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United States General Accounting Office

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Fact Sheet for the Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, House of Representatives

December 1985

PUBLIC HOUSING

Modernization of the Allen Parkway Village Housing Project in Houston, Texas

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

December 20, 1985

B-220429

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

Dear Mr. Chairman:

Your November 6, 1985, letter requested, in part, that we review aspects of a $10 million award by the Department of Housing and Urban Development (HUD) to the Housing Authority of the City of Houston (HACH), Texas, to modernize the Allen Parkway Village public housing project. This fact sheet summarizes our December 5, 1985, meeting with your office on our work involving the modernization award. As requested in your letter, we will provide at a later date the results of our work involving the housing authority's subsequent application to HUD to demolish Allen Parkway Village.

In performing this work we interviewed HUD officials in its central, Fort Worth regional, and Houston area offices, and HACH officials. We also reviewed records on the modernization award at these offices.

In summary, we found that:

--HUD obligated $10 million for modernization activities at Allen Parkway Village in 1978. About $5.8 million of the funds were to be spent on the dwelling structures (such as electrical, plumbing, and roof improvements) and about $2.9 million on site improvements (such as streets, sewers, and grading). The remaining $1.3 million was to be spent on architectural and engineering fees, dwelling unit equipment (such as refrigerators), HACH salaries, and non-dwelling equipment (such as trucks).

--From 1979 until 1982, modernization progress was slow because HACH and HUD had difficulty in reaching agreement on detailed rehabilitation plans and specifications and because of HUD's concerns about HACH's financial management capabilities. Modernization activities substantially ended about January 1983 because of the project's uncertain future. By that time one application to dispose of Allen Parkway Village had been submitted by HACH. Also, a HACH management change had occurred and the new housing authority management had not decided whether to rehabilitate or dispose of the project.

--HUD allowed HACH to draw down only $1,400,518 of the $10 million in 1980 and 1981 because of its concerns about the housing authority's financial management capability. To determine how much HACH has spent and whether the expenditures were for the purposes intended, we relied on the most recent public accounting firm audit of HACH's financial statements. The firm reported that as of December 31, 1984, the modernization award expenditures were $625,377. HACH's most recent quarterly report to HUD shows expenditures of $783,077 as of September 30, 1985. We did not attempt to verify these expenditures.

--In November 1983, HUD instructed HACH to return modernization funds in excess of those HACH spent on modernization activities or was later authorized to spend for emergency repairs. These funds have not yet been returned pending HUD's action on a HACH proposal to use these funds to aid in disposing of the Allen Parkway Village project.

We did not obtain formal HUD or HACH comments on our fact sheet; however, we did obtain their views on the matters discussed in it during the conduct of our review, and included these views as appropriate. As arranged with your office, we will not distribute this fact sheet to others for 30 days unless you agree to the distribution beforehand or announce its contents earlier. At that time we will send copies to interested parties and make copies available upon request.

Should you need additional information on the contents of this fact sheet, please call me on 275-6111.

Sincerely yours,

John H. Luke

John H. Luke
Associate Director

MODERNIZATION OF THE ALLEN PARKWAY VILLAGE

HOUSING PROJECT IN HOUSTON, TEXAS

Allen Parkway Village consists of 1,000 apartment units and 3 support buildings. In the more than 30 years from its completion during World War II until 1978, little modernization of the project had taken place, according to officials of the Housing Authority of the City of Houston (HACH).

The following summarizes the salient events in the award and application of Public Housing Urban Initiatives Program funds to modernize the Allen Parkway Village public housing project. While following this chain of events, it is important to keep in mind that in 1982 and 1984, under two different HACH executive directors and boards of commissioners, HACH submitted applications to the Department of Housing and Urban Development (HUD) to dispose of the project. The disposition applications, slow progress in gaining HUD approval of detailed work plans and specifications, and HUD's concern about HACH's financial management capabilities during the early years of the modernization effort have affected the progress of modernization activities. This relationship is discussed below and shown in the time line for the modernization activities (figure 1).

1. In fiscal year 1978, HUD selected 33 public housing agencies to share in about $259 million in modernization funds for targeted rehabilitation and management assistance for public housing under its Public Housing Urban Initiatives Program (PHUIP).

