

RELEASED

090036

CED-76-129

8-6-76

090036

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.



REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Elderly Tenants Housed Out Of Turn And Questionable Contracting Practices At The Chicago Housing Authority

Department of Housing
and Urban Development

Chicago Housing Authority practices in placing elderly tenants in public housing units have sometimes resulted in applicants being housed sooner than the authority's Department-approved tenant selection plan and Department regulations permitted. The tenant selection plan is under revision because the Department believes that it violates the intent of the Civil Rights Act of 1964.

Fees paid by the authority for repair of vandalized elevators--totaling \$2.2 million in 1975--were not competitively established nor negotiated. Also, the authority's two elevator repair contractors have been overcharging for employee fringe benefits.

CED-76-129

~~90 74 87~~
090036

AUG. 6, 1976



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

B-167637

The Honorable Harrison A. Williams, Jr.
Chairman, Subcommittee on Housing for the Elderly
Special Committee on Aging
United States Senate

Dear Mr. Chairman:

As your Subcommittee requested on November 3, 1975,
we reviewed selected matters concerning the Chicago Housing
Authority.

As requested by your office, we did not obtain written
comments from the Department of Housing and Urban Development,
the authority, or its two elevator service contractors. How-
ever, we have discussed with officials of these organizations
matters presented in the report and have included their com-
ments where appropriate.

We have made recommendations to the Secretary of the
Department of Housing and Urban Development. Therefore, as
agreed with your office, we are sending copies of the report to
the Secretary of Housing and Urban Development; the Senate and
House Committees on Appropriations and Government Operations;
the Director, Office of Management and Budget; the authority;
and its two elevator contractors. Also, we are sending a copy
of the report to Senator Adlai E. Stevenson III.

Sincerely yours,

Thomas B. Staats

Comptroller General
of the United States

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Background	1
	Chicago Housing Authority	2
	Scope of work	3
2	PRIORITY TREATMENT AND DISCRIMINATION IN CHA'S ELDERLY HOUSING PROGRAM	4
	Priority placement of elderly tenants	5
	Special directives for priority treatment	6
	Recent tenant selection practices	8
	Allegations of preferred treatment	9
	Discrimination in CHA elderly projects	9
	Lack of HUD monitoring of CHA	11
	Conclusions	11
	Recommendations	12
3	QUESTIONABLE CONTRACTING PRACTICES AND OVERPAYMENTS FOR ELEVATOR REPAIRS	13
	Lack of competition for services to repair vandalized elevators	13
	Overcharges for fringe benefits	15
	Holidays	16
	Basic vacation	16
	Supplemental vacation	17
	Conclusions	17
	Recommendations	17
4	ALLEGATION OF CONFLICT OF INTEREST	19

ABBREVIATIONS

CHA	Chicago Housing Authority
GAO	General Accounting Office
HUD	Department of Housing and Urban Development

COMPTROLLER GENERAL'S
REPORT TO THE SUBCOMMITTEE
ON HOUSING FOR THE ELDERLY
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

ELDERLY TENANTS HOUSED
OUT OF TURN AND QUESTIONABLE
CONTRACTING PRACTICES AT
THE CHICAGO HOUSING AUTHORITY
Department of Housing and
Urban Development

D I G E S T

GAO was asked by the Chairman, Subcommittee on Housing for the Elderly, Senate Committee on Aging, to review the following matters concerning the Chicago Housing Authority:

- Possible favoritism by the authority in housing certain elderly applicants.
- Present tenant selection practices for possible favoritism or racial discrimination in housing elderly applicants.
- Possible irregularities in the authority's maintenance and repair contracts with two elevator firms.
- A conflict of interest charge involving the authority's chairman. (See p. 1.)

GAO discussed matters in this report with officials of the Department, the authority, and the two elevator firms. However, as requested by the Subcommittee, GAO did not follow its usual policy of obtaining written comments from these organizations.

The authority housed some elderly applicants sooner than its tenant selection plan and Department regulations permitted. Of the 174 tenants whose placement files GAO reviewed, 35 tenants were housed from 8 to 59 months earlier than they would have been housed if they had waited their turn on the authority's waiting lists. Two other tenants were transferred from authority-leased to authority-owned units, contrary to authority procedures. (See p. 5.)

The authority's files did not indicate why priority treatment was given to the 37 tenants. Present and former authority officials said that 14 of the 37 received special treatment because of extenuating circumstances affecting the tenants' health and

CED-76-129

safety. No explanation was given for the remaining 23 tenants. (See pp. 6 to 9.)

The Department's July 1975 equal opportunity review concluded that the authority:

- Used a tenant selection plan for elderly which violated the intent of antidiscrimination provisions of the Civil Rights Act of 1964 as implemented by HUD regulations by allowing (1) separate waiting lists for each elderly project in addition to a combined list for all projects and (2) applicants unlimited refusals of housing offers.

