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Report to the Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance, and Urban Affairs, House of Representatives

December 1987

PUBLIC HOUSING

Issues Relating to the Management and Operation of the San Antonio Housing Authority

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December 10, 1987

The Honorable Henry B. Gonzalez
Chairman, Subcommittee on Housing and
Community Development
Committee on Banking, Finance,
and Urban Affairs
House of Representatives

Dear Mr. Chairman:

In a July 17, 1986, letter, you expressed concern about certain areas of the San Antonio Housing Authority's (SAHA) operation. Accordingly, you asked us to review SAHA's (1) financial condition and administrative expenses, (2) procurement practices, (3) modernization activities, and (4) tenant relocation practices.

In summary, we found that SAHA's

- Financial condition weakened considerably in 1985 but has been improving.
- Administrative costs, including top management salaries, were somewhat higher than those at two of Texas' three other largest housing agencies but lower than those of the third.
- Practice of allocating salary expenditures to public housing and section 8 program budgets for those staff working on both programs complies with HUD guidelines.
- Past procurement practices, in some cases, did not comply with state law and HUD regulations on competitive bidding, but a recent change in Texas law now permits some of these practices.
- Modernization program is behind schedule and has cost more for fewer units than initially budgeted. Delays were due largely to the time it took to establish an in-house modernization capability, and increased costs were primarily a result of major changes to the work originally planned.
- Relocation of close to 300 households while it modernized its largest project, Alazan-Apache apartments, was in accordance with HUD regulations, but units remained vacant longer than necessary. Units were vacant for an average of 1 year even though actual modernization work took only 6 months.

Background

HUD's Public Housing Program was established by the United States Housing Act of 1937 with a goal of providing decent, safe, and sanitary housing for lower income families. The Act gave public housing agencies responsibility for developing and managing public housing. HUD provides housing agencies with operating subsidies to maintain and operate their projects and, through its modernization program, finances capital and management improvements. HUD monitors housing agencies to ensure that, among other things, they are providing decent, safe, and sanitary housing to lower income families; properly managing federal funds; and carrying out statutory, regulatory, and contractual obligations.

SAHA was established in 1938 and owns and operates 65 public housing projects with about 8,000 units. It also has administrative responsibility for about 7,000 other units under various HUD programs. In fiscal year 1987, SAHA received about $55 million from HUD to operate its housing programs.

SAHA's Financial Condition Declined in 1985

SAHA's financial condition weakened in 1985, when its operating reserves fell to their lowest level in the last 4 years. Operating reserves are defined as liquid assets minus current liabilities. HUD considers operating reserve levels to be the primary indicator of a housing agency's financial condition, and generally designates a housing agency as financially troubled when its reserves fall to 20 percent or less of the allowable level. HUD allows agencies to maintain reserves of up to one-half of their operating expenses budgeted for the next year so that they can address nonroutine maintenance and other emergencies that might arise.

At the end of fiscal years 1985 and 1986, SAHA's operating reserves fell to 13 percent and 19 percent, respectively, of the allowable levels. However, HUD officials did not designate SAHA as being financially troubled because HUD anticipated that once it adjusted SAHA's prior-year operating subsidy for rent and utility expenses, SAHA's reserves would rise above the 20-percent level. In fact, after HUD made these adjustments, SAHA's reserves rose to 23 percent for fiscal year 1985 and to 27 percent for fiscal year 1986. Nevertheless, these reserves still signify a substantial decline from SAHA's fiscal year 1983 and 1984 levels, when reserves were 57 and 45 percent, respectively, after prior-year adjustments.

SAHA's weakened financial condition in 1985 was largely a result of its revenues' falling short of expectations while its expenses rose. SAHA anticipated revenues of about $9.5 million in 1985, but realized only about $8.8 million. The shortfall was due primarily to reduced investment income during a period of falling interest rates and lost income because SAHA no longer charged tenants for yard care services. SAHA's expenses, on the other hand, exceeded its approved budget by about $800,000. This increase was caused largely by pay raises for employees, the addition of 50 yard care personnel, higher than expected utility costs, and increased insurance premiums.

SAHA's Administrative Costs Are Within the Range of Other Texas Agencies

SAHA's administrative expenses were somewhat higher than those at two of the three other largest public housing agencies in Texas. SAHA's administrative costs averaged about $29 per unit managed in 1986, while El Paso's and Dallas' were about $20 and $28, respectively. Houston's average cost was considerably higher—about $45 per unit managed.

SAHA's salary scales for seven key management positions were generally higher than El Paso's and Houston's, but comparable to Dallas'. Although HUD has advised SAHA of the need to control its administrative costs, particularly salaries, both HUD and SAHA noted that differences in (1) specific housing programs each agency operates, (2) the number of units and condition of projects managed by each housing agency, and (3) responsibilities of top managers make it difficult to draw conclusions about the comparative administrative costs of the agencies.

SAHA's Payment of Salaries From Multiple Programs Is Appropriate

SAHA has complied with HUD requirements in allocating salaries of certain staff to both public housing and HUD section 8 program budgets. The section 8 program provides rental assistance to lower income families living in private housing. About one-third of SAHA's administrative staff is responsible for administering both public housing and section 8 programs, and their salaries are allocated to those programs' budgets in accordance with the portion of time they spend administering each program. This is in keeping with HUD's policy.

SAHA Did Not Comply With State and HUD Procurement Regulations

SAHA engaged in procurement practices over the past few years that did not comply with state law and HUD regulations. The state of Texas requires that housing agencies making procurements of over $10,000 ($5,000 before August 1985) go through a formal competitive bidding process that requires obtaining bids from vendors through advertized solicitations. Federal regulations permit purchases over $10,000 without competitive bidding if they are made under a HUD procurement program called the Consolidated Supply Program (CSP) and they comply with state laws. Until recently, Texas law required that all procurements of over $10,000 be competitively bid, regardless of whether purchases are made under CSP. However, SAHA has always maintained that, not withstanding the Texas law, HUD regulations permit purchases of over $10,000 from vendors participating in CSP without soliciting competitive bids.

In spite of its contention that its procurement practices were permissible, SAHA established a pattern of making purchases just below the competitive bidding threshold and not formally obtaining bids from vendors. Often, it made these purchases under CSP. For example, between May 1985 and February 1987, SAHA made 12 such paint purchases under CSP.

In addition, SAHA made purchases through CSP that were above the competitive bidding threshold, but it did not go through the formal competitive bidding process. For example, between August 1983 and May 1985, 18 of SAHA's 22 paint purchases exceeded the state's threshold for competitive bids, yet SAHA did not formally obtain bids from vendors.

SAHA also engaged in questionable procurement practices outside of CSP. Between October 1986 and January 1987, SAHA placed three orders for screen doors without using CSP. Each order was just below the $10,000 competitive bidding threshold and was made without obtaining formal bids.

On the basis of our review of HUD procurement regulations as well as rulings made by HUD and the Texas Attorney General, we believe that SAHA did not comply with federal and state law when it made noncompetitive purchases above, and split purchases just below, the threshold for competitive bidding. However, in June 1987, the Governor of Texas signed a bill that allows housing agencies to bypass formal competitive bidding when purchasing through CSP. As for the screen door purchases it made outside of CSP, SAHA acknowledged that these purchases could have been competitively bid and plans to do so in the future.

Modernization Work Is Behind Schedule and Costs Have Increased

Between 1982 and 1984, HUD awarded SAHA about $20.1 million to modernize 23 projects. SAHA did not meet scheduled completion dates and exceeded modernization budgets for most of these projects. As a result, SAHA modernized fewer units than planned.

SAHA experienced delays in its modernization program largely because of the time it took to establish an in-house modernization capability. Rather than privately contracting for work, SAHA used agency-employed work crews, known as "force account" labor, on most of its projects because HUD's Fort Worth regional office believed it would save money. At SAHA's largest project—Alazan-Apache—initiating and developing a force account program delayed modernization by about 1 year. However, SAHA's force account program now appears to be operating efficiently.

Modernization costs for Alazan-Apache and other projects rose considerably, primarily because of major modifications to the original scope of work. For instance, at Alazan-Apache, SAHA budgeted $10,807 per unit for modernizing the interiors of 556 units, but costs actually totaled $16,157 because the work needed was far more extensive than originally estimated. As a result, SAHA modernized only 399 units and eliminated some of its planned site improvements.

We were unable to determine whether the force account method of modernization resulted in excessive costs at Alazan-Apache. However, our limited comparisons of work performed by both private contractors and force account crews at several other SAHA projects, and our discussions with SAHA officials indicated that overall, force account costs were similar to those of private contractors.

Officials from the San Antonio, El Paso, Dallas, and Houston housing agencies had different views on the advantages and disadvantages of using force account labor. San Antonio and El Paso officials believed that the advantages of using force account labor outweighed the disadvantages, and officials at Dallas believed just the opposite. Houston's experience with force account was limited but positive. Among the advantages housing agency officials cited were better control over work, better workmanship, and lower costs once the initial investment in equipment and other start-up costs are made. Disadvantages cited included added administrative costs, difficulties in hiring skilled workers, problems in coordinating the acquisition of building materials with their delivery to work sites, and uncertainty over future availability of federal funds to ensure ongoing work for force account crews. HUD officials pointed out that the decision of whether or not a housing agency should use force account labor for modernizing projects should be made on a case-by-case basis.

Alazan-Apache Households Relocated to Comparable Housing at No Additional Cost

Between March 1984 and November 1986, SAHA temporarily relocated 286 households from Alazan-Apache while it was being modernized. SAHA relocated about 82 percent of these households to units of comparable quality within Alazan-Apache and about 7 percent to comparable units in other SAHA projects. The remaining households elected to move to privately owned housing in the community.

None of the households who relocated to another SAHA unit experienced rent increases as a direct result of relocation. Following the relocation, SAHA did adjust rents for 19 percent of these households because of changes in family income; however, their rents would have eventually been adjusted anyway. In addition, we inspected selected units to which households were temporarily relocated and found them to be at least comparable to the households' previous units.

SAHA allowed units being modernized to remain vacant beyond the time the HUD field office considered reasonable. On average, units were vacant for about 1 year even though actual modernization work generally took only 6 months. We estimate that if this additional vacancy time had been held to 1 month, SAHA could have realized an additional $96,000 in rental income.

