Chicago Area Office. He concluded that the housing authority's architect had copied much of the other architect's work. He also said that had he known of the existence of the first architect's work, he would have recommended a lower fee for the second architect. The Chief of the Cost Branch told us that in approving the architect's fee he only checked to make sure that the fee was reasonable by comparing it to a sliding fee schedule in a HUD handbook.

When we asked the housing authority's architect about our findings, he admitted copying the other architect's work. He also acknowledged that the design fee was probably too high for the work

he did but believed that the fee he was receiving for supervising the construction work was too low.

The Chief of HUD's Property Disposition Branch told us that HUD had only hired the first architect to develop a cost estimate, not to develop drawings and specifications. However, the agreement between HUD's property manager and the architect clearly stated that the work would include drawings and specifications. HUD also paid the bill for these services. Moreover, we found excerpts from the specifications in the Property Disposition Branch's files.

Partial payment not deducted
from final payment to architect

The compensation clause in a March 1980 contract between the housing authority and its architect provided that the architect would receive a 4-1/2 percent design fee based on total construction cost. It also provided that he would receive an \$8,000 partial payment after he completed bid documents, drawings, and specifications; the balance would be paid at receipt of bids. The architect received \$8,000 from HUD in April 1980.

In January 1981, a second contract was signed between the architect and the nonprofit corporation formed by the housing authority so it could legally purchase the apartment complex. This time the fee schedule provided that the architect was to receive \$96,826 for design work which we computed to be 4-1/2 percent of the estimated construction cost of \$2,152,000. We found that no mention was made of the previous \$8,000 partial payment, and at the closing in May 1981, the architect received the full \$96,826. As HUD paid part of the architect's fee, it should have ensured that the partial payment was deducted before final payment was made. On January 18, 1982, after we discussed this matter with the architect, he refunded the \$8,000 partial payment to HUD.

ACTIONS TAKEN AND PLANNED

In August 1981, shortly after the newspaper articles criticized the renovation of Concord Commons, the HUD Chicago Area Office issued instructions providing guidance for improving coordination between the Multifamily Property Disposition and Housing Development sections. The instructions require that in all future cases where HUD-owned properties are to be sold and rehabilitated with HUD providing insured mortgage financing, there is to be close coordination between the two sections as well as a thorough review of the repair plans included in the insured mortgage. Special care must be taken to assure that work completed by the Property Disposition Branch is not needlessly duplicated by any further rehabilitation contemplated by the new proposal. A memorandum will be prepared and signed by the deputy directors for Housing Management and Housing Development concurring in the nonduplicative rehabilitation costs, and this memorandum will be included in the approval package to assure that proposed work is not duplicative.

In early January 1982, we presented our findings to representatives of Senator Charles Percy's and Congresswoman Lynn Martin's staffs and HUD Chicago Regional and Area Office officials. As a result of that meeting, Senator Percy and Congresswoman Martin requested the HUD Chicago Regional Office to inspect all the apartments at Concord Commons and determine what work being done was unnecessary.

The regional office sent an inspection team to Concord Commons in February. Its report concluded that unneeded work was being done at the complex. Findings included the following:

- Apartments in two of the five buildings renovated by HUD as part of the formal repair contract in 1978-79 needed only minor maintenance. The team could not make a determination for the other three buildings because the contractor had already completed renovation.
- Instead of replacing existing windows, storm windows could have been installed.
- Existing items such as kitchen cabinets, countertops, faucets, ranges and floor tile for the most part would be acceptable after cleanup.
- Other items such as light fixtures and kitchen and bathroom exhaust fans did not need to be replaced in all units.

The team recommended that apartment entrance doors be replaced for better security because the old entry doors have wood jambs. They also recommended that refrigerators be replaced because they were too small and not energy efficient. (However, we noted that the refrigerators purchased by HUD during 1978-79 were 13 cubic feet while the replacement refrigerators according to HUD will be 14 cubic feet.)

HUD area office officials told us that they did not believe they could reduce the scope of the ongoing renovation except possibly where functional items such as medicine cabinets, light fixtures, and shower rods were being replaced with new items that were essentially identical. They maintained that although HUD had approved the work, it was not a party to any of the agreements between the development corporation, the architect, and the contractor. HUD only insures the loan for the lender, and the contract for insurance is incontestable except for fraud or misrepresentation on the part of the lender.

A legal analysis performed by our Office of General Counsel confirms HUD's belief that it cannot unilaterally terminate or reduce the scope of work in the existing contract between the development corporation and the construction contractor. When HUD insured the development corporation's loan for the rehabilitation work, it approved the construction contract. This contract governs

the scope of the work, and changes in the work may be made only by agreement of the parties to the contract.

After we briefed officials of the Rockford Housing Development Corporation regarding our findings, the development corporation in February 1982 issued a position paper in which it announced that it did not concur with the plan or approach used to rehabilitate the Concord Commons project. The development corporation emphasized that decisions such as the scope of renovation work to be done, the marketability goals to be achieved, and the selection of both the architect and the construction contractor were made by HUD and the Rockford Housing Authority before the present corporation board members became involved.

The development corporation stated that it had investigated the possibility of stopping the construction work at Concord Commons but had determined that such an action was not feasible because it would precipitate foreclosure action by HUD and would likely result in lawsuits from suppliers and contractors. However, the development corporation said that it believed that the mass replacement of apartment equipment, appliances, and fixtures without regard to their condition was in error and should be stopped. Remaining repair work at the project would be made on an as-needed basis. Despite its position, however, the development corporation voted in March 1982 to continue replacing most items as scheduled. According to the board chairman, this decision was made because most items either had been custom fabricated for Concord Commons or else were subject to prohibitive cancellation or restocking charges. Salvageable items are to be retained in inventory for future use.