- Followed a pattern of offering (1) white applicants more housing alternatives than blacks and (2) black applicants fewer housing alternatives in predominantly white projects. (See pp. 9 and 10.)

In November 1975 the authority submitted a revised elderly tenant selection plan to the Department's Chicago regional office. After evaluating the plan and discussing it with authority officials, the regional office in March 1976 forwarded the plan to the Department's headquarters and recommended that the plan be rejected because it would reinforce racial and ethnic segregation in Chicago. As of July 12, 1976, the Department was still considering the plan. (See pp. 10 and 11.)

Although program officials at the Department's field offices are required to make occupancy audits of each public housing agency at least every 3 years, none have been made at the Chicago Housing Authority since 1961. A Department official cited staff shortages as one of the reasons for the absence of audits. (See p. 11.)

GAO's review of the authority's 10-year service contracts with two elevator repair companies shows that the authority:

- Uses a labor rate structure to pay the vandalism repair work part of its elevator contracts which was set by the authority without competition or negotiation and, therefore, the authority has no assurance

that fees paid for such services--totaling about \$2.2 million in 1975--are reasonable.

--Has been overpaying the companies for employee fringe benefits. (See p. 13.)

GAO and the Department could not find any evidence that the involvement of the authority's chairman in a private management firm constitutes a conflict of interest under the provisions of the authority's financial assistance contract with the Department. (See p. 19.)

GAO recommends that, to insure that the Chicago Housing Authority's tenant selection plan and practices for the elderly comply with the intent of the Civil Rights Act of 1964 and the Department of Housing and Urban Development's implementing regulations, the Secretary of Housing and Urban Development require:

--The authority to limit priority treatment in housing elderly persons to applicants whose justifications for such treatment are in accordance with the Department-approved tenant selection plan and whose application files properly document the reasons for priority.

--Department field staff to make the required periodic occupancy audits at the authority to insure that statutory and Department tenant selection requirements are being carried out.

--The Assistant Secretary for Fair Housing and Equal Opportunity to take prompt action to insure that the authority adopts and follows a tenant selection plan which complies with the requirements of title VI of the Civil Rights Act of 1964. (See p. 12.)

Also, GAO recommends that the Secretary direct the authority to:

--Make the labor rate structure for repairing vandalized elevators an item for competitive bidding when soliciting bids for future elevator repair contracts.

--Take action on fringe benefit overpayments made under two elevator contracts, including (1) stopping further overpayments, (2) determining the amount of past overpayments to the extent records are available, and (3) obtaining refunds for such overpayments. (See pp. 17 and 18.)

CHAPTER 1

INTRODUCTION

As requested on November 3, 1975, by the Subcommittee on Housing for the Elderly, Senate Special Committee on Aging, and agreements reached in subsequent discussions with the Subcommittee, we reviewed the following matters concerning the Chicago Housing Authority (CHA).

- Placement of elderly persons identified by the Better Government Association as having received favoritism in being provided housing.
- Present tenant selection practices for possible favoritism and racial discrimination in housing elderly tenants.
- Elevator service contracts between CHA and the Otis Elevator Company and Gregory Elevator Maintenance Company, Inc., for possible irregularities.
- A conflict-of-interest charge involving the chairman of CHA's board of commissioners.

BACKGROUND

The United States Housing Act of 1937, as amended (42 U.S.C. 1401 et seq.), authorizes the Department of Housing and Urban Development (HUD) to conduct a low-rent public housing program which provides decent, safe, and sanitary housing to families that cannot afford private housing. Through State legislation, local governments establish public housing agencies, like CHA, as independent legal entities to develop, own, and operate low-rent public housing projects.

Housing agencies acquire public housing units by leasing or purchasing existing units or by constructing new projects. The agencies are primarily responsible for establishing policies and rent schedules subject to HUD approval.

HUD assists the agencies by making loans for developing new projects and by making annual contributions through contracts with the agencies. Annual contributions are for (1) paying the principal and interest (debt service) on bonds and

The Better Government Association is a privately financed organization whose objective is to promote efficient use of public funds and high standards of public service in Illinois.

notes sold by the agencies to obtain funds for developing projects and (2) paying operating subsidies to help insure the financial solvency of the agencies.

CHICAGO HOUSING AUTHORITY

CHA is a municipal corporation organized in 1937 under the housing laws of Illinois to build and operate public housing in Chicago for persons whose incomes are insufficient to obtain decent, safe, and sanitary private housing. As of December 31, 1975, CHA had 42,735 units in operation, including 11,403 devoted to the elderly. CHA is the Nation's second largest public housing agency.

CHA operations are financed through tenant rents and HUD subsidies. Its operating costs amounted to about \$68 million in calendar year 1975, of which HUD provided \$37 million in operating subsidies. Also, HUD provided CHA with about \$28 million for annual contributions for debt service in 1975. The average monthly rent for CHA's elderly tenants is \$36.

