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TO: James Barnes, Acting Director of the Office of Multifamily Housing Boston
Hub, 1AH

FROM: 
John A. Dvorak, Regional Inspector General for Audit, Boston, Massachusetts,
Region 1, 1AGA

SUBJECT: Office of Multifamily Housing Boston Hub Staff Effectively Used Contract Fee
Inspectors

HIGHLIGHTS

What We Audited and Why

We reviewed the use of contract fee inspectors by the Office of Multifamily Housing Boston Hub (Boston Hub) as part of our 2007 annual audit plan. This review was initiated because U.S. Department of Housing and Urban Development (HUD) staff rely on contract fee inspectors to oversee the work of contractors performing renovation work on HUD-insured properties. Our objective was to determine whether the Boston Hub effectively used contract fee inspectors to monitor and oversee contractors renovating HUD-insured properties located within the Boston Hub in Region 1.

What We Found

Our audit did not disclose any indication that the Boston Hub did not use contract fee inspectors effectively to monitor and oversee contractors renovating HUD-insured properties located within the Boston Hub in Region 1. The audit also did not disclose any indication that the internal control structure for monitoring renovations was not effective. We did identify a minor deficiency, which was

communicated separately through a memorandum, dated February 14, 2008, to the Acting Director of the Boston Hub.

What We Recommend

Based on our audit, we did not identify any reportable conditions or deficiencies; therefore, we are not making any recommendations.

Auditee's Response

An exit conference was held on February 13, 2008, with HUD. The report did not require a response from the auditee (Boston Hub).

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BACKGROUND AND OBJECTIVES

When the U.S. Department of Housing and Urban Development (HUD) insures a mortgage for a private owner to build or renovate a property, HUD regulations require periodic observations of construction at the site of the project for the purpose of protecting the interest of HUD. HUD outsources this oversight to contract fee inspectors with specialized knowledge to oversee these contractors.

Construction monitoring is critical for immediately identifying problems and taking prompt corrective action during the period in which defaults are the highest. The assigned fee inspector should visit the site twice a month or more frequently when warranted by problems or impending default. The fee inspector must conduct monitoring in accordance with provisions of Handbook 4460.1, REV-1, and report project findings on the HUD representative's trip report, Form HUD-5379, in accordance with Handbook 4480.1. Reporting is required on the following:

- Contractor's organization, operations, and supervision.
- Architect's supervision and services.
- Special circumstances, occupancy delays, claims, disputes, etc. The fee inspector must specifically identify when the slow start or progress of off-site work may delay occupancy of completed units.
- Noncompliances in the work.
- Payments to the contractor and by the contractor to subcontractors, material suppliers, etc., and labor and equal employment opportunity provisions, including the number of Davis-Bacon wage interviews conducted and reported on Form HUD-11.
- Percentage of project completion and scheduled completion. Percentage of completion for each additive change order and percentage of completion for off-site work.
- Start of initial and permanent construction.

Serious construction problems must be specifically reported by the HUD representative.

HUD staff should visit each project site once during construction. The visits are to assess the performance of the fee inspector, compare project design and construction with conventional projects in the area, and remain current with changes in their jurisdiction. HUD should require the contract fee inspector to accompany them on the project review.

Our audit objective was to determine whether the Office of Multifamily Housing Boston Hub (Boston Hub) effectively used contractual fee inspectors to monitor third-party contractors renovating HUD-insured properties. Specifically, we wanted to determine whether fee inspections were performed in accordance with specifications; results of inspections were provided to and used by the decision makers in HUD; and inspection reports were used in the review of the property timelines, completion dates, and correspondence files.

RESULTS OF AUDIT

Our audit did not disclose any indication that the Boston Hub staff did not effectively use contractual fee inspectors to monitor and oversee third-party contractors renovating HUD-insured properties in Region 1. Specifically, based on a review of the 13 projects in Region 1, we did not identify any renovated HUD-insured property that was not being inspected. We also determined for the 13 properties that the fee inspections were performed in accordance with specifications; results of inspections were provided to and used by the decision makers; and inspection reports were used in the review of the property timeliness, completion dates, correspondence files, and default patterns.

Fee inspection reports included relevant and timely information for staff to use in monitoring the status and progress of the construction work. Fee inspection reports provided sufficient detail concerning delays and change orders to allow the HUD decision makers to take appropriate action. Although delays occurred, it was evident that staff were aware of the delays and took steps to alleviate them as appropriate or obtained additional information to identify the cause and impact of delays.

Also, internal controls over monitoring appeared to be adequate and effective. Thus, the report contains no finding, and no further action is necessary. However, we found a minor deficiency, which was communicated separately to the Acting Director of the Boston Hub.

SCOPE AND METHODOLOGY

We performed an audit of the use of fee inspection reports by Boston Hub staff. Our fieldwork was completed at the HUD Offices of Multifamily Housing in Boston, Massachusetts; Hartford, Connecticut; and Providence, Rhode Island between July 2007 and January 2008. We also worked with contracting staff in New York, New York; Washington, DC; and Fort Worth, Texas. Our audit generally covered the period October 2005 to June 2007 and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

Reviewed laws, regulations, and handbooks related to fee inspectors' procedures and contracting for fee inspectors.

Held interviews with Boston Hub staff responsible for monitoring and overseeing fee inspectors used in the Boston Hub in Region 1.

Held interviews with New York Contracting Office staff regarding contracting controls for fee inspectors.

Reviewed a nonstatistical sample of projects to determine whether fee inspections were performed in accordance with specifications, results of inspections were provided to and used by decision makers, requisitions for funds to develop the projects were reviewed by fee inspectors, and vouchers for payments to fee inspectors were appropriate. We selected a random sample of 15 of the 117 projects in development in the six New England states as of August 7, 2007. Two of the 15 projects were not reviewed because the inspections were performed entirely by the HUD architect.

Performed a limited review of the contracting database of fee inspectors used in the Boston Hub for Region 1.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Controls over the inspection process,
- Controls over disbursements,
- Controls over laws and regulations,
- Controls over contracting of fee inspectors,
- Controls over monitoring of fee inspectors, and
- Controls over computer-processed data.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

We found no significant internal control weaknesses within the scope of our audit.