CONCLUSIONS

HUD did an inadequate job of reviewing the renovation plans included in the housing authority's application for insured mortgage financing. Neither architectural nor repair work previously performed was taken into account before the second renovation was approved. Also, HUD did not question whether the uniform replacement of virtually everything in every apartment needed to be done. The difference between what a tenant can afford and the fair market rent will be covered by Federal section 8 subsidies. Because the cost of the renovation work must be covered through rents, the cost of unneeded work will be borne by the taxpayers and also result in fewer needy people being served under the section 8 subsidy program.

HUD headquarters officials believe that the potential for area office Housing Development staff's duplicating renovation work previously performed by Property Disposition Branch staff in other areas of the country is minimal. They believe, however, that instructions similar to the one issued by the Chicago Area Office in August 1981 may have merit given the minimal cost of notifying the area offices and in coordinating their efforts. They told us that they would consider issuing a similar directive nationwide. We agree that a nationwide directive would help inform area offices

of the problem that occurred at Concord Commons and what could be done to prevent this problem in the future.

RECOMMENDATION TO THE
SECRETARY OF HUD

We recommend that the Secretary of HUD notify HUD area offices nationwide of the need to coordinate renovation work performed by their Property Disposition Branch and Housing Development staffs when HUD-owned multifamily properties are sold to private buyers. Similar to the coordination procedure designed by the Chicago Area Office in August 1981, such coordination could be certified by a joint memorandum prepared by the responsible officials in both groups, concurring in nonduplicative renovation work.

CHAPTER 3

ASSURANCES ARE NEEDED THAT PROPER JUSTIFICATIONS

EXIST BEFORE RENOVATION WORK IS UNDERTAKEN

Following publication of the newspaper articles criticizing the renovation of Concord Commons and the start of our review, the Rockford Housing Authority and HUD attempted to justify the replacement of functional items under the second renovation on the basis that it needed to increase the marketability of apartments in the project. They also maintained that, in the long run, replacing the items during the second renovation was more prudent than replacing them at a later date.

Although we do not question the need for some repairs to Concord Commons, we found that the justifications cited by the housing authority and HUD do not support the magnitude of the second renovation. The extensive renovation presently underway was undertaken without adequate regard for cost-effectiveness and without sufficient indication that marketability goals for renting Concord Commons' apartments could be met. Moreover, neither cost-effectiveness nor formal marketability studies were prepared before HUD approved the second renovation.

Because renovation costs must be recovered through rents, we believe that upgrading projects more than necessary means that fewer housing units can be repaired and fewer needy people can be served with available section 8 funds.

COST-EFFECTIVENESS OF IMPROVEMENTS WAS NOT DEMONSTRATED

HUD's procedures governing repair standards for the rehabilitation of multifamily properties are vague and permit considerable latitude of judgment by field staff. The procedures establish minimum levels of repair but do not require that repairs above that level or decisions to replace instead of repair be justified. The omission of such a requirement does little to foster cost consciousness on the part of field office staff.

Properties sold with a section 8 subsidy must be brought up to a decent, safe, and sanitary condition before subsidy payments can begin. Housing is decent, safe, and sanitary if the requirements of either HUD housing quality or minimum design standards are met. The applicable standard depends on whether the property requires moderate or substantial rehabilitation and whether HUD will provide mortgage insurance.

Properties like Concord Commons, which are sold with HUD providing mortgage insurance must meet HUD's minimum design standards. These standards provide only general guidance, as shown by the following requirements for kitchen and bathroom facilities.

"Each living unit shall have a specific kitchen space, which contains a sink with counter work space and has hot and cold running water, adequate space for installing cooking and refrigeration equipment, and for storing cooking utensils."

* * * * *

"Complete bathing and sanitary facilities shall be provided within each living unit; they shall consist of a water closet, a tub, or shower, and a lavatory. Provide an adequate supply of hot water to the tub or shower stall and lavatory, and cold water to all fixtures. Arrangement of fixtures shall provide for the comfortable use of each fixture and permit at least a 90 degree door swing. Wall space shall be available for a mirror or medicine cabinet and for towel bars."

Although these standards provide that items will ordinarily be replaced when they cannot be repaired or repair would be more costly, HUD has not issued guidance on how or to what extent decisions to replace need to be justified or whether cost-effectiveness studies must be made in advance. According to HUD headquarters officials, these decisions are judgments to be made by the area offices.

A basic reason cited by both the Rockford Housing Authority and HUD for replacing items regardless of condition was that it would mean reduced future operating, maintenance, and replacement costs. Yet in no case did the housing authority demonstrate the cost-effectiveness of these improvements nor did HUD require it to do so. The following are illustrative:

- A major expenditure is the replacement of all windows, including screens, at the complex at an estimated cost of \$312,000. Housing authority officials maintained that because existing windows lacked storm windows and some needed repairs, complete replacement was necessary. They did not know how much it would cost to repair the present windows because cost comparisons had not been made.
- All kitchen appliances, including 105 ranges and 105 refrigerators purchased by HUD during 1978-79 costing \$39,000, are being replaced partly because they are not considered energy efficient. The new refrigerators have an energy-saving switch, while the ranges are pilotless and have windows in the oven doors. However, no determination was made about whether the savings warranted the additional expense of replacement.
- Renovation plans include the replacement of seven boilers and two hot water heaters at a cost of \$54,000. HUD requested that the housing authority's architect submit a statement from a mechanical engineer concerning the

condition and life expectancy of the mechanical equipment. This was never done, yet HUD approved the replacements.

