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| Audit Report Number<br>2011-PH-1010 |
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TO: Donald J. Lavoy, Acting Deputy Assistant Secretary, Public and Indian Housing, Office of Field Operations, PQ

FROM: *//signed//*  
John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The Philadelphia Housing Authority, Philadelphia, PA, Failed To Support Payments and Improperly Used Funds From the American Recovery and Reinvestment Act of 2009

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Philadelphia Housing Authority's (Authority) use of its Public Housing Capital Fund formula grant that it received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). We selected the Authority for audit based on a citizen's complaint alleging misuse of these funds and because it received \$126.5 million<sup>1</sup> in Recovery Act capital funds, which was the largest amount of this type of funding awarded in the U.S. Department of Housing and Urban Development's (HUD) Region III.<sup>2</sup> We focused strictly on \$31.5 million in Recovery Act formula grant funds designated for the rehabilitation of 340 of the Authority's portfolio of approximately 7,300 scattered-site units. The audit objective was to determine whether the Authority's payments to rehabilitate its scattered-site housing under the Recovery Act were supported and complied with HUD regulations and other applicable requirements.

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<sup>1</sup> \$126.5 million = \$90.5 million in formula grant capital funds awarded in March 2009 and \$36 million in competitive capital fund grants awarded in September 2009.

<sup>2</sup> Region III encompasses Pennsylvania, Virginia, Maryland, West Virginia, Delaware, and the District of Columbia.

## What We Found

The Authority's payments to rehabilitate its scattered-site housing under the Recovery Act were not supported and did not comply with other applicable requirements. Specifically, the Authority could not support payments of almost \$1 million in Recovery Act funds to rehabilitate 10 scattered-site units, virtually the entire amount we reviewed, raising questions about the propriety of the remaining \$26.4 million<sup>3</sup> it spent during our audit period to rehabilitate the units we did not review. Additionally, the Authority's tenants were subjected to health- and safety-related hazards, and the Authority failed to use its Recovery Act funds properly when it failed to ensure that the units it rehabilitated complied with local codes and other contract requirements. The Authority also made unsupported, unreasonable, and unnecessary payments to outside attorneys in an effort to obstruct the progress of this audit.<sup>4</sup>

## What We Recommend

We recommend that HUD require the Authority to provide adequate documentation to support almost \$1 million in unsupported costs identified by the audit or reimburse the applicable programs from non-Federal funds for any costs that it cannot support. We also recommend that HUD require the Authority to provide documentation to support the remaining \$26.4 million in payments to rehabilitate its scattered sites using Recovery Act funds, if the Authority cannot support the \$1 million. Alternatively, it should reimburse the applicable programs from non-Federal funds for any costs that it cannot support.

We also recommend that HUD require the Authority to implement adequate procedures and controls to ensure that its payments for scattered-site rehabilitation comply with relevant laws and regulations and develop and implement controls to ensure that invoices for scattered-site rehabilitation are adequately verified and payments are made in accordance with the terms of the related contracts. We further recommend that HUD direct the Authority to implement appropriate measures to ensure compliance with applicable laws, ordinances, codes, rules, and regulations. Lastly, we recommend that HUD require the Authority to task its Office of Inspector General (OIG) to periodically audit a sample of current and future payments for scattered-site rehabilitation to ensure that responsible personnel enforce contract requirements and payments are adequately supported, necessary, and reasonable.

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<sup>3</sup> The Authority expended a total of \$27.4 million of the \$31.5 million in Recovery Act funding planned for scattered-site rehabilitation during our audit period of March 18, 2009, through June 30, 2010.

<sup>4</sup> HUD OIG audit report #2011-PH-1007, dated March 10, 2011, "The Philadelphia, PA, Housing Authority Did Not Comply with Several Significant HUD Requirements and Failed To Support Payments for Outside Legal Services," covered this and related problems and provided recommendations for corrective action.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We provided a discussion draft audit report to the Authority on March 18, 2011. The Authority's outside attorney from Ballard Spahr Andrews & Ingersoll, LLP hired a consultant on March 22, 2011, and the Authority included the consultant's report in its original response to the audit. We discussed the draft audit report with the Authority at an exit conference on April 1, 2011. The Authority provided its original written comments to the draft audit report on April 7, 2011. On May 12, 2011, the Authority retracted its original written comments and the Ballard Spahr Andrews & Ingersoll, LLP consultant's report and submitted a revised response. In its revised response the Authority stated it disagreed with many of the findings in the report but that it would use the information contained within the report to assist it in the close-out of its Recovery Act funded scattered-site rehabilitation project. The complete text of the Authority's official response, along with our evaluation of that response, can be found in appendix B of this report.

# TABLE OF CONTENTS

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|                                                                                                          |    |
|----------------------------------------------------------------------------------------------------------|----|
| Background and Objective                                                                                 | 5  |
| Results of Audit                                                                                         |    |
| Finding: The Authority Did Not Support Recovery Act Payments Used To Rehabilitate Scattered-Site Housing | 8  |
| Scope and Methodology                                                                                    | 21 |
| Internal Controls                                                                                        | 23 |
| Appendixes                                                                                               |    |
| A. Schedule of Questioned Costs                                                                          | 25 |
| B. Auditee Comments and OIG's Evaluation                                                                 | 26 |
| C. Example of Purchase Order and Related Invoice                                                         | 29 |
| D. Chart of Code and Contractual Violations                                                              | 32 |

## BACKGROUND AND OBJECTIVE

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The U.S. Housing Act of 1937 initiated the Nation's public housing program. That same year, the City of Philadelphia established the Philadelphia Housing Authority (Authority) under the laws of the Commonwealth of Pennsylvania to address housing issues affecting low-income persons. Normally, a five-member board of commissioners governs the Authority. However, on March 4, 2011, the Authority's board of commissioners, including its chairman, announced their resignations and the U.S. Department of Housing and Urban Development (HUD) took control of the Authority. HUD Secretary Shaun Donovan appointed HUD's Chief Operating Officer, Estelle Richman, to serve as the sole member of the Authority's board. Interim executive director Michael P. Kelly, who was appointed administrative receiver, continues to manage the day-to-day operations of the Authority. The cooperative endeavor agreement formalizing HUD's takeover of the Authority expires on March 4, 2012, and is renewable in 1-year increments thereafter, or until such time as mutually determined by the Deputy Secretary and the mayor of Philadelphia that the Authority has built sufficient capacity to be self supportive.

John F. Street served as the mayor of Philadelphia from January 3, 2000, to January 7, 2008. He was first appointed to the Authority's board on September 1, 1993, and he resigned March 18, 1999. He became board chairman on April 22, 2004. He reappointed himself to the board late into his second term as mayor and remained board chairman until his resignation. The Authority's executive director at the beginning of our audit was Carl R. Greene. The Authority terminated his employment, effective September 23, 2010. It hired Mr. Kelly to serve as interim executive director, effective December 6, 2010. Between the termination of Mr. Greene and the hiring of Mr. Kelly, three assistant executive directors managed the day-to-day operations of the Authority. The Authority's main administrative office is located at 12 South 23rd Street, Philadelphia, PA.