2. On August 10, 1978, HACH Executive Director Robert Moore applied to HUD for $16,625,813 of PHUIP funds for major improvements to its Allen Parkway Village housing project. On September 28, 1978, HUD informed HACH that it had set aside $10 million of PHUIP funds to modernize the project, subject to HUD agreement on HACH's budget and work plans.

3. Executive Director Robert Moore resigned effective January 31, 1979, and William McClellan took his place immediately.

Figure 1: Time Line for Allen Parkway Village Modernization Activities

HACH Executive Director

Robert Moore | William McClellan

Event

Aug.- Sept.78

HACH applies for $16.6 million. HUD sets aside $10 million.

June 79

HUD conditionally approves work plan and $10 million budget.

Dec. 79 - Jan. 82

Architect draws up detailed work plans. HUD and HACH negotiate over proposed specifications and adherence to budget line items.

Feb. 80 - Jan. 81

HUD approves 3 HACH drawdowns totaling $1,400,518.

1978 **1979** **1980** **1981**

Vacant - No Director from April 82 to August 82

Abbreviations:

APV - Allen Parkway Village
HACH - Housing Authority of the City of Houston
HUD - Department of Housing and Urban Development

Earl Phillips

Mar. 82

HACH submits application to HUD to dispose of APV. Application is never approved or rejected by HUD or withdrawn by HACH.

Aug. 84 - Present

HACH submits application and clarifications to HUD to dispose of and demolish APV. HUD reviewing amended application as of early December 1985.

Jan. 1983

Modernization activities substantially end with HUD disapproval of HACH request for major APV repairs, citing uncertain APV status. HUD will consider emergency requests.

Nov. 83 - Present

HUD asks for return of $725,484 in unspent advances, although funds may be re-requisitioned later. HUD subsequently allows use of $354,000 for emergency repairs. Return of balance depends on APV disposition application outcome.

May 82

HUD prohibits further HACH APV drawdowns due to financial management concerns and March 1982 disposition application.

Aug. 83

Independent audit expresses no opinion on HACH financial statement for the two years ending December 31, 1982 because of deficient HACH internal controls.

July 85

Independent audit gives unqualified opinion on HACH financial statements and reports $625,377 spent as of 12/31/84, based on reconstructed accounts.

1982 **1983** **1984** **1985** **1986**

4. HUD conditionally approved the final budget and work statement on June 27, 1979, and cited several adjustments that were to be made. The budget accompanying the conditional approval showed the following items and amounts:

Table 1: Budgeted Modernization Costs as of June 27, 1979

Item	Amount
Dwelling structures (including electrical, heating, plumbing and roof improvements, windows, and security window screens)	$ 5,779,345
Site improvement (including grading, streets, parking, sewers, water, gas, and electrical systems outside the structure)	2,879,457
Architectural and engineering fees, sundry planning costs	532,158
Dwelling equipment (including stoves and refrigerators)	447,000
Administrative salaries and benefits	247,230
Non-dwelling equipment (trucks, grounds and unit maintenance appliances and vehicles)	114,810
Total	$10,000,000

5. As a first step in developing detailed architectural and engineering plans and specifications, HUD conditionally approved HACH's selection of an architectural firm on July 24, 1979. One of the conditions was that the architect could not start work until the Annual Contributions Contract (the legal document specifying HACH-HUD relationships and responsibilities) was executed by HUD and HACH. The Annual Contributions Contract was executed 4 months later on November 26, 1979, after which the architect started work.

6. On December 17, 1979, HACH made its first request to draw down on the $10 million and made other later requests. (HACH must apply to HUD for drawdown approval.) HUD approved three drawdowns totaling $1,400,517.55. No drawdowns have been made from January 1981 through early December 1985, when we

completed our field work. Thus, HUD advanced, and HACH had available to spend, $1,400,517.55 of the $10 million. An official in HUD's Houston area office told us that concerns about HACH's financial management capability during the 1979-82 period led them to keep a tight rein on advances (see also paragraphs 9 and 10).