--All entrance doors and frames needed replacement according to the housing authority's executive director because the doors were not weatherstripped, locks were of poor quality, and door jambs were weak. No evaluation was made of the economics of repairing the existing doors versus installing new ones. The cost of installing new doors is \$97,000.

Following publication of the critical newspaper articles, the housing authority prepared some cost analyses of repair versus replacement for appliances and kitchen cabinets. Its own analysis showed that for these two items alone repairing rather than replacing could save anywhere from \$114,000 to \$189,000. In addition, these figures do not include the cost of financing these replacement items over the 40-year life of the mortgage.

HUD area office officials acknowledged that they had not determined whether the improvements were cost effective. One official told us that HUD's minimum design standards were just that--minimum. Both HUD area office and headquarters officials believe that the area office must have flexibility to decide these matters on a case-by-case basis. Headquarters officials told us that the overall effectiveness of these case-by-case decisions is validated by recommendations by architectural firms who have an obligation to project owners to keep costs down. However, as we stated on page 19, in the case of Concord Commons, such validation is questionable. As the architect's fee was based on a percentage of construction costs, there was little incentive to hold down costs.

ACHIEVEMENT OF MARKETING GOALS IS QUESTIONABLE

According to both housing authority and HUD officials, uniform, high-quality renovation was essential to attract a racial and economic mix of tenants, including those who could pay rent without a subsidy. However, neither organization performed a market study to determine whether the renovated Concord Commons would attract such a tenant mix. The past occupancy history of Concord Commons as well as demographic trends and information obtained from community and local government officials indicate that meeting these goals is highly uncertain.

Marketability of Concord Commons not studied

Neither HUD nor the housing authority conducted a marketability study to determine whether Concord Commons, after being renovated, could attract a racial and economic mix, including persons who could pay the full market rent.

The housing authority's executive director cited a shortage of rental housing in Rockford as well as a large number of low-income families on the housing authority's waiting lists as evidence that the apartments could be rented. He also told us that HUD had evaluated the feasibility of renting the complex before committing itself to insure the loan. Another housing authority official said that groups such as teachers who worked in the area, employees of an automobile plant outside Rockford, and city and county officials would be willing to live in Concord Commons, yet he offered no evidence to support his contention. Housing authority officials also explained that the 100-percent section 8 subsidy would cover expenses if nonsubsidized tenants could not be found.

Although HUD procedures require an analysis of economic, demographic, and housing data before the sale of a HUD-owned property with section 8 assistance, they do not specifically require a determination that marketing goals are achievable. The closest thing we could find to a formal marketability study on Concord Commons was a 1979 HUD analysis that was inadequate because the data collected represented Rockford as a whole and did not address conditions in the Washington Park area or the specific marketability objectives for Concord Commons. For example:

- The analysis showed that the vacancy rate for multifamily housing in Rockford was 5 percent. However, during 1979 the vacancy rate at Concord Commons averaged 55 percent while a nearby 192-unit complex was totally vacant and boarded up.
- The report indicated that integration of Concord Commons could change the racial composition of the area yet no evidence was presented that nonminorities could be attracted to the area.

In its recommendation to sell Concord Commons to the Rockford Housing Development Corporation, HUD's Property Disposition Branch, in its disposition analysis, stated that hopefully the sale would help integrate the area by bringing in nonminority families attracted by reasonable rents and a high-quality rental property. However, the same analysis concluded that one of the reasons for the failure of Concord Commons previously was that the location of the property caused occupancy problems, particularly in its ability to attract nonminorities.

Other related studies

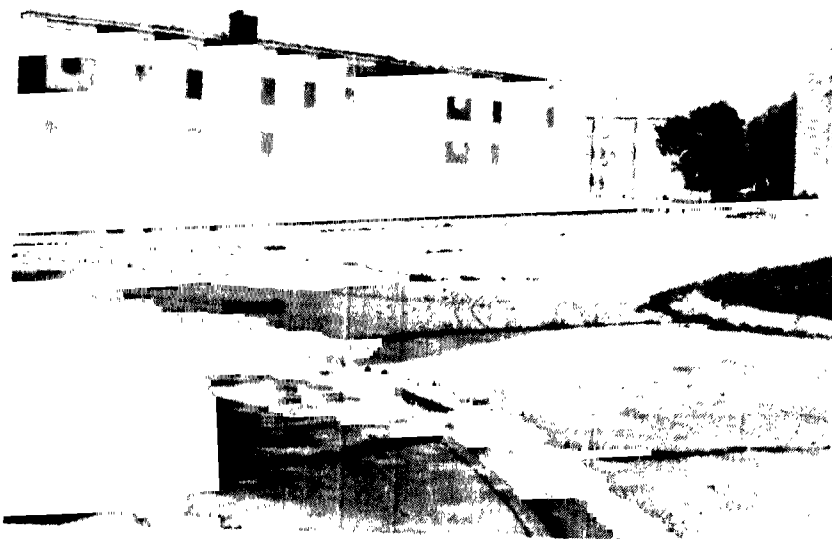
In 1979, two feasibility studies were performed for HUD on the nearby Pierpont Green housing project. Both studies made recommendations on how the abandoned complex could be used again.