The Authority is the Nation's fourth largest public housing authority and owns and operates more than 14,000 affordable housing units, serving about 81,000 people in Philadelphia. The Authority employs 1,200 people and has an annual budget of approximately \$345 million. It receives most of its funding from HUD. Public housing was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. Public housing comes in all sizes and types, from scattered single-family houses to high-rise apartments for elderly families.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (Recovery Act). This legislation included a \$4 billion appropriation of capital funds to carry out capital and management activities for public housing agencies as authorized under Section 9 of the United States Housing Act of 1937. The Recovery Act required that \$3 billion of these funds be distributed as formula grants and the remaining \$1 billion be distributed through a competitive process. Transparency and accountability were critical priorities in the funding and implementation of the Recovery Act. The Recovery Act imposed additional reporting requirements and more stringent obligation and expenditure requirements on the grant recipients beyond those applicable to the ongoing capital fund program grants. Overall, the Authority received \$126.5 million in Recovery Act capital funds, which was the largest amount of this

funding awarded in HUD’s Region III.<sup>2</sup> Of this \$126.5 million, it was awarded \$90.5 million in formula grant capital funds in March 2009 and \$36 million in competitive capital fund grants in September 2009. The Authority designated \$31.5 million of the formula grant capital funds for the rehabilitation of 340 of its portfolio of approximately 7,300 scattered-site units. The rehabilitation of the scattered-site units was ongoing during our audit. The audit focused strictly on the Recovery Act formula grant funds designated for the rehabilitation of the Authority’s scattered-site units. The chart below shows how the Authority planned to use or was in the process of using its \$90.5 million Recovery Act capital fund formula grant.

| <b>Project</b>                      | <b>Units</b> | <b>Funds</b>        |
|-------------------------------------|--------------|---------------------|
| Scattered-site rehabilitation       | 340          | \$31,450,000        |
| 800 block of Markoe Street          | 23           | 6,718,893           |
| Plymouth Hall rehabilitation        | 53           | 13,763,000          |
| Scattered-site replacement units    | 100          | 12,746,023          |
| Mechanical/heating system upgrades  |              | 19,759,898          |
| Fire suppression standpipe upgrades |              | 6,123,845           |
| <b>Formula-funded total</b>         | <b>516</b>   | <b>\$90,561,659</b> |

In 1996, Congress authorized the Moving to Work Demonstration program (Moving to Work) as a HUD demonstration program. This program allowed certain housing authorities to design and test ways to promote self-sufficiency among assisted households, achieve programmatic efficiency, reduce costs, and increase housing choice for low-income households. Congress exempted participating housing authorities from much of the Housing Act of 1937 and associated regulations as outlined in the Moving to Work agreements. Participating housing authorities have considerable flexibility in determining how to use Federal funds. In December 2000, the Authority submitted an application to HUD to enter the program, and in February 2002, HUD signed a 7-year agreement with the Authority that was retroactive to April 2001. From April to October 2008, the Authority continued to operate under a HUD-developed plan to transition back to traditional HUD program regulations because the term of its Moving to Work agreement had expired. In October 2008, HUD entered into a new 10-year Moving to Work agreement with the Authority. The expiration date of the Authority’s new agreement is March 2018.

The Authority’s stewardship of HUD funds has recently garnered the attention of Congress as well as the local and national media. On January 11, 2011, Senator Charles E. Grassley sent a letter to 20 law firms in Philadelphia asking for information about their billing of the Authority as part of a larger review to determine whether the Authority had potentially misused Federal tax dollars. The Senator commented in his related press release that the Authority “reportedly has a record of trying to cover its tracks where it’s spent tax dollars either inappropriately or in a way that would embarrass its leadership.” The Senator further commented that the Authority’s behavior was “an affront to taxpayers, and taxpayers deserve an accounting of what’s gone on so that it can be stopped.” We issued an audit report addressing our concerns regarding the Authority’s use of outside attorneys on March 10, 2011 (Audit Report 2011-PH-1007).

The audit objective addressed in this audit report was to determine whether the Authority's payments to rehabilitate its scattered-site housing under the Recovery Act could be supported and complied with HUD regulations and other applicable requirements.

## RESULTS OF AUDIT

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### Finding: The Authority Did Not Support Recovery Act Payments Used To Rehabilitate Scattered-Site Housing

The Authority did not maintain or provide adequate support for Recovery Act capital funds it used to pay a contractor to rehabilitate its scattered-site housing. The Authority also failed to ensure that the contractor's work complied with local code and other contractual requirements. Specifically, it failed to provide adequate documentation supporting the validity, accuracy, necessity, and reasonableness of almost \$1 million in Recovery Act funding that we audited. Because none of the payments we reviewed was adequately supported, we question the propriety of the remaining \$26.4 million in Recovery Act funding that the Authority used during the audit period to rehabilitate its scattered-site housing. Through its outside attorneys, the Authority informed us that it would provide electrical, plumbing, and mechanical permits but did not do so. Also, through its outside attorneys, the Authority informed us that it did not see a need to maintain documentation detailing the rehabilitation work performed on its scattered-site properties. This problem occurred because the Authority's leadership and executive management chose to oversee its capital fund Recovery Act expenditures in this manner. The Authority needs to implement adequate procedures and controls to ensure that its payments to rehabilitate its scattered-site housing using Recovery Act funds meet HUD regulations and that it complies with other applicable laws and regulations. Otherwise it will continue to pay for scattered-site rehabilitation work that is unsupported, unnecessary, and unreasonable and that may subject tenants to health- and safety-related hazards.

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#### **The Authority Could Not Support the Eligibility of Its Recovery Act Payments**

Transparency and accountability were critical priorities in the funding and implementation of the Recovery Act. The Authority spent \$27.4 million in Recovery Act funds to rehabilitate 244 of its scattered-site units. The rehabilitation work was managed by one general contractor. To determine whether the Authority met the priorities of the Recovery Act and spent the funds on eligible activities, we statistically selected and inspected a sample of 10 rehabilitated units to determine or verify what repair/rehabilitation work had been completed. During the inspections, our HUD appraiser/inspector was unable to determine specifically what repair/rehabilitation had been completed on each unit, and the Authority was unable to tell us specifically what was done. The Authority spent almost \$958,000 in Recovery Act funds on these units. However, it did not maintain or provide adequate documentation to support the expenditures contrary



to stipulations in the services contract it executed with its contractor. The contract stated the following:

Before the first progress payment under this contract, the Contractor shall furnish, in such detail as requested by the Contracting Officer, a breakdown of the total contract price showing the amount included therein for each principal category of the work, which shall substantiate the payment amount requested in order to provide a basis for determining progress payments.