CHA policies are set by five unpaid commissioners appointed for 5-year terms by the Mayor of Chicago with the concurrence of the Illinois Office of Housing and Buildings. CHA programs are carried out by a permanent staff headed by an executive director who reports to the board of commissioners. CHA's central rental office and its senior housing management office are responsible for selecting and placing tenants.

CHA's elderly housing program began in 1959. The program has 9,175 CHA-owned elderly units and 2,228 leased elderly units. Most of the elderly housing is in high-rise buildings. Since as early as 1970, the program has had a low turnover--less than 10 percent--and a long waiting list--from about 9,000 to 12,000 people. There is over a 5-year waiting period for placement in certain buildings.

CHA tenant selection procedures have been influenced by court proceedings. In 1966 a suit was filed against CHA charging it with discriminatory site selection for family housing (excludes housing for the elderly). The suit was amended in 1968, to include a charge of discriminatory tenant selection procedures in family housing. On February 10, 1969, CHA was found to have chosen sites and to have adopted tenant selection procedures for family housing in an illegally discriminatory fashion. CHA was directed by the U.S. District Court, Northern District of Illinois, to use a new court-ordered tenant selection plan for family housing.

Although tenant selection procedures for the elderly were not affected by the court order, for uniformity and economy reasons CHA adopted the court-ordered family tenant selection plan for its elderly housing program. The new elderly tenant selection plan became effective in February 1970, and HUD approved it in June 1970.

SCOPE OF WORK

We examined HUD and CHA policies and procedures and interviewed officials at HUD's Chicago regional and area offices and its headquarters in Washington, D.C. We also reviewed records at CHA and met with CHA officials, its former executive director, and officials of Otis Elevator and Gregory Elevator Maintenance Companies in Chicago and obtained information from the International Union of Elevator Constructors in Philadelphia.

CHAPTER 2

PRIORITY TREATMENT AND DISCRIMINATION IN CHA'S ELDERLY HOUSING PROGRAM

Chicago Housing Authority practices in placing elderly tenants in public housing units have sometimes resulted in applicants being housed sooner than CHA's HUD-approved tenant selection plan and HUD regulations permitted. Also, according to HUD's equal opportunity staff in Chicago, the approved plan violates the intent of title VI of the Civil Rights Act of 1964 and contributes to racially segregated elderly housing because the plan (1) established separate waiting lists for each CHA project and (2) allows applicants to reject an unlimited number of housing offers without falling to the bottom of the waiting list. HUD regulations implementing the act specifically forbid these two provisions.

Contrary to Federal regulations and its tenant selection plan, CHA provided priority treatment to 37 of 174 elderly applicants whose records we reviewed who were housed in elderly housing developments. According to present and former CHA officials, CHA gave priority in housing to some applicants, including 14 of the 37, on the basis of extenuating circumstances, such as applicants who were living in an environment with health or safety problems. However, CHA's records showed that CHA's established criteria, which permitted priority treatment only under certain conditions, were not met. In addition, contrary to HUD requirements, HUD has not monitored CHA's compliance with tenant selection procedures since 1961.

In 1975 HUD reviewed CHA's elderly housing program for compliance with title VI of the Civil Rights Act of 1964 and directed CHA to revise its tenant selection plan to conform with the act. CHA's proposed revised plan was under consideration by HUD's Assistant Secretary for Fair Housing and Equal Opportunity as of July 12, 1976. HUD's Chicago regional office has recommended that the proposed plan be rejected because the plan, by permitting applicants unlimited refusals of housing offers for such reasons as inaccessibility to relatives and churches, would tend to reinforce racial and ethnic segregation.

We believe that HUD should take steps to stop priority treatment of elderly housing applicants by CHA when such treatment is not sanctioned by the approved tenant selection plan because of the unfair advantage this gives to some housing applicants. Also, there is a need for HUD to instruct

its Chicago regional office to monitor CHA's tenant selection activities by making required periodic occupancy audits.

We believe also that HUD should give priority to the revisions needed to CHA's tenant selection plan so that prompt action can be taken.

PRIORITY PLACEMENT OF ELDERLY TENANTS

Contrary to Federal regulations and CHA's tenant selection plan, 35 of the 37 elderly tenants that received priority in housing were housed from 8 to 59 months earlier than they would have been housed if they had waited their turn on CHA's waiting list. The remaining two tenants were allowed to transfer from CHA-leased to CHA-owned elderly housing--a practice prohibited by CHA's tenant selection plan. The reason for the prohibition, according to a CHA official, was that there were much longer waiting lists for elderly housing than for leased-housing units.