The information in this report is based on our review of records maintained by SAHA and the Department of Housing and Urban Development's (HUD) San Antonio field office and discussions with HUD officials. We also obtained information from housing agencies in Dallas, El Paso, and Houston—the three other largest housing agencies in Texas—and reviewed HUD records to compare their operations with those of SAHA. Lastly, to assess modernization work at SAHA projects and household relocation practices at Alazan-Apache, we visited SAHA housing projects and met with SAHA officials and a tenant representative from Alazan-Apache. Appendix V contains additional information on our scope and methodology.

We discussed the information contained in this report with HUD and SAHA officials, who generally agreed with our findings. We also incorporated their suggestions for clarifying several points in the final report. However, as agreed with your office, we did not request HUD or SAHA to review and comment officially on a draft of this report. Our review was performed in accordance with generally accepted government auditing standards.

We are sending copies of this report to the appropriate House and Senate committees; the Secretary, HUD; the Director, Office of Management and Budget; the Executive Director, SAHA; and other interested parties. We will also make copies available to others on request.

Please call me at (202) 275-6111 if you have any questions about this report. Major contributors to this report are listed in appendix VI.

Sincerely yours,

John H. Luke

John H. Luke
Associate Director

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Abbreviations

CIAP	Comprehensive Improvement Assistance Program
CSP	Consolidated Supply Program
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
PHA	public housing agency
RCED	Resources, Community, and Economic Development Division (GAO)
SAHA	San Antonio Housing Authority

SAHA's Financial Condition, Administrative Expenses, and Allocation of Salaries

The San Antonio Housing Authority's (SAHA) financial condition weakened in 1985 as revenues fell short of expectations and expenses rose. By the end of that fiscal year, SAHA's operating reserves had fallen below the level at which HUD ordinarily classifies a public housing agency (PHA) as being financially troubled. However, because HUD anticipated that SAHA's reserves would soon rise above that level, it did not designate the agency as being financially troubled. SAHA's operating reserves have since risen.

Our comparison of SAHA's administrative expenses with those of the three other largest PHAs in Texas indicated that, although SAHA's expenses were somewhat higher than two of the three agencies from fiscal years 1983 through 1985, they were about average in fiscal year 1986. Also, SAHA's increases in administrative costs over the last 4 years have been the smallest of the four agencies. However, differences in programs operated by each PHA, variations in the number and condition of their projects, and differences in responsibilities of their key management personnel preclude us from determining whether SAHA's administrative expenses are in line with those of other large PHAs in Texas.

We found no improprieties regarding the commingling of HUD section 8 funds and public housing operating subsidies. About one-third of SAHA's administrative staff work on both public housing and section 8 programs and their salaries are charged to each program in accordance with the proportion of time spent administering each program. This practice has been approved by HUD and is consistent with HUD guidelines.

SAHA's Financial Condition Weakened in Fiscal Year 1985 but Has Improved Since

HUD requires that a PHA be designated as "financially troubled" if it does not maintain an operating reserve of over 20 percent of its allowable maximum. HUD allows housing agencies to accumulate reserves of up to one-half of their total routine operating expenses budgeted for the subsequent fiscal year. At the end of fiscal year 1985, SAHA's reserve balance was only 13 percent of the level authorized by HUD—a substantial decline from its 1983 reserve balance of 56 percent. However, HUD did not designate SAHA as being financially troubled because it anticipated that prior-year adjustments would increase SAHA's reserves to more than 20 percent. In fact, after prior-year adjustments, SAHA's fiscal year 1985 reserves were at the 23-percent level. In fiscal year 1986, SAHA was able to increase its reserves to 27 percent, after prior-year adjustments, by holding down its operating expenses.

Reasons for SAHA's Financial Decline

SAHA's financial condition weakened in 1985 largely because its rental and investment income did not meet projections and it stopped charging tenants for yard care services. In addition, operating expenses were higher than expected primarily because it gave its employees cost-of-living salary increases, hired additional grounds-keeping personnel, and paid increased utility costs and insurance premiums.

HUD monitors a PHA's operating reserves by periodically reviewing financial budgets and operating statements. Operating reserves are defined as liquid assets minus current liabilities. These reserves provide housing agencies with a financial cushion for addressing nonroutine maintenance and other emergencies. HUD considers operating reserve levels to be the primary indicator of a housing agency's financial condition.

In fiscal year 1985, SAHA's reserve level declined to 13 percent of the maximum allowed by HUD. HUD field office officials in San Antonio told us that, although SAHA's reserves had fallen below 20 percent, they did not designate the agency as being financially troubled because they anticipated prior-year adjustments would increase its reserves above that level. HUD typically makes such adjustments to account for reimbursements it makes to the PHA for items such as utility allowances and rent subsidies for the previous fiscal year. In addition, HUD officials believed that SAHA could increase its reserves in the subsequent year by holding down expenses. Table I.1 shows SAHA's operating reserves for the last 4 fiscal years, before and after prior-year adjustments. As can be seen, prior-year adjustments for fiscal years 1985 and 1986 brought SAHA's reserves above 20 percent.

Table I.1: SAHA's Operating Reserves, Fiscal Years 1983-86

Fiscal year	Maximum allowable reserves	Year-end reserves as of June 30		Reserves after prior-year adjustments	
		Amount	Percent[a]	Amount	Percent[a]
1983	$7,586,420	$4,267,674	56	$4,340,049	57
1984	7,777,690	2,948,268	38	3,517,432	45
1985	8,290,561	1,095,327	13	1,897,094	23
1986	8,964,330	1,737,115	19	2,382,160[b]	27[b]

[a]HUD calculates reserve percentages by dividing actual reserves by the maximum allowable reserve.

[b]Adjusted through April 1987.

Source: HUD San Antonio field office data, fiscal years 1983-86.

SAHA's fiscal year 1985 budget projected receipts of almost $9.5 million, but SAHA realized only about $8.8 million. According to SAHA officials, key factors contributing to this decrease included (1) reduced rent receipts of about $104,000 resulting from adjustments to tenant rent contributions based on HUD's new rent calculation formulas, (2) a shortfall in investment income of about $267,000 due to declining interest rates, and (3) reduced income of about $270,000 because SAHA stopped charging tenants for yard care.

In addition to SAHA's decreased revenues, HUD reduced the agency's proposed operating budget from $19.1 million to $17.7 million. Officials in HUD's San Antonio field office said they reduced the budget because they wanted SAHA to better control its operating expenses. Although HUD approved SAHA's budget at $1.4 million below what SAHA requested, the budget still projected an operating reserve of 34 percent. However, SAHA departed from this budget by doing the following:

- Increasing salaries and associated benefits by about $486,000. SAHA's salary increases were made in accordance with its policy of matching raises that the city of San Antonio gives its employees.
- Increasing labor expenses by about $360,000 through the addition of about 50 grounds-keeping personnel. The SAHA executive director said that these staff were hired because HUD had criticized yard care efforts at the housing agency's projects. Before 1985, tenants were responsible for maintaining their own yards and for those tenants that did not, SAHA charged a fee.
- Increasing utility and insurance expenditures by about $294,000 and $142,000, respectively, that were unforeseen at the time the budget was prepared.
- Increasing expenditures for telephone services, data-processing contracts, a summer youth camp program for children living in SAHA projects, and additional security services at several projects that, in total, added $207,000 to operating expenses.

SAHA's executive director said that he disagreed with HUD's decision to reduce SAHA's original 1985 budget and with HUD's disapproval of a budget revision submitted mid-way through the fiscal year that would have increased SAHA's authorized expense level. HUD San Antonio field office officials advised us, however, that the revision was disapproved because of the negative effect they believed it would have on SAHA's operating reserve. SAHA went ahead and used its operating reserves to cover its budget overrun, but did so without HUD's approval.

SAHA's Efforts to Improve Its Financial Condition

Since fiscal year 1985, SAHA management has taken a number of actions to reduce expenses and increase revenues in order to respond to HUD's concerns about its financial condition. As a result, after prior-year adjustments, its reserve level increased from 23 percent in fiscal year 1985 to 27 percent in fiscal year 1986. As of September 1987, HUD officials were in the process of computing prior-year adjustments for fiscal year 1987 and anticipated SAHA's reserves would remain at about 27 percent. Some noteworthy cost-saving and revenue-producing measures SAHA took in 1986 included

- reducing administrative expenses 12 percent by eliminating 15 administrative positions and filling vacancies more slowly,
- reducing tenant services and security expenses 13 percent by cutting back the summer youth camp program and nonessential all-night security programs at several projects,
- reducing labor expenses 11 percent by limiting overtime and eliminating the 50 grounds-keeping positions that were added in 1985, and
- reinstituting yard care charges that had previously produced about $270,000 in annual revenues for the housing agency.

SAHA officials advised us that they took other initiatives to reduce expenses, which included reducing the number of SAHA's warranty service and maintenance contracts, improving inventory controls by making better use of the central warehouse facility, and modifying its merit award system by increasing the requirements employees must meet to obtain merit bonuses.