The breakdown shall be approved by the Contracting Officer and must be acceptable to HUD. If the contract covers more than one project, the Contractor shall furnish a separate breakdown for each. The values and quantities employed in making up this breakdown are for determining the amount of progress payments and shall not be construed as a basis for additions to or deductions from the contract price. The Contractor shall prorate its overhead and profit over the construction period of the contract. The Contractor shall submit, on forms provided by the PHA (public housing agency), periodic estimates showing the value of the work performed during each period based upon the approved breakdown of the contract price.

In addition, the Authority's contracting officer's letter to its contractor stated that payments would be made monthly upon receipt of an itemized invoice. The Authority did not comply with the provisions above. It did not provide any documentation reflecting a breakdown of costs for the principal categories of work its contractor performed on the scattered-site units. We reviewed billing invoices and related documents for each of the 10 sample units and found that the invoices did not itemize the costs of the work completed or show a breakdown of costs by the principal categories of work performed. Documentation included with the invoices generally showed three broad categories of charges including the following: Unit Rehab Cost, Construction Management (CM) Contingency, and Allowance. See appendix C for an example of a typical purchase order and related invoice.

The bulk of the charges billed were allocated to the Unit Rehab Cost category; however, no additional detail was provided to show or explain the composition of the amount charged or the principal categories of work involved. Also, contrary to the contract provisions, the Authority's method of cost accounting was not acceptable to HUD. Recent HUD monitoring reviews of the Authority's Recovery Act expenditures identified similar problems. In a September 2010 review of the Authority's expenditures, HUD's Office of Public Housing, Pennsylvania State Office, noted that several purchase orders did not include itemized costs associated with the work performed for each unit and recommended that detailed invoices for each unit be provided by subcontractors to the Authority's general contractor. HUD added that the detailed invoices should list the type of work that was performed with the itemized costs associated with the work activities. In a more recent report dated February 25, 2011, HUD

found that the Authority's contractor's progress reports which were used as a basis for payment lacked detail on the work that was accomplished to justify the payments. HUD noted that it believed systematic issues may exist related to the Authority's oversight and monitoring of its contractor's work, as well as the Authority's basis for payment to the contractor. Since the Authority did not have adequate information on the specific repairs completed and the associated itemized expenses, approximately \$958,000 that it spent to rehabilitate the 10 units reviewed in detail could not be verified.

The Authority's outside attorney from the law firm of Ballard Spahr Andrews & Ingersoll, LLP stated that the Authority was not required to provide detailed information on the specific repairs that it completed because this information was not required by the contract or HUD regulations. In a separate meeting, the Authority's outside attorney from the law firm of Schnader Harrison Segal & Lewis, LLP stated that the Authority had been featured on national television for its exceptional work rehabilitating its scattered sites with Recovery Act funds and demanded to know why we were conducting an audit. He also stated that he believed our audit was initiated based solely on complaints initiated by disgruntled neighbors of those living in the Authority's scattered-site housing and demanded that we respond to this charge. In response, we explained to the Authority's outside attorney that we selected the Authority for audit not only based on a citizen's complaint alleging misuse of these funds, but more importantly because of our statutory responsibility to review the significant amount of capital funds that HUD had given to the Authority under the Recovery Act.

The outside counsel was incorrect in asserting that detailed supporting documentation was not required by the contract or HUD regulations. As stated above, the Authority failed to follow contract provisions pertaining to the accounting for the cost of rehabilitating its scattered-site units. Additionally, regulations at 2 CFR (Code of Federal Regulations) Part 225, appendix A(C)(1)(j), provide that to be allowable under Federal awards, costs must be adequately documented. The Authority failed to provide adequate support for its expenditures for the rehabilitation of its scattered sites with accounting records detailing the expenditures and supporting documents such as detailed invoices, receipts, canceled checks, or electronic transfers.

The Authority spent \$27.4 million in Recovery Act funding during our audit period for the rehabilitation of 244 scattered-site properties and did not comply with this important contract provision. Due to the lack of supporting documentation for the 10 units reviewed, the fact that HUD identified similar issues, and the assertion by the Authority's outside counsel that detailed supporting documentation was not needed and that it was not available, we question the propriety of the entire \$27.4 million in Recovery Act funding expended by the Authority during the audit period for scattered-site rehabilitation.

**The Authority Failed To Ensure Compliance With Applicable Laws, Ordinances, Codes, Rules, and Regulations**

The Authority failed to ensure that its contractor complied with HUD's general condition in section 12(a) and (b) of the construction management contract, which required it to give all notices and comply with all applicable laws, ordinances, codes, rules, and regulations and to secure and pay for all permits, fees, and licenses for the proper execution and completion of the work as required. During the audit, we asked the Authority to provide the required permits for the properties we inspected; however the permits were not provided. Therefore, at our request, responsible officials from the City of Philadelphia's Department of Licenses and Inspections searched their records and found only a single electrical permit for one of the properties inspected. Based on the inspections of our HUD appraiser/inspector, our review of the City of Philadelphia codes and ordinances, and guidance provided by responsible officials from the City of Philadelphia's Department of Licenses and Inspections, we determined that the Authority failed to obtain

- Electrical permits required in 9 of 10 units inspected. For example, it failed to obtain required electrical permits to ensure the proper installation of hard-wired smoke detectors.
- Plumbing permits required in all 10 units inspected. For example, it failed to obtain required plumbing permits to ensure the safe and proper installation and replacement of water heaters.
- Mechanical permits required in 9 of 10 units inspected. For example, it failed to obtain required mechanical permits to ensure the safe and proper installation and replacement of heating, ventilation, and air conditioning systems.

Since all 10 units statistically selected for review were missing required plumbing permits and 9 of 10 statistically selected units were missing required electrical and mechanical permits, we question whether the Authority obtained required permits on the remaining units. If the required permits had been obtained, the properties would have been inspected by the City of Philadelphia's Department of Licenses and Inspections, and many of the problems discussed below could have been prevented or corrected.

## **The Authority Failed To Ensure That Units Were Properly Rehabilitated**

The Authority's tenants were subjected to health- and safety-related hazards, and the Authority failed to use its Recovery Act funds properly when it did not ensure that the units it rehabilitated complied with local codes and other contractual requirements. We notified HUD officials of two violations that were considered 24-hour exigent health and safety violations since a family was living in the unit. HUD officials informed us that the Authority had corrected the violations. During the inspections, our HUD appraiser/inspector noted 44 violations of local code and other contractual requirements in 9 of the 10 units inspected. Of these 44 violations, 15 violations at 6 of the units were health- and safety-related violations (see appendix D).