7. HACH submitted detailed architectural plans for HUD review and approval in May 1980. HUD concerns about the plans stimulated discussions and several resubmittals of the plans. According to a Houston area office HUD official, HUD was satisfied with the revised plans and specifications in January 1982 but did not transmit its formal approval because of HACH deliberations on disposing of Allen Parkway Village (see paragraph 8).

8. On November 6, 1981, HACH sent a letter to the Secretary of HUD stating that HACH and HUD have been long concerned about Allen Parkway Village's physical condition and the HACH Board of Commissioners was additionally concerned that the awarded modernization funds were inadequate to significantly improve the project. Accordingly, in the letter HACH outlined its plan to dispose of the project and provide 1,000 replacement units and asked HUD to approve this plan. In a letter dated November 23, 1981, HUD's Assistant Secretary for Housing approved the concept outline subject to detailed review of a specific application. On March 12, 1982, HACH submitted its formal application to HUD to dispose of Allen Parkway Village and develop and subsidize the operation of 1,000 replacement units.

9. HACH Executive Director William McClellan left HACH in April 1982 and the HACH Board of Commissioners was replaced at about the same time.

10. According to officials of HUD's Houston area office and current HACH officials, during this period concern mounted over HACH's financial management, such as poor accounting and internal controls and comingling of funds. HUD internal correspondence during this period echoes these concerns. A financial audit of HACH by Peat, Marwick, Mitchell & Company for the 2 years ending December 31, 1982, reported that, because of deficient HACH internal controls, it could not assure that the financial statements in its report reflected all transactions. As a result, it was "unable to and [did] not express an opinion on the accompanying financial statements and supplementary data" for HACH.

    Because of the concern about HACH's financial management, on May 7, 1982, HUD's Fort Worth Regional Office issued instructions to its Dallas area office and Houston service office on various HACH housing activities. Specifically, the regional office instructed that, because Allen Parkway Village was being considered for sale (see paragraph 8), no further drawdowns should be allowed until further notice. HUD and HACH officials told us and HACH records show that no further drawdowns were made.

11. A new HACH Executive Director, Earl Phillips, took over in August 1982.

12. In September 1982, HACH asked for HUD approval to spend $5.7 million of Allen Parkway Village modernization funds for emergency repairs. The request also noted that the new HACH Board of Commissioners had not decided whether to rehabilitate or sell the project. The current Executive Director told us that he wanted a fresh assessment of the issue made and had appointed two groups to advise HACH on this matter. (HUD and HACH officials told us that they could not find any documentation of HUD's action on the March 1982 disposition application and could not tell us what happened to the application. Thus, while it was never approved, it may never have been disapproved by HUD nor recalled by HACH.)

13. In January 1983, HUD rejected the HACH request for $5.7 million because it believed many of the requested items were for long-range improvements or should be funded from HACH's operating budget. Also, because the project's future was in question, HUD did not believe major expenditures for these items were prudent. HUD did approve $12,000 in expenditures for electrical repairs. HUD stated that it would consider further requests for emergency needs.

    HUD and HACH officials told us that modernization activities at Allen Parkway Village essentially ended with HUD's refusal to allow major expenditures while the project's future was in question.

14. On November 3, 1983, HUD instructed HACH to return $725,482.55 in advances not spent by HACH. (HACH would be allowed to keep about $10,000 for minor emergencies.) The returned funds were to remain available for use at a later time. As a cash management technique, HUD requested the funds' return so that HACH would have only those modernization funds that could be expected to be used within the next 6 months.

    On December 2, 1983, HACH requested that HUD allow it to spend $7.55 million of the modernization funds for emergency repairs and $1.75 million for relocation costs, administrative costs, and contingencies in furtherance of the HACH Board of Commissioners' recent decision to seek HUD approval to demolish the project (see paragraph 15).

HUD denied most of HACH's $7.55 million emergency repair request because it believed most of the repairs requested were for long-term repairs and HACH had informed HUD that it would seek HUD's permission to demolish the project. However, HUD did authorize HACH to spend up to $354,000 to repair gas leaks (as needed), board up vacant apartments and perform other security measures, clean up vacant units, and make other emergency repairs.