The first study recommended that the complex be completely rehabilitated using conventional financing and operating in the free market. Marketing goals would be aimed at young, single,

career-oriented people. The study concluded that large concentrations of subsidized housing, such as that which existed in the Washington Park area, do not work and warned that attempts to provide subsidized housing in either Concord Commons or Pierpont Green would bring a recurrence of past troubles, including poor tenancy and occupancy, high vandalism and crime, neighborhood blight, steadily deteriorating physical structure, and an economically losing enterprise. (See photos of the two projects on the following page.)



Concord Commons. One of 12 apartment buildings in the complex.



Pierpont Green. Abandoned 196-unit housing project located a few blocks from Concord Commons.

The second study disputed the contention that career-oriented people could be attracted to the area and concluded that:

- Equal or better housing was available in the Rockford area at lower prices than would have to be charged after the project was rehabilitated.
- Because the rent levels would be so high, the property could only be marketed to subsidized tenants.
- In order to attract nonsubsidized tenants, HUD or some other agency would be required to pay a substantial part of the rehabilitation cost.

Prior occupancy history of Concord Commons

Between 1978 and the time the property was sold in May 1981, the overall occupancy rate at Concord Commons never exceeded 50 percent and ranged as low as 34 percent. During this same period, occupancy rates for multifamily dwellings for Rockford as a whole ranged from 95 to 96.4 percent.

Although HUD spent more than \$1 million to repair the complex, including 156 (or 72 percent) of the apartments, 54 apartments were never rented after repairs were completed. Only 18 of these apartments were fully occupied after they were renovated. These results occurred despite the fact that in 1979 HUD spent almost \$9,000 on a local television advertising campaign in an attempt to rent the apartments. In the advertisements, the apartments were described as being beautifully redecorated. The advertisements further stated that each unit had a completely new living room, kitchen, and dining area as well as a range, a refrigerator, and air conditioning.

A Chief of the Multifamily Property Disposition Branch told us that HUD was trying to improve the image of Concord Commons by obtaining higher income tenants and that it did succeed. He contended that all the apartments were not rented because they were not good enough. The second renovation, he maintained, would bring the apartments up to a condition which would attract an economic and racial mix of tenants. However, as shown in the next section, demographic trends do not support his contention.

Demographic trends in the City of Rockford and Winnebago County illustrate difficulty in achieving goals

In a 1977 study prepared by the City-County Planning Commission and funded by a HUD block grant, Washington Park was characterized as a basically black, lower income neighborhood in which only a limited amount of new growth had occurred in the past decade. According to the study, the increase was mostly the

result of city and county public housing projects built in the late 1960's. Using 1970 census data, the study concluded that Washington Park was significantly different from both the city of Rockford and Winnebago County in factors such as racial composition, income levels, and condition of housing, as shown below:

	<u>Washington Park</u>	<u>City of Rockford</u>	<u>Winnebago County</u>
<u>Population</u>			
Total	4,427	147,370	246,623
Black	3,167 (72%)	12,174 (8%)	15,967 (7%)
<u>Housing</u>			
Total units	1,382	51,357	80,870
Vacant units	209 (15%)	2,998 (6%)	4,154 (5%)
Average value of single-family homes	\$10,600	\$19,300	\$18,700
Average monthly rent for renter-occupied units	\$ 83	\$ 96	\$ 97
<u>Income</u>			
Median family income	\$ 7,779	\$10,934	\$11,058
Poverty households	248 (21%)	5,273 (12%)	7,280 (11%)

The study also reported increasing vacancy rates in Washington Park--from 3 percent in 1960 to 24 percent in 1975--and warned that rates above 10 percent should be considered a significant danger sign for a neighborhood.

Our comparison of the population trends and racial composition of census tracts in Winnebago County in 1970 and 1980 revealed the following:

--The population of census tract 24 where Concord Commons is located decreased 24.8 percent, whereas Rockford's population decreased only 5.2 percent.

--Blacks comprised 71.5 percent of census tract 24 in 1970 compared with 72.1 in 1980.

- The four census tracts bordering Concord Commons showed decreasing total populations, increasing black populations, and increasing concentrations of blacks.
- The general trend in the city of Rockford and Winnebago County during this period was that census tracts having less than a 10-percent black concentration in 1970 remained that way in 1980 while tracts with at least a 10-percent black concentration in 1970 lost population and became increasingly black in 1980.
- While census tracts on Rockford's east side generally gained population, those on the west side, where Concord Commons is located, lost population.

Although we were unable to obtain 1980 census data for housing and income factors, an official in the city of Rockford's Office of Community Development told us that she did not believe that Washington Park had shown any significant improvement in these areas relative to the city in the last decade. Moreover, a more recent profile of census tract 24 conducted in 1978 showed that the area lagged behind the city as a whole on several economic and housing indicators.

	<u>Census tract 24</u>	<u>City of Rockford</u>
Household income	\$14,314	\$16,602
Lower income households	52.1%	38.6%
Vacancy rate	19.6%	5.2%

Reputation of Concord Commons and surrounding area

Local officials told us that the Washington Park area and Concord Commons have a bad reputation in Rockford. Washington Park is thought of as a high-crime area. Concord Commons is associated with Pierpont Green, an abandoned housing project with a history of gang problems. There is little in the way of shopping facilities and, according to one government official, it is unlikely that developers could be attracted to the area. In a 1977 survey, 83 percent of the Washington Park residents sampled rated shopping facilities as poor or fair. An abandoned shopping center adjacent to Concord Commons was recently demolished by the city, and local officials were not aware of any plans to rebuild.