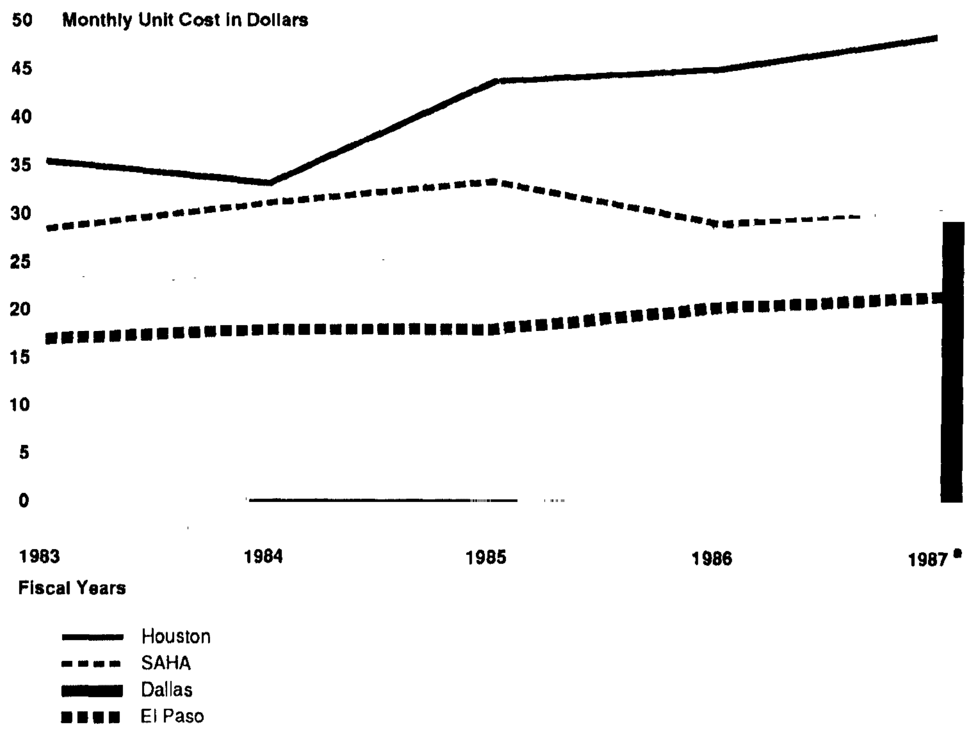
SAHA's Administrative Costs Are Within the Range of Other Large Texas Housing Agencies

We compared SAHA's administrative expenses for fiscal years 1983 through 1987 with those of the next three largest PHAs in Texas—Dallas, El Paso, and Houston—and found that, although SAHA's expenses were the second highest of the four, they increased at the slowest rate. Differences among the agencies, however, preclude us from determining whether SAHA's administrative expenses are too high.

Administrative expenses include salaries, legal costs, staff training, travel, accounting and auditing fees, office rent, and service contracts. A major portion of administrative expenses is usually associated with salaries paid to management and administrative personnel.

Figure I.1 and table I.2 illustrate trends in administrative expenses at each of the four housing agencies and compare the monthly expenses of each agency per housing unit. SAHA attributes its lower administrative expenses in 1986 primarily to reductions it made in administrative personnel and the lack of cost-of-living adjustments. (SAHA did not give these salary increases because the city of San Antonio did not do so for its employees.)

Figure I.1: Trends in Administrative Expenses at SAHA and Three Other Large Texas PHAs, Fiscal Years 1983-87



[a] Budgeted amount, not actual expenditures.

Source: GAO analysis of administrative expenses shown in table I.2.

Table I.2: Comparison of SAHA's Administrative Expenses to Those of Three Other Large Texas PHAs, Fiscal Years 1983-87[a]

		Cost per unit per month				
Housing agency	**Units[b]**	**1983**	**1984**	**1985**	**1986**	**1987[c]**
Houston	3,253	$35.23	$33.02	$43.62[d]	$45.03	$48.52
SAHA	7,952	28.24	30.93	33.22	28.95	30.05
Dallas	6,571	22.22	24.45	26.79	27.91	29.87
El Paso	6,151	16.74	17.74	17.82	20.17	21.39

[a] SAHA's and El Paso's fiscal years end June 30; Houston's and Dallas' end December 31.
[b] Number of units may vary slightly from year to year. Numbers in this column are for fiscal year 1986.
[c] Budgeted amount, not actual expenditures.
[d] A law suit resulted in unusually high legal expenses for Houston in fiscal year 1985.
Source: GAO and HUD analysis of housing operating statements, fiscal years 1983-87.

Even though SAHA's administrative expenses per unit were the second highest of the four agencies, the rate at which its expenses have increased over the last 4 years has been the slowest. From fiscal year 1983 through 1987, SAHA's administrative expenses increased 6 percent, whereas increases at the other three agencies ranged from 28 to 38 percent. SAHA's relatively small increase in expenses is primarily due to its successful efforts in 1986 to reduce expenses.

Both HUD and SAHA officials cautioned that certain limitations must be recognized when comparing housing agency administrative expenses. HUD officials in San Antonio stated that housing agencies differ in the programs they operate and the emphasis placed on each. For example, SAHA emphasizes tenant counseling and assistance services more so than Dallas or El Paso, which could increase its administrative expenses. SAHA's executive director also noted that the number, type, location, and condition of units influence overhead costs. For instance, he said that SAHA had more projects at more locations than Dallas, El Paso, or Houston, which necessitates more apartment managers.

SAHA's Top Management Salaries Are Higher Than Two of Three Other Large Texas Housing Agencies

SAHA's salary structure for top management positions was generally comparable to Dallas' but higher than El Paso's and Houston's. In making these comparisons, we selected the highest paid management positions associated with common areas of each agency's operation. We recognize that some differences in responsibilities and workloads between these positions exist, but it was impractical to account for these differences in our analysis. Table I.3 compares the salary ranges for seven top management positions.

Table I.3: SAHA's Salary Scale for Top Management Positions Compared With Those of Three Other Large Texas PHAs, Fiscal Year 1986

Position	SAHA	Dallas	El Paso	Houston	Average
Executive Director	$77,180	$67,517	$52,000	$82,164	$69,715
Deputy Executive Director	52,610-71,170	53,200-79,800	None	40,511-54,289	48,774-68,420
Director of Fiscal Operations	45,200-61,160	40,550-60,850	25,000-37,500	36,497-48,909	38,062-53,980
Director of Housing Operations	44,570-60,310	40,550-60,850	26,000-39,000	32,664-43,773	35,946-50,983
Director of Facilities	43,580-58,960	46,500-69,700	25,000-37,500	36,497-48,909	37,894-53,767
Director of Maintenance	None[a]	46,500-69,700	25,000-37,500	32,664-43,773	34,721-50,324
Director of Personnel	39,320-53,200	35,450-53,150	None[b]	26,702-35,783	33,824-47,378

[a]Director of Housing Operations oversees housing maintenance.

[b]Director of Fiscal Operations is responsible for personnel functions.

Source: GAO analysis of salary structure for each housing authority.

HUD guidelines encourage housing agencies to pay wages that are comparable to those of other local public entities of municipal or county governments or other institutions supported by public funds. Therefore, in 1980, SAHA contracted with the Office of Personnel Management for a local wage comparability study that helped form the basis for SAHA's current salary structure. SAHA's executive director told us that since SAHA's wages are comparable to those paid by the city of San Antonio, as recommended by HUD, comparisons to other housing agencies are not as relevant.

SAHA's Payment of Salaries From Multiple Programs Is Appropriate

HUD regulations require that housing agencies that manage more than one HUD program (1) allocate their operating expenses in an equitable manner among the programs and (2) maintain appropriate documentation to support allocation formulas that have been used. SAHA operates the conventional public housing program and four section 8 programs that have combined operating budgets of nearly $50 million for fiscal year 1987. Because about one-third of SAHA administrative staff perform work related to more than one program, their salaries are paid from a combination of program budgets.

For fiscal year 1987, SAHA identified 37 out of its 127 management and administrative positions that support more than one program. SAHA allocated the salaries of these positions to the specific programs based on formulas that take into account such factors as actual time spent by employees on each program and the operating budgets associated with each program. The deputy director for HUD's San Antonio field office advised us that SAHA has complied with HUD's requirement for developing a cost allocation plan, including an accurate description of the methodologies it used in allocating expenses for the section 8 program.

Table I.4 shows the distribution of salary costs for the 37 positions. As illustrated, SAHA allocated approximately 86 percent of the salary expenses associated with these positions to the public housing program, while 14 percent was allocated to section 8 programs.

Table I.4: SAHA's Allocation of Salary Expenses for Employees Working on More Than One Housing Program, Fiscal Year 1987

		Allocation of salaries				
		Public housing		Section 8		
Office/division	**Number of positions**	**Salary**	**Percent**	**Salary**	**Percent**	**Total salary**
Executive	3	$151,890	78	$42,470	22	$194,360
Fiscal	24	457,870	85	78,560	15	536,430
Personnel	7	160,920	90	18,348	10	179,268
Housing operations	3	128,950	94	8,280	6	137,230
Facilities development	0	•	•	•	•	•
Total	**37**	**$899,630**	**86**	**$147,658**	**14**	**$1,047,288**

Source: GAO analysis of SAHA's operating budget, fiscal year 1987.

SAHA's Procurement Practices

For the past several years, SAHA engaged in procurement practices that were contrary to rulings made by HUD and the Texas Attorney General. Specifically, SAHA made noncompetitive purchases above the level that the state required to be competitively bid and split purchases of certain items so that their dollar amounts fell just below this level. SAHA generally made this latter type of purchase from HUD's Consolidated Supply Program (CSP) and believed that the state's requirements for competitive bidding did not apply to CSP. However, we determined that the state's competitive bidding requirements did apply to CSP purchases and, consequently, we believe SAHA did not comply with state law. However, this issue was clarified in June 1987, when the Governor of Texas signed into law an act that exempts PHAs from competitive bidding requirements when they use CSP.

Past SAHA Procurement Practices Did Not Comply With State Law

Since 1984, HUD has advised SAHA that some of its procurement practices did not comply with competitive bidding requirements for public entities in Texas. Moreover, the Texas Attorney General advised SAHA that using CSP did not exempt SAHA from the state's competitive bidding requirements. However, SAHA has maintained that federal regulations specifically exempt procurements made through CSP from state law.

HUD's Consolidated Supply Program

CSP is a procurement program developed by HUD to assist PHAs in obtaining the most advantageous prices in procuring standard use items (e.g., paint, floor coverings, etc.). Under CSP, HUD solicits bids for open-ended contracts for standard use items, making awards generally to the lowest bidders. HUD then publishes a catalogue containing a description of these items and their prices and distributes them to housing agencies. The agencies may then place orders directly with the listed vendors for any of the items in the catalogue. The vendor, in turn, ships these items directly to the PHA and bills it for the goods. There is nothing contained in statute, regulation, or a PHA's contract with HUD that requires housing agencies to make purchases under CSP.

Competitive Bidding Requirements

In the past, ambiguity surrounded the question of whether SAHA had to solicit competitive bids when making purchases through CSP for $10,000 or more. SAHA maintained that it was exempt from the competitive bidding requirement when it used CSP; however, the Texas Attorney General and HUD disagreed.