CHA's records for the 37 tenants did not indicate why priority treatment was given. Applicable forms on file for the 37 tenants were not checked to designate priority in housing for any of the conditions under which CHA can give priority nor were required letters from appropriate organizations on file documenting the need for priority.

The Code of Federal Regulation (title 24, subtitle A) and a HUD handbook--issued in July 1973 and 1967, respectively--require public housing agencies to adopt a tenant selection plan which, among other things

- houses applicants in the order they applied for public housing (date of registration) and

- limits priority treatment (applicants to be housed before all others) to those meeting conditions stipulated in the plan.

CHA's tenant selection plan requires that elderly families be housed by date of registration. Also, applicants can select the project at which they wish to reside. The plan authorizes priority treatment to

- applicants displaced by government action or catastrophe,

- applicants referred by Chicago's Department of Urban Renewal because of a dire need for immediate relocation, and

--veterans with service-connected disabilities.

In the above cases, CHA procedures require that the appropriate block be checked on the prospective tenant's application indicating the reason for the priority requested and that the applicant's file contain a letter from an appropriate public agency verifying the need for the priority. Disabled veterans are not required to obtain letters.

The plan also authorizes priority treatment in CHA projects occupied after November 24, 1969, to elderly applicants if they live (1) in or adjacent to the neighborhood in which the project is located or (2) in some cases, in another CHA-owned project. CHA's executive director said, however, that CHA has not implemented these residency priorities in the elderly program. Also, our review of CHA placement files revealed no evidence that residency priorities had been used.

To determine whether CHA's tenant selection practices were being followed, we reviewed placement files for 174 tenants.

- 28 for whom CHA's former executive director had issued special directives for priority treatment.
- 110 placed during calendar years 1973 through 1975 at 4 projects.
- 36 tenants named by the Better Government Association as possibly receiving preferential treatment.

Special directives for priority treatment

Special directives for priority treatment were issued by the former executive director during calendar years 1974 and 1975 for 28 applicants. Although 22 of the applicants were housed, 6 were not housed for such reasons as they refused housing offers or withdrew their application. Of the 22, 8 had registration numbers which were in line with those being processed for housing at the time of placement at the projects in which they were housed.

The remaining 14 applicants benefited from the special directives. Of the 14 directives, 12 resulted in applicants being housed from 8 to 56 months earlier than if they had gone through the normal selection process, as shown in the following table. The other two directives involved transfers of CHA tenants from leased housing to CHA-owned elderly projects. Such transfers are prohibited by CHA's tenant selection plan.

CHA project	Date registered	Date housed	Wait before housed (months)	Normal wait (months)	Extent housed earlier than normal (months)	Date of special request directives	Wait after special request directives (months)
Fisher Apartments	1/75	5/75	4	44	40	4/75	1
Sheridan and Devon Apts.	11/70	4/75	53	61	8	8/74	8
Do.	4/72	2/75	34	61	27	12/74	2
Do.	8/72	10/74	26	61	35	4/74	6
Do.	6/73	4/74	10	61	51	1/74	3
Do.	9/73	1/75	16	61	45	10/74	3
Do.	11/73	4/74	5	61	56	2/74	2
4930 S. Langley Apts.	1/75	3/75	2	24	22	2/75	1
Clark and Webster Apts.	10/74	1/75	3	57	54	12/74	1
Budd Apartments	6/74	3/75	9	40	31	10/74	5
Lincoln and Sheffield Apts.	4/74	2/75	10	40	30	8/74	6
Clark and Irving Apts.	1/74	9/74	8	46	38	7/74	2

The former executive director and the CHA board of commissioners said that the 28 special directives were issued because the commissioners decided that the housing of these applicants was justified because of extenuating circumstances, such as they were living in environments with health or safety problems. The applicants who received special treatment, according to the commissioners, did not meet the established criteria for priority treatment as set forth in the CHA tenant selection plan.

The commissioners said that, on the basis of the advice of CHA's general counsel, they felt they had the authority to authorize priority treatment. Also, they said that CHA's general counsel advised them not to discuss the special cases in open board meetings and that the cases were discussed and approved at informal meetings for which no records were kept. Neither the former executive director nor the commissioners could explain on a case-by-case basis the circumstances warranting priority treatment for the 28 applicants. The former executive director did recall, however, the conditions surrounding 1 of the 28 cases.

The family lived in a building leased by CHA. The security in the building had reached a serious level. The family had been held up in the elevator of the building and knocked down on the street while walking in the area. Under these circumstances CHA allowed the family to move to a safer community.

He also said that this form of priority placement in housing began around 1970 and estimated that 5 to 10 such cases occurred annually before 1974.

The commissioners felt that there was nothing wrong with giving priority to applicants when extenuating circumstances existed and said that they would continue this policy in the future. However, the chief of CHA's central rental division told us in April 1976 that no special directives have been processed since May 1975.

