

096130

~~4-08-03~~

74-0510



BEST DOCUMENT AVAILABLE



Administration Of The
Rehabilitation Loan And Grant
Programs In Atlanta, Georgia

B-771500

Department of Housing and
Urban Development

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

~~Z01616~~

096130

11/21/10



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

B-171500

BEST DOCUMENT AVAILABLE

The Honorable Ben B. Blackburn
House of Representatives

Dear Mr. Blackburn:

As you requested, we have reviewed the administration of the rehabilitation loan and grant programs in Atlanta, Georgia.

As agreed with your office, we did not give the Department of Housing and Urban Development (HUD) or the Atlanta Housing Authority an opportunity to examine and comment on this report. However, we discussed these matters with officials of the two agencies and have incorporated their views in the report.

We are recommending that the Secretary of HUD require his regional and area office officials in Atlanta to monitor, in accordance with HUD guidelines, the Atlanta Housing Authority's administration of the programs to insure that those owners whose properties are yet to be rehabilitated have all work performed as specified in the rehabilitation contracts.

As agreed with your office, we will provide the Secretary of HUD with copies of the report. Because HUD estimates that commitments made before June 30, 1973--the termination date announced for both programs--will result in 10,000 rehabilitation starts and 18,000 completions in fiscal year 1974, we are suggesting that the Secretary provide copies of the report to each of the HUD regional and area offices for their use in administering the programs.

We will also provide copies to the Senate and House Committees on Appropriations and Government Operations and to the Director, Office of Management and Budget. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Comptroller General
of the United States

C o n t e n t s

		<u>Page</u>
DIGEST		1
CHAPTER		
1	INTRODUCTION	5
	Rehabilitation loan and grant programs	5
2	ADEQUACY OF AHA CONTRACTING PROCEDURES AND PRACTICES	9
	Contractors not given an equal opportunity to participate in the rehabilitation work	10
	Inadequate documentation of bids received and contracts awarded	16
	Contractors barred by one AHA project office allowed to work for another AHA project office	17
	Practices and procedures not adequate to insure prompt completion of rehabilitation work	18
	Rehabilitation work requirements changed without written contract amendments	19
	Cost estimates not safeguarded	20
	AHA comments and corrective actions	20
3	INSPECTIONS OF REHABILITATION WORK	22
	Inadequate inspections	23
	Inspections not made	31
	Qualifications of rehabilitation personnel	33
	AHA responses and corrective actions	34
	Complaints by residents of Adair Park area	35
4	ADEQUACY OF CONTRACTS FOR REHABILITATION WORK	37
	Work to be done not clearly identified in work statements	37
	Needed repairs not required by work statements	38
	Unnecessary repairs required by work statements	39

CHAPTER	<u>Page</u>
	41
	42
5 HUD REVIEW OF AHA'S PROGRAMS	43
Conclusions	46
Recommendation to the Secretary of Housing and Urban Development	46
6 HOMEOWNERS' COMPLAINTS OF REHABILITATION WORK	47
Mrs. Geraldine T. Nall's complaint	47
Mrs. Ocie Callaway's complaint	52
7 SCOPE OF REVIEW	55
 APPENDIX	
I Letter dated January 31, 1972, from Congressman Ben B. Blackburn to the Comptroller General	57
II Map of Atlanta	59
III Schedule of all residential rehabilitation loans and grants for urban renewal and neighborhood development projects in Atlanta from February 1966 through June 1972	60

ABBREVIATIONS

HUD	Department of Housing and Urban Development
AHA	Atlanta Housing Authority
FHA	Federal Housing Administration
GAO	General Accounting Office
LPA	local public agency

COMPTROLLER GENERAL'S REPORT TO
THE HONORABLE SEN. B. BLACKBURN
HOUSE OF REPRESENTATIVES

ADMINISTRATION OF THE REHABILITATION
LOAN AND GRANT PROGRAMS IN ATLANTA,
GEORGIA

Department of Housing and
Urban Development B-171500

D I G E S T

BEST COPY

WHY THE REVIEW WAS MADE

Congressman Sen. B. Blackburn requested GAO to review the adminis-
tration of HUD's rehabilitation loan
and grant programs in Atlanta,
Georgia.

Under these programs, owners receive
loans and grants to repair and im-
prove their properties to bring them
up to the local minimum housing
standards. The programs are admin-
istered locally by the Atlanta Hous-
ing Authority.

GAO was asked to determine (1) whether
the Atlanta Housing Authority had
shown favoritism to certain contrac-
tors, (2) whether collusion existed
between the authority and contra-
tors, and (3) whether the authority's
inspections of rehabilitation work
were sufficient to insure that the
work was completed satisfactorily.
(See app. I.)

GAO was asked also to review certain
other matters relating to the hous-
ing rehabilitation program in At-
lanta. (See p. 5.)

As agreed with Congressman
Blackburn's office, GAO did not ob-
tain written comments from HUD and
the Atlanta Housing Authority on
the report. However, GAO discussed
the matters in the report with of-
ficials of the agencies and in-
corporated their views in the
report.

FINDINGS AND CONCLUSIONS

From February 1966 through June 1972,
421 loans and 563 grants totaling
about \$4.3 million in Federal funds
were made in 8 Atlanta project areas.
Four of these project areas received
Federal financial assistance under
the conventional urban renewal pro-
gram and four received it under the
neighborhood development program.
(See app. III.)

In January 1973, the Secretary of HUD
announced the termination of the De-
partment's community development
categorical grant programs to be
replaced by the revenue-sharing pro-
visions of the proposed Better Com-
munities Act.

The termination date announced for
both the rehabilitation loan and the
rehabilitation grant programs is
June 30, 1973. HUD estimates that
commitments made before that date
will result in 10,000 rehabilitation
starts and 13,000 rehabilitation com-
pletions in fiscal year 1974.

Allegation of Atlanta Housing
Authority's Favoritism Procedures
and Practices

GAO did not find evidence of collu-
sion between Atlanta Housing Au-
thority personnel and contractors
or evidence of favoritism shown to
certain contractors by the Atlanta
Housing Authority Model Cities and
West End project offices. However,

contracts were let in such a manner that they were awarded to a limited number of contractors.

GAO found the following weaknesses in the contracting procedures and practices of the two project offices it reviewed.

- Contractors were not given an equal opportunity to participate in the rehabilitation work.
- Contract files were incomplete because bids were not retained, and reasons for awards to other than the low bidders were not documented.
- Contractors barred from performing additional rehabilitation jobs by each of the project offices were later awarded contracts by the other project office.
- Contracting procedures were not adequate to insure that all work was completed on time.
- Rehabilitation work statements (the part of the rehabilitation contracts defining the work to be done) were changed without written contract amendments.
- Rehabilitation advisors did not adequately safeguard their estimates of the costs to rehabilitate properties and therefore did not prevent unauthorized use by contractors requested to bid. GAO, however, did not note any instance in which a contractor obtained such cost estimates. (See pp. 9 to 21.)

GAO concluded that the authority should

- establish written contracting procedures,
- centralize in its headquarters office the selection of contractors

to be sent bid invitations on rehabilitation work,

- require that changes in rehabilitation work requirements be made only by written contract amendments, and
- require its personnel to properly safeguard cost estimates for rehabilitation work. (See p. 20.)

Inspections of rehabilitation work

Property owners paid for work required by their contracts but not done or for work that did not meet the local minimum property standards.

In some cases Atlanta Housing Authority inspectors overlooked work deficiencies during their inspections; in others, they certified work as complete without making the required final inspections.

GAO attributed these shortcomings to lack of

- written procedures covering specific technical requirements of inspections and
- adequate personnel training and supervision.

Without written inspection procedures and adequately trained and supervised personnel, authority personnel did not understand clearly just what procedures and practices to follow in carrying out the local rehabilitation loan and grant programs. There was no assurance that those procedures and practices being used were consistently followed. (See pp. 22 to 36.)

Complaints by residents of Atlanta's AIAA Park area

Atlanta Housing Authority officials

advised GAO that between December 8, 1969, and July 20, 1970, its rehabilitation advisors had made unreasonable demands on some homeowners in Atlanta's Adair Park area by requiring them to have certain repairs completed on their homes before selling them so that potential buyers could qualify for Federal mortgage insurance.

The demands were the result of a joint agreement between the authority and the Federal Housing Administration which provided that properties to be insured by the Administration in urban renewal and neighborhood development program areas would have to meet the required property rehabilitation standards of each area. Adair Park properties were in the Model Cities boundaries but were not in the designated action areas and, therefore, the homeowners were not eligible for Federal rehabilitation loans or grants. The agreement was rescinded shortly after the residents of Adair Park complained to the authority in June 1970. (See pp. 35 and 36.)

Adequacy of contracts for rehabilitation work

Rehabilitation work contracts prepared by the authority included work statements which, contrary to HUD guidelines, did not clearly identify the work to be done. Also some work statements

- did not require repairs needed to bring properties up to the rehabilitation standards established by the authority for the project area,
- required repairs which were not necessary to bring properties up to the established standards and which were not requested by the homeowners, and

--were inconsistent as to the types of repairs needed to correct similar deficiencies in several properties. (See pp. 37 to 42.)

GAO concluded that the authority should

- train its rehabilitation personnel in preparing work statements,
- require rehabilitation personnel to prepare more comprehensive work statements, and
- monitor initial inspections and preparation of work statements by rehabilitation personnel. (See p. 41.)

HUD review of the Atlanta Housing Authority's programs

HUD reviews in 1970 disclosed a number of deficiencies in the authority's administration of the rehabilitation loan and grant programs; however, HUD's followup did not insure that appropriate corrective action was taken. In GAO's opinion, HUD did not effectively monitor the authority's administration of the rehabilitation loan and grant programs. (See pp. 43 to 46.)

Homeowners' complaints of rehabilitation work

GAO's review of the rehabilitation contracts on which the homeowners complained to Congressman Blackburn disclosed that the contractors did not satisfactorily complete work required under the contracts and that the jobs were poorly managed by the authority's rehabilitation personnel. (See pp. 47 to 54.)

GAO discussed its findings and

conclusions with Atlanta Housing Authority officials who generally concurred in and acted promptly on GAO's findings and suggestions for improving the programs. (See pp. 20, 34, and 41.)

GAO believes that the corrective measures taken and planned by the Atlanta Housing Authority, if properly monitored, should correct the deficiencies identified in the administration of the rehabilitation loan and grant programs in Atlanta. (See pp. 21, 35, and 42.)

RECOMMENDATION TO THE SECRETARY OF
HOUSING AND URBAN DEVELOPMENT

GAO recommends that the Secretary of Housing and Urban Development require his regional and area office officials in Atlanta to monitor, in accordance with HUD guidelines, the Atlanta Housing Authority's administration of the rehabilitation loan and grant programs to insure that those owners whose properties are yet to be rehabilitated under these programs have all work done as specified in the rehabilitation contracts. (See p. 46.)