SAHA believes it has been exempt from this requirement because federal regulations (24 C.F.R. Sec. 968.12 (b)) state:

> "[f]or each construction or equipment contract over $10,000, the PHA shall conduct competitive bidding, except for procurement under the HUD Consolidated Supply Program." [Emphasis added.]

However, another part of this regulation states that "The PHA shall comply with State, tribal and local laws, and Federal requirements applicable to bidding and contract award" (24 C.F.R. Sec. 968.12(a)(1986)).

The ambiguity lies in the fact that under Texas state law, housing agencies were required to competitively bid all contracts for $10,000 or more[1] unless the purchase fell under any of seven special exemptions. None of the seven exemptions, however, covered purchases made through CSP. Therefore, since federal law requires that PHAs follow state laws, and Texas law required that PHAs' purchases of $10,000 or more be competitively bid (and said nothing of a CSP-related exemption), Texas PHAs had to solicit competitive bids on all purchases of $10,000 or more.

SAHA Did Not Comply With Competitive Bidding Requirements

Three HUD reviews of SAHA procurement activities during the last 2 years disclosed that SAHA repeatedly split its purchases to avoid state laws on competitive bidding. For example, SAHA made a series of paint and security door purchases in amounts just below the competitive bid threshold—sometimes making several of these smaller purchases in a single day. In addition, we found instances where SAHA made paint purchases that exceeded the competitive bidding threshold, but did not solicit competitive bids.

In September 1985, the HUD Office of Inspector General reported on SAHA's bid splitting, stating that it not only circumvented state and federal procurement requirements, but could prevent SAHA from obtaining the best prices available. SAHA responded that it would modify its procurement policies to adhere to HUD regulations and state law regarding competitive bidding.

Paint Purchases

A report issued in July 1986 by HUD's San Antonio field office stated that SAHA had not implemented its planned procurement changes and

[1]Applies to housing agencies located in cities with populations of 50,000 or more.

was still splitting certain purchases. HUD reported that between July 1985 and March 1986, SAHA purchased $98,306 in paint through CSP without obtaining competitive bids. Four of 24 orders placed by SAHA averaged $4,739—an amount just below the state threshold for competitive bidding, which was $5,000 at the time. (Texas increased the threshold from $5,000 to $10,000 in August 1985.) Also, SAHA placed as many as three separate orders in a single day in an apparent attempt to avoid competitive bidding requirements.

SAHA informed HUD that it interpreted HUD's regulations as permitting all CSP purchases without competitive bidding. In a September 1986 response to HUD, SAHA's executive director stated that purchases were made on an "as needed" basis, were practical and cost-effective, and were in accordance with HUD policies regarding the use of CSP.

In a September 1986 follow-up review, HUD's San Antonio field office identified $63,459 in paint purchases that had been split into eight orders under $10,000 between April and August 1986. SAHA again responded that it was not splitting purchases but was buying paint on an as-needed basis.

In view of the continuing dispute between SAHA and HUD, we reviewed paint procurements that SAHA made between July 1983 and February 1987. We found that SAHA placed 61 paint orders through CSP during this period at a total cost of $418,186. None were competitively bid, although some exceeded the competitive bidding threshold. Specifically,

- between July 1983 and May 1985, SAHA made 22 paint purchases, 18 of which exceeded the state's $5,000 threshold for competitive bidding;
- between May and August 1985, SAHA made four paint purchases and all were just below the state's $5,000 threshold; and
- between August 1985 and February 1987, SAHA made 35 paint purchases, 8 of which were just below the revised $10,000 threshold.

HUD advised SAHA in September 1986 that it considered paint purchases not competitively bid as ineligible program expenditures which would no longer be reimbursed. Subsequently, in February 1987, SAHA solicited competitive bids on an 8,500-gallon paint procurement and accepted a bid that was about $14,700 lower than the best price available through CSP.

Screen Door Purchases

SAHA also split purchases for security screen doors, which enabled it to avoid soliciting formal competitive bids. Between October 1986 and January 1987, SAHA placed 3 separate orders with a single vendor for a total of 288 doors. SAHA did not make these purchases through CSP. Each order was over $9,000 but was under the $10,000 threshold. After we questioned the propriety of these small sequential procurements, SAHA's executive director acknowledged that the purchases could have been competitively bid and that he was taking steps to formally solicit bids for about 6,000 additional doors.

New Law Exempts CSP Purchases From Competitive Bidding

On June 22, 1987, the Governor of Texas signed a bill that effectively ended the controversy over whether SAHA must solicit competitive bids on purchases over $10,000 or whether they can be made directly through CSP. The new law specifically exempts PHAs from competitively bidding purchases that are made under CSP.

SAHA's Modernization Program

Between 1982 and 1984, HUD approved about $20.1 million in Comprehensive Improvement Assistance Program (CIAP)[1] funds for SAHA to modernize 23 housing projects, including about $8.1 million for SAHA's largest project—Alazan-Apache. Modifications to the original scope of work at these projects have required SAHA to spend about twice what it planned on some units, thus modernizing fewer units overall. In addition, SAHA has been behind schedule in completing modernization work at Alazan-Apache and most of its other projects because of the time it took to make the transition to using agency-employed "force account" labor rather than using private contractors.

We were unable to determine whether SAHA's use of force account labor has resulted in additional costs. Our limited analysis, however, indicates that labor and material costs under force account are less than under private contracting because profits are eliminated. However, this cost advantage seems to be offset by increased indirect expenses.

HUD and SAHA officials cited several benefits of using force account, such as better control over work quality and scope; however, neither agency has actually evaluated its cost-effectiveness. Officials from the three other largest PHAs in Texas had mixed views on using force account labor to modernize projects.

Changes in Work Scope Resulted in Higher Costs and Fewer Modernized Units

SAHA performed more extensive work than originally planned at Alazan-Apache and most other projects because the physical condition of many units was worse than anticipated at the time HUD approved CIAP funds. The additional costs of the changes resulted in SAHA's modernizing fewer units than planned.

Alazan-Apache

About 40 percent of the CIAP funds HUD approved for SAHA in 1982-84 were for Alazan-Apache, SAHA's oldest and largest housing project. It contains 1,172 units and is situated on a 77-acre site close to San

[1]Section 14 of the U.S. Housing Act of 1937, as amended, established the Comprehensive Improvement Assistance Program, and authorized HUD to provide financial assistance to public housing agencies to improve the physical condition and upgrade the management and operation of existing public housing projects. Once modernized, HUD expects projects to have long-term physical and social viability.

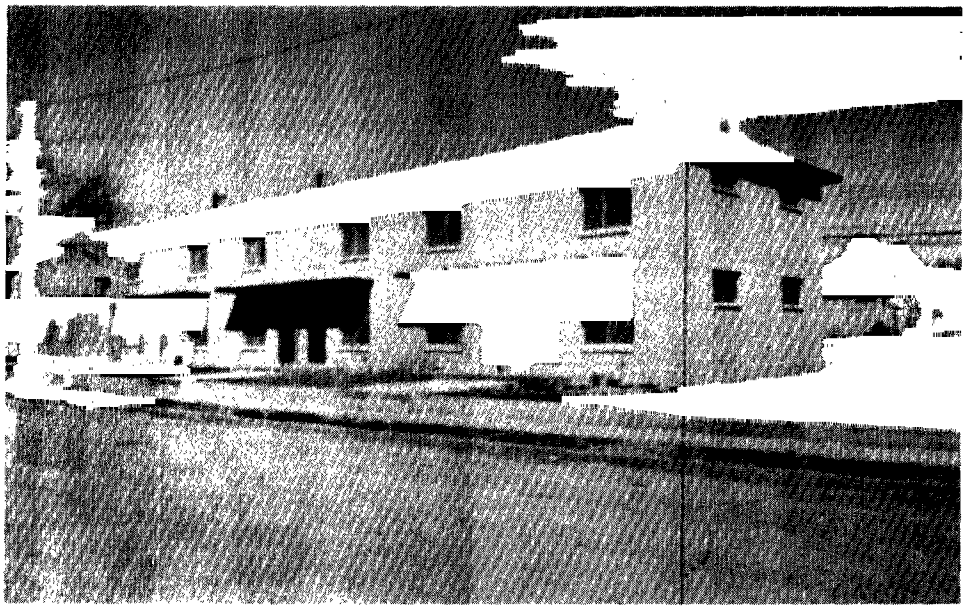
Antonio's downtown business district. The project had little modernization since it was completed in 1942 and met few city codes or HUD public housing construction standards.

In 1982 SAHA requested from HUD about $16.7 million to comprehensively modernize all 1,172 units in the project. However, because of competing demands for CIAP funding, HUD reduced SAHA's request in order to distribute funds to a greater number of housing agencies. As a result, SAHA received only $8.1 million to modernize 556 units, renovate administrative and maintenance buildings, make site improvements, and demolish 242 units to reduce the project's density. In November 1982, when HUD approved funding, SAHA projected that work would be completed between December 1985 and April 1986, or in about 3 years. Figures III.1 and III.2 are examples of units before and after modernization.

