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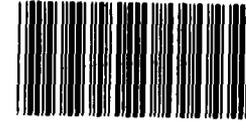
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-167637

FEBRUARY 19, 1981

The Honorable Samuel R. Pierce, Jr.
Secretary of Housing and
Urban Development



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Dear Mr. Secretary:

Subject: [Actions Being Taken To Collect Overbillings
and Improve Contracting Procedures at HUD's
Columbus Area and Cincinnati Service Offices]
(CED-81-67)

At the request of the Chairwoman, Subcommittee on Manpower and Housing, House Committee on Government Operations, we reviewed the actions of the Department of Housing and Urban Development (HUD) in response to our April 12, 1979, report to the Secretary entitled "Review of Selected Contracts Awarded by the Cincinnati Service Office, Department of Housing and Urban Development" (CED-79-67). The report dealt with contract award irregularities, overbillings, and billings for maintenance work not performed at HUD-owned multifamily housing projects. The chairwoman asked us to determine

- how the overbillings we identified were resolved,
- whether any subsequent allegations of wrongdoing involving HUD contracts had been received, and
- whether current contracting practices conformed with HUD policies.

In general, we found that while HUD has taken several corrective actions on the problems discussed in our report, certain problems remain. We believe HUD needs to move more expeditiously to (1) resolve and settle the overbillings identified in our prior report, currently estimated at about \$88,000, (2) collect about \$15,000 in improper payments to a project manager, and (3) improve contracting procedures. We found that the contracting practices of HUD's Columbus area and Cincinnati service offices were still not in compliance

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with HUD policies in certain respects. Of more concern, however, was the fact that HUD's Inspector General has found similar deficiencies in other field offices, and according to the Inspector General, the deficiencies represent a serious nationwide problem.

SCOPE AND METHODOLOGY

Our followup review was performed at HUD headquarters in Washington, D.C., and at its field offices in Columbus and Cincinnati, Ohio. We interviewed agency representatives at those locations and examined pertinent agency records, regulations, and handbooks. Also, we interviewed cognizant Federal Bureau of Investigation (FBI) officials in Cincinnati, Ohio, and examined pertinent investigative reports. Our review was made during the period of July 1980 to January 1981.

DELAYS IN SETTLING OVERBILLINGS

We previously reported that two contractors who had provided painting and flooring repair services to HUD had submitted billings for services not rendered. We recommended that HUD withhold payments to these contractors until the material facts relating to these overbillings were determined by appropriate investigation. This matter was extensively investigated by HUD and, on HUD's recommendation, by the FBI, but final settlements have not been made even though almost 2 years have elapsed since our first report.

The dispute with one contractor involved billings for painting about 1,360 apartment units at 42 projects between January 1978 and January 1979. Both our review and a later review by HUD's Inspector General showed that the contractor had billed for considerably more area than was actually painted, although the exact amount was not precisely determinable because of the passage of time and lack of adequate records. The Inspector General estimated that the contractor had billed HUD for about 287,000 square feet more than was painted. The estimated amount of the overbilling was \$79,442.68.

Offers and counteroffers between HUD and the contractor had not resulted in any agreement as of January 15, 1981, and HUD is currently holding \$104,514.54 claimed by the contractor.

A second dispute involves a floor repair contractor. Between May 1978 and March 1979, floor repairs on 202 apartments were made at 19 HUD projects for which HUD was billed about \$179,000. In January 1979 the contractor voluntarily

identified overbillings of \$8,132, which he claimed were the result of clerical errors. This amount was confirmed by a subsequent Inspector General investigation. The matter was also reviewed by the FBI, which concluded in March 1980 that the overbilling involved no criminal intent.

As of January 15, 1981, the Columbus area office had made no formal settlement proposal to the contractor. The area office was holding over \$60,000 in unpaid invoices due this contractor, which is far in excess of the \$8,132 over-billing. This amount has been withheld from the contractor for almost 2 years.