BEST DOCUMENT AVAILABLE

CHAPTER 1

INTRODUCTION

In accordance with a request from Congressman Ben B. Blackburn (see app. I) and subsequent agreement with his office, we reviewed the administration of the Department of Housing and Urban Development's (HUD's) rehabilitation loan and grant programs in Atlanta, Georgia. These programs are administered locally by the Atlanta Housing Authority (AHA).

Congressman Blackburn requested that we determine

--whether AHA had shown favoritism to certain contractors or whether collusion existed between AHA officials and contractors (see p. 9) and

--whether AHA inspections were sufficient to insure that the rehabilitation work was completed satisfactorily (see p. 22).

We were later requested to (1) review the rehabilitation contracts of three homeowners who complained to the Congressman about the quality of the work, (2) determine whether deficiencies cited by HUD investigators in 1970 concerning the rehabilitation program in Atlanta still existed, (3) follow up on a statement in our report to Congressman Fletcher Thompson (B-171500, Aug. 20, 1971) on complaints of residents of Atlanta's Adair Park area concerning housing inspections, and (4) examine the adequacy of AHA rehabilitation advisors' and supervisors' qualifications.

As agreed with Congressman Blackburn's office, we did not obtain written comments from HUD and AHA on the report. However, during our review we discussed these matters with officials of these agencies and incorporated their views in the report.

REHABILITATION LOAN AND GRANT PROGRAMS

Under section 312 of the Housing Act of 1964 (42 U.S.C. 1452b) and section 115 of the Housing Act of 1949, as amended (42 U.S.C. 1466), loans and grants, respectively, may be made to individuals for repairs and improvements necessary

to bring their properties up to the rehabilitation standards established by the local housing authority for the project area.

To be eligible for assistance, the properties must be located in areas (1) receiving Federal financial assistance to eliminate or prevent the spread of slums and urban blight--which includes areas participating in HUD's urban renewal programs, such as conventional urban renewal, neighborhood development, and concentrated code enforcement, (2) not participating in the above programs but certified by local officials to have a substantial number of structures needing rehabilitation, or (3) where properties are uninsurable because of physical hazards.

Rehabilitation loans can be made for up to 20 years or three-fourths of the remaining life of the structures after rehabilitation, whichever is less, provided the applicant cannot obtain comparable financing from other sources. The act provides for a maximum loan interest rate of 3 percent, but the Secretary of HUD can lower this rate. The maximum interest rate has been charged during the past several years. Generally, the maximum loan is \$12,000 (\$17,400 in high-cost areas) per dwelling unit for residential structures and \$50,000 for nonresidential structures. Applicants whose annual income does not exceed certain limits are given priority for residential loans. Rehabilitation grants up to \$3,500 are made under HUD's urban renewal programs to owner-occupants having incomes generally below \$3,000 a year and who could not otherwise afford repairs and improvements required to bring their properties up to the local standards.

Both grants and loans can be made when homeowners cannot afford to finance the total rehabilitation costs with loan funds. About one-third of the borrowers receiving rehabilitation loans also receive rehabilitation grants.

In January 1973, the Secretary of HUD announced the termination of HUD's community development categorical grant programs that would be replaced by the revenue-sharing provisions of the proposed Better Communities Act introduced April 19, 1973 (H. R. 7277, 95d Cong., 1st sess.). The termination date announced for the rehabilitation loan and grant programs is June 30, 1973. HUD estimates that commitments made before that date will result in 10,000 rehabilitation starts and 18,000 completions in fiscal year 1974.

BEST DOCUMENT AVAILABLE

The urban renewal programs, including the rehabilitation loan and grant programs, are administered by local public agencies (LPA). AHA, besides being a housing authority, is also an LPA. HUD's regional and area offices are responsible for disbursing funds to the LPAs and for monitoring the agencies' activities. HUD guidelines require that an LPA develop--in consultation with the HUD regional and area office staffs and local housing code officials--rehabilitation standards for properties in the project area.

HUD's guidelines further require that, after the standards are developed, the LPA

- advise each property owner in the project area of the rehabilitation objectives and the availability of rehabilitation loans and grants,
- inspect each property whose owner is interested in participating in the programs and prepare a "work statement" showing the type and estimated cost of work necessary to bring the property up to the standards,
- assist property owners in applying for rehabilitation loans and grants,
- solicit bids for the rehabilitation work and negotiate contracts between property owners and contractors,
- inspect the work while it is being done and after it is completed and certify that all work provided for in the contract has been satisfactorily completed,
- provide loan and grant funds to contractors through property owners after rehabilitation work has been certified as complete,
- assist the property owners in making final payment to contractors, and
- perform followup inspections to detect defects that may show up after final payments have been made, ascertain whether property owners have any complaints, and assist them in obtaining prompt corrective action from the contractors.

As of June 30, 1972, AHA had a headquarters office and five project offices to carry out the local rehabilitation loan and grant programs. Each project office was headed by a project coordinator. In addition, the project offices' staffs included 21 rehabilitation advisors, 7 rehabilitation supervisors, and 6 financial advisors. Rehabilitation advisors, working under rehabilitation supervisors, were involved in implementing the rehabilitation program in a project area. Financial advisors, also working under rehabilitation supervisors, helped property owners obtain financing for improvements to their properties.

Since inception of the rehabilitation loan and grant programs in Atlanta in February 1966 through June 1972, 421 loans and 565 grants totaling about \$4.3 million in Federal funds were made in eight project areas. Four of these areas received Federal financial assistance under the conventional urban renewal program and four received it under the neighborhood development program. (See app. III.)

We made our review primarily at two of AHA's project offices--one designated by AHA as the West End project office, which received Federal financial assistance under the conventional urban renewal program, and the other, designated as the Model Cities project office, which received assistance under the neighborhood development program.

In June 1964 AHA established minimum property standards for rehabilitating houses in the West End project area. In January 1969 AHA established similar standards for houses in the Model Cities project area. A map of Atlanta showing the project areas under these two project offices is included as appendix II.

CHAPTER 2

ADEQUACY OF AHA CONTRACTING

PROCEDURES AND PRACTICES

We did not find evidence of collusion between AHA personnel and contractors or of special efforts made to show favoritism to certain contractors by the AHA Model Cities and West End project offices. The contracts, however, were let in such a manner that most were awarded to a limited number of contractors.

We found the following weaknesses in the contracting procedures and practices of the two project offices we reviewed.

- Contractors were not given an equal opportunity to participate in the rehabilitation work.
- Contract files were incomplete because bids were not retained, and reasons for awards to other than the low bidder were not documented.
- Contractors barred from performing rehabilitation jobs by each of these two project offices were later awarded contracts by the other project office.
- Contracting procedures were not adequate to insure that all work was completed on time.
- Rehabilitation work statements (the part of the contracts defining the work to be done) were changed without written contract amendments.
- Rehabilitation advisors did not adequately safeguard their estimates of the costs to rehabilitate properties, thereby preventing unauthorized use by contractors requested to bid.

Each project office independently determined which contractors would be requested to submit bids, to whom contracts would be awarded, and the types of contracting records the project office would maintain.

Neither AHA headquarters nor its project offices had established written procedures for (1) inspecting housing to be rehabilitated, (2) contracting for essential rehabilitation work, and (3) inspecting completed work. Without such written inspection and contracting procedures, AHA personnel did not clearly understand what procedures and practices to follow and had no assurance that those procedures and practices which were used were consistently followed.

AHA headquarters officials did not coordinate the project offices' activities or periodically review their contracting procedures to determine whether such procedures were appropriate. Neither did AHA provide adequate guidance to these offices on essential contracting functions and activities.

CONTRACTORS NOT GIVEN AN EQUAL
OPPORTUNITY TO PARTICIPATE IN THE
REHABILITATION WORK

The two AHA project offices we reviewed did not give all 69 contractors approved by AHA headquarters to perform rehabilitation work for its project offices an equal opportunity to submit bids or proposals on rehabilitation jobs.

An AHA official told us that, AHA headquarters, using project offices' information on contractors approved to work on their projects, compiled and approved a list of 50 contractors which it sent to each project office in October 1970. An AHA official said that the Model Cities and West End project offices had not established criteria for evaluating contractors requesting to be placed on the AHA approved contractor list. The only contractors denied approved status were those that AHA had barred. He said further that AHA headquarters would revise its approved contractor list to recognize newly approved or barred contractors when project offices advised it to do so.

A revised list, which included 35 contractors, was distributed to each project office in November 1971. The official stated that AHA instructed each project office to use only approved contractors. In this way, contractors barred by one AHA project office could have been barred from working for any other AHA project office.

At some time between January 1, 1971, and June 30, 1972, 69 contractors were placed on the approved list.

Contract bids or proposals

HUD guidelines provide that an LPA can negotiate to obtain an acceptable proposal if its estimated cost for rehabilitation work is less than \$10,000. The guidelines provide also that if a proposal for less than \$10,000 cannot be obtained through negotiation, the LPA shall obtain bids by formal advertising. Bids on rehabilitation work costing more than \$10,000 have to be obtained through newspaper advertising from at least two contractors before the contractor is selected.

The Model-Cities and West End project offices awarded 66 and 58 rehabilitation contracts, respectively, from January 1, 1971, through June 30, 1972.

The Model Cities project office followed HUD guidelines by formally advertising for bids for the seven contracts exceeding \$10,000 that it awarded during this period. All seven were awarded to the low bidders.

The West End project office, however, advertised for only six of the nine contracts it awarded in excess of \$10,000. These six contracts were awarded to the low bidders. According to West End project office records, the other three rehabilitation contracts, totaling \$40,000, were awarded to the properties' owners.

None of the contracts for rehabilitation work costing \$10,000 or less were advertised. In awarding the 59 contracts under \$10,000, the Model Cities project office requested single proposals for 28 (47 percent) and multiple proposals for the remaining 31. Of the 49 contracts under \$10,000 awarded by the West End project office, single proposals were requested for 47 (96 percent) and multiple proposals were requested for the remaining 2 contracts.

Records of bids or proposals requested from contractors by the Model Cities and West End project offices from January 1, 1971, through June 30, 1972, indicate that the two project offices asked less than one-third of the 69 contractors on the AIA approved contractor list to submit bids

or proposals on rehabilitation jobs. The Model Cities project office requested only 22 contractors to submit bids or proposals for 66 contracts awarded and the West End project office requested only 20 for 58 contracts awarded. Only 3 of the 69 contractors received requests to submit bids or proposals from both project offices.