Figure III.1: Alazan-Apache Units Before Modernization

SAHA substantially modified its original modernization plans by increasing the amount of work on each dwelling unit and eliminating certain site improvements and work on nonresidential buildings. As a result, per-unit costs rose and SAHA only modernized 399 units instead of 556, although the approved budget remained at $8.1 million. The average cost for modernizing a unit, considering only improvements to the unit

Figure III.2: Alazan-Apache Units After Modernization

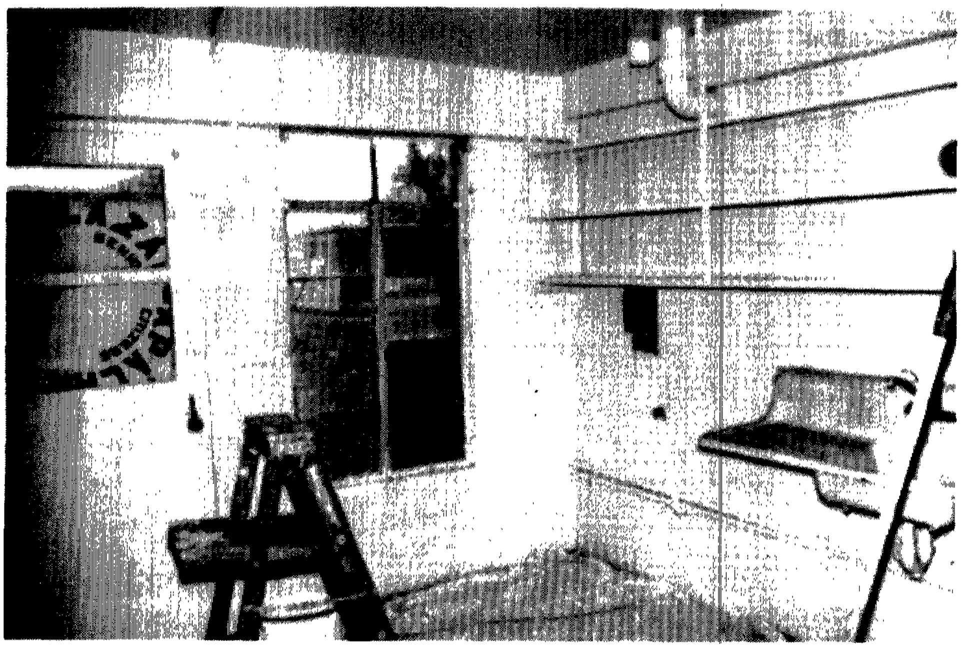


itself, increased from $10,807 to $16,157. If per-unit costs are computed based on the total costs of modernizing the entire project including site improvements, then costs increase from $14,545 to $20,268.

SAHA officials said that they realized when they began developing detailed plans that modernization of units would be more extensive than originally anticipated. For example, SAHA's 1982 approved plan included very few changes to floor plans. However, when SAHA developed its detailed plans in 1984, it determined that significant changes were needed in the configuration of many units to improve livability and meet HUD's property standards. This more extensive modernization increased expenses for items such as plumbing and electrical systems, demolition and reconstruction of interior walls, and general repairs.

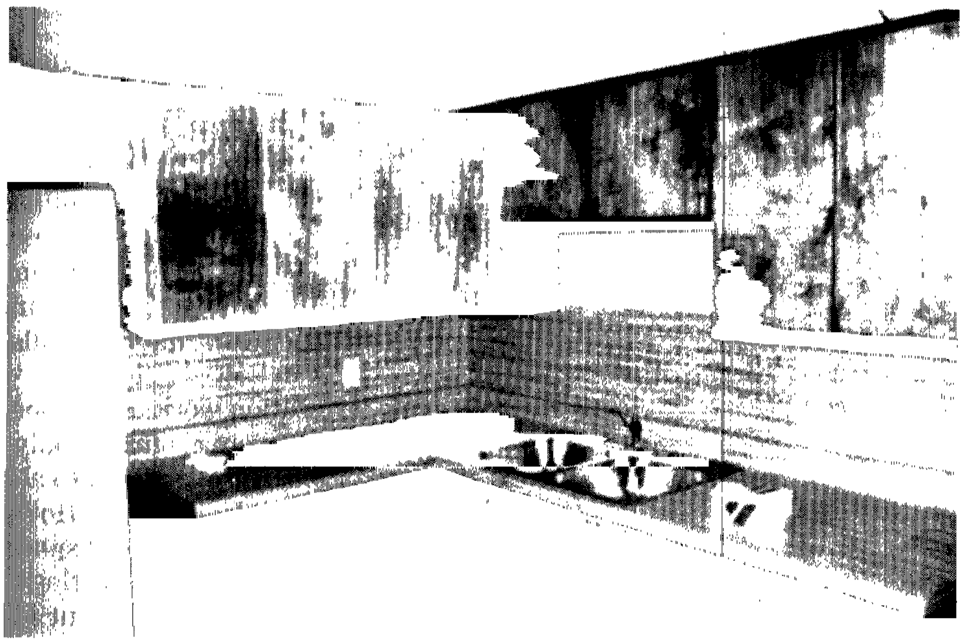
The modernization work on kitchens illustrates how costs increased. Many kitchens were originally only 90 square feet but, under SAHA's modernization, were enlarged to about 180 square feet to accommodate added cabinet and sink space. However, the original plan HUD approved did not provide for additional space or fixtures required by the expansion. Therefore, instead of costing $1,000 per unit as budgeted, cabinets, sinks, and fixtures totaled about $2,400 per unit. Figures III.3 and III.4 show kitchens at Alazan-Apache before and after modernization.

Figure III.3: Kitchen in an Alazan-Apache Unit That Had Not Been Modernized



Kitchens did not contain cabinets, adequate plumbing or fixtures.

Figure III.4: Modernized Kitchen in Alazan-Apache



SAHA installed new plumbing, cabinets, floor tile, a sink, stove, refrigerator, and light fixtures.

A similar situation occurred with bathroom repairs. SAHA's plan, as approved, called for installing sinks and vanities which had not been included in some units when the project was originally built. However, since many bathrooms were too small to accommodate the modification, SAHA enlarged the floor space and increased costs for wall, floor, and fixture improvements from $1,100 to $2,286 per unit.

To finance these and other major changes, SAHA eliminated work that HUD had approved for the project's administrative and maintenance buildings and a new day care facility. In addition, SAHA rejected HUD's recommendation to demolish 242 units because of uncertainties in federal funding for replacement housing. These cutbacks made about $820,000 available for modernizing units and purchasing force account construction equipment.

Other SAHA Projects

From 1982 through 1984, HUD approved about $12 million for SAHA to modernize 22 other projects. SAHA modified the work scope for 15 of these projects because their physical condition was worse than indicated in their original CIAP budgets. According to the executive director, most of the budgeted repairs were based on outdated information and did not provide for the amount of work needed to upgrade units to HUD public housing standards. Also, material costs increased for some items such as windows, screens, and doors, which further reduced the number of units that could be modernized with available funds. In addition, SAHA officials told us that the condition of some units worsened because the agency reduced its maintenance efforts once it learned that HUD was going to approve CIAP funds for those projects.

Table III.1 summarizes the work SAHA performed at all 22 projects and shows how actual work compared with work approved in the budgets. As illustrated, SAHA's modernization work fell short of what was planned in most work categories. For example, SAHA renovated fewer kitchens and bathrooms because physical conditions were worse than expected. Also fewer cabinets, windows, window screens, and screen doors were installed than planned because their costs nearly doubled. On the other hand, SAHA repaired more roofs than originally planned because the agency considered the work such a high priority.

Table III.1: Planned Versus Actual Work at 22 SAHA Projects Funded Under 31 CIAP Budgets, Fiscal Years 1982-84

Work category	Number: Planned	Number: Actual	Actual number as a percentage of planned number
Repair kitchens	1,383	900	65
Repair bathrooms	1,566	1,333	85
Replace cabinets in kitchens	1,335	894	67
Repair interior floors	742	583	79
Replace windows	3,622	3,236	89
Replace window screens	16,699	8,974	54
Replace screen doors	5,304	3,276	62
Paint buildings	468	468	100
Upgrade unit electric systems	513	462	84
Renovate nondwelling structures	3	2	67
Repair parking lots	2	2	100
Repair roofs	149	245	164
Miscellaneous site improvements[a]	13	10	77

[a]Repair foundations, sidewalks, landscaping, recreation areas, elevators, etc.
Source: GAO analysis of CIAP budgets and discussions with SAHA officials.

Seven SAHA projects consumed about 80 percent of the total modernization funds allocated for the 22 projects between 1982 and 1984, and in comparison to the remaining 15 projects, were targeted for much more extensive site and unit renovation. Table III.2 shows that for three of the seven projects, SAHA renovated fewer units than planned and, for five of the seven, spent more per unit than originally budgeted. The increases in cost per unit ranged from 3 percent at the Villa Veramendi project to 32 percent at the Menchaca project.

Table III.2: Budgeted Versus Actual Expenses at the Most Extensively Modernized SAHA Projects

Project	Budgeted work: Amount	Budgeted work: Units	Actual work: Amount	Actual work: Units
Cassiano	$2,285,768	400	$1,956,939	$5,303
Menchaca	1,737,101	150	2,293,611	15,291
Mirasol	2,060,975	385	1,640,629	3,934
San Juan Annex	526,357	154	619,803	4,025
San Juan/ Cassiano	882,717	99	1,026,829	21,392
Spring View Annex	991,323	104	1,088,301	10,464
Villa Veramendi	1,068,251	236	1,099,755	21,149
Total	**$9,552,492**	**1,528**	**$9,725,867**	**$7,516**

Source: GAO analysis of SAHA's CIAP budgets and expenditure reports and discussions with SAHA officials.

Force Account Delayed Modernization but Does Not Appear to Affect Costs

The time associated with developing its force account capability contributed to delays in SAHA's modernization work; however, the force account program now appears to be operating efficiently. Our limited analysis of work at two SAHA projects indicates that labor and material costs for force account are less than for private contractors because profits are eliminated. However, it appears that these savings are generally offset by other indirect costs associated with force account. While overall costs may be comparable, SAHA favors the force account method because of the added flexibility it affords compared with using private contractors.

HUD Encouraged SAHA to Use Force Account Labor

In 1982, HUD's Fort Worth regional office initiated a policy that emphasized using force account labor for modernization. The regional office's main objective in advocating force account was to reduce costs by eliminating contractor profits which, according to regional office officials, often account for up to 10 percent of modernization costs for labor and materials. In addition, the regional office believed that using in-house staff to perform architectural and engineering services could save another 4 or 5 percent. Despite this change in policy, the regional office has not evaluated or monitored the overall success of force account in reducing CIAP costs.

HUD headquarters, on the other hand, never specifically encouraged housing agencies to use force account labor. Rather, it addressed the force account issue for the first time in 1984 when it added a provision to its CIAP handbook that states

> "The use of force account labor shall be considered only on an exceptional basis, where appropriate to the scope and type of physical improvements and the PHA's capacity to serve as its own main contractor and to maintain an adequate level of routine maintenance during force account activity . . . ."

According to a HUD headquarters official, some housing agencies have difficulties in administering a force account program because of limited management ability or experience. Therefore, HUD believes that the feasibility of administering a force account program should be assessed on a case-by-case basis.