We performed inspections of the scattered-site properties on August 5 and 6, 2010. During the inspection process, the Authority had two outside attorneys and one Authority official present at each inspection. They informed us that the units were vacant units that were completely rehabilitated, down to the stud walls. However, our inspections revealed that the units did not appear to have been rehabilitated down to the stud walls. Due to the lack of required documentation showing repairs accomplished in each unit, it was difficult to determine with any certainty what the Authority paid to have done in each unit. However, based on the general scope of work that was available, we noted the following deficiencies:

- 5 of 10 units had entrance and front access doors which were not properly fire safety rated. The contract required 90-minute fire rated doors, and doors in 5 units were only rated for 20 minutes.
- 6 of 10 units had electrical hazards such as nongrounded outlets, open circuits, open slots on breaker panel, smoke detector not wired properly, and electrical hot/neutral reverse.
- 1 unit was missing a carbon monoxide detector.
- 2 of 10 units had flues on hot water heaters that were not properly sloped to allow fumes to escape.
- 4 of 10 units were missing a total of 17 interior closet doors. Another unit had closets less than 2 feet deep that did not allow for the hanging of clothes.

The photographs below illustrate some of the problems identified at the 10 units.



The closet is wrapped with sheetrock and has no doors.



The water heater flue pipe level needs to have a positive slope for fumes to escape.



The closets in bedrooms 2 and 3 are only 14.5 inches deep.



The meter base is not secured for the first floor. The tenant has access to the basement. Exposed terminals are a 24-hour exigent health and safety violation. HUD informed us that the Authority corrected the issue after the inspection.



There are open slots in the breaker panel in the basement. This hazard is a 24-hour exigent health and safety violation. HUD informed us that the Authority corrected the violation after the inspection.



The contract required 90-minute fire rated doors. Doors in 5 of 10 units inspected were only fire rated for 20 minutes. Note: We shielded the identity of the inspector.



There are open slots on the breaker panel in the basement. This hazard is a 24-hour exigent health and safety violation. HUD informed us that the Authority corrected the violation after the inspection.



The water heater flue should have a positive slope from the heater to the wall connection to allow fumes to escape properly. Note: We shielded the identity of the inspector.

### **The Authority's Payments Did Not Appear Reasonable**

The Authority originally planned to rehabilitate 340 units using \$31.5 million in Recovery Act funds, for an estimated average cost of \$92,500 to rehabilitate each



unit. In response to our requests, the Authority provided information showing that it had completely rehabilitated 244 units at a cost of \$27.4 million, or an average cost of about \$112,000 for each unit. The Authority could not explain why it spent on average about \$20,000 more per unit, or about 20 percent, than it had originally estimated.

For comparative purposes, we reinspected 5 of the 10 units previously inspected to estimate the maximum amount that should have been paid to completely rehabilitate each unit. Due to the lack of required documentation showing repairs made on each unit, our appraiser/inspector relied solely on his professional expertise and detailed inspections and observations to determine what the Authority could have potentially repaired or renovated in each unit. Since the Authority claimed that each unit was essentially gutted to the stud walls and ceiling joists and completely rehabilitated to relatively good condition, our HUD appraiser/inspector prepared a generous estimate for each unit as if this level of renovation had occurred. Our estimates were based on an assumption that the following had occurred: demolition and installation of drywall; priming/painting of all new drywall/woodwork; installation of underlayment over existing flooring and new vinyl flooring; replacement of kitchen cabinets, countertops, backsplashes, stainless steel sinks and accessories, appliances, vanities, lavatories, fiberglass shower surround in baths; reglazing of bathtubs; and installation of gas furnace HVAC systems, hot water heaters, hardwired smoke detectors, windows, and fire rated front and rear doors. We also included other items including but not limited to ceiling lights, vent fans (kitchen and bath), and window blinds. Our estimate of the Authority’s actual costs versus the estimated maximum possible costs to rehabilitate each property showed that for three of five units, the Authority paid significantly more to rehabilitate the units than our maximum, as shown below.

| <b>Unit</b> | <b>Authority’s rehabilitation cost</b> | <b>OIG estimated maximum cost</b> | <b>Difference</b> |
|-------------|----------------------------------------|-----------------------------------|-------------------|
| A           | \$104,521                              | \$85,500                          | \$19,021          |
| B           | \$101,900                              | \$82,000                          | \$19,900          |
| C           | \$105,484                              | \$95,200                          | \$10,284          |

As stated above, we sought to compare the absolute maximum estimated costs with the Authority’s reported rehabilitation costs. For three of the five properties, our appraiser estimated that even if the properties had been gutted and completely rehabilitated, which he opined did not occur, the Authority spent up to \$20,000 more than it should have needed for each property. Regulations at 2 CFR Part 225, appendix A(C)(1), state that to be allowable under Federal awards, a cost must be necessary and reasonable for proper and efficient performance and administration of Federal awards. While we do not question whether the Authority performed rehabilitation work, we do question whether the payments

were supported, necessary, and reasonable for these properties as well as the units we did not inspect.

### **The Authority Obstructed the Audit Process**

In another recent audit,<sup>4</sup> we determined that the Authority paid two law firms<sup>5</sup> \$1.1 million from December 2008 to August 2010, which was unreasonable and unnecessary because it obstructed the progress of three audits (this audit and two other recent OIG Section 8 audits<sup>6</sup>). Since most of the invoices provided by the Authority's outside attorneys to justify their fees did not show to which audit the fees were attributable, we could not determine the exact amount of the \$1.1 million that was attributable to this Recovery Act audit. However, based on the number of attorneys we observed during the audit and the time we observed the attorneys in audit meetings and accompanying us on housing inspections, we believe that amount would be significant. These fees were generally for routine matters dealing with the audit that are typically performed by lower level non-attorney staff at other housing authorities that we have audited. Further, documents that were routinely provided on audits at other housing authorities often were requested by the auditors but not provided by the attorneys. During the audit when documents were provided, it often took an inordinate amount of time to coordinate the delivery and acceptance of the documents from the outside attorneys. Such interference obstructed the efficient conduct of this audit without benefiting the Authority's program or its effective use of Recovery Act funding.

As a result of the efforts of the Authority to withhold information needed to conduct this audit in accordance with generally accepted government auditing standards, we served the former executive director with three subpoenas on July 14, 2010, in an attempt to obtain information which is routinely provided without objection during other housing authority audits. A brief description and the status of the three subpoenas are described below.