Most of the awards were based on proposals requested by the project offices rather than on competitive bids received through formal advertising. Contractors not included on the approved contractor list were therefore denied the opportunity to bid on most of the contracts awarded by the two offices.

Model Cities project office

The rehabilitation supervisors in the Model Cities project office told us that their office did not have written contracting procedures. They also said that their two secretaries selected contractors requested to submit bids or proposals in a regular, recurring order from a separate list of approved contractors kept by each secretary rather than from the consolidated list approved by AHA headquarters. All the contractors on the secretaries' lists were on the AHA approved contractor list. The two secretaries also maintained "bid books" showing, for each job, which contractors were requested to submit bids or proposals, the contractors who did so, the amount of each bid or proposal, and the contractor awarded the rehabilitation contract.

The secretaries told us, and our review of the bid books and related AHA records confirmed, that contractors were not selected in a regular, recurring order but were generally selected by the rehabilitation advisors and supervisors using the secretaries' lists.

During the 18-month period, one secretary maintained a list of 10 contractors. The other secretary maintained a list of 17 contractors until November 1971, when she started using the AHA headquarter's list of 35 contractors.

Only 40 of the 69 contractors approved by AHA headquarters were included at some time during the 18-month period on the secretaries' lists. Of these, 22 were requested to submit bids or proposals one or more times.

Seventeen of the 22 contractors were on the secretaries' lists for an average of 10 months. The other five contractors were on the lists for the full 18 months. The frequency of requests for bids from contractors by the Model Cities office varied considerably even for those included on the lists for the same period, as shown in the following table.

<u>Contractor</u>	<u>Number of times requested to submit bids or proposals</u>
A	100
B	73
C	28
D	9
E	2

Our analysis of the project office's contract award files, as summarized below, showed that 46 (70 percent) of the 66 contracts awarded by the Model Cities project office during the 18 months went to contractors A, B, and C. The remaining contracts went to five other contractors.

<u>Contractor</u>	<u>Number of times bids or proposals submitted</u>	<u>Number of contracts awarded to contractor</u>	<u>Dollar amount of contracts</u>	<u>Percent of total amount of contracts awarded</u>
A	79	20	\$157,820	27
C	25	13	104,169	21
B	62	13	89,455	18
<u>5 others</u>	<u>150</u>	<u>20</u>	<u>170,464</u>	<u>34</u>
<u>8</u>	<u>316</u>	<u>66</u>	<u>\$501,908</u>	<u>100</u>

West End project office

The coordinator for the West End project office told us that his office did not have written contracting procedures. The office kept a list of contractors it had approved to work in the project area. For all rehabilitation jobs

expected to cost over \$10,000, the project office requested, in a regular, recurring order, bids from three approved contractors. In addition, an invitation to bid was placed in the local newspapers. If less than two bids were received, the project office solicited bids from additional contractors.

The coordinator advised us that contracts were awarded to the low bidders unless the homeowner asked for a particular contractor who was not the low bidder. In these cases, the homeowner had to pay the difference between the amount of the low bid and the contract price.

The coordinator told us that for contracts expected to be less than \$10,000, the project office requested, in a regular, recurring order, one contractor from the approved list to submit a proposal for the job. If the proposal submitted was within 10 percent of the rehabilitation advisor's cost estimate and the homeowner accepted the contractor, the contract was awarded when the project office approved the homeowner's plan. If the proposal exceeded the cost estimate by more than 10 percent, the contractor was told that his proposal was too high and was requested to reduce it. If his new proposal was within 10 percent of the cost estimate, he received the contract. If not, another contractor was requested to submit a proposal.

During the 18 months, only 20 of the 69 contractors on the ALA headquarters list were on the West End project office approved contractor list. The 20 contractors were on the list from 1 to 18 months, with each contractor receiving at least one request to submit a bid or proposal. Fourteen contractors were on the list for an average of 6 months and six were on the list for the entire 18 months. The project office's bid book showed that the six contractors were requested to submit bids or proposals as follows.

<u>Contractor</u>	<u>Number of times requested to submit bids or proposals</u>
F	22
D (note a)	20
B (note a)	19
G	18
H	14
I	13

^aThe contractor is the same contractor with the corresponding letter in the table on page 13.

According to the bid books maintained by the two project offices, the West End project office more evenly distributed its requests for bids or proposals based on the length of time the contractors were on its approved contractor list.

From January 1, 1971, through June 30, 1972, 35 (60 percent) of the 58 contracts awarded by the West End project office went to only 4 contractors.

<u>Contractor</u>	<u>Number of contracts awarded</u>	<u>Dollar amount of contracts</u>	<u>Percent of total amount of contracts awarded</u>
F	13	\$ 64,855	16
B	8	63,325	16
J	7	68,900	17
D	7	46,836	11
<u>13 others</u>	<u>23</u>	<u>164,320</u>	<u>40</u>
<u>17</u>	<u>58</u>	<u>\$408,236</u>	<u>100</u>

INADEQUATE DOCUMENTATION OF BIDS
RECEIVED AND CONTRACTS AWARDED

Thirteen of 20 contract files selected at random from files on rehabilitation contracts awarded by the West End project office lacked adequate documentation to support the contract award determinations. We found that:

- Bids received for 11 contracts were not retained.
- One contract for \$13,400 was awarded, contrary to HUD guidelines, to a sole bidder without a waiver from HUD on its requirement for competitive bidding for contracts exceeding \$10,000. The coordinator of the West End project advised us that his office was in error by not requesting the waiver.
- One contract was awarded for \$17,000 to other than the low bidder and the files were not documented to justify such action.

With regard to the last contract, AHA officials advised us that the low bid was not accepted because AHA believed that the \$12,127 bid was too low. These officials stated also that the contractor was not given the opportunity to reaffirm or withdraw his bid because the rehabilitation supervisor responsible for the job was inexperienced. AHA records showed that the contractor who submitted the low bid received a letter from AHA advising him that his bid was not accepted because he was not the low bidder.

Our comparison of information in the bid book maintained by the West End project office with information in the rehabilitation files also indicated weaknesses in the office's recordkeeping practices. We found that:

- The bid book did not show which contractors bid on 10 properties, the amounts of the bids, or the contractors who received the awards.
- Nine contractors who bid on rehabilitation jobs were not shown in the bid book as having bid.

CONTRACTORS BARRED BY ONE AHA PROJECT
OFFICE ALLOWED TO WORK FOR ANOTHER
AHA PROJECT OFFICE

AHA had not established controls to prevent a barred contractor from working as a major subcontractor on AHA rehabilitation jobs. In January 1971, the Model Cities project office had barred one contractor from doing rehabilitation work, but the individual was working as a major subcontractor for both project offices during our review.

To prevent a contractor barred by any project office from transferring to, and working as a prime contractor for, any of the other project offices, AHA in October 1970 established a single list of contractors approved to act as prime contractors for rehabilitation work for all AHA project offices.

Before October 1970, several contractors barred from working for an AHA project office had transferred to, and were working as prime contractors for, other AHA project offices. For example, a HUD report dated October 1, 1970, showed that eight contractors barred by the West End project office later worked for the Model Cities project office as prime contractors.

Three of the contractors barred by the West End project office were awarded 24 rehabilitation contracts by the Model Cities project office between January 1, 1971, and June 30, 1972. They continued the unacceptable practices for which they were first barred--such as not completing required work, poor workmanship, and nonpayment of bills for labor and materials.

We reviewed the Model Cities project office files on two of these contractors and found that one of the contractors had been awarded 20 contracts totaling \$157,820, or about 27 percent of the total dollar value of the 66 contracts awarded by the Model Cities project office during the 18 months ended June 30, 1972.

In April 1972 we inspected two houses which this contractor had recently rehabilitated for \$6,800 and \$4,290, respectively, and noted that, although all the required work had been completed, the quality of workmanship did not appear

to meet the minimum property standards established by AHA for the project area and outlined in the contract. For example, we noted that the main drainage pipe of one house leaked, although the rehabilitation contract provided for \$789 worth of plumbing repairs to comply with the city's plumbing code.

Other deficiencies include a gap about 5 inches wide between the basement door and the floor that allowed rain water to drain into the basement and other doors that did not fit properly.

We brought these matters to the attention of rehabilitation personnel in the Model Cities project office in April 1972 and were advised in June 1972 that the contractor had, at AHA's request, corrected the deficiencies.

The Model Cities project office files showed that the other contractor continued to do poor work and failed to pay bills after the West End project office barred him and that AHA headquarters in June 1972 barred him from doing further rehabilitation work for any AHA project office.

We believe that AHA headquarters should have established controls to prevent a barred prime contractor from working as a subcontractor for any of its project offices.

PRACTICES AND PROCEDURES NOT ADEQUATE TO
INSURE PROMPT COMPLETION OF REHABILITATION WORK

AHA did not adequately monitor, or have sufficient enforcement authority to insure prompt completion of, the rehabilitation work. Because most houses are occupied while they are being rehabilitated, the work should be completed promptly to minimize inconvenience to the occupants.

The West End project office director told us that its contracts provided for work to be completed within 30 days if the contract was under \$5,000, and within 60 days if the contract was between \$5,000 and \$10,000. For jobs exceeding \$10,000, the time authorized for completing the work depended on the amount and nature of the work.

The rehabilitation contracts did not provide a penalty clause for failure to complete the jobs within the time specified in the contracts.

Our examination of the records of 101 rehabilitation jobs completed during the 18 months showed that 53 of the 59 jobs for the Model Cities project office (90 percent) and 30 of the 42 jobs for the West End project office (72 percent) were not complete in the time specified by the contracts. The records showed that, in 33 of the 101 jobs, the contractors exceeded the authorized time by 30 days or more and that, in 5 cases, the contractors exceeded the authorized time by at least 100 days. We also found that, even after the property owners granted extensions, some contractors failed to complete the work within the newly established completion dates.

REHABILITATION WORK REQUIREMENTS CHANGED
WITHOUT WRITTEN CONTRACT AMENDMENTS

Rehabilitation contracts included a provision that work changes would be made only by written amendments to the contracts. Our review showed that change orders were not executed for many of the jobs under the Model Cities and West End project offices although the scope of work was revised after the contracts had been executed. For other jobs, change orders were executed after the work was performed so that the work specified in the contracts conformed with the work actually performed.

On two of the four rehabilitation jobs for the West End project office that we inspected in detail, the homeowner, the contractor, and rehabilitation personnel disagreed about what verbal agreements were reached on changes in the work to be performed.

Written amendments to contracts are intended to preclude misunderstandings between the parties involved and to make changes binding. In this regard, the HUD Atlanta regional office, in May 1970, evaluated the Model Cities project office's rehabilitation efforts. In a May 22, 1970, letter, the HUD Atlanta regional office emphasized to AHA that no changes in contract work--not even changes in material or color that do not change the contract price--should be made without the homeowner, the contractor, and AHA executing a contract change order.