SAHA's Transition to Force Account Contributed to Modernization Delays

SAHA's use of force account labor has contributed to delays in its modernization program at Alazan-Apache and other projects because (1) it created a time-consuming transition period during which SAHA had to develop its in-house modernization capabilities and (2) SAHA slowed down work so the force account program could be sustained until HUD approved additional modernization funds.

Alazan-Apache

According to SAHA's executive director, the agency was initially ill-equipped to administer a force account program of the magnitude of the Alazan-Apache project because it had previously always contracted out for modernization work. In making the transition to force account, SAHA had to hire its own architect-engineers and planning staff. It also had to hire skilled laborers, purchase equipment, perform detailed planning, and establish a materials procurement and distribution system. These start-up efforts contributed to SAHA's not completing its modernization work until April 1987—or about a year later than expected.

According to SAHA's executive director, much of the delay in modernizing Alazan-Apache occurred because of planning difficulties. Specifically, it took over 2 years before SAHA finalized plans for the project. The executive director said that extensive time was spent contracting with an architectural firm to complete a master plan, reviewing the plan, and using agency staff to develop detailed design specifications. He said SAHA's planning staff had difficulty in establishing work priorities and developing specifications and detailed cost estimates because they had no prior experience in planning for such a large modernization effort.

In addition to planning difficulties, SAHA's executive director said that San Antonio was in the midst of a construction boom during 1982 and 1983 that created problems in hiring qualified staff, such as electricians and carpenters, because of private sector competition. Using force account labor also meant that SAHA had to purchase its own construction equipment, tools, and supplies and develop a procurement system for building materials. According to the director of development and technical services, work crews were initially delayed because of SAHA's inability to keep work sites supplied with materials.

As shown in table III.3, SAHA did not begin physical work at Alazan-Apache until 26 months after HUD approved its CIAP application. Once work crews began, it took another 26 months to modernize 399 units. However, as work progressed, SAHA's force account crews became more efficient and needed less time to modernize units. For example, SAHA records showed that 1985 force account crews initially spent an average of 205 days renovating individual units, but reduced this to an average of 179 days by 1986. Ironically, these operational efficiencies eventually contributed to the housing agency's decision to slow down production so that modernization funds could be conserved until HUD approved additional funds for the second phase of work. In doing so, SAHA transferred some force account workers employed at Alazan-Apache to other projects. SAHA's director of development and technical services estimated that had work crews been left intact, SAHA would have probably completed modernization about 4 months earlier. He emphasized, however, that slowing down renovation was essential because, if funds were depleted, SAHA would have had to lay off and then later rehire some of its work force.

Table III.3: Key Milestones in Alazan-Apache's Modernization

Action	Dates: Projected	Dates: Actual	Months elapsed
HUD approved modernization	Nov. 1982	Nov. 1982	0
Master plan study completed	Oct. 1983	Mar. 1984	16
SAHA began hiring work crews	None stated	Apr. 1984	17
SAHA began preparing units for modernization	None stated	Apr. 1984	17
Detailed plans completed	None stated	Jan. 1985	26
Modernization work started at first unit	None stated	Jan. 1985	26
200th unit completed	None stated	Mar. 1986	40
Modernization completed (Total of 399 units)	Apr. 1986	Apr. 1987	52

Source: GAO discussions with SAHA officials and analysis of modernization information.

Other SAHA Projects

SAHA officials said that the same problems with the transition to force account labor that delayed modernization at Alazan-Apache also contributed to delays at other projects. Aside from Alazan-Apache, SAHA used force account crews at 14 of the remaining 22 projects and all 14 were delayed. According to the executive director, a key reason for the delays was SAHA's inability to develop necessary plans and specifications. For example, stairway modifications and repairs at the Sutton Homes project were delayed 6 months because the housing agency did not have an architect on its staff to develop the necessary plans.

The director added that difficulties in hiring skilled laborers also contributed to modernization delays as did obtaining HUD's approval for budget revisions. For example, SAHA submitted a budget revision to HUD in December 1985 that added roof repairs to the original modernization budget for the Villa Veramendi project. However, HUD did not approve the change until April 1986 which, according to SAHA officials, contributed to a 5-month delay in completing work.

HUD officials confirmed many of the comments of SAHA officials concerning the reasons for modernization delays. They noted that SAHA, nevertheless, was able to comply with HUD's primary criteria for timeliness—that the agency obligate all CIAP funds within 3 years after HUD approved its modernization budgets and spend all CIAP funds in 5 years.

Table III.4 shows that delays of 1 to 26 months occurred for the 22 projects funded under 31 budget allocations in SAHA's 1982 through 1984 CIAP funding cycle.

Table III.4: Projected Versus Actual Work Completion Dates for 22 Projects That HUD Funded Under 31 CIAP Budgets, Fiscal Years 1982-84

Housing project	Projected completion	Actual completion	Months behind (-) or ahead (+) of schedule
Funded in 1982:			
Cassiano Homes	Apr. 1984	June 1984	- 2
Menchaca[a]	Apr. 1984	June 1987	-26
Mirasol[a]	Jan. 1984	May 1985	-16
Spring View Annex	July 1983	Oct. 1983	- 3
Victoria Courts	None stated	Nov. 1985	
Victoria Plaza	July 1984	Sept. 1984	- 2
Funded in 1983:			
Cassiano Homes[a]	June 1986	June 1987	-12
Cross Creek	July 1984	May 1985	-10
Menchaca[a]	None stated	May 1985	
Mirasol[a]	June 1986	June 1987	-12
San Juan Annex[a]	June 1986	Apr. 1987	-10
San Juan/Cassiano[a]	June 1986	Dec. 1986	- 6
San Juan Homes[a]	June 1986	June 1987	-12
Spring View Annex[a]	June 1986	Nov. 1986	- 5
Sutton Homes[a]	Sept. 1986	June 1987	- 9
Tarry Towne/College Park/College Addition	June 1985	July 1985	- 1
Victoria Courts	None stated	Jan. 1986	
Villa Veramendi[a]	June 1986	Nov. 1987	-17
W.C. White[a]	None stated	May 1987	
Wheatley Annex[a]	June 1986	July 1987	-13
Wheatley Courts[a]	June 1986	July 1987	-13
Funded in 1984:			
Cheryl West	Mar. 1985	June 1985	- 3
Chatham[a]	Jan. 1985	Jan. 1986	-12
Cross Creek	Aug. 1985	May 1985	+ 3
Fair Avenue	Dec. 1984	Feb. 1986	-14
Mirasol	Aug. 1985	Mar. 1985	+ 5
Mission Park	Aug. 1985	Sept. 1985	- 1
Riverside[a]	May 1985	Aug. 1985	- 3
San Juan Annex[a]	Aug. 1985	Sept. 1986	-13
Villa Tranchese	May 1985	May 1986	-12
W.C. White[a]	Aug. 1985	May 1987	-21

[a]Modernization performed using force account labor.

Source: GAO analysis of CIAP budgets and discussions with SAHA officials.

Force Account Costs Compared With Contracting Costs

We were unable to assess how using force account crews affected the costs of modernizing Alazan-Apache. However, our discussions with SAHA officials and our limited analysis of costs associated with force account and contracted work at two other SAHA projects indicate that costs of both methods may be comparable.

Inadequate Information to Determine if Force Account Costs Were Excessive at Alazan-Apache

Data were not available to evaluate how using force account labor at Alazan-Apache affected modernization costs. Although modernization costs were higher than originally projected, HUD and SAHA management agreed that the project's original budget was insufficient to provide comprehensive modernization and that cost overruns would likely have occurred regardless of the method of modernization used. Additionally, since SAHA used only the force account method to modernize Alazan-Apache, it was not possible to compare those costs with private contracting. Since neither SAHA nor HUD has evaluated the cost effectiveness of force account, we made limited cost comparisons at two other SAHA projects where both private contracting and force account were used. The results are discussed in the following sections.

Force Account Direct Costs Compared With Contracted Work at Two Other Projects

We analyzed direct costs (i.e., labor and materials) for bathroom repairs at the Cassiano and Mirasol housing projects, where both force account and contracted labor were used to modernize 787 of 900 units. In the early stage of modernization. SAHA contracted with several local companies to repair 210 bathrooms; however, once SAHA established its own work crews, it used force account to finish modernizing the remaining 577 units. Most of the work consisted of repairing floors, replacing wall tile, installing new sinks and bathtubs, and painting walls and ceilings.

Of the 210 bathrooms, 170 were modernized by one primary contractor at a cost of $369,755. We estimated that the direct cost for this work was about $314,892, or about $1,852 per unit ($369,755 minus 15 percent profit and overhead divided by 170 units).

At our request, SAHA officials computed direct costs for the bathrooms they renovated with force account labor. They estimated that these costs averaged about $2,850 per unit for 351 units at Mirasol and $1,700 per unit for 226 units at Cassiano. According to SAHA officials, costs were lower at Cassiano than Mirasol because the work at Cassiano was done last. Once work crews became more experienced, modernization moved more quickly and force account expenses decreased considerably. They stressed, however, that at both projects, the force account work was more extensive than that performed by the contractor. For example, when doing their work, force account crews detected water damage to walls and ceilings in a number of rooms that adjoined bathroom areas. Force account crews repaired these areas, which added about $870 to the cost of renovating some units.

Indirect Costs Add to the Cost of Using Force Account Labor

SAHA also incurred indirect costs in administering force account activities. We estimated that from 1984 through 1986, SAHA's indirect costs for administrative salaries, warehouse operations, equipment, and insurance totaled about $1.6 million for the 15 projects where SAHA used force account. About 70 percent of these costs were included in the CIAP budgets, and the remainder were absorbed by SAHA's annual operating budget.[2]

The largest portion of the indirect costs incurred was for salaries of staff involved in administering force account-related activities. We identified 35 staff in various fiscal, purchasing, personnel, planning, housing operations, and maintenance positions who spent from 2 to 100 percent of their time on administering the force account program. About 13 of these staff were in new positions that SAHA created as a result of the force account program, while the remaining staff were already SAHA employees who assumed additional responsibilities for force account functions.