Recent tenant selection practices

To assess recent placement practices at CHA, we reviewed case files for 110 of the 250 applicants housed in 4 CHA elderly housing projects during calendar years 1973 through 1975. The 110 cases included all applicants who were housed during 1975 or whose registration numbers were high enough to indicate they may have been housed earlier than normal. Two of the housing projects are predominantly white (Sheridan and Devon and Hollywood) and two are predominantly black (Washington Park and Armour Square and Annex).

Of the 110 applicants, 14 were housed from 11 to 49 months earlier than other applicants applying for housing at the same time, as shown in the following table.

<u>CHA projects</u>	<u>Date registered</u>	<u>Date housed</u>	<u>Wait before housed (months)</u>	<u>Normal wait (months)</u>	<u>Extent housed earlier than normal (months)</u>
Washington Park Apartments	8/73	8/74	12	57	45
Do.	12/73	2/75	14	57	43
Do.	5/74	1/75	8	57	49
Hollywood Apartments	11/72	8/75	33	44	11
Do.	8/73	12/73	4	44	40
Do.	11/73	7/75	20	44	24
Do.	2/74	8/75	18	44	26
Armour Square and Annex Apartments	6/73	8/73	2	38	36
Do.	9/73	7/74	10	38	28
Do.	11/73	2/74	3	38	35
Do.	3/74	8/74	5	38	33
Do.	3/74	9/75	18	38	20
Do.	6/75	12/75	6	38	32
Do.	10/75	12/75	2	38	36

The head of CHA's central rental office was unable to offer any explanation as to why these 14 applicants were housed earlier than the normal waiting periods.

Allegations of preferred treatment

Our review of the tenant files for 36 applicants named by the Better Government Association as possibly receiving priority treatment showed that 9 were housed earlier than normal, as shown in the following table. Six applicants housed in 1970 at the Sheridan and Devon Apartments had higher registration numbers than applicants waiting to be housed at that project in January 1976. Three applicants were housed in 1 to 7 months at the Fisher and Hollywood projects, even though these projects had 3-1/2-year waiting lists.

<u>CHA project</u>	<u>Date registered</u>	<u>Date housed</u>	<u>Wait before housed (months)</u>	<u>Normal wait (months)</u>	<u>Extent housed earlier than normal (months)</u>
Sheridan and Devon Apts.	3/69	10/70	19	61	42
Do.	2/69	10/70	20	61	41
Do.	5/69	10/70	17	61	44
Do.	5/69	10/70	17	61	44
Do.	7/69	9/70	14	61	47
Do.	9/70	11/70	2	61	59
Fisher Apartments	7/73	8/73	1	44	43
Do.	9/73	10/73	1	44	43
Hollywood Apartments	7/66	2/67	7	44	37

The head of CHA's central office was unable to offer any explanation for the nine applicants being housed earlier than normal.

DISCRIMINATION IN CHA ELDERLY PROJECTS

Title VI of the Civil Rights Act of 1964 prohibits discrimination against persons eligible to receive benefits under any federally subsidized program because of race, color, or national origin. In implementing the act, HUD issued regulations and a handbook which required that public housing agencies (1) use only one community-wide waiting list for all housing agency projects and (2) limit to three, the number of rejections which an applicant can make of housing offers without falling to the bottom of the agency's waiting list. An official of HUD's Chicago equal opportunity staff said that without these requirements applicants could wait indefinitely for a vacancy in a project containing what the applicants would view as a desirable racial composition. This would reinforce traditional racial segregation in public housing according to the official.

In response to the Better Government Association allegations of possible favoritism in placing elderly applicants at CHA projects, HUD's Chicago Office of Equal Opportunity made an equal opportunity compliance review of selected aspects of CHA's elderly housing program. HUD's July 1975 report concluded that:

1. Because CHA's tenant selection plan allows it to maintain separate waiting lists for each project, it is impossible to prove that minorities on the general waiting list were deprived of housing in predominantly white projects.
2. CHA's tenant selection plan violates the intent of title VI of the Civil Rights Act and HUD implementing regulations by maintaining separate waiting lists for each project and by allowing unlimited refusals by an applicant. The latter, referred to as freedom of choice, discourages integration of CHA's predominantly white projects and has helped allow most of CHA's elderly projects to achieve only token integration.
3. CHA follows a pattern of offering white applicants more alternatives of housing projects than black applicants. Also, black applicants were offered few housing alternatives in predominantly white projects.

The report recommended that CHA revise its tenant selection plan to conform to HUD's title VI regulations and that CHA start an affirmative drive to offer minorities housing in elderly projects which are predominantly white.