Our review showed that from January 1, 1971, through June 30, 1972, work required by rehabilitation contracts was still changed without executing contract change orders.

For example, we noted six rehabilitation contracts under the Model Cities project office and five under the West End project office that were changed without contract change orders being executed. In July 1972, after we brought this matter to AHA officials' attention, AHA issued a rehabilitation manual which required that written contract amendments be made for any changes made after a rehabilitation contract was awarded.

COST ESTIMATES NOT SAFEGUARDED

Cost estimates prepared by rehabilitation advisors in the two project offices were not adequately safeguarded to prevent unauthorized use. The estimates were not locked up and during working hours were often left unattended on desk tops although contractors and other persons generally had unrestricted access to the project offices.

The cost estimates are important because rehabilitation personnel use them to evaluate the reasonableness of contractors' bids. Access to cost estimates by a contractor would give him an advantage because he would know what would be considered reasonable. Although we found that contractors could have readily obtained AHA rehabilitation cost estimates, we did not find any evidence that contractors obtained such cost estimates.

- - - -

We discussed our findings with AHA officials as we completed parts of our review. We suggested that AHA (1) establish written contracting procedures, (2) centralize in AHA headquarters the selection of contractors to be sent invitations to bid on rehabilitation work, (3) require that changes in rehabilitation work requirements be made only by written contract amendments, and (4) require its personnel to properly safeguard cost estimates for rehabilitation work.

AHA COMMENTS AND CORRECTIVE ACTIONS

AHA headquarters officials acted promptly on our suggestions for improvement. They

--established written contracting procedures for AHA personnel to follow in administering rehabilitation

BEST DOCUMENT AVAILABLE

contracts and in maintaining records at AHA headquarters and at the project offices on the bids received and the contracts awarded;

- centralized in AHA headquarters control over maintenance of the approved contractor listing and over the selection of contractors to be sent invitations to bid or requests for proposals;
- requested a clause be inserted in all rehabilitation contracts to assure that contractors who have been removed from the approved list are not employed as subcontractors for AHA work;
- prepared a new contract document which provides that the homeowner has the right to terminate the contract by giving the contractor written notice if the contractor (1) fails to begin work within 10 days of the date of the contract or (2) fails to complete the work within the time specified in the contract and the contractor, the homeowner, and AHA do not agree in writing on an extension of the contract completion date;
- required that any deviation from the contract in materials or methods be approved through executing a contract amendment by the contractor, the homeowner, and AHA before beginning such work; and
- instructed rehabilitation supervisors to keep cost estimates locked up until all bids are opened.

We believe that the actions taken or promised by AHA officials, if properly implemented and monitored, should correct the contracting deficiencies discussed in this chapter.

CHAPTER 3INSPECTIONS OF REHABILITATION WORK

We inspected 14 rehabilitated properties in the Model Cities and West End project areas that AHA personnel certified as completed in accordance with the contracts. We found that work on 12 of these properties had not been completed or did not meet the local minimum property standards as required by the written rehabilitation contracts.

AHA personnel had not adequately inspected the properties to determine if the work had been completed and met required standards. In some cases the AHA inspectors had overlooked the work deficiencies during their inspections; in others, they had certified work as complete without making the required final inspections. These shortcomings can be attributed to the lack of

--written procedures covering specific technical requirements of inspections and

--adequate personnel training and supervision.

Prompt and adequate inspections during the rehabilitation work can help insure that work required by the written contract is done and is of acceptable quality and that proper materials are used. Such inspections can also help insure that problems are resolved quickly and that the work is completed on time.

AHA rehabilitation advisors and supervisors are responsible for inspecting rehabilitation work being done and work completed. The final inspection is especially important because it is the last opportunity to identify work that has to be corrected before the contractor receives final payment.

The advisors are also responsible for supplemental inspections which are required within 60 days after the work has been certified complete. Supplemental inspections detect defects that may show up after final payment is made, identify if the property owner has any complaints, and assist the property owner in obtaining prompt corrective action from the contractor. HUD guidelines require that all work performed by the contractors be covered by a 1-year

guarantee and that within this period the homeowners may require the contractors to correct significant defects and inadequacies in the work performed.

INADEQUATE INSPECTIONS

AHA officials told us that rehabilitation advisors were to inspect the work being done on each rehabilitation job at least once a day, discuss problems with the property owners and the contractor, and help resolve them. Rehabilitation supervisors also were required to check the work occasionally.

After the work was completed, both the advisor and the supervisor were required to inspect the work. Certification statements by the rehabilitation advisors read as follows:

"This certifies that all improvements included in the contract have been satisfactorily completed."

Certification statements by the supervisors read as follows:

"Final inspection has been made of the property rehabilitated with Federal financial assistance. The construction work has been satisfactorily completed in accordance with the construction contract. The property now conforms to the requirements of the Urban Renewal Plan or local code, as applicable, for the project area."

In addition to the above certifications, AHA requires the contractor to sign the following affidavit before receiving his final payment.

"Deponent further deposes and says on oath that he knows of his own knowledge that all of said improvements and repairs have been fully completed in accordance with the terms of said contract, and that all bills incurred for labor used and materials furnished in making said repairs and improvements have been paid in full. Deponent acknowledges receipt of full payment of the agreed purchase price under said contract."

GAO property inspections

We made detailed inspections of 8 of the 20 properties in the Model Cities and West End project areas on which the rehabilitation work had been certified complete by AHA rehabilitative advisors and supervisors from January 1 through March 15, 1972. We inspected four properties in each of the two project areas. AHA personnel accompanied us on our inspections of the four properties in the Model Cities project area and on our inspection of one of the four properties in the West End project area. Seven of the properties were selected on the basis of the property owners' availability and willingness for the inspections to be made. The other property was selected because Congressman Blackburn requested that we inspect the property. (See p. 47.)

Although AHA personnel had certified that all work had been completed in accordance with the contracts, work on six of the eight properties had not been completed.

We also inspected two properties in the Model Cities project area and three properties in the West End project area that had been certified complete by AHA personnel during the latter part of 1971. In addition, at the request of Congressman Blackburn, we inspected one other property in the Model Cities project area that had been certified complete by AHA personnel in 1970. (See p. 52.) AHA personnel accompanied us on two of these inspections. We noted instances in which work required by the written contracts either had not been performed or was of poor quality.

At our request, AHA personnel reinspected 7 of the 14 properties and a HUD inspector inspected 4 of the 14 properties, including 3 that had been reinspected by AHA. Both the AHA and the HUD inspectors confirmed that much work required by the written contracts had not been done or was of unacceptable quality.

Our findings relative to the rehabilitation work on the two properties that Congressman Blackburn specifically requested us to review are discussed in chapter 6. The listings and photographs which follow show examples of work required by the written contracts not done or of poor quality on the other 12 properties we inspected.

Work not done although required
by the written contracts

- Roofs had not been repaired and downspouts had not been installed or replaced.
- Walls, floors, and ceilings had not been repaired and/or painted. In one case, a ceiling had not been repaired although the contract required that sheet-rock be installed, finished, and painted. In another case, deteriorated flooring had not been replaced. (See p. 28.)
- Doors had not been installed or repaired and new hardware had not been installed.
- New windows had not been installed and window panes or cords had not been replaced.
- Electrical wall receptacles, light fixtures, and wall switches had not been installed. Fourteen duplex wall receptacles had not been installed in one house.
- Substitute materials had been used in the work. For example, a fireplace was closed with plywood instead of masonry or metal as specified. (See p. 28.)
- A bathtub and other bathroom fixtures had not been replaced.
- A plastic vapor barrier had not been installed underneath one house where the space between the ground and the joists required such a barrier. (See p. 29.)
- Gas meters had not been moved to the exterior of a two-unit apartment house. (See p. 29.)

Poor workmanship evident

- A new roof leaked.
- Concrete support piers had not been properly installed under several of the houses. The piers were not on a proper concrete footing, the blocks were not cemented

together, and the tops were not capped with concrete or metal termite shields as required. (See p. 30.)

--The paint had peeled from exterior siding only about 6 months after being repainted. (See p. 30.)

--Interior walls, floors, ceilings, and woodwork had not been properly repaired and/or painted.

--Doors had not been properly repaired or painted. Many doors fit improperly, would not open or close easily, and would not lock.

--Windows had not been properly repaired or painted.

A total of 10 contractors were involved in the rehabilitation of the 14 properties we inspected. On three of the properties, involving three contractors, we did not note any major deficiencies. We found that work required by the written contracts was not done or poor workmanship was evident on 11 properties, involving 7 contractors. We discussed pertinent deficiencies noted with 3 of these 7 contractors. We were unable to contact two contractors and the remaining two contractors did not wish to talk to us although they were informed that their names would be identified in this report.

The contractors that we talked to stated that some of the items of work noted as not being done although required by the written contracts were, in their opinion, not required by the contracts or were the result of verbal agreements with the rehabilitation advisors and/or the homeowners to delete the items and substitute other work.

With respect to the examples of poor workmanship noted, the contractors stated that they considered the work performed adequate to comply with the requirements of their contracts.

Observations on inspections by AHA personnel

In addition to inspecting the 12 rehabilitation jobs discussed above and the 2 rehabilitation jobs discussed in chapter 6, we accompanied AHA rehabilitation personnel on 13 inspections of work being done and on final inspections of completed work. We noted that

- for five properties, jobs were certified as complete even though items of work had not been done,
- for six properties, rehabilitation personnel did not make an item-by-item inspection of the work,
- a supervisor certified two jobs as complete but then asked another supervisor to check out certain questionable items, and
- one supervisor did not use the work statement when making a final inspection and stated that he rarely checked the work statement to determine whether all work had been completed.

We do not know whether rehabilitation personnel followed their usual inspection practices while we accompanied them. However, as our observations continued, rehabilitation personnel generally became more careful and thorough in their inspections and used the work statements to determine whether the required work had been completed.

BEST DOCUMENT AVAILABLE

Detail used flooring was not replaced.

Employee would not be able to plow or drive a truck of
material, or other equipment.

That's why per capita income is not so high underneath a house
with a high ceiling. In the second half of jobs required
such a building.

ALL INFORMATION CONTAINED HEREIN IS UNCLASSIFIED

Concrete support piers were not properly installed. The piers were not on a proper concrete foundation, the blocks were not cemented to other, and the top was not capped with concrete or a metal tonnage shield.

The paint has peeled from the side of this house only about 6 months after being repainted.

INSPECTIONS NOT MADE

Final Inspections

AAA inspectors had certified that all work had been completed in accordance with the contracts without making final inspections on 5 of the 14 properties we inspected.