- An outside attorney refused to provide tenant files for 18 tenants living in the Authority's scattered-site housing, claiming in a letter, dated June 9,

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<sup>5</sup> Schnader Harrison Segal & Lewis, LLP's invoices showed that it was paid \$672,040 for work it performed on two Section 8 audits and \$91,260 for work on this Recovery Act audit; Ballard Spahr Andrews & Ingersoll, LLP's invoices showed that it was paid \$325,570 for work on OIG audits, but the invoices did not identify the audits. We reviewed invoices only for outside legal work from September 2008 until August 2010; therefore, payments for outside legal work for audits outside that period (including work on HUD OIG audit report #2011-PH-1007) was not accounted for in the \$1.1 million figure, which would be significant.

<sup>6</sup> The two audits referred to here are HUD OIG audit report #2010-PH-1011, "The Philadelphia Housing Authority, Philadelphia, PA, Did Not Ensure That Its Section 8 Housing Choice Voucher Program Units Met Housing Quality Standards," dated July 8, 2010, and HUD OIG audit report #2010-PH-1002, "The Philadelphia Housing Authority, Philadelphia, Pennsylvania, Needs to Improve Its Controls over Housing Assistance Payments," dated October 6, 2009.

2010, that he objected to how HUD OIG selected its audit sample. After we served the former executive director with this subpoena, the outside attorney provided the requested files.

- An outside attorney refused to provide a list of contractors and subcontractors that performed work and/or provided services in relation to the Authority's scattered-site units, as well as information on the Recovery Act funds spent on the contracts/units. We requested the information in our audit notification letter, dated April 9, 2010, and reiterated the need for the information during a May 19, 2010, audit status meeting. After we served the former executive director with this subpoena, the outside attorney provided us with the tenant files and records showing the amount of funds spent on the units. The attorney provided us with the procurement files but did not provide what he called the attorney review portion of the procurement file, citing attorney-client privilege.
- An outside attorney refused to provide 28 partial Social Security numbers requested by the auditors to perform public record searches to evaluate whether apparent conflicts of interest existed with responsible Authority officials and contractors doing business with the Authority. We requested the information in our audit notification letter, dated April 9, 2010, and reiterated the need for the information during a May 19, 2010, audit status meeting and several additional communications with the outside attorney throughout the audit. Since the Authority's outside attorney continued to refuse to provide the information, on November 9, 2010, the United States Attorney's Office petitioned for summary enforcement of the subpoena on behalf of HUD OIG. After a court hearing in the United States District Court for the Eastern District of Pennsylvania, the court ordered on February 4, 2011, that the petition for summary enforcement of the subpoena be granted. The Authority complied with the subpoena on February 14, 2011. We will perform an audit test using this information and will report audit results and conclusions and/or other action as appropriate.

Since this overall problem was addressed in a recent audit report,<sup>7</sup> including detailed recommendations for corrective action, no recommendations are made in this audit report on this matter.

## Conclusion

The Authority failed to provide adequate documentation supporting the validity, accuracy, necessity, and reasonableness of \$957,742 in payments that it made for scattered-site rehabilitation using Recovery Act funding during the audit period. It also failed to ensure that its rehabilitation work complied with local code and

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<sup>7</sup> See footnote 4.

other contractual requirements. These conditions occurred because the Authority's leadership, board of commissioners, and executive management chose to operate the Authority in this manner. In particular, the Authority's board of commissioners failed to meet its fiduciary responsibility to ensure that the Authority complied with all Federal laws and regulations as well as fully cooperating with HUD OIG. The Authority needs to implement adequate procedures and controls to ensure that its payments for scattered-site rehabilitation using Recovery Act funds comply with applicable laws and regulations. It also needs to implement appropriate measures to ensure that the contract requirements are enforced, including a quality control function. Without these improvements, it will continue to pay for rehabilitation work that is unsupported and may be unreasonable and unnecessary.

## Recommendations

We recommend that the Acting Deputy Assistant Secretary, Public and Indian Housing, Office of Field Operations direct the Authority to

- 1A. Implement adequate procedures and controls to ensure that its payments for scattered-site rehabilitation comply with applicable laws and regulations.
- 1B. Immediately provide documentation to HUD to support the \$957,742 in unsupported costs identified by the audit or reimburse the applicable programs from non-Federal funds for any costs that it cannot support.
- 1C. Immediately provide documentation to HUD to support the remaining \$26,433,077 in payments for scattered-site rehabilitation using Recovery Act funds, if the Authority cannot support the costs referenced in recommendation 1B, or reimburse the applicable programs from non-Federal funds for any costs that it cannot support.
- 1D. Develop and implement controls to ensure that invoices for scattered-site rehabilitation are adequately verified and payments are made in accordance with the terms of the related contracts.
- 1E. Require its board of commissioners to implement appropriate measures to ensure compliance with applicable laws, ordinances, codes, rules, and regulations.
- 1F. Task its OIG to periodically audit a sample of current and future payments for scattered-site rehabilitation to ensure that responsible personnel enforce contract requirements and payments are adequately supported, necessary, and reasonable.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws; regulations; the Authority's administrative plan; HUD's program requirements at 2 CFR Part 225 and 24 CFR Parts 85 and 135; HUD Handbook 7460.8, REV-2; HUD Handbook 2210.18; HUD Litigation Handbook 1530.01, REV-5; and 24 CFR Parts 5, 941, and 982 and sections 85.36 and 905.10.
- The Authority's accounting records; annual audited financial statements for its fiscal years ending March 31, 2008, and March 31, 2009; tenant files; computerized databases including housing assistance payment and family data; board meeting minutes; organizational chart; and Moving to Work documents including the agreement, plans, and reports.
- HUD's Office of Public Housing, Pennsylvania State Office, Recovery Act monitoring reports for the Authority.

We also interviewed the Authority's employees and HUD staff.

To achieve our audit objective, we relied in part on computer-processed data in the Authority's databases. The Authority, however, denied our requests for read-only access to its computerized data and contract and invoice files. Because of these limitations imposed by the Authority, we were prevented from assessing the reliability and completeness of the data to which the Authority allowed us access. Consequently, for our purposes, we used the data and files that the Authority provided without a complete data reliability assessment.

With the assistance of HUD OIG's statistician, we selected a sample of 13 units using a random number generator in RAT-STATS 2007, a common statistical program used for selecting audit samples. Our sample universe was 244 scattered-site units on which rehabilitation work had been completed using Recovery Act funds. Due to difficulties obtaining information from the Authority, we only reviewed 10 of the 13 sample units. We identified deficiencies in all 10 units reviewed. The deficiencies included insufficient documentation of costs, lack of required plumbing, electrical and mechanical permits required by the City of Philadelphia's Department of Licenses and Inspections, and defects in the rehabilitated units. While the sample size was limited, 10 out of 10 randomly selected units found to be problematic are compelling enough to indicate a general pervasive problem. Based on the laws of probability, we can be 95 percent confident that at least 183 of the universe of 244 projects (75 percent) are likely to have similar problems.