In September 1975 HUD directed CHA to revise its elderly tenant selection plan to conform with the Civil Rights Act. CHA submitted a revised plan to HUD on November 14, 1975, allowing applicants to reject housing only three times without good cause before going to the bottom of the waiting list--applicants are allowed unlimited rejections for good cause. The assistant administrator for equal opportunity in HUD's Chicago regional office took exception to CHA's definition of good cause which includes inaccessibility to relatives, church or synagogue, or long-standing neighborhood roots. He felt that such factors "* * * tend to reinforce the traditional patterns of racial and ethnic segregation which are characteristic of housing in Chicago."

After evaluation of CHA's revised tenant selection plan by his staff and discussion with CHA officials, the assistant administrator on March 2, 1976, recommended to HUD's Assistant

Secretary for Fair Housing and Equal Opportunity that the plan be rejected. As of July 12, 1976, this matter was still under consideration by the Assistant Secretary.

The latest data available on racial composition of CHA housing shows that as of December 31, 1974, 30 of the 44 CHA elderly housing developments were either 90 percent or more black or white.

LACK OF HUD MONITORING OF CHA

HUD procedures require program officials at its field offices to make an occupancy audit at each public housing agency at least every 3 years. One purpose of the audit is to determine whether the housing agency's tenant selection procedures meet HUD requirements.

HUD has not made an occupancy audit at CHA since 1961. In a January 1976 memorandum to HUD's Assistant Secretary for Housing Management, the assistant regional administrator for HUD's Chicago regional office advised that no occupancy audit had been made because of staff shortages and "* * * the understanding on the part of some area office staff that central office does not want CHA to have an occupancy audit until central office says so." However, a housing management official in HUD's central office said that central office officials have not discouraged HUD's Chicago staff from making occupancy audits at CHA. HUD plans to make an occupancy audit of CHA early in 1977.

CONCLUSIONS

Contrary to HUD regulations and the HUD-approved tenant selection plan, CHA provided priority treatment to some elderly applicants by housing them sooner than others. The priority treatment arose in certain cases because the applicants, in the opinion of present and former CHA officials, needed immediate housing due to hardships or the unusual conditions they faced, even though such priority was not sanctioned by CHA's tenant selection plan.

We believe that priority treatment should be limited to cases that meet the conditions contained in a HUD-approved tenant selection plan and that documentation supporting the reasons for granting priority should be kept. Priority treatment that is not sanctioned by CHA's tenant selection plan can lead to a loss of public trust in the public housing program in Chicago. Also, such treatment provides an unfair advantage to some applicants at the expense of the thousands of elderly on CHA's waiting list.

We believe also that HUD needs to monitor CHA's tenant selection activities. The absence of any HUD monitoring of CHA activities in this area since 1961 has helped permit the deviations from the established tenant selection plan to continue.

HUD's 1975 equal opportunity review disclosed that CHA had followed procedures which contributed to racial segregation at CHA's elderly projects. HUD is considering CHA-proposed changes to the procedures.

RECOMMENDATIONS

We recommend that the Secretary of Housing and Urban Development require:

- CHA to limit priority treatment in housing elderly persons to applicants whose justifications for such treatment are in accordance with the HUD-approved tenant selection plan and whose application files properly document the reasons for priority.
- HUD's field staff to make the required periodic occupancy audits at CHA to insure that statutory and HUD tenant selection requirements are being carried out.
- The Assistant Secretary for Fair Housing and Equal Opportunity to take prompt action to insure that CHA adopts and follows a tenant selection plan which complies with the requirements of title VI of the Civil Rights Act of 1964.

CHAPTER 3

QUESTIONABLE CONTRACTING PRACTICES AND OVERPAYMENTS FOR ELEVATOR REPAIRS

Our review of CHA's 10-year elevator maintenance and repair contracts with two elevator companies shows that:

- The labor rate structure CHA uses to pay for the vandalism repair work part of the contracts was set by CHA without competition or negotiation and, therefore, CHA has no assurance that fees paid for such services--totaling about \$2.2 million in calendar year 1975, or about 71 percent of the total costs incurred under the contracts--were reasonable.
- CHA has been overpaying the companies for employee fringe benefits. During February 1976 such overpayments totaled about \$4,400.

HUD should direct CHA to make the labor rate structure for repairing vandalized elevators an item for competitive bidding before entering into future elevator repair contracts. Also, HUD should require CHA to determine the amounts of overpayments to the two companies for employee fringe benefits to the extent past records are available and to obtain refunds of such amounts.

LACK OF COMPETITION FOR SERVICES TO REPAIR VANDALIZED ELEVATORS

In September 1966 CHA advertised for repair and preventative maintenance services for its elevators. Most of CHA's elevators were manufactured by the Otis Elevator Company. The advertisement requested separate bids for Otis elevators and those manufactured by other companies. The specifications for the two contracts (1) requested fixed-price bids for normal maintenance work necessary to keep the elevators in first class condition and (2) set the following hourly rate structure which CHA would pay the selected contractors to fix vandalized elevators.