As discussed below, the more significant deficiencies we noted were in two properties in the West End project area.

Example A

An AAA rehabilitation advisor certified on January 25, 1972, that rehabilitation work costing \$6,900 had been completed and met AAA's property rehabilitation standards. After we inspected the two-unit dwelling and found numerous deficiencies in the work, we asked AAA officials to inspect this property and prepare an inspection report showing the items of work that still had to be done in order to comply with the contract.

The AAA rehabilitation supervisor responsible for the work inspected the property and, in a report dated June 27, 1972, listed 50 items--including repairing floors, windows, doors, and faucets, and installing light fixtures, electric outlets, and a bathtub--that he considered essential for compliance with the contract.

We asked the rehabilitation advisor and supervisor why they had certified that the work had been performed according to the contract. The rehabilitation advisor said that he did not make a final inspection or a detailed item-by-item check of the work but had made a general inspection of the work a few days before signing the certificate that the job was complete.

He told us that he certified the job complete on instructions from the rehabilitation supervisor in order that the paperwork for final payment could be processed. He said that he assumed that the supervisor would make an item-by-item check of the work when he made the final inspection. The rehabilitation supervisor said that he did not make a final inspection of the work and signed the completion certificate because the rehabilitation advisor certified that all improvements included in the contract had been satisfactorily completed.

After AHA inspected the property at our request, the project coordinator instructed the contractor to complete the work required by the rehabilitation contract. In November 1972 the rehabilitation advisor advised us that the contractor had returned and completed all of the work required, with the exception of moving the gas meters to the outside of the premises. On June 14, 1973, AHA advised us that the gas meters still had not been moved and that AHA would advise the homeowner to initiate legal action against the contractor for failure to perform this work.

Example B

An AHA rehabilitation supervisor certified on February 29, 1972, that rehabilitative work costing \$5,000 had been completed and met AHA's property rehabilitation standards. We inspected the property in May 1972 and found that not all of the required work had been completed and that certain items of work that had been completed did not appear to meet the minimum property standards. At our request, the AHA rehabilitation supervisor who certified that the work had been completed and the manager of AHA's rehabilitation department inspected this property on May 31, 1972. Their report confirmed our observations and listed 25 items of work that still had to be done to comply with the contract. This work included repairing and painting floors, repairing walls and windows, installing kitchen cabinets, and replacing bathroom fixtures.

The rehabilitation advisor responsible for this property told us that he did not inspect each item of work when it was completed and he was not satisfied with some of the work he did inspect. He said that he told his supervisor of this but did not accompany him on a final inspection of the property. The rehabilitation supervisor told us that he inspected the property 5 or 4 weeks before signing the completion certificate but that he did not make an item-by-item inspection of the work. He said that he delayed in signing the certificate because the advisor told him some items of work had not yet been performed and that he signed the completion certificate when the advisor told him that all of the work had been completed.

After AHA inspected the property at our request, the project coordinator instructed the contractor to complete 25 items of work to comply with the rehabilitation contract.

BEST DOCUMENT AVAILABLE

By memo on [redacted] dated August 4, 1972, the rehabilitation supervisor responsible for this property advised the project coordinator that the contractor had completed all 25 items as required.

Supplemental inspections

AHA rehabilitation advisors did not make the required supplemental inspections on 19 of the 24 properties we reviewed. One rehabilitation supervisor in the Model Cities project office told us that the office did not make supplemental inspections unless a specific complaint was received from the property owner. Project files maintained by the two project offices showed, however, that homeowners had complained about the rehabilitation work performed on a number of the properties where the supplemental inspections had not been made.

We discussed this matter with AHA officials and were advised that corrective action would be taken.

QUALIFICATIONS OF REHABILITATION PERSONNEL

From January 1971 through June 1972, AHA employed 35 rehabilitation advisors and supervisors in its rehabilitation program. As of June 30, 1972, AHA had 21 rehabilitation advisors and 7 rehabilitation supervisors to administer the rehabilitation program at its 5 project offices. We reviewed the personnel files on the 28 advisors and 5 supervisors to obtain information on their qualifications--including prior employment, prior construction training and experience, and the extent of on-the-job training before they were promoted from acting rehabilitation advisors to rehabilitation advisors or from advisors to supervisors.

The personnel files of 19 of the 23 rehabilitation advisors contained little or no evidence of prior construction experience. Furthermore, the advisors were hired as rehabilitation advisors or were promoted to advisors after 2 or 3 months of on-the-job training. The files of the remaining nine rehabilitation advisors and five supervisors showed that they had prior experience as contractors, housing inspectors, or building superintendents. The files showed further that the five supervisors were promoted to their positions after 1 to 5 years as rehabilitation advisors.

AAA officials informed us that some of the rehabilitation advisors did not list all of their construction experience on their employment applications but that the prior experience of these individuals was discussed during the employment interviews. AAA officials advised us that all rehabilitation advisors would be required to prepare additional resumes showing their construction experience.

We believe that the lack of technical qualifications of the personnel was not a predominant cause for the inadequate inspections. We believe that they resulted more from the lack of written inspection procedures and adequate supervision. Accordingly, we suggested that AAA (1) prepare a rehabilitation manual specifying the procedures for its personnel to follow in inspecting housing, (2) train its rehabilitation personnel in inspecting rehabilitation work performed, and (3) monitor inspections by its personnel of the contractors' work.

AAA REGULATIONS AND CORRECTIVE ACTIONS

By letter dated August 30, 1972, AAA advised us that it had issued a rehabilitation manual on July 7, 1972. Among other things, the manual requires that

- rehabilitation advisors check the work performed by each contractor at least once a day,
- advisors and supervisors use work statements during their inspections,
- advisors and supervisors make joint final inspections, and
- advisors check with property owners within 60 days after the work has been completed to determine whether there are any valid complaints and assist the owners in getting the contractors to correct any defects.

AAA advised us further that the responsibilities of the rehabilitation personnel, as set out in the rehabilitation manual, and our findings on the matter were discussed during a 5-day training seminar held by AAA in July 1972.

In addition, AAA officials advised us that rehabilitation work-training sessions would be conducted regularly every

2 weeks and that the Assistant Director of Redevelopment and the Manager of the Rehabilitation Department would make interim inspections to insure that all work is done according to the contracts and to point out deficiencies to rehabilitation supervisors.

It is believed that if FHA properly implements its written procedures, the deficiencies discussed in this chapter should not recur.

COMPLAINTS BY RESIDENTS OF ADAIR PARK AREA

Residents of the Adair Park area of the model neighborhood complained that, under a housing rehabilitation project in Adair Park, Model Cities housing inspectors (actually FHA Rehabilitation Advisors) had made unreasonable demands on Adair Park homeowners to repair their homes before selling them so that potential buyers could qualify for Federal mortgage insurance. The residents indicated that these demands were made to discourage them from leaving Adair Park.

On December 8, 1969, AHA and the Federal Housing Administration jointly agreed that properties to be insured by FHA in urban renewal and neighborhood development program areas would have to meet the required property rehabilitation standards of each area and that an AHA rehabilitation advisor would determine what repairs were needed for a property to meet these standards. AHA officials advised us that the agreement was to protect potential buyers from being burdened with expensive rehabilitation work soon after they were committed to a long-term FHA mortgage.

The Manager of AHA's Rehabilitation Department told us that he met with residents of Adair Park in June 1970 and agreed with their complaint that it was unreasonable to demand that Adair Park homeowners repair their homes to meet required standards before FHA would approve the houses for mortgage insurance. The manager said that, although the houses were in the area included in the neighborhood development program, the houses were not in the areas designated by AHA to participate in the rehabilitation loan and grant programs. Therefore, the homeowners were not eligible to receive Federal loans and grants to pay for the repairs.

The manager stated that unreasonable demands had been made on some homeowners in the Adair Park area while the

agreement was in effect from December 8, 1969, to July 20, 1970. The agreement was rescinded shortly after the residents of the Adair Park area complained to AHA in June 1970. He told us that AHA's only action in the Adair Park area since then had been to correct deficiencies on completed jobs. He also advised us that the Atlanta Board of Aldermen directed that new housing projects not be initiated in Adair Park unless specifically requested by its residents and that such requests had not been received.

CHAPTER 4

ADEQUACY OF CONTRACTS FOR REHABILITATION WORK

Rehabilitation work contracts prepared by AHA included work statements which did not identify clearly the work to be done. Also, some work statements

- did not require all repairs needed to bring properties up to the rehabilitation standards,
- required repairs which were not necessary to bring properties up to the established standards and which were not requested by the homeowners, and
- were inconsistent as to the types of repairs needed to correct similar deficiencies in several properties.

HUD requires that work statements in rehabilitation contracts clearly and concisely describe the nature, scope, and location of the work to be done and the quantity and type of material to be used. The rehabilitation work is to include improvements needed to bring the property up to the AHA established standards. It can also include (as long as the total cost does not exceed the maximum loan amount approved for the property) improvements suggested by the rehabilitation advisor and agreed to by the homeowner and improvements requested by the homeowner. After the property is inspected, work statements are to be prepared by an AHA rehabilitation advisor, approved by a rehabilitation supervisor, and agreed to by the homeowner.

WORK TO BE DONE NOT CLEARLY IDENTIFIED IN WORK STATEMENTS

None of the 70 work statements we examined included a clear and concise description of the work to be done, the location of the work, or the quantity and types of material required. The use of such statements provides no common basis for measuring bids or proposals or for determining the lowest responsive bid or proposal and may result in unnecessary work done or needed work not done.

Further, the failure to describe fully the type and nature of work to be done leaves the homeowner in a weakened

position if the contractor fails to complete the work as expected by the rehabilitation advisor and the homeowner. Examples of contract work statements prepared by AHA that did not identify clearly the work to be performed follow.

Example A

The work statement dated March 11, 1971, required that the contractor make rehabilitation repairs to a private residence. AHA estimated that these repairs would cost about \$6,800. Part of the required work included replacing 311 decayed sills, joists, and girders in one area of the house for an estimated \$420. The work statement, however, was not specific as to the number and location of the sills, joists, and girders needing replacement.

Example B

The work statement dated April 30, 1971, required that the contractor make rehabilitation repairs to a private residence. AHA estimated that these repairs would cost about \$6,000. Part of the required work included replacing a gas stove and supplying and installing a refrigerator and a water heater. The work statement, however, did not specify the type or size of these items.

NEEDED REPAIRS NOT REQUIRED
BY WORK STATEMENTS

Contrary to HUD guidelines, repairs necessary to bring properties up to local property rehabilitation standards were not always required by the work statements because rehabilitation advisors (1) failed to note them during their inspections or (2) deleted them to make funds available for other required repairs.