Our appraiser developed the rehabilitation estimates presented in the report using construction cost information provided by RSMeans, a nationally recognized cost estimating service. The estimates were based on data from RSMeans' Facilities Construction Cost Data (2010 Edition) and Residential Repair and Remodeling Costs (2009 Edition), and cost information obtained from local suppliers. The cost data was used in calculating demolition cost and repair cost for

each repair item required by the Authority's Statement of Work, along with information obtained from the Authority and observation during inspections of the units. It should be noted that the Authority and its representatives stated that the units were gutted to the stud walls and completely rehabbed. Therefore, the cost estimates were developed taking into consideration the cost of gutting a unit to the stud walls and ceiling joist, hauling debris and installing new sheetrock, taping, floating and priming.

During our review we served three subpoenas on the Authority's former executive director for information commonly provided on similar audits, which the Authority's outside attorneys refused to provide. The subpoenas covered the Authority's tenant files, procurement files, and the first 5 digits of the Social Security numbers for 28 of the Authority's employees. The Authority ultimately complied with the subpoena for the tenant files. However, the remaining subpoenas served during the audit related to the procurement file and the first five digits of the employees' Social Security numbers were not fully complied with. Accordingly, our review was limited due to the Authority's noncompliance with two of the three subpoenas served during our review. A more detailed description of the status of each subpoena is presented on pages 18 and 19 of this report.

We performed our onsite audit work from April through November 2010 at the Authority's office located at 712 North 16<sup>th</sup> Street, Philadelphia, PA. The audit covered the period March 2009 to June 2010 but was expanded when necessary to include other periods.

Except for those instances in which the Authority imposed limitations, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit included tests of internal controls that we considered necessary under the circumstances.

# INTERNAL CONTROLS

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in

financial or performance information, or (3) violations of laws and regulations on a timely basis.

### **Significant Deficiencies**

Based on our review, we believe that the following items are significant deficiencies:

- The Authority did not ensure compliance with applicable laws and regulations concerning record-keeping requirements and documentation to support payments for scattered-site rehabilitation using Recovery Act funds.
- The Authority violated its Moving to Work agreement, its consolidated annual contributions contracts, and HUD regulations when it denied and obstructed the HUD OIG auditors' access to its records and documentation.
- The Authority lacked sufficient procedures and controls to ensure that scattered-site rehabilitation using Recovery Act funds was adequately verified before payment.
- The Authority failed to ensure that its rehabilitation work complied with local code and other contractual requirements.



## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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| Recommendation<br>number | Unsupported 1/ |
|--------------------------|----------------|
| 1B                       | \$957,742      |

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



112 SOUTH 23RD STREET | P215.684.4800  
PHILADELPHIA, PA 19103 | www.PHA.PHILA.GOV

May 12, 2011

John Buck  
U.S. Department of Housing and Urban Development  
Regional Inspector General for Audit  
Philadelphia Region, 3GA  
Wanamaker Building  
100 Penn Square East, Suite 1005  
Philadelphia, PA 19107-3380


Re: Audit of the Philadelphia Housing Authority's  
Scattered Site Public Housing Portfolio

Dear Mr. Buck:

Enclosed please find the response of the Philadelphia Housing Authority ("PHA") to the above draft audit issued by your office on March 18, 2011. Please note this response replaces the response we submitted to your offices on April 7, 2011.

Should you have any questions regarding this matter, please do not hesitate to contact me or Janea Jordan, Acting Director of Audit and Compliance at (215) 684-4283.

Sincerely,



Michael P. Kelly  
Administrative Receiver

Enclosure

**Philadelphia Housing Authority Response to  
HUD Office of Inspector General Audit of  
Scattered Site Public Housing Portfolio  
Draft Dated March 18, 2011**

**Please accept this as the Philadelphia Housing Authority's ("PHA") response to the draft audit issued by your office on March 18, 2011.**

**Comment 1**

**We thank you and your auditors for your work in reviewing PHA's scattered site public housing portfolio. Although, we disagree with many of your findings we will use the information contained within your draft report to assist us in the close-out of our ARRA funded scattered site rehabilitation project.**

**We also acknowledge that this audit presented challenges in that scattered site homes are not uniform so the rehabilitation work varied widely from home to home.**

**Comment 2**

**Please note that we believe all federal dollars expended on this ARRA funded project have been accounted for and furthermore, PHA has received appropriate value for the work completed. In addition, PHA residents will realize the intended impact of the improvements.**

**Again, thank you and we look forward to working with the local HUD office to close out the findings as expeditiously as possible.**

## OIG Evaluation of Auditee Comments

- Comment 1** The Authority does not state what findings it disagrees with here or why it disagrees, so we cannot address its disagreement here. It should be noted again however, that the OIG conducted the audit in accordance with generally accepted government auditing standards, conducted interviews and requested relevant information and documentation throughout the audit. All analysis supporting the conclusions in the audit report and all statements in the report attributed to Authority officials and its outside counsels are properly documented in the audit work papers.
- Comment 2** We disagree with the Authority's assertion that all Federal dollars have been accounted for and that it received appropriate value for the rehabilitation work completed by its contractor. As explained in the audit report and discussed at the exit conference, the audit evidence showed that the Authority did not provide required documentation reflecting a breakdown of costs for the principal categories of work its contractor performed on the scattered-site units. We thoroughly inspected the audit sample of 10 units, supporting invoices and other documentation the Authority provided during the audit, and although we have concerns about the entire \$27.4 million the Authority expended we were very conservative in our estimate and only categorized the \$958,000 related to the sample units we reviewed in detail as unsupported costs in appendix A to this audit report. Also, our analysis of the Authority's actual costs versus the estimated maximum possible costs to rehabilitate 5 of the 10 units showed that the Authority paid significantly more than the absolute maximum to rehabilitate 3 of the units. For those 3 units, we estimated that even if the properties had been gutted and completely rehabilitated, which our appraiser opined did not occur, the Authority spent up to \$20,000 more than it should have needed for each property. While we do not question whether rehabilitation work was performed, we do question whether the payments were supported, necessary, and reasonable for these properties as well as the units we did not inspect. At the audit exit conference conducted on April 1, 2011, the Authority acknowledged it did not provide the appropriate documentation required to support the payments for the scattered-site units to the OIG. Authority officials further stated they would provide the needed support but as of the date of this audit report they have not done so.