IMPROPER BILLINGS BY A PROJECT MANAGER

In December 1978 the Cincinnati service office received an allegation from an employee of a HUD project manager that the manager was receiving payment for the salary of a fictitious employee. The allegation was referred to HUD's Office of Inspector General and was later investigated by the FBI. The Cincinnati service office notified the project manager of the allegation, and subsequently the employee who had made the allegation was fired. The project manager, who has managed as many as six projects at one time, was first awarded a HUD management contract in July 1976. The project manager's recent management contracts were terminated in December 1980. In September 1980 HUD denied the project manager the right to participate in the management of HUD programs for a 12-month period.

The FBI substantiated the allegation and reported in September 1979 that over a 3-year period the project manager had received \$14,578.30 in salary payments for the fictitious employee. The project manager claimed this action was necessary because the management broker fees paid by HUD were insufficient to cover office expenses. In March 1980 an assistant U.S. attorney declined prosecution after he was notified that HUD would attempt to obtain a refund of the money. He pointed out, however, that if this action failed, the case was to be referred to the U.S. Department of Justice.

However, 7 months passed after HUD was notified of the substantiation of the charge before a demand letter seeking reimbursement was sent to the project manager. The letter established a November 8, 1980, deadline for repayment. Although no official response was received to the demand letter, the Cincinnati service office notified the project manager's attorney on November 18, 1980, that if the client could not afford to repay the entire amount at one time, repayment could be spread over the same time period (that is,

3 years) that the funds were improperly obtained. As of January 15, 1981, HUD officials were planning to return the case to the U.S. attorney for further action.

EXTENSIVE WEAKNESSES IN CONTRACTING
AND PROCUREMENT ACTIVITIES

Based on the various findings presented in our prior report, we recommended that HUD make a general review of contracting practices in the Columbus area and Cincinnati service offices. In July 1979 former HUD Secretary Patricia Harris assured the House Committee on Government Operations and the Senate Committee on Governmental Affairs that the procurement weaknesses we identified were peculiar to the Cincinnati service office and that the multifamily contracting functions had subsequently been transferred to the Columbus area office, which was in compliance with HUD contracting policies.

In October 1980 HUD's Office of Inspector General reported, however, that the repair program administered by the Columbus area office for multifamily properties managed by the Cincinnati service office had numerous contracting deficiencies and concluded that Columbus and Cincinnati were not in compliance with HUD policies and procedures relating to multifamily project repairs. Generally, the contracting deficiencies reported by the Office of Inspector General showed that controls were not maintained to assure that repairs were necessary, prices were reasonable, and work acceptably completed. The audit covered program activities from May 1978 through April 1980.

The Inspector General reported further that property disposition contracting deficiencies were not confined to the Columbus area and Cincinnati service offices but had also been found to exist at other HUD field offices. Numerous internal audits, operational surveys, and regional contracting officer reviews between April 1979 and July 1980 indicate very serious nationwide contracting deficiencies at HUD field offices.

The Inspector General stated in a special report to former Assistant Secretary Lawrence B. Simons in August 1980 that HUD was currently spending about \$100 million annually on its acquired property inventory with minimal assurance that repairs and management were being carried out in the most economical manner.

We understand that the entire property disposition area, including the repair program on HUD-owned properties, is

currently undergoing a major reexamination within HUD headquarters. We believe that this effort should receive priority attention.

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We are sending copies of this letter to the Chairwoman, Subcommittee on Manpower and Housing, House Committee on Government Operations, and cognizant legislative and appropriation committees and subcommittees of the House and Senate. We are also sending copies to the Director, Office of Management and Budget, and to your Assistant Secretary for Housing-Federal Housing Commissioner and Inspector General.

We appreciate the cooperation we received in conducting our review. Should you have any questions on the contents of this report, we would be glad to discuss them with you or your staff.

Sincerely yours,



Henry Eschwege
Director