We discussed the deficiencies in work statements with AHA officials in May 1972, and they subsequently advised us that all work statements for which contracts had not been awarded were being reviewed and revised as necessary. Examples of required repairs which were not included in work statements follow.

Example A

In June 1972, an AHA rehabilitation supervisor reinspected a home where about \$9,200 in rehabilitation work had been approved by AHA, but the rehabilitation contract had not yet been awarded. His inspection showed a need for an estimated \$2,000 in additional repairs that had not been included in the initial work statement on which the loan and grant were based. The additional repairs included replacing an old heater, closing the fireplace, repairing and painting several rooms, installing a plywood base and vinyl tile in several rooms, and repairing the roof. As a result of the reinspection, AHA revised the work statement to require the additional work and processed a new loan and grant application consistent with a revised cost estimate obtained from the contractor.

Example B

The work statement prepared by an AHA rehabilitation advisor in April 1971 showed that about \$6,500 in repairs were necessary to bring the house up to the local property rehabilitation standards. This work included raising part of a bedroom ceiling to 7 feet, at an estimated cost of \$569. The requirement for this work, along with certain other work, was deleted from the work statement to make funds available for other repairs which the rehabilitation advisor had not initially included. The rehabilitation advisor apparently thought these repairs more important than the ones he deleted from the work statement, although the ones deleted were thought necessary to bring the property up to the minimum standards.

UNNECESSARY REPAIRS REQUIRED BY WORK STATEMENTS

Work statements required repairs that were not necessary to bring the properties up to the minimum standards or, according to the owners of the properties we inspected, were not requested by the property owners. These repairs were required because AHA rehabilitation advisors did not adequately inspect the properties and discuss the work to be done with the property owners when the work statements were prepared and again before the rehabilitation work was begun. Examples of unnecessary repairs included in work statements follow.

BEST DOCUMENT AVAILABLE

Example A

The work statement provided for \$5,683 in repairs to a private residence, including repairing and painting woodwork in the dining room, living room, kitchen, hall, and two bedrooms at an estimated cost of \$220. We inspected the property a few days after the rehabilitation contract was signed in April 1972--before the contractor started work--and found that some of the woodwork appeared to be in good condition and the property owner did not want it repainted. After we discussed this matter with AHA officials, the property was reinspected by another rehabilitation advisor who agreed that some of the woodwork was in good condition. AHA then processed a change order deleting the work for the dining room, kitchen, and hall from the contract. The \$100 reduction in cost was used to pay for other necessary work not originally included in the work statement.

Example B

The work statement prepared in June 1971 required that a plywood base and tile be installed in nine rooms at an estimated cost of \$251. In April 1972, the homeowner provided us with a receipt confirming that, before such rehabilitation work was begun, she had had new flooring installed in five of these rooms in August 1971.

According to the homeowner and AHA records, the contractor performing the overall rehabilitation work replaced the flooring in seven of the nine rooms, including those that just had new flooring installed by the homeowner. The contractor did not replace the flooring in the other two rooms in which new flooring had just been installed. The homeowner said that she asked the contractor not to tear out the new flooring and advised the AHA rehabilitation advisor and supervisor assigned to the job of her wish.

On March 15, 1972, the rehabilitation advisor and supervisor certified the job as complete in accordance with the contract and the contractor was paid for installing new flooring in all nine rooms. AHA records did not show that the rehabilitation advisor or supervisor visited the property while the work was in progress.

In April 1972 we inspected the two rooms where new flooring installed in August 1971 had not been replaced by

the contractor and found the flooring in excellent condition. The contractor received an estimated \$250 for replacing the flooring in these two rooms even though the work was not done. Also, the contractor replaced practically new flooring in three rooms.

INCONSISTENT REPAIRS REQUIRED
FOR SIMILAR DEFECTS

We noted inconsistencies in work statements for making similar improvements on different properties, for such work as repairing floors, installing downspouts and gutters, and relocating gas meters.

Example A

Two single-story houses that we inspected each had roofs with an overhang of about 14 inches. AHA's property rehabilitation standards required gutters on one-story houses if the overhang was less than 12 inches. Gutters and downspouts were required on one house but not on the other even though the same rehabilitation supervisor approved the work statements for both houses.

Example B

Although AHA's property rehabilitation standards did not require that gas meters be relocated outside, rehabilitation advisers required some property owners to have gas meters relocated from the basement to the outside of their houses. Owners of other houses who had gas meters in their basements were not required to relocate the meters.

In May 1972 we discussed our findings and suggestions for improvement with AHA officials. We suggested that AHA

- require rehabilitation personnel to prepare more comprehensive work statements,
- train its rehabilitation personnel in preparing work statements, and
- monitor initial inspections and preparation of work statements by rehabilitation personnel.

AAA COMMENTS AND CORRECTIVE ACTIONS

AAA officials generally agreed with our findings and suggestions. They prepared and issued a rehabilitation manual, dated July 7, 1972, which provided instructions to rehabilitation personnel for making initial inspections and preparing work statements describing the repairs needed to bring properties up to established design and construction standards. Among other things, the manual required that rehabilitation advisors

- have a thorough knowledge of AAA's property rehabilitative standards,
- make a complete inspection to determine what work is needed to bring properties up to required standards,
- provide a detailed description in the work statement of what is needed to bring the property up to required standards and clearly show the nature, scope, and location of the work and the specifications for materials to be used,
- show in the work statement the specifications for appliances and fixtures to be installed,
- maintain current knowledge of local costs by periodically checking with material suppliers and rehabilitation contractors, and
- advise the rehabilitation work to be performed with property owners.

A 5-day training seminar for AAA rehabilitation personnel, financial advisors, and others was held in July 1972 to discuss the provisions of the new manual. In addition, AAA officials advised us in August 1972 that rehabilitation work-training sessions would be conducted every 2 weeks to insure that rehabilitation personnel were preparing work statements consistently. They added that for a time, all work statements would be reviewed by the Manager of the Rehabilitation Department, the Assistant Director for Operations, or the Director of Redevelopment of AAA.

We believe that these corrective measures, if properly implemented and monitored, should correct the deficiencies discussed in this chapter.

CHAPTER 5HUD REVIEW OF AHA'S PROGRAMS

In 1970 as a result of complaints from several citizens, HUD's Atlanta regional office program staff and its Atlanta regional Office of Investigation reviewed the rehabilitation program being administered by AHA's Model Cities project office and noted a number of deficiencies. HUD has not adequately followed up on the recommendations it made to AHA as a result of these reviews. In addition, HUD did not advise AHA of a number of deficiencies noted by its Office of Investigation.

Most of the deficiencies noted by the HUD regional office program staff and the Office of Investigation during 1970 still existed at the time of our review.

In a letter dated May 22, 1970, HUD advised AHA of the deficiencies noted during the review by its regional office program staff and recommended 15 corrective actions.

The deficiencies included:

1. Contract work statements contained vague and loose wording.
2. Rehabilitation work requirements were changed without processing amendments to the contracts.
3. Inadequate inspections were made of rehabilitation work.
4. Inadequate in-house training programs were being conducted.

On October 1, 1970, HUD's regional Office of Investigation issued an overall report to HUD headquarters on the results of its investigation. The office also prepared individual reports on certain contractors who, according to the office, had submitted one or more false affidavits to AHA requesting contract payments and on contractors who had worked for one AHA project office after another AHA project office barred them from doing work. The report stated that false affidavits were submitted so that AHA would certify the

rehabilitation work as complete and then provide the loan and grant funds to the homeowners for payment to the contractor. The affidavits stated that the contractors had paid all subcontractors' bills for labor and materials used to perform the contracts; however, HUD noted that not all of these bills had been paid.

HUD records showed that the regional Office of Investigation had turned its findings over to the Federal Bureau of Investigation who, in turn, referred them to the assistant U.S. attorney. The records showed that the assistant U.S. attorney considered the signing of the false affidavits a technical violation and declined to prosecute. HUD advised AHA of its finding on the false affidavits in a letter dated October 8, 1970.

The Office of Investigation included several additional findings in its reports; however, we found no evidence that the findings were ever brought to AHA's attention.

These findings included:

1. AHA rehabilitation personnel certified work complete when it had not been completed.
2. AHA personnel certified work complete without making the final inspections.
3. Poor workmanship was noted on work which had been certified complete by AHA.
4. Rehabilitation advisors' cost estimates were loosely controlled.
5. Thirty-nine percent of the rehabilitation contracts awarded by the Model Cities project office were awarded to two contractors.
6. Dates contracts were completed averaged 26 days beyond the dates specified in the contracts.

HUD officials stated, in their letter to AHA dated October 8, 1970, that "Our letter of May 22 contained several recommendations, all of which have been put into effect by you. Accordingly," and "it is now our opinion that your rehabilitation program is well organized and functioning properly."

As support for the above conclusions, HUD furnished us with information which indicated that AHA had improved the rehabilitation program by (1) replacing certain AHA rehabilitation personnel, (2) removing certain contractors from the approved contractor list for poor workmanship and failure to complete work required by the rehabilitation contracts, (3) advising certain contractors that they would remain on the list of approved contractors only if they paid subcontractors' bills, (4) suspending certain contractors for submitting false affidavits, (5) arranging for a meeting between the AHA rehabilitation personnel and the contractors, and (6) strengthening requirements for preparing contract specifications and contract change orders and for maintaining records of rehabilitation contracts. We believe that the information furnished us did not provide an adequate basis for HUD's broad conclusions in its October 8 letter.

We found little evidence of any effective followup on the part of HUD regional or area office personnel to insure that the deficiencies which had been brought to AHA's attention were corrected. HUD told us in March 1972 that it made periodic visits to monitor AHA's effort to correct the deficiencies but that these visits were not documented.

In this regard, we noted the HUD regulations required that personnel of the HUD area office visit LPAs such as the AHA at least semiannually to (1) inspect the records on a sufficient number of rehabilitation loan and grant recipients to ascertain compliance with HUD requirements and (2) inspect rehabilitation work being done and completed to determine whether the work required by the contracts was being performed and whether it was acceptable. The regulations required further that the HUD staff prepare a report on its inspection showing which records and properties had been reviewed and any deficiencies noted.

After our discussion in March 1972, the area office sent a letter to AHA dated March 24, 1972, summarizing its evaluation of AHA's rehabilitation activities since the HUD area office was established in September 1971. The letter cited the area office's evaluation efforts at three of the five AHA project offices, including the two project offices covered by our review. The letter stated that area office personnel had visited the three project offices and found that (1) progress had been made in improving the

quality of rehabilitation work and (2) it appeared that AHA had initiated procedures which should insure more effective administration of the program in Atlanta.