Proposed rental rates at Concord Commons

The Director of the Rockford Apartment Association informed us that the rents for Concord Commons, \$348 for a two-bedroom and \$391 for a three-bedroom including utilities, are toward the high end of the going market rate with the two-bedroom rate higher than the going market rate. Given the prevailing trends coupled with these rather high rents, those able to pay the rents would likely

look elsewhere. City and county officials told us that people who could afford to pay the market rent would probably follow population trends and move to Rockford's east side.

EXTENSIVE REHABILITATION
OF MULTIFAMILY PROJECTS
RESULTS IN FEWER LOWER
INCOME FAMILIES BEING SERVED

HUD estimated not long ago that over 18 million families in this country needed some form of housing assistance. Six million of these families were living in substandard housing; 10 million were spending a disproportionate share of their income for housing; and the remaining 2 million were living in overcrowded housing. In October 1981, HUD's Economic and Market Analysis Division estimated that there were 4,992 nonelderly families in Rockford with incomes of 50 percent or below the median who were in need of rental housing assistance. This shortage, together with the increasingly burdensome cost of housing generally and the Government's inability to serve more than a fraction of those in need, seem to strongly suggest that HUD should be more cost conscious in rehabilitating section 8 projects to stretch the available dollars.

In a recent report ^{1/} on the section 8 new construction program, we stated that HUD's policy of building new section 8 housing to a level better than most of the housing in the general area where it is located results in reducing both the number of units that can be built and the number of people who can be served within available funding levels. HUD's policy also raises valid questions about the overall fairness and equity of federally subsidized programs. We believe that this issue is equally applicable to rehabilitated housing. Because funds are limited, upgrading more than necessary means that fewer housing units will be able to be renovated.

ACTIONS PLANNED BY THE ROCKFORD
HOUSING DEVELOPMENT CORPORATION

In a position statement prepared in February 1982, the Rockford Housing Development Corporation questioned the validity of the marketing approach followed by HUD and the Rockford Housing Authority at Concord Commons. Based on our findings as well as their own knowledge of housing conditions in the Rockford area, corporation board members concluded that it was unlikely that Concord Commons would attract tenants who would be willing to pay the market rent without benefit of a subsidy. Because of the need for low-income housing in Rockford, the development corporation stated that that was the tenant group at which the project should

^{1/}"How To House More People at Lower Costs Under the Section 8 New Construction Program" (CED-81-54, Mar. 6, 1981)

be aimed. Therefore, the development corporation said that it would instruct housing authority staff to explore this change in philosophy with HUD so the project could be completed successfully and could provide housing to those who are most in need of it.

CONCLUSIONS

Our review of the renovation of the Concord Commons apartments showed that HUD approved duplicative and unnecessary repairs. These repairs were not essential to and went beyond those that were needed to bring the project up to a decent, safe, and sanitary condition. Based on our review at Concord Commons, we believe that HUD procedures may need clarification to provide field office staff with better guidance on approving repairs of multifamily projects sold with HUD insurance and subsidies. Further guidance for conducting cost-effectiveness and marketability studies would be particularly valuable in arriving at decisions to replace rather than repair. By ensuring that renovation work does not exceed the level needed to bring a property being sold up to decent, safe, and sanitary condition--currently the minimum standard, according to HUD--more people could be served under HUD's programs for insuring the financing of renovation work and under HUD's section 8 program for helping lower income families obtain and pay for adequate housing. It is apparently too late for these actions to be useful at the Concord Commons complex. However, we believe that because of the potential for the problem to occur elsewhere, that HUD needs to identify the extent of this problem nationwide and, as appropriate, take necessary corrective action.

RECOMMENDATION TO THE SECRETARY OF HUD

We recommend that the Secretary of HUD direct the appropriate office(s) of the Department to determine if the problems disclosed regarding the renovation of Concord Commons are of sufficient magnitude elsewhere to warrant nationwide corrective actions. In this determination, the Secretary should direct that outstanding policies, guidelines, and standards for the renovation of multifamily projects sold with HUD-insured loans and subsidies be reviewed to determine if further clarification is needed for

- controlling renovation work, including approval of repairs beyond those necessary to provide decent, safe, and sanitary housing and
- evaluating the reasonableness of proposed renovation work, including requirements for conducting cost-effectiveness and marketability studies as part of the decisionmaking process.

CHAPTER 4

CONTRACTING AND PROCUREMENT ACTIVITIES WERE NOT ADEQUATELY ADMINISTERED

We identified a number of weaknesses in contracting and procurement activities involving the first renovation at Concord Commons and agree with a recent report by HUD's Office of Inspector General that procurement and contracting practices in the Chicago Area Office need to be improved. As the Inspector General found, we found that repair specifications were incomplete, contract amendments were not properly reviewed or justified, payments were made without assuring that work had been done, and formal contracting requirements were avoided by purchase order splitting. In addition, we found that required cost or price analyses were not performed in connection with the award of the construction contract and that the Property Disposition Branch did not maintain adequate controls over property so that many items were unaccounted for when Concord Commons was sold.

We found that, as part of the second renovation, the Housing Development staff approved architectural drawings and specifications which did not clearly define the scope of work to be performed. Moreover, we noted that Housing Development staff failed to determine the monetary impact of changes in the scope of the renovation work and to adjust the amount of the mortgage insured by HUD accordingly for at least \$146,000 of work that we found will not be done.

Finally, we noted questionable practices used by the purchaser of Concord Commons in the award of the construction contract and disposal of appliances and other property.