- During regular work hours--twice the union set hourly rate¹, plus fringe benefits.

¹The hourly wage rates as negotiated periodically with the local elevator union in Chicago.

--Overtime and from 8:00 a.m. to 4:30 p.m. on Saturdays--three times the union set hourly rate, plus fringe benefits.

--Sundays, holidays, and after 4:30 p.m. on Saturdays--four times the union set hourly rate, plus fringe benefits.

Because CHA established the rate structure for vandalism repair (subject to negotiated union rates), competition among bidders for this part of the contract was eliminated.

CHA received four bids for repairing Otis elevators, with the Otis Elevator Company as low bidder, and three bids for repairing the elevators manufactured by other companies, with the Gregory Elevator Maintenance Company, Inc., as the low bidder. CHA awarded the two firms contracts for the 10-year period beginning at the close of business December 31, 1966.

CHA's former executive director said that 10-year contracts were considered better than contracts for a shorter period because CHA believed that contractors would be less inclined to skimp on repairing or replacing expensive equipment, such as elevator cables and generators. The official explained that this equipment could be repaired to last a few years but would then need replacement. Therefore, with a 10-year contract, a firm would be more likely to replace equipment when needed rather than make temporary repairs.

Our review showed that little information was available in CHA's contract files on how the vandalism repair rates were established. CHA officials said that much of the information on how the rates were established was obtained orally. They said they obtained advice from engineers, elevator technicians, attorneys, potential bidders, and others on setting the rates. Otis and Gregory officials did not know how CHA arrived at the vandalism repair rates.

CHA officials said that in 1966, when the vandalism repair rates were established, elevator damage caused by vandalism was very small. However, CHA records showed that in recent years substantial expenditures under the contracts have been made for vandalism repair work.

From calendar years 1971 through 1975, CHA spent about \$11.4 million for normal maintenance and vandalism repair of elevators as shown in the following table. The expenditures include both labor and material costs. We computed that of the approximately \$3.1 million spent in 1975, about \$2.2 million, or about 71 percent, was for the labor to repair vandalized elevators.

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>Total</u>
	(000 omitted)					
Otis Elevator Co. Maintenance	\$ 292	\$ 326	\$ 340	\$ 362	\$ 414	\$ 1,734
Vandalism	<u>1,035</u>	<u>1,206</u>	<u>1,330</u>	<u>1,779</u>	<u>2,281</u>	<u>7,631</u>
	<u>1,327</u>	<u>1,532</u>	<u>1,670</u>	<u>2,141</u>	<u>2,695</u>	<u>9,365</u>
Gregory Elevator Maintenance	141	155	163	175	211	845
Vandalism	<u>169</u>	<u>285</u>	<u>352</u>	<u>193</u>	<u>170</u>	<u>1,169</u>
	<u>310</u>	<u>440</u>	<u>515</u>	<u>368</u>	<u>381</u>	<u>2,014</u>
Total annual cost	<u>\$1,637</u>	<u>\$1,972</u>	<u>\$2,185</u>	<u>\$2,509</u>	<u>\$3,076</u>	<u>\$11,379</u>
Vandalism as a percent of total cost	74	76	77	79	80	77

OVERCHARGES FOR FRINGE BENEFITS

As previously stated, CHA pays its contractors an hourly fringe benefit rate for vandalism repair work. The rate is adjusted periodically and has been \$2.11 since July 1, 1975. Otis Elevator Company computed the \$2.11 rate. Gregory officials said that CHA officials told them to use Otis' computations and, therefore, Gregory charged CHA the same rate.

Our computations showed that the \$2.11 rate was excessive by from \$0.10 to \$0.96 an hour depending on the type of employee--mechanic or helper--and when the work was done--regular workday or overtime. Our review of selected available CHA records showed that similar overcharges were made since 1972.

	<u>Type of employee</u>			
	<u>Mechanic</u>		<u>Helper</u>	
	<u>Regular workday</u>	<u>Overtime</u>	<u>Regular workday</u>	<u>Overtime</u>
Rate charged	\$2.11	\$2.11	\$2.11	\$2.11
GAO computed rate	<u>2.01</u>	<u>1.29</u>	<u>1.50</u>	<u>1.15</u>
Overcharge	<u>\$.10</u>	<u>\$.82</u>	<u>\$.61</u>	<u>\$.96</u>

In February 1976 CHA spent about \$224,000 (9,143 labor hours) to repair vandalized elevators. We computed that fringe benefit overpayments during February were about \$4,400, or about 2 percent of the labor costs.

The \$2.11 fringe benefit rate Otis computed is composed of the following elements:

	<u>Amount</u>
Holidays	\$.2907
Basic vacation	.4841
Supplemental vacation	.5022
Welfare plan	.4950
Pension plan	.3200
Education fund	.0200
Total	<u>\$2.1120</u>

The rates we calculated differed from the \$2.11 in the first three elements--holidays, basic vacation, and supplemental vacation.