# Appendix C

## EXAMPLE OF PURCHASE ORDER AND RELATED INVOICE

**Philadelphia Housing Authority**  
Purchase Order

2012 CHESTNUT ST  
PHILADELPHIA PA 19103  
United States

Purchase Order  
000083880

**CHANGE ORDER - REPRINT** Dispatch via Print

|                 |               |                           |          |
|-----------------|---------------|---------------------------|----------|
| Purchase Order  | Date          | Revision                  | Page     |
| PH000-000883880 | 05/18/2009    | 1                         | 1        |
| Ship Via        | Freight Terms | FOB Destination - Prepaid | Currency |
| COMCON          |               |                           | USD      |

Buyer: [REDACTED] Phone: [REDACTED]

Ship To: PHILADELPHIA PA 19145  
United States

Bill To: United States

Replenishment Option: Standard

**Note: PO NUMBER MUST APPEAR ON INVOICE AND ALL CORRESPONDENCE**

| Line-Sch | Item/Description         | Mfg ID | Quantity     | UOM | PO Price | Extended Amt | Due Date   |
|----------|--------------------------|--------|--------------|-----|----------|--------------|------------|
| 1-1      | CONSTRUCTION RENOVATIONS |        | 2,473,312.00 | EA  | 1.00     | 2,473,312.00 | 05/15/2009 |

Contract ID: 003602-C Contract Line: 2 Schedule Total: 2,473,312.00  
 CBMO 7 Releaser: 344  
 Revised from \$2,047,500.00 to \$2,473,312.00

Item Total 4000000000000000075 2,473,312.00

Subject: Construction Management Services  
 PHA Contract No. P-003602-C Task Order #0021  
 Task Order for Scattered Site Vacant Unit  
 Rehabilitation Project (300 units)  
 CBMO 7

Notice to Proceed  
 NOT TO EXCEED VALUE \$2,047,500.00  
 Revised 1/7/2010 \$ 2,473,312.00

Dear Mr. [REDACTED]

Pursuant to the terms of the subject contract for Construction Management Services and PHA Task Order Request for Proposal issued April 17, 2009, Addendum #1, Request for Information Questions ("RFI") dated May 1, 2009 and RFI Answers dated May 5, 2009 as well as your revised offer dated May 14, 2009, for the above project, you are hereby directed to commence work on Monday, May 18, 2009, and complete all work as prescribed respective to this notice by May 17, 2010. Please secure and deliver all necessary bonds, insurance certificates, and other ancillary documents to Mr. Terry Hale, Project Manager, at 12 S. 23rd Street, 6th Floor, Philadelphia, PA. Please deliver these items to Mr. Hale no later than 11:00 a.m., May 21, 2009. Note that no on-site work can commence until all bonds and insurance certificates are in place.

Kindly review all provisions of your contract so that you will be familiar with the requirements therein. I am the Contracting Officer and duly authorized to administer your agreement for, and in the name of the Philadelphia Housing Authority. You must direct all written communications that pertain to time, money, or contract language changes to my office. Do not perform any work other than that found in your agreement without my specific written authorization. No one else is authorized to make any commitment or changes that will affect price, quality, quantity, delivery, or any other terms or conditions of the contract. The PHA will not be bound or held liable for any expenses not specifically agreed to by the Contracting Officer. I am the Contracting Officer and as such am duly authorized to administer the above referenced contract on behalf of PHA. My telephone number is 215-694-4757.

As noted above, please be advised that only the Contracting Officer can change the terms and/or conditions of your contract. If direction is provided which is out of the scope of your contract from someone other than the Contracting Officer, take no action but contact me in writing within 10 days. Failure to do so may result in denial of payment for those costs incurred associated with the out-of-scope work and activities.

PAYMENT # 907-042431-02  
 PAYMENT AMOUNT \$ 46,076.29 / \$ 5,119.59 (Ret.)  
 RELEASE # \_\_\_\_\_  
 PAYMENT DATE: 4/15/10  
 CONTRACTING OFFICER: [Signature]  
 INVOICE(S) \_\_\_\_\_

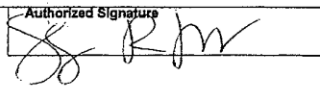
RECEIVER NO #  
142193

VOUCHER NO #  
02517916

Total PO Amount 2,473,312.00

Price quoted on FOB, point of destination. Payment to be made by Buyer within forty(40) days of acceptance of goods by Buyer and receipt of invoice in full. This Purchase Order is issued subject to and inclusive of the Terms and Conditions on the reverse hereof. Acceptance of this offer is expressly limited to the exact terms described herein, and any attempt to alter or omit such terms shall be deemed a rejection and PHA shall have no further obligation. Seller may enforce compliance of these terms after by signing below or commencing delivery.

PHA 028 EDITION DATE 2/03

Authorized Signature  
  
 NP

**APPLICATION AND CERTIFICATE FOR PAYMENT**

AIA DOCUMENT G702

TO OWNER: Philadelphia Housing Authority  
12 South 23rd Street  
Philadelphia, PA 19103

PROJECT: PHA Scattered Sites 300 Units  
Purchase Order #000003880  
Ludlow  
2008 N 8th Street

APPLICATION NO.: 2  
PERIOD TO: 02/28/10  
PROJECT NO.: 130400  
INVOICE NO.: 907-242431-02  
CONTRACT DATE:

FROM CONTRACTOR: [REDACTED]

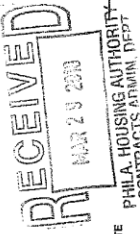
ARCHITECT: [REDACTED]

**CONTRACT FOR:**

**CONTRACTORS APPLICATION FOR PAYMENT**

APPLICATION IS MADE FOR PAYMENT, AS SHOWN BELOW, IN CONNECTION WITH THE CONTRACT CONTINUATION SHEET, AIA DOCUMENT G703, IS ATTACHED.

THE UNDERSIGNED CONTRACTOR CERTIFIES THAT TO THE BEST OF THE CONTRACTOR'S KNOWLEDGE, INFORMATION AND BELIEF THE WORK COVERED BY THIS APPLICATION FOR PAYMENT HAS BEEN COMPLETED IN ACCORDANCE WITH THE CONTRACT DOCUMENTS, THAT ALL AMOUNTS HAVE BEEN PAID BY THE CONTRACTOR FOR WORK FOR WHICH PREVIOUS CERTIFICATES FOR PAYMENT WERE ISSUED AND PAYMENTS RECEIVED FROM THE OWNER, AND THAT CURRENT PAYMENT SHOWN HEREIN IS NOW DUE.