CONTRACTING ACTIVITIES NEED IMPROVEMENT

Although our review was limited to contracting practices involving Concord Commons, a report issued by HUD's Office of Inspector General in July 1980 indicated that the problems we found were not an isolated case. In the report the Inspector General identified numerous instances in which the Property Disposition Branch in Chicago had failed to comply with both HUD's contracting requirements and Federal procurement regulations. Several of the findings in the report were applicable to Concord Commons. We agree with the Inspector General that contracting and procurement practices in the Chicago Area Office need improvement. In addition, we found other contracting weaknesses involving both the first and second renovations.

In January 1982, HUD's Regional Inspector General for Audit informed us that as part of a nationwide review of management actions to resolve audit findings, several deficiencies noted in a July 1980 report were selected for followup, including those

related to lack of complete repair specifications and avoidance of formal contracting requirements that we found at Concord Commons. The following month the Regional Inspector General informed us that the area office had taken corrective action on the lack of formal contracting but the other finding remained uncorrected.

Weaknesses in contracting identified
by both us and the Inspector General

We found that in contracting for the first renovation, the Property Disposition Branch in the Chicago Area Office awarded a construction contract based on outdated repair specifications, failed to properly review or justify contract amendments, made payments without assuring work had been done, and avoided formal contracting requirements by allowing its property manager to split purchases to stay within prescribed dollar limits. These findings were also reported by the Inspector General in a July 1980 report.

HUD procedures state that an important objective in reconditioning HUD-acquired properties is to produce plans and specifications that will eliminate or at least significantly minimize the necessity for subsequent contract amendments and change orders. Specifications included as part of the invitation for bid on construction contracts must be complete, adequate, and clear as to the work to be performed.

In 1978 HUD awarded a construction contract on a negotiated basis to renovate 5 vacant Concord Commons buildings and perform general repairs on all 12. The repair specifications were over 9 months old when the contract was awarded. Because the complex was having problems with vandalism, the specifications did not contain all the work that needed to be done nor did HUD know how much additional work would be needed and at what cost. The original contract amount was for \$395,000; however, because of four amendments it ballooned to \$726,500, representing an 84-percent increase in price.

The four amendments to the construction contract totaling \$331,500 were not properly justified, and two of the amendments were approved after the contractor had already performed the work. Therefore, HUD lacked assurance that the work needed to be done or that the amount paid was reasonable. The following table shows the amount of each amendment:

<u>Amendment no.</u>	
1	\$273,408.87
2	9,995.28
3	3,264.69
4	<u>44,780.39</u>
Total	<u>\$331,449.23</u>

HUD procedures permit additional work not included in a construction contract through the use of an amendment. However, an inspection must be made to ascertain the need for a modification and the reasons for the additional work must be justified and adequately documented. The justification must explain how the Government will benefit from the additional work and the reasonableness of the price. Any cost or price analysis concerning the additional work is to be retained by the local office.

Contract amendments 1 through 3 contained the following justification statement: "Additional work needed not in specifications." The fourth amendment contained no justification. The contract files contained no evidence that HUD had determined that the cost of the work was reasonable. Moreover, although HUD approved amendment 1 in September 1978, the first documented HUD inspection did not occur until January 1979.

HUD procedures stipulate that contract modifications are not effective until signed by the contracting officer. However, the work covered by amendments 2 and 3 had already been completed by the contractor before HUD approved them. For example, in a letter dated February 16, 1979, the contractor informed HUD that additional work costing \$9,995, which was not part of the contract, had been performed because it was necessary to complete several buildings. A notation on the letter stated "Prepare amendment," and on February 21, amendment 2 was approved.

The contracting officer agreed that the amendments were not properly handled but justified the postapproval on the basis that the work needed to be done. However, we believe that approving work after the fact and basing approval on a contractor's assertion of need is a serious internal control weakness which could result in the unnecessary expenditure of funds.

Another example of weak HUD Chicago Area Office contracting practices concerned partial payments made to the contractor before inspection of the work. To ensure that work is performed as required by the contract and that payment is made only for work done, HUD requires an inspection prior to the contractor's request for either a partial or final payment. Nevertheless, HUD made two partial payments to the contractor, totaling \$235,341, almost 2 months before the first documented inspection was made. Moreover, neither this inspection nor subsequent ones commented on the quality of the repair work as required.

In addition, the area office avoided the need to advertise for repairs by splitting purchases to stay within prescribed dollar limitations. According to procedures in effect during the first renovation, purchases could be made and contracts could be awarded without formal advertising provided the aggregate amount involved did not exceed \$2,500, or in the case of construction contracts, \$2,000. We found that the property manager, with approval of area office officials, circumvented these requirements by splitting purchases to stay within the dollar limitations. As a result,

maximum competition was not obtained and HUD may have paid more than necessary for these services. In addition, the area office did not inspect the work performed despite HUD requirements that at least 10 percent of the cases handled by a property manager be sampled. Therefore, HUD lacked assurance that work billed was actually performed. The following are illustrations of what we found:

--Between June and August 1978, 40 purchase orders totaling \$75,129 were issued for apartment repair work. The amount for each purchase order ranged from \$1,575 to \$1,990.

--The property manager purchased 105 ranges and 105 refrigerators in blocks of 10 over a 13-month period. Again, each purchase order was less than \$2,000. In several instances more than one purchase order was issued on the same day.

Additional contracting deficiencies

In addition to the weaknesses mentioned by the Inspector General, we found other deficiencies in contracting and oversight involving both the first and second renovations. In the first renovation, the Property Disposition Branch did not perform required cost or price analyses as required by Federal procurement regulations before awarding the construction contract. Also, Concord Commons property was missing at the time of sale because HUD did not maintain adequate controls over inventory.