Holidays

The union agreement between the International Union of Elevator Constructors (representing employees) and the National Elevator Industry, Inc., (representing management) provides for six paid holidays. Our computations show that, to reimburse the contractors for the cost of employee holidays, CHA should pay about \$0.27 for mechanics and \$0.19 for helpers for each regular work hour. Applying these rates to regular hours provides sufficient funds for six paid holidays. Therefore, the rates should not be applied to overtime hours. Otis and Gregory billed CHA at \$0.29 an hour for both types of employees and for regular and overtime work.

Basic vacation

The union agreement provides that employees with more than 5 years' experience (generally a mechanic) and those with less (generally a helper) are to receive 10 and 5 day vacations, respectively. The agreement explains that this is the equivalent of accruing, for each pay period, 4 or 2 percent of the employees wage rate--depending on experience.

For mechanics and helpers, we applied the 4 and 2 percents to the 1975 union wage rates of \$11.31 and \$7.92, and arrived at the basic vacation rates of \$0.4524 and \$0.1584, respectively, as compared with the \$0.4841 rate used by CHA's contractors for both. Also, the contractors used the \$0.4841 rate for overtime hours. We believe that

no charge is necessary for overtime because, as with holidays, applying rates to regular hours will provide the contractors with sufficient funds to pay employees for basic vacation days.

Supplemental vacation

The union agreement provides that all employees, after a 6-month probationary period, are entitled to a supplemental vacation of 4 percent of all hours worked. This is the equivalent of accruing 4 percent of an employee's wage rate for each pay period. Applying 4 percent to the union wage rates results in supplemental vacation rates of \$0.4524 and \$0.3168 an hour for mechanics and helpers, respectively, compared to \$0.5022 an hour used by the contractors to bill CHA.

- - -

We discussed our computations of overcharges with Otis and Gregory officials, and they generally concurred with our calculations. Upon our advising CHA officials of the overcharges, they stated that they plan to take action to (1) stop further overpayments, (2) determine the amount of past overpayments to the extent records are available, and (3) collect such amounts from the elevator companies.

CONCLUSIONS

Procurement by formal advertising offers the best opportunity for fair and reasonable prices. CHA did not obtain competitive prices for the vandalism repair work part of its elevator contracts. These prices were not negotiable because CHA set the hourly rate structure for labor cost. As a result, CHA has no assurance that expenditures for the labor to fix vandalized elevators--which totaled about \$2.2 million in 1975, or about 71 percent, of total charges for elevator repair services--are fair and reasonable. Also, CHA has been overcharged under the contracts for fringe benefits on vandalism repair services.

RECOMMENDATIONS

We recommend that the Secretary of Housing and Urban Development direct CHA to:

- Make the labor rate structure for repairing vandalized elevators an item for competitive bidding when soliciting bids for future elevator repair contracts.

--Take action on fringe benefit overpayments made under the two elevator contracts, including (1) stopping further overpayments, (2) determining the amount of past overpayments to the extent records are available, and (3) obtaining refunds for such overpayments.

CHAPTER 4

ALLEGATION OF CONFLICT OF INTEREST

The Better Government Association of Chicago and the Chicago Sun-Times Newspaper on July 20, 1975, charged Mr. Charles R. Swibel, chairman of the Chicago Housing Authority board of commissioners, with conflict of interest because

--Mr. Swibel is also president of the Marina Management Corporation in Chicago,

--the corporation receives \$79,000 a year from a subsidiary of the Continental Illinois National Bank and Trust Company to manage a building owned by the Continental Bank, and

--Continental Bank is CHA's fiscal agent and handles various financial transactions and bank accounts for CHA.

We could not find any evidence that this arrangement constitutes a conflict of interest under CHA's financial assistance contract with the Department of Housing and Urban Development.

The Continental Bank has been CHA's fiscal agent since 1951, and the current fiscal agent agreement between CHA and the Continental Bank was negotiated in 1957. Mr. Swibel became a member of CHA's board in 1956 and was elected chairman in 1963.

Under the terms and conditions of CHA's financial assistance contract with HUD, officers and employees of CHA may not enter into any contract, subcontract, or arrangement for any project or property in which the officers or employees have a direct or indirect interest. However, this conflict-of-interest provision is not applicable to general depository agreements and fiscal agency agreements. CHA officials said that CHA had not conducted any business activities with the Marina Management Corporation.

On July 31, 1975, HUD's Office of Inspector General sent HUD's Deputy Assistant Secretary for Housing Management an analysis of the Better Government Association and Chicago Sun-Times allegation. The Inspector General's report concluded that the situation as described in the news accounts did not violate the conflict-of-interest provision of the financial assistance contract between HUD and CHA or any known Federal statute.