ORIGINAL CONTRACT SUM \$89,410.39  
Change Orders \$0.00  
CONTRACT SUM TO DATE \$89,410.39  
TOTAL COMPLETED & STORED TO DATE \$51,648.26  
RETAINAGE \$5,184.83  
TOTAL EARNED LESS RETAINAGE \$46,663.43  
LESS PREVIOUS CERTIFICATES FOR PAYMENT [REDACTED]

CURRENT PAYMENT DUE \$46,076.29  
BALANCE TO FINISH, INCL. RETAINAGE \$42,746.96

| CHANGE ORDER SUMMARY         | ADDITIONS | DEDUCTIONS |
|------------------------------|-----------|------------|
| TOTALS                       |           |            |
| NET CHANGES BY CHANGE ORDERS |           |            |

BY: [REDACTED] DATE: 03/26/10  
STATE: [REDACTED] COUNTY OF: Philadelphia  
SUBSCRIBED AND SWORN TO BEFORE ME THIS 26 DAY OF March, 2010

NOTARY PUBLIC: [REDACTED]  
MY COMMISSION EXPIRES: [REDACTED]

**ARCHITECT'S CERTIFICATE FOR PAYMENT**

IN ACCORDANCE WITH THE CONTRACT DOCUMENTS, BASED ON ON-SITE OBSERVATIONS AND THE DATA COMPRISING THE ABOVE APPLICATION, THE ARCHITECT CERTIFIES TO THE OWNER THAT TO THE BEST OF THE ARCHITECT'S KNOWLEDGE, INFORMATION AND BELIEF THE WORK HAS PROGRESSED AS INDICATED, THE QUALITY OF THE WORK IS IN ACCORDANCE WITH THE CONTRACT DOCUMENTS, AND THE CONTRACTOR IS ENTITLED TO PAYMENT OF THE AMOUNT CERTIFIED.

AMOUNT CERTIFIED: [REDACTED] \$

ARCHITECT: [REDACTED]  
BY: [REDACTED] DATE: [REDACTED]  
THIS CERTIFICATE IS NOT NEGOTIABLE. THE AMOUNT CERTIFIED IS PAYABLE ONLY TO THE CONTRACTOR NAMED HEREIN. ISSUANCE, PAYMENT AND ACCEPTANCE OF PAYMENT ARE WITHOUT PREJUDICE TO ANY RIGHTS OF THE OWNER OR CONTRACTOR UNDER THIS CONTRACT.

Project: PHA Scattered Sites 300 Units  
 Contract #: 02282010  
 Job #: 02282010

APPLICATION: 2  
 APPLICATION DATE: 02/28/2010  
 PERIOD TO: 02/28/2010

| A<br>ITEM<br>NO. | B<br>DESCRIPTION OF WORK/<br>LOCATION | C<br>SCHEDULED VALUE |                  |              | D<br>WORK COMPLETED (0-4)       |              | E<br>THIS<br>PERIOD | F<br>RETAINAGE<br>THIS PERIOD | G<br>MATERIAL<br>PRESENTLY<br>STORED | H<br>TOTAL<br>COMPLETED<br>AND STORED<br>TO DATE | I<br>PER<br>%<br>(H/C) | J<br>BALANCE<br>TO FINISH | RETAINAGE |
|------------------|---------------------------------------|----------------------|------------------|--------------|---------------------------------|--------------|---------------------|-------------------------------|--------------------------------------|--------------------------------------------------|------------------------|---------------------------|-----------|
|                  |                                       | ORIGINAL             | CHANGE<br>ORDERS | CURRENT      | FROM<br>PREVIOUS<br>APPLICATION |              |                     |                               |                                      |                                                  |                        |                           |           |
|                  | 2006 N 9th Street                     |                      |                  |              |                                 |              |                     |                               |                                      |                                                  |                        |                           |           |
|                  | Unit Retain Cost                      | \$ 81,867.39         |                  | \$ 81,867.39 | \$ 652.38                       | \$ 51,195.68 | \$ 5,119.59         |                               | \$ 51,848.26                         | 63.33%                                           | \$ 30,019.13           | \$ 5,184.83               |           |
|                  | CM Contingency                        | \$ -                 |                  | \$ -         | \$ -                            | \$ -         | \$ -                |                               | \$ -                                 | #DIV/0!                                          | \$ -                   | \$ -                      |           |
|                  | Allowance                             | \$ 7,543.00          |                  | \$ 7,543.00  | \$ -                            | \$ -         | \$ -                |                               | \$ -                                 | 0%                                               | \$ 7,543.00            | \$ -                      |           |
| PROJECT TOTAL    |                                       | 89,410.39            |                  | 89,410.39    | 652.38                          | 51,195.68    | 5,119.59            |                               | 51,848.26                            | 57.99%                                           | 37,562.13              | 5,184.83                  |           |

## Appendix D

### CHART OF CODE AND CONTRACTUAL VIOLATIONS

| Audit sample unit # | Class B steel fire door not installed | Closet doors not installed | Closets not cased out to 24 inches in depth | 24-hour exigent health and safety electrical hazard * (1) | Hot water flue not properly sloped (1) | Separate circuits and breakers GFCI | Open grounds outlets ** (1) | Open grounds GFCI *** (1) | Electrical hot/neutral reverse ** (1) | Smoke detector not wired properly (1) | Missing carbon monoxide detector (1) | Total |
|---------------------|---------------------------------------|----------------------------|---------------------------------------------|-----------------------------------------------------------|----------------------------------------|-------------------------------------|-----------------------------|---------------------------|---------------------------------------|---------------------------------------|--------------------------------------|-------|
| 1                   | 1                                     | 4                          |                                             |                                                           |                                        | 1                                   |                             |                           |                                       |                                       |                                      | 6     |
| 2                   |                                       |                            |                                             |                                                           |                                        |                                     |                             |                           |                                       |                                       |                                      |       |
| 3                   | 1                                     |                            |                                             |                                                           | 1                                      | 1                                   | 2                           | 1                         |                                       |                                       | 1                                    | 7     |
| 4                   |                                       |                            |                                             |                                                           |                                        | 1                                   |                             |                           | 1                                     |                                       |                                      | 2     |
| 5                   | 1                                     |                            |                                             |                                                           | 1                                      |                                     |                             | 1                         |                                       |                                       |                                      | 3     |
| 6                   |                                       | 4                          |                                             | 2                                                         |                                        | 1                                   |                             |                           |                                       |                                       |                                      | 7     |
| 7                   | 1                                     | 6                          |                                             |                                                           |                                        |                                     |                             | 1                         | 1                                     |                                       |                                      | 9     |
| 8                   |                                       |                            | 2                                           |                                                           |                                        | 1                                   |                             |                           |                                       |                                       |                                      | 3     |
| 9                   | 1                                     |                            |                                             |                                                           |                                        |                                     |                             |                           |                                       |                                       |                                      | 1     |
| 10                  |                                       | 3                          |                                             |                                                           |                                        |                                     | 2                           |                           |                                       | 1                                     |                                      | 6     |
|                     | 5                                     | 17                         | 2                                           | 2                                                         | 2                                      | 5                                   | 4                           | 3                         | 2                                     | 1                                     | 1                                    | 44    |

\* Meter base cover is missing, permitting exposed contacts in breaker panel box.

\*\* Open grounds and hot/neutral reverse are not to code.

\*\*\* Code requires that open grounded ground fault circuit interrupters (GFCI) be labeled as “no equipment ground.”

(1) Health- and safety-related violations