Other indirect costs SAHA incurred to support force account and other housing operations included purchasing 19,000 square feet of warehouse space to repair and store equipment, materials, and supplies for use at projects. About 50 percent of the facility is currently used for force account operations, and between the time it opened in April 1984 and April 1987, SAHA spent about $243,000 for warehouse renovation, insurance, leases, and utilities associated with the force account space. SAHA has also purchased about $232,000 in office and construction equipment, small tools, vehicles, and other items to support force account.

SAHA management believes that the indirect costs of $1.6 million we identified, when viewed as a percentage of direct costs, are comparable to the profit and overhead expenses that would have been incurred if

[2]Each year, HUD reviews and approves a housing agency's annual operating budget and awards government subsidies associated with the daily operation of public housing units. These funds are separate from the CIAP awards.

the work had been contracted out. We estimated that the direct costs for force account work on 15 projects through December 1986 totaled about $13.54 million of which $1.6 million, or 12 percent, was for indirect costs. This falls within the 10- to 15-percent range that HUD and SAHA officials estimated as contractor profit and overhead. On this basis, the overall costs of operating the force account program do not appear to differ substantially from what SAHA would expect to pay private contractors.

Housing Agencies' Views Vary on the Benefits of Force Account

Housing agencies' views on the benefits or problems associated with force account labor differ depending on their own experiences. SAHA officials believe, now that their force account program is in place, that it provides them more flexibility and better quality than private contracting would.

We also contacted officials from three other large housing agencies in Texas—Dallas, El Paso, and Houston—and found that they had some of the same problems and concerns about using force account that SAHA had. Dallas spoke against force account labor, but had only limited experience with it. El Paso has used force account extensively and spoke well of its experiences. Houston only recently began experimenting with force account and was evaluating its practicality.

SAHA's Views

As mentioned previously, SAHA made major operational adjustments in its transition to a force account program. According to its executive director, SAHA has derived a number of benefits from using force account, and modernization work could be delayed if it were to revert back to private contractors.

SAHA's executive director believes that its force account work has been of better quality than that obtained through private contractors. For example, he noted that in 1985 SAHA spent 9 months attempting to correct private contractors' defective work. He said that SAHA no longer has these problems because it directly manages the work crews and can control quality first-hand.

A second important benefit, the director said, is that force account allows the housing agency the flexibility of adjusting the work scope to suit the needs of each unit. He contrasted this with the contract method of modernization, where time-consuming contract change orders are required and must be approved by HUD, which can delay work. The changes the force account crew were able to make during bathroom renovation at Cassiano and Mirasol provide a good example of how flexibility under force account can be valuable to a housing agency.

SAHA officials also cited some problems that still exist with their force account program. For example, the agency has not implemented an effective system for program managers to use in monitoring the progress of work at each project. During our review we found that, for many of the units, records that should indicate when work began, the exact status of ongoing modernization work, or the projected cost of renovations were incomplete. Consequently, much of the information we obtained had to be reconstructed from a variety of documents as well as from the memory of SAHA staff. At the time of our review, SAHA was considering improving its reporting procedures by requiring project superintendents to report regularly to SAHA on the status of work at each project.

SAHA and HUD officials estimated that work at Alazan-Apache, in addition to work planned at 18 other projects funded under SAHA's 1986 CIAP budget, might be delayed about 6 months if the housing agency stopped using force account labor and went back to contracting. According to these officials, SAHA would need to develop detailed plans, advertise for competitive bids, and select contractors to perform work on each project—all of which could contribute to delays. Under the force account method, SAHA avoids these steps and, as a result, reduces start-up time because work crews are already established.

Dallas

The Dallas Housing Authority, with the HUD regional office's encouragement, implemented a force account program in 1983. The agency spent nearly $1 million renovating three projects but, because of operational problems, phased out force account work in 1985 before modernization was complete. Private contractors performed the remaining work.

The housing agency does not believe force account is feasible because of its additional financial responsibilities, legal requirements, and start-up time. The agency also doubted that force account is less expensive than contracting when administrative or indirect costs are considered. In fact, the budget officer said the agency would not have been able to complete its 1982 and 1983 CIAP programs within approved budgets had force account been used for all the units.

According to the housing agency's budget officer, numerous difficulties existed in administering the program, including the agency's inability to compete with the private sector in hiring skilled laborers. Also, worker liability insurance and injury claims escalated significantly while additional demands were also placed on agency staff to develop budget and cost-accounting procedures. The agency had other problems, including frequent material and supply shortages at the sites often caused by the long time needed to competitively procure building materials.

El Paso

The El Paso Housing Authority implemented its force account program in 1982 and has since spent about $10 million to renovate approximately 1,800 units. Agency officials believe that force account has been a successful way to lower CIAP costs and improve the quality of work. Consequently, over the next several years, the agency plans to modernize 1,300 additional units using force account labor.

The executive director and modernization coordinator said that although the program has been successful, a number of problems had to be overcome. The executive director said that the success of the program has hinged largely on hiring experienced supervisors and work crews. He said that often, maintenance crews do not have the proper experience to do broad-scale modernization. He also explained, as did SAHA and Dallas managers, that initial problems in scheduling the distribution of needed building materials and supplies to the work sites caused significant work delays. El Paso has also been plagued by escalating costs for worker liability insurance. Since the force account program's inception, insurance premiums have more than doubled and claims have also increased.

In spite of these problems, the agency's executive director and modernization coordinator said they prefer the force account method over the contract method because they believe that (1) it is less expensive, (2) the housing agency has direct control over work, (3) the quality of work is superior, (4) it saves time because the change orders HUD requires under the contract method are not required for force account, and (5) force account workers can also do maintenance work if necessary.

According to the modernization coordinator, force account was considerably less expensive than contracted work would have been on recent roofing repairs at five projects. To determine this, the authority solicited estimates from private contractors and compared them with what it would cost to do the work with force account. For example, at two of the projects, private contractors estimated it would cost $301,000 to repair roofs on 290 units. The housing agency calculated that, with force account, its direct costs for the work would be $213,000—a savings of 29 percent. According to the executive director, the agency can usually save between 15 and 20 percent with force account.

Houston

The Houston Housing Authority began using force account on a very limited basis in 1987. At the time of our inquiry, the housing agency had 4 agency-employed laborers and had budgeted about $100,000 to renovate floors in 333 units. The director of facilities development said the agency began using force account to do minor floor repairs because of its cost-saving potential. He said that the high unemployment rate in Houston has made skilled laborers available to the authority at reasonable wage rates. He estimated that the agency has saved about 20 to 30 percent by performing work with force account work crews. In addition, the director said force account has resulted in higher quality work and the ability to adjust the work scope as work progresses.

He indicated that the housing agency is considering expanding its use of force account by renovating entire units, but recognizes that other factors should be taken into account before a commitment is made to the program. He said that a high priority would be placed on hiring skilled laborers so that money would not have to be spent on training programs. Also, if the housing agency expanded its force account crews, additional administrative and technical support employees would be required for accounting, purchasing, materials distribution, and quality control functions. He estimated that 12 additional personnel would be needed if work crews were expanded to 250—about the number employed by SAHA at the peak of its program.

Tenant Relocation at Alazan-Apache Apartments

SAHA relocated almost 300 households at the Alazan-Apache project while their apartments were being renovated. Our review of SAHA's relocation program showed that in accordance with HUD regulations, residents were relocated to units of comparable quality and experienced no rent increases because of the move. However, SAHA allowed units to remain vacant longer than necessary, resulting in lost rental income. SAHA is aware of this problem and has implemented procedures to reduce vacancy time.

Households Were Relocated to Units of Comparable Quality

HUD regulations require that housing agencies performing modernization work temporarily relocate displaced households to other decent, safe, and sanitary housing with comparable rents. Relocation services include paying reasonable moving costs from the unit being modernized and back again once the work is completed.

SAHA's relocation policies provide households up to $430 to cover moving costs—$215 each way. Households are moved to other units within the same project if they are available. If not, SAHA either offers housing at one of its other projects or the household receives rental assistance under the HUD section 8 or housing voucher program and is temporarily moved to privately owned housing.

Between March 1984 and November 1986, SAHA relocated 286 Alazan-Apache households because of ongoing modernization work. As shown in table IV.1, most of the households were relocated to units in the same project.

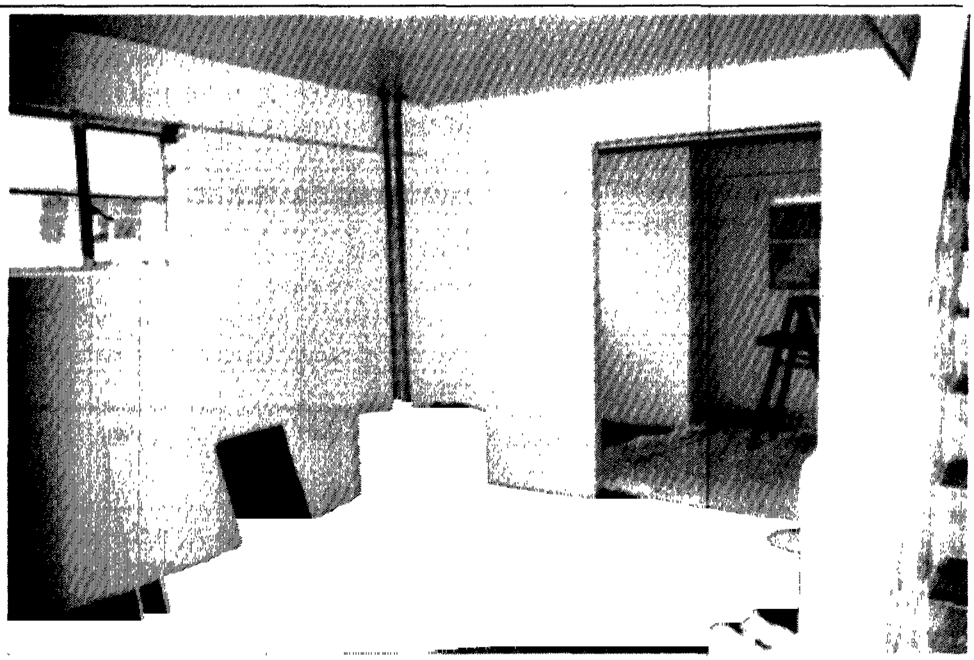
Table IV.1: Places Where Alazan-Apache Households Were Relocated

Relocated to	Households	Percentage
Another unit in Alazan-Apache	234	82
Other SAHA housing project	18	6
Private housing	21	7
Other	13	5
Total	**286**	**100**

Source: GAO analysis of 1984-86 relocation data, Alazan-Apache apartments.