CONCLUSIONS

Most of the deficiencies noted during HUD's 1970 reviews had not been corrected at the time of our review in March 1972. In our opinion, HUD did not effectively monitor AHA's administration of the rehabilitation loan and grant programs. In addition, HUD's followup was inadequate to determine whether appropriate corrective action had been taken.

RECOMMENDATION TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

We recommend that the Secretary of HUD require his regional and area office officials in Atlanta to monitor, in accordance with HUD guidelines, AHA's administration of the rehabilitation loan and grant programs to insure that those owners whose properties are yet to be rehabilitated under these programs have all work performed as specified in the rehabilitation contracts.

CHAPTER 6HOMEOWNERS' COMPLAINTS OF REHABILITATION WORK

Congressman Blackburn's office also requested that we review the rehabilitation contracts for properties owned by Mrs. Pearl M. Robinson, Mrs. Geraldine T. Nall, and Mrs. Ocie Callaway.

We did not review Mrs. Robinson's case because on January 28, 1972, she filed a civil action suit against the contractor and two AHA employees concerning the rehabilitation of her property. As of June 13, 1973, the suit was still in litigation.

MRS. GERALDINE T. NALL'S COMPLAINT

AHA estimated that required rehabilitation work on Mrs. Nall's two-unit apartment house in the West End project area would cost about \$5,650. The approved contractor's proposal, however, was for \$4,900. Before AHA approved a rehabilitation loan for Mrs. Nall and the rehabilitation contract was signed, the contractor was removed from AHA's list of approved contractors. AHA then contacted one of its approved contractors who agreed to perform the required work for the original proposal of \$4,900.

The rehabilitation contract was signed on June 24, 1971. The work was to begin at once and be completed by August 8, 1971. However, due to delays by the contractor, the work was not certified by AHA as being completed until January 20, 1972.

We interviewed Mrs. Nall and inspected her house at 485 Culberson Street, SW., in May 1972. Mrs. Nall complained that the contractor had not completed the work and that some of the work done was unsatisfactory.

We found that AHA rehabilitation personnel had poorly managed the rehabilitation of this house.

--AHA rehabilitation personnel certified that the job was completed in accordance with the terms and conditions of the contract, even though items of required work had

not been done and other items of work were of poor quality.

- Although the contract provided for only one partial payment not to exceed 80 percent of the value of the work satisfactorily completed, two partial payments totaling \$4,000, or slightly above 80 percent of the total contract amount, were made to the contractor within the files being submitted to show that sufficient work had been done to justify the payments. The second partial payment (\$2,200) was made in October 1971 despite the recorded objections of the rehabilitation advisor. As of March 1973, the contractor had received no additional funds.
- Most of the work was supervised by an individual who, as a prime contractor in the Model Cities project area, had refused to complete work as required under a contract with Mrs. Ocie Callaway. (See p. 52.)

At our request, a HUD inspector and two AEA officials inspected the property. The AEA officials' inspection report, dated May 25, 1972, as well as the HUD inspector's report, dated May 25, 1972, confirmed our observations. The AEA report cited numerous items of work which had not been completed in accordance with the terms and conditions of the contract, including:

- A plywood base for the vinyl asbestos tile had not been installed in the bathrooms and vinyl asbestos tile had not been installed under all fixtures.
- Sheetrock had not been installed in the ceiling of one room.
- Walls, ceiling, and woodwork in several rooms had not been repaired and painted.
- Window screens had not been repaired and painted.
- Broken window sash cords and missing hardware had not been replaced.

--A number of doors had not been repaired and painted.

--Paint drippings had not been removed.

--A heater had not been removed.

Several deficiencies noted in the inspection reports had also been included in a list of deficiencies prepared by rehabilitation personnel on September 14, 1971, in response to one of three requests by the contractor for final inspection of the work. Despite these deficiencies, two AHA rehabilitation supervisors who had inspected the property in January 1972 certified that the work had been completed in accordance with the contract. The supervisors told us that, even though the quality of the work was marginal, they believed it met AHA's minimum property rehabilitation standards.

The contractor told us that, before he signed the contract, AHA's rehabilitation advisor and supervisor responsible for the job agreed that (1) certain work specified in the work statement would not be required and (2) the contract period would extend to August 23 rather than August 8, as specified in the rehabilitation contract. He stated, however, that the rehabilitation advisor later told him that some more work would be required to comply with the work statement and that the manager of AHA's Rehabilitation Department refused his request to inspect the work performed. The contractor told us also that completion of the work was delayed from August 1971 to January 1972 primarily because a sick tenant was allowed to move back into the house during the time when the work was scheduled to be completed.

We discussed the contractor's comments with the AHA rehabilitation advisor and supervisor who denied that they had agreed to delete some of the required work and told us that the sick tenant was moved out of the house for a period that should have been sufficient for the contractor to complete the work. Also, the manager told us that the contractor did not request him to inspect the property.

The rehabilitation advisor responsible for this job until November 1971 told us that, before awarding the contract, he accompanied the contractor to Mrs. Nall's house

to inspect the property and that the contractor agreed to do the work for \$4,900. The contractor advised us, however, that he only inspected the interior of one side of Mrs. Nall's two-unit apartment house and that, based on the rehabilitation advisor's explanation of the work required, he agreed to do the work for \$4,900.

The rehabilitation advisor believed that the contractor did not satisfactorily complete the work because he was not qualified, was not a good manager, hired unqualified help, and tried to do several jobs at the same time.

The two rehabilitation supervisors who made the final inspection and certified that the work was completed in accordance with the contract said that, even though the work was marginal, they believed it met AHA's minimum property rehabilitation standards.

A change order by AHA to provide separate electrical meters for each of the two apartments increased the original contract amount from \$4,900 to \$5,077 (the maximum loan amount). The contractor advised us that the \$177 increase was not adequate to cover the work required by the change order and that, because of this, he reached a verbal agreement with the rehabilitation advisor and Mrs. Nall that certain other work would not be required, in order to offset the costs not covered by the change order.

As previously stated, the contractor had received two progress payments totaling \$4,000. On April 13, 1972, the contractor placed a lien of \$1,077 against Mrs. Nall's house for the unpaid amount of the contract.

By letter dated June 16, 1972, the West End project coordinator forwarded a copy of the May 25, 1972, inspection report to the contractor and stated that

"We discovered that an inspection report given to you on January 20, 1972, was partially in error and also a considerable amount of the work that apparently appeared acceptable at that time has since deteriorated to the point of requiring

reworking. The deterioration, in our opinion, has been due to faulty workmanship and or materials."

The letter also advised the contractor that the deficiencies identified on the inspection report had to be corrected for compliance with the contract and requested a prompt response from the contractor concerning his plans to complete the work.

A copy of the May 25 inspection report, together with a copy of the coordinator's letter to the contractor was forwarded to Mrs. Nall on June 16, 1972. By letter dated June 26, 1972, the coordinator informed Mrs. Nall that he had not heard from the contractor, that he had received proposals from contractors and subcontractors to complete the work, and that it appeared that the work could be completed for the \$1,077 unpaid balance. In this regard, the contractor advised us that upon receipt of the June 16, 1972, letter from AHA, he advised the coordinator in a telephone discussion that he would agree to terminate the contract with Mrs. Nall and withdraw his \$1,077 lien on her property.

The coordinator stated that a new contractor could not be hired until the original contract was terminated in writing by mutual agreement of Mrs. Nall and the contractor or through due process of law. He advised Mrs. Nall that the project office could not take further action if she had any claims against the contractor other than for the performance of the work and requested to be advised of her plans on the matter.

On August 14, 1972, Mrs. Nall advised the HUD loan servicing agent in Atlanta and the West End project office that she was not going to make any more payments on the loan until the work was satisfactorily completed as specified in the work statement.

During September 1972, West End rehabilitation personnel drafted the documents which they considered necessary to release the contractor from responsibility for completing the work, release Mrs. Nall of any liability for further payments to the contractor, and allow AHA to prepare new contracts for completing the work.

On September 28, 1972, Mrs. Nall advised AHA that she would not release the contractor until he replaced the roof on her house. Since the rehabilitation contract did not provide that the roof be replaced or repaired, AHA, in October 1972, requested Mrs. Nall to provide AHA with her decision in writing. AHA officials advised us in March 1973 that Mrs. Nall had not honored AHA's request.

AHA officials advised us in June 1973 that Mrs. Nall had not made any loan repayments since August 1972, that it would now be impossible to complete the job for the \$1,077 unpaid balance because of the rise in building costs, and that Mrs. Nall's case was turned over to HUD for collection or foreclosure.

MRS. OCIE CALLAWAY'S COMPLAINT

On February 26, 1970, Mrs. Callaway entered into a contract to rehabilitate her house in the Model Cities project area for \$6,175. The rehabilitation work began on about March 3, 1970, and AHA certified it was complete on March 25, 1970.

We interviewed Mrs. Callaway and inspected her house at 153 Atlanta Street, SE., in May 1972. Mrs. Callaway's complaint was that the contractor had not completed the job and that some of the work done was unsatisfactory.

AHA rehabilitation personnel had poorly managed the rehabilitation of this house, the contractor had not satisfactorily completed all work required under the contract, rehabilitation personnel certified that the job was completed in accordance with the contract even though all work had not been performed, and the homeowner paid for work that was not done and for some work that was of poor quality.

The following required work had not been done:

- New wallpaper had not been installed in the dining room above the chair rail; instead, the old wallpaper had been removed and the walls painted.
- New wallpaper had not been installed in one bedroom; instead, the old wallpaper had been painted.

- A window had not been installed in the furnace room.
- The inside of three closets had not been repaired and painted.
- A privacy lockset had not been installed on the bathroom door.

Because the rehabilitation work had been done more than 2 years earlier, for the most part, we could not evaluate the quality of workmanship. We did note, however, deficiencies in the quality of some work items, as follows:

- Cracks had developed in the masonry porch which had been repaired by pouring a thin layer of concrete over the existing floor.
- Much of the paint on the bathroom walls had peeled, the ceramic tile in the bathroom had not been laid in a straight line, and the surface of the tile was rough.

The rehabilitation advisor told us that he certified the job complete without making an item-by-item check of the work, even though he knew that some work had not been completed. He said that Mrs. Callaway told him that the contractor had agreed to finish the work if she would sign a release so that he could be paid. He also said that Mrs. Callaway, the contractor, and the rehabilitation supervisor had reached an understanding that the work would be completed while the contractor was rehabilitating a house next door.

The rehabilitation supervisor said that he signed the HUD certification of final inspection without inspecting the property because Mrs. Callaway and the rehabilitation advisor were satisfied that the contractor had completed the work and the city building inspector had approved the work as meeting city building code requirements.