As part of the second renovation, the Housing Development staff approved architectural drawings and specifications which did not cover all the work to be done. They also did not take into account the monetary effect of changes in the scope of work to be done submitted by the architect and adjust the mortgage amount accordingly. We estimate the cost of deleted work to be at least \$146,000.

Federal procurement regulations specify that some form of price or cost analysis should be made in connection with every negotiated procurement. If the award of a negotiated contract is expected to exceed \$100,000, the contracting officer shall require the contractor to submit certified cost or pricing data. A cost analysis of this data must be performed to determine whether it is reasonable, necessary, and appropriate.

The construction contract that HUD entered into for the first renovation was awarded on a negotiated basis after two unsuccessful attempts to award the contract based on procurement by formal advertising. However, HUD did not require the contractor to submit cost or pricing data nor did the contract files contain any evidence that HUD had determined the reasonableness of the contractor's proposal by any other means. Moreover, although HUD estimated that the cost of the construction work should have been \$357,500, it accepted the contractor's offer of \$395,000.

We also found that HUD did not maintain adequate controls over property. Good property management requires that property be (1) promptly entered into inventory records upon receipt and promptly removed from records upon disposal, (2) numbered for easy identification, and (3) inventoried periodically. Shortages discovered during physical inventories should be investigated to determine reasons for any missing items. The HUD Property Disposition Handbook requires that an inventory of all property be made after HUD takes possession of a project and that revised, up-to-date inventories be prepared as requested. In addition, before the sale of the project, a complete inventory of all property is required.

HUD's property manager told us, however, that he never took physical inventories or kept any property records and said that HUD never required him to do so. Moreover, no inventory of property was taken prior to the sale as required. An inventory of property made at the housing authority's request shortly after the sale revealed many missing items, including 179 appliances and 22 air conditioners. Yet HUD never required the property manager to account for the missing items.

Also, although HUD expanded the scope of the renovation at Concord Commons, it approved drawings and specifications which had not been updated to reflect the additional work. Plans and specifications are the documents and exhibits that describe and delineate the work required and the materials to be supplied under the contract. HUD's Architectural and Engineering Branch is responsible for ensuring that drawings and specifications clearly define the scope of work, design, and construction.

HUD's Chief Architect was unable to explain this omission. The HUD construction analyst who was assigned to monitor the construction work told us that when he first visited the project he was surprised to see work being done which was not covered by the specifications. When he questioned the contractor, the architect, and a housing authority official, he was told that although the drawings and specifications were incomplete, there was an informal agreement among the parties that all 216 apartments would be uniformly rehabilitated. In September 1981, the construction contract was amended to show the work to be performed uniformly in all 216 apartment units.

HUD procedures also require that changes in drawings and specifications which result in a decrease in cost should result in a similar decrease in the mortgage insured by HUD. In May 1981, the architect submitted an amendment to the specifications changing the scope of some of the work to be done. However, HUD did not determine the monetary effect of these changes and adjust the mortgage amount accordingly. We estimated the cost of the deleted work to be at least \$146,000. When we discussed this information with HUD officials, they agreed to adjust the insured mortgage amount for the work that was not done.

QUESTIONABLE CONTRACTING
PRACTICES INVOLVING THE
PURCHASER OF CONCORD COMMONS

We found that the Rockford Housing Authority's handling of both the award of a construction contract for the renovation work as well as the sale of appliances and disposal of other property were questionable. The construction contract was awarded noncompetitively and the disposal of property was poorly controlled.

Competition is essential for obtaining reasonable prices. Procurement procedures should provide for maximum competition and ensure the open and fair selection of successful contractors. However, the \$2,165,700 construction contract was awarded without benefit of competition--only one firm was solicited. Although the contract was formally signed in May 1981, between the contractor and the Rockford Housing Development Corporation, the actual selection was made more than 8 months before by two housing authority officials.

The housing authority's executive director told us that although the housing authority was required to solicit bids for construction work, there was no such requirement for a nonprofit corporation such as the Rockford Housing Development Corporation. HUD officials said that Federal procurement regulations are not applicable to private organizations and therefore they could not require competition. Federal procurement regulations generally apply to procurements by the Federal Government.

Present board members of the Rockford Housing Development Corporation stated that the decision to award the contract without bids was made before they were involved. The present chairman of the board agreed that the construction contract should have been awarded competitively.

Also, adequate control over property should be maintained from the time items are purchased until they are disposed of. HUD procedures specify that personal property in HUD-owned properties which is determined to be no longer needed should be either transferred to another project or sold. If the estimated price obtainable exceeds \$500, the sale shall be on the basis of advertisement for sealed bids.

The housing authority's Director of Planning and Development told us that he solicited a Chicago appliance dealer and two local firms by telephone regarding the purchase of ranges and refrigerators. The two local firms did not respond, and he accepted the Chicago firm's offer to pay between \$4 and \$30 per appliance depending on condition.

A representative of the Chicago firm told us that he made two or three trips to Rockford. His instructions were to remove appliances from vacant apartments. He determined the condition

and value of the appliances that he removed without any involvement of housing authority officials. The company claimed that it removed 56 appliances and paid the development corporation a total of \$613, or an average of about \$11 per appliance.

We could not determine precisely how many of the appliances purchased by HUD in 1978-79 were among those removed by the appliance company because the list of appliances removed did not always identify brand names. Moreover, the records of what the appliance firm removed did not correspond to the inventory taken after the sale. However, at least 14 and as many as 43 of the 56 appliances sold were ones purchased by HUD during the first renovation.