To determine the quality of temporary housing being offered to households affected by modernization, we toured selected units at Alazan-Apache and other SAHA projects that were being prepared for relocated households. We also toured selected Alazan-Apache units that were being modernized or were scheduled for modernization. In our opinion, the units being offered to tenants were similar or better in quality than the units being vacated. In preparation for relocation, SAHA's policy is to paint and clean each unit for the relocated household. (See fig. IV.1.) We noted that in several of the units being prepared for occupancy, features were comparable to those of other units in the same project.

Figure IV.1: Unit Being Prepared for Temporary Relocation



SAHA's director of housing operations, who is responsible for overseeing nearly 8,000 of SAHA's public housing units, said that SAHA has received no complaints about the quality of housing from relocated households. We also interviewed the vice-president of Alazan-Apache's residents' council, who said that residents were satisfied with SAHA's relocation policy and had no complaints concerning the quality of temporary housing they were offered.

Relocation Did Not Change Household Rents

Our analysis of rents households paid before and after they relocated showed that rents were not affected by these moves. In some instances SAHA adjusted household rents because of changes in family income, but these adjustments would eventually have been made regardless of relocation.

We analyzed the rents of 252 households whom SAHA relocated through mid-November 1986. We did not analyze the rents of the other 34 households because either rent records were not available or households elected to move out of SAHA projects and, therefore, SAHA no longer subsidizes their rents. Table IV.2 shows that 81 percent paid the same rents before and after relocation. The remaining households paid either higher or lower rents but only because of changes in their incomes. Rent levels are calculated by a formula that requires households to pay 30 percent of their incomes toward rent.

Table IV.2: Analysis of Rents Paid by Households Before and After Relocation

Rent levels	Number of households	Percentage
Remained the same	203	81
Increased due to increase in household income	38	15
Decreased due to decrease in household income	11	4
Total	**252**	**100**

Source: GAO analysis of SAHA rent data.

Alazan-Apache Units Remained Vacant Too Long During Modernization

On average, Alazan-Apache units have remained vacant for about a year during modernization. Even though renovation was ongoing most of this time, units still sat vacant for a significant time before and after the actual work. SAHA acknowledged past problems in scheduling modernization and moving households back into their units, and has taken steps to streamline the process and reduce vacancy time. As a result, SAHA made some improvement in 1986 and expects further progress in 1987.

As of March 16, 1987, SAHA had completed modernization on 348 units at Alazan-Apache and had moved households back into those units. To determine the time that units remained vacant from beginning to end of the modernization process, we calculated the number of days the units were unoccupied before, during, and after the physical work on each unit.

Table IV.3 shows that since SAHA began modernization, it has considerably reduced the time spent performing physical work on each unit. The table shows that although units were vacant an average of 346 days during modernization, only 190 days, or about 55 percent of the total time, was devoted to performing physical work. The remaining portion, or about 45 percent, was time the units were vacant before and after this work.

Table IV.3: Average Days Alazan-Apache Units Were Vacant During Modernization, 1984-86

		Average days units were vacant			
Year	Units[a]	Before physical work	During physical work	After physical work	Total
1984	115	146	205	36	387
1985	108	111	186	52	349
1986	125	75	179	52	306
Total	348	109	190	47	346

[a]For each year shown, SAHA started physical work on the number of units shown on this column. We included only those units that were completely finished and reoccupied.

Source: GAO analysis of SAHA's 1984-86 relocation data.

The lengthy vacancy periods before and after physical work have cost SAHA rent revenues that could have been realized had units been occupied. The Alazan-Apache project manager indicated that households pay an average rent of $66 per month. We calculated that the 348 units shown in table IV.3 were vacant an average of 5.2 months before and after physical work was performed. According to the assistant housing management branch chief for HUD's San Antonio field office, about 1 month is a reasonable time for an apartment to be vacant before and after physical work. If this vacancy time had been held to about 1 month at Alazan-Apache, then SAHA could have decreased the average vacancy time by about 4.2 months. At $66 per month, this would have produced about $96,000 in additional rent receipts over the 3-year period.

SAHA officials informed us that they have attempted to reduce the time that units remain vacant. The executive director stated that Alazan-

Apache project managers used to allow units to become vacant through attrition or turnover. That is, once it was known that a given unit was to be modernized and a household elected to move out prior to the 30-day advance notice usually given to evacuate, managers would not lease the unit again. According to project records, it was not uncommon for some of these units to remain unoccupied for as many as 200 days.

The executive director said that a 1985 HUD recommendation to reduce excessive vacancies prompted SAHA to change its relocation policy so that units remain occupied longer before modernization. Instead of vacating 24 units at a time, SAHA is vacating only 6 units, or 1 building at a time. Project records show that since SAHA implemented this new approach in early 1986, vacancy times have been reduced an average of 33 percent.

The executive director acknowledged that units also remained vacant for an excessive amount of time after modernization was complete and that this time could also be reduced. According to project records, 63 percent of the 348 units was vacant more than 30 days after the units were available for occupancy. Alazan-Apache management informed us that the primary reason for excessive delays in leasing modernized units was that work crews did not give sufficient advance notice of unit availability. To correct the problem, the executive director said that SAHA revised its procedures to require work crews to give the Alazan-Apache management at least 3 weeks notice of when modernized units will be available for occupancy.

Objectives, Scope, and Methodology

In a July 17, 1986, letter, the Chairman, Subcommittee on Housing and Community Development, House Committee on Banking, Finance, and Urban Affairs, asked us to provide information on certain aspects of SAHA's operation. The Chairman requested information concerning

- changes in SAHA's financial condition over the last few years, including how its administrative costs compare with those of other large housing agencies and whether SAHA commingled different housing program funds in compensating employees;
- whether SAHA has made noncompetitive purchases of supplies and materials in amounts just below the level required for competitive procurement;
- the status of SAHA's modernization work at its housing projects, the impact that using agency-employed (force account) labor has had on costs and completion dates, the effect that discontinuing force account work would have on modernization efforts, and views of other large Texas housing agencies on the use of force account labor; and
- whether Alazan-Apache households were relocated as a result of modernization and, if so, how their housing quality and rents were affected.

To evaluate SAHA's financial condition, we analyzed operating budgets, financial statements, and various HUD assessments of the housing agency's operation from 1983 through 1987. We also obtained data on administrative costs at the three other largest PHAs in Texas—Dallas, El Paso, and Houston—and compared their costs with SAHA's over the same time period. To determine whether SAHA commingled program funds in paying salaries, we reviewed its method for allocating administrative and management salaries to different program budgets to see if it complied with HUD's requirements. We discussed with SAHA and HUD officials in the San Antonio field office and Fort Worth regional office why SAHA's financial condition changed, the reasonableness of its administrative costs, and its basis for allocating salary costs among different program budgets.

To review SAHA's procurement practices, we analyzed applicable HUD and state procurement regulations and Comptroller General decisions regarding competitive bidding, opinions, and decisions issued on competitive bidding by HUD and the Texas Attorney General, and various HUD reviews of SAHA's procurement activities. We discussed competitive procurement requirements with SAHA officials and HUD officials in the San Antonio field office and Fort Worth regional office.

To determine whether SAHA had placed purchase orders just below the amount required for competitive bidding, we selected and examined 753 purchase orders totaling $778,218 paid to vendors between August 15, 1986, and January 29, 1987. We selected those purchase orders with high dollar amounts and for items SAHA frequently reordered.

To identify purchases that may have been made just below the competitive bidding threshold, we reviewed repeat orders that ranged from $2,500 to $10,000 and discussed with SAHA officials the basis for not consolidating orders and obtaining competitive bids. Because HUD reviews had disclosed that SAHA placed a number of noncompetitive orders for paint just below the amount required for competitive bidding, we expanded our scope to include purchases dating back to 1983, when the housing agency began ordering large quantities of the item.

To determine the status of modernization work, we identified 23 projects that SAHA was renovating with funds provided under HUD's CIAP program. We compared approved budgets and projected completion dates with actual costs and completion dates and identified the reasons for differences through discussions with SAHA and HUD San Antonio field office officials. For Alazan-Apache, we reviewed budget categories and determined reasons for differences in projected and actual costs through discussions with SAHA officials. We computed the average cost per unit for modernizing the project by using project expenditure data provided by SAHA officials.

To determine whether using force account crews delayed work at Alazan-Apache, we interviewed SAHA officials and analyzed projected versus actual completion dates for work at the project. We also analyzed the lengths of time units were vacant during modernization at the project, based on records provided by project managers.

We also interviewed SAHA and HUD officials to determine whether using force account contributed to excessive costs at Alazan-Apache. We were unable to compare force account costs with modernization costs for work done by private contractors since force account was the only method used for modernization work at the project. However, we did compare the cost of force account and work performed by private contractors at two other SAHA projects on the basis of labor and material information and estimates from housing agency officials. Through reviewing SAHA's financial records and discussions with employees, we identified other indirect costs associated with force account labor. We discussed the impact of discontinuing SAHA's force account program with

SAHA and HUD San Antonio field office officials. We also interviewed representatives of housing agencies in Dallas, El Paso, and Houston to discuss their experiences with using force account.

To assess SAHA's relocation procedures at Alazan-Apache and their effect on households who have been relocated to temporary housing, we reviewed pertinent HUD regulations and SAHA's relocation policies. We discussed these policies with HUD San Antonio field office and SAHA officials, and a representative of the Alazan-Apache residents' council.

To determine the quality and type of temporary housing, we examined relocation records at Alazan-Apache and inspected vacated units as well as units available for temporary occupancy. We determined the effect relocation had on household rents by comparing rents before and after relocation from data provided by Alazan-Apache management.

We performed field work at HUD's Fort Worth regional office and San Antonio field office and at SAHA between September 1986 and March 1987. We performed our review in accordance with generally accepted government auditing standards.

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