The manager of AHA's Rehabilitation Department told us that, because Mrs. Callaway complained, he inspected her property sometime between January and March 1971 and prepared a list of 11 incomplete work items. Several of these incomplete items were the same as those we noted. The manager told us that he asked the contractor to complete the work but he

stopped after completing 2 of the 11 items and refused to complete the other 9 items because he had completed these items in accordance with a verbal agreement with Mrs. Callaway.

The manager told us that AHA was hampered in getting the contractor to complete the job because Mrs. Callaway waited at least 6 months after final payment before complaining to AHA. He said that, if Mrs. Callaway had complained earlier, AHA could have made the contractor complete the job, particularly since he was rehabilitating another house next door to Mrs. Callaway's property.

The manager stated that the contractor had voluntarily withdrawn his name from the approved contractor listing in November 1970 and started working as a subcontractor on other AHA rehabilitation projects. The manager stated that he had discussed the matter with Mrs. Callaway and advised her that the only recourse she had was to sue the contractor. He stated also that he later discussed the matter with Mrs. Callaway's attorney who expressed the belief that Mrs. Callaway did not have a good case because AHA certified that the work had been completed and she signed the final payment check which implied acceptance of the work as completed.

CHAPTER 7SCOPE OF REVIEW

We made our review at HUD headquarters in Washington, D.C.; at its regional and area offices in Atlanta; and at AHA headquarters and two of its five project offices. We examined records on the administration of the rehabilitation loan and grant programs in Atlanta. We also interviewed HUD and AHA officials, AHA project office rehabilitation personnel, rehabilitation contractors and former contractors, and owners of rehabilitated houses or houses awaiting rehabilitation under the programs.

To evaluate ~~the~~ adequacy of inspections by AHA rehabilitation personnel and to determine whether the work required under the contracts had been satisfactorily completed, we

- independently inspected eight rehabilitated properties in detail that had been certified complete by rehabilitation advisors and supervisors from January 1, 1972, through March 15, 1972,
- independently inspected five properties that had been certified complete by rehabilitation advisors and supervisors during the latter part of 1971, and
- accompanied AHA rehabilitation advisors and supervisors on inspections of 13 properties.

We selected the West End and Model Cities project offices for review because these two project offices accounted for about \$3.6 million (about 84 percent) of the \$4.3 million in rehabilitation loans and grants made by AHA from inception of the program in Atlanta through June 30, 1972 (see app. III). From January 1, 1971, through June 30, 1972, 107 of the 133 rehabilitation loans and 63 of the 85 rehabilitation grants made by AHA were for properties under these two offices. The 107 loans and 63 grants were in amounts totaling about \$980,000 and \$210,000, respectively.

APPENDIX I

BEN B. BLACKBURN
4TH DISTRICT, GEORGIA

BEN H. DILLARD
ADMINISTRATIVE ASSISTANT

WASHINGTON OFFICE:
1019 LONGWORTH OFFICE BUILDING
PHONE: (202) 225-4272

4TH DISTRICT OFFICE:
141 TRINITY PLACE
NEW FEDERAL OFFICE BUILDING
DECATUR, GEORGIA 33030
PHONE: (404) 377-7451

Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEE ON
BANKING AND CURRENCY
SUBCOMMITTEES:
DOMESTIC FINANCE
HOUSING
INTERNATIONAL TRADE

JOINT ECONOMIC COMMITTEE
SUBCOMMITTEES:
INTER-AMERICAN ECONOMIC
RELATIONSHIPS
ECONOMIC STATISTICS

January 31, 1972

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Staats:

On Friday, January 28, 1972, the investigative panel of the Subcommittee on Housing of the House Banking and Currency Committee conducted an investigation of certain HUD operations in Atlanta, Georgia. During the course of this investigation we looked briefly into the Section 312 rehabilitation program.

The Department of Housing and Urban Development has given its contract authority under this program to the Atlanta Housing Authority. During the Committee investigation of houses which have been rehabilitated under this program, we were led to believe that preference had been given to certain contractors. Furthermore, we found instances in which the contract terms were vague and loosely drawn and contracts were not met by the rehabilitation contractor though the houses had received approval under the final inspection by the Atlanta Housing Authority.

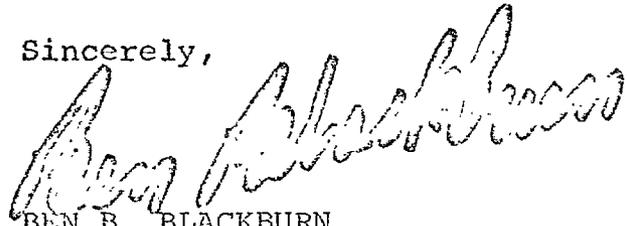
I would like to request that your Office audit the Atlanta Housing Authority's administration of this program in order to determine whether favoritism is involved, whether sufficient checks are being carried out to determine that the work is being completed satisfactorily, and whether there is any collusion between the Housing Authority and certain contractors. I hope that if you do find any criminal violations, you will turn them over to the Justice Department. Furthermore, I would like to meet with a representative of your Office who will be handling this matter as soon as possible.

The Honorable Elmer B. Staats
January 31, 1972

Page 2

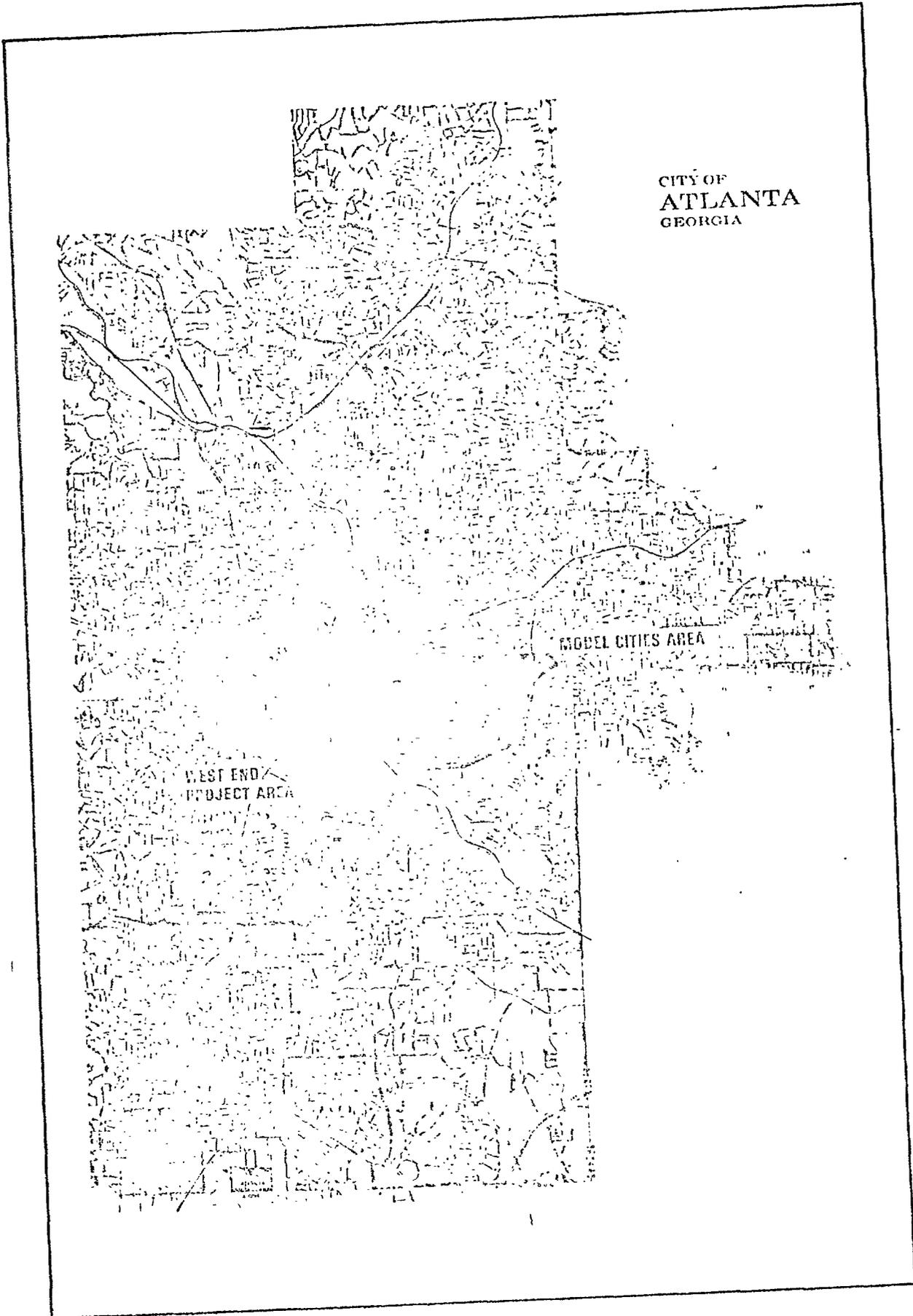
I am enclosing some newspaper articles and a copy of one of the contracts for the projects which we investigated. Additional contracts are being gathered, and I will forward them to you when I receive them.

Sincerely,



BEN B. BLACKBURN
Member of Congress
Fourth District, Georgia

BBB:dbb
Enclosures



APPENDIX III

SCHEDULE OF ALL RESIDENTIAL REHABILITATION LOANS AND GRANTS
 FOR URBAN RENEWAL AND NEIGHBORHOOD DEVELOPMENT PROJECTS
 IN ATLANTA
 FEBRUARY 1966 THROUGH JUNE 1972

	Section 312 loans		Section 115 grants		Number of prop- erties rehabil- itated
	Number	Amount	Number	Amount	
Conventional urban renewal projects (note a):					
West End	197	\$1,279,940	219	\$ 492,430	337
University Center	25	94,050	118	186,266	128
Thomasville	2	7,700	3	10,500	4
Butler Street	<u>1</u>	<u>2,150</u>	<u>3</u>	<u>5,800</u>	<u>4</u>
Total	<u>225</u>	<u>1,383,840</u>	<u>343</u>	<u>694,996</u>	<u>473</u>
Neighborhood development program projects:					
Model Cities	157	1,301,050	173	545,615	236
Bedford Pine	23	171,250	19	57,190	33
Edgewood	9	66,200	17	53,818	22
Vine City	<u>7</u>	<u>42,550</u>	<u>11</u>	<u>36,875</u>	<u>11</u>
Total	<u>196</u>	<u>1,581,050</u>	<u>220</u>	<u>693,498</u>	<u>302</u>
Total	<u>421</u>	<u>\$2,964,890</u>	<u>563</u>	<u>\$1,388,494</u>	<u>775</u>

^aAs of June 30, 1972, rehabilitation had been completed in all urban re-
 newal projects except in the West End project area.