HUD also denied the immediate approval of $1.75 million for relocation, administrative, and contingency costs since no formal application to demolish Allen Parkway Village had been submitted to HUD. In correspondence to HACH on a later HACH proposal to use its operating reserve funds for planning and consulting costs related to its 1984 demolition application (see paragraph 16), HUD stated that "we understand expenditures of this nature would be eligible through your Public Housing Urban Initiatives Program (PHUIP) [modernization program], and recommend [HACH] consider this funding source rather than reduce [its] operating reserves."

The HUD Houston Area Office Manager told us that final HUD action on recovering the modernization funds depends on HUD's decision on HACH's application to dispose of the project (see below).

15. On August 21, 1984, HACH submitted another application to HUD to demolish Allen Parkway Village. HACH's application stated that it anticipated making a subsequent request to dispose of (sell) the project. HUD requested additional information on the application, which HACH submitted in March and October 1985. The October 1985 HACH submission clarified HACH's intent to dispose of Allen Parkway Village, with the project buildings to be demolished during the disposition process. When we completed our field work in early December 1985, HUD's Fort Worth Regional Office was reviewing the application.

16. In July 1985, the accounting firm of Deloitte Haskins & Sells issued its audit report on HACH financial statements for the 2 years ending December 31, 1984. The accounting firm gave an unqualified opinion on the financial statements and reported that Allen Parkway Village modernization expenditures were $625,377 based on a reconstruction of accounts. HACH's internal auditor told us that the unqualified opinion resulted from HACH's effort to reconstruct its accounts (such as gathering invoices and adjusting accounts based on documentation) after the Peat, Marwick, Mitchell & Co. audit report (see paragraph 10). The HACH internal auditor told us that this effort is still ongoing and that he expects some items currently charged to

HACH's operating accounts will ultimately be acceptably demonstrated to the auditors as modernization expenses (see paragraph 17). HACH's latest quarterly report to HUD (for the period ending September 30, 1985) shows the following expenditures:

Table 2: HACH Expenditure Report for Allen Parkway Village Modernization Award Activities as of September 30, 1985

Description	Amount
Fees and costs (mostly architectural)	$351,024
Administration (e.g., salaries)	253,998
Non-dwelling equipment (trucks, carriers, etc.)	99,716
Dwelling structures (primarily boarding up and cleaning up vacant units)	49,553
Dwelling equipment (e.g., ranges, refrigerators)	28,786
Site improvement	0
Total	$783,077

The quarterly report figure is higher than the auditor's figures because it reflects a later time period and includes amounts HACH believes are chargeable to the account, but which were not accepted at the time by the Deloitte Haskins & Sells auditors. We did not attempt to verify the quarterly report figures.

17. While we did not perform a detailed review of HACH's modernization award records, we did note that HACH has charged the modernization award with an item not in its modernization award budget or otherwise approved by HUD (such as for emergency repairs), and plans to charge a second item of a similar nature.

The first is $75,527 for consulting fees for those who produced the 1983 Technical Report: Allen Parkway Village/Fourth Ward for HACH. The technical report evaluated several actions that HACH could take on the future of Allen Parkway Village, including total rehabilitation, total demolition, and partial rehabilitation and demolition. HACH has charged this item against the modernization award, although HACH's internal auditor told us that the charge was not accepted by the auditors who prepared the Deloitte

Haskins & Sells audit report. The HACH internal auditor also told us that HACH plans to charge $15,731 in prorated salaries and benefits for HACH staff who prepared the supplementary information that HUD requested on HACH's Allen Parkway Village disposition application.

HACH's internal auditor told us that HACH believes that HUD's August 29, 1984, letter authorized the two expenditures cited above. HUD's August 29 letter, in response to a HACH request, stated that funding for up-front planning and consulting necessary to implement HACH's plans for relocating tenants, providing replacement housing, and demolishing Allen Parkway Village would be available through HACH's modernization award and asked for a detailed cost estimate and justification. HACH's internal auditor told us that HACH has not submitted the requested cost estimate and justification to HUD. The HUD Houston Area Office Manager confirmed that HACH had not requested HUD's approval to use the modernization funds for these purposes and told us that, as a result, the items were neither approved nor disapproved at this time.

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