After the series of critical newspaper articles was published, the sale of appliances and disposal of kitchen cabinets was halted. Board members of the development corporation told us in early February 1982 that the kitchen cabinets were being donated to the Salvation Army while the remaining appliances would be sold through bids. Board members also said that the housing authority had informed them that there were no further items of value at the complex. Consequently, they did not know what was being done with other functional items, such as those we found. As previously discussed in chapter 2, the development corporation voted in March 1982 to continue replacing most items and retain salvageable items for backup inventory.

CONCLUSIONS

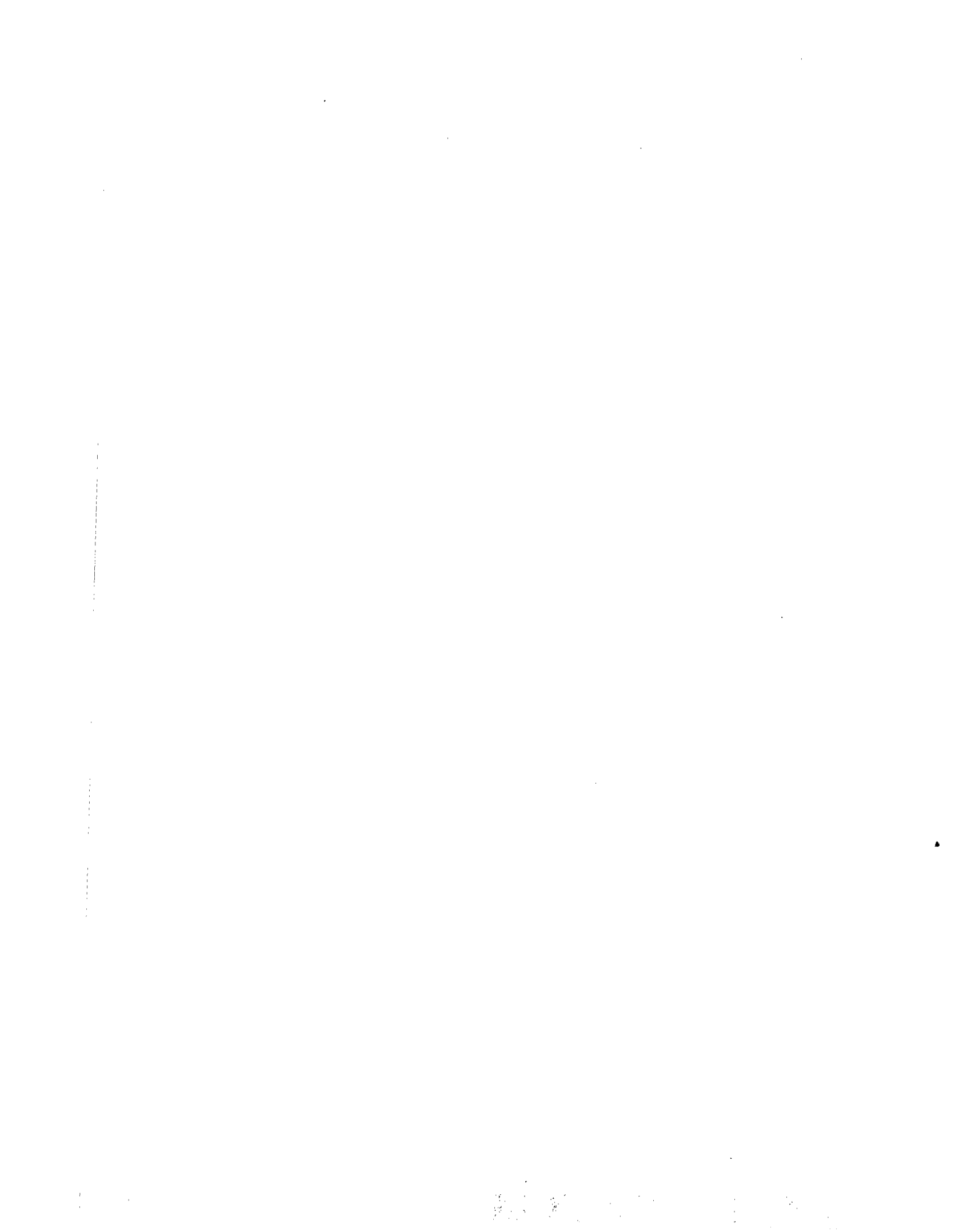
Our review of contracting and procurement activities was limited to those involving Concord Commons. However, a July 1980 report by HUD's Inspector General indicated that some of the findings concerning contracting activities in the Property Disposition Branch were more widespread. HUD's Regional Inspector recently followed up on several of the findings in the 1980 report including two that we found at Concord Commons. According to the Regional Inspector General, corrective action was taken for one of the deficiencies. No further followup is scheduled at this time regarding other contracting weaknesses; however, the Regional Inspector General for Audit told us that additional followup will be made the next time it performs work relating to contracting and procurement activities. Based on the Regional Inspector General's comments, we are making no recommendations at this time.

Concerning the monetary impact of changes in the scope of the second renovation contract, HUD has agreed to adjust the insured mortgage amount for work that has not been done. Accordingly, we are making no recommendations at this time.

Both the selection of the contractor for the renovation work and the disposal of property during the second renovation were questionable. Although competition is essential to assure reasonable prices, officials of the housing authority acting for the development corporation considered only one contractor. However,

because the development corporation is not bound by Federal procurement regulations, it was not required to nor did it seek competition even though it may have been to its benefit.

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