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REPORT BY THE U.S.

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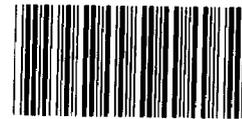
# General Accounting Office

## Review Of Selected Contracts Awarded By The Cincinnati Service Office, Department Of Housing And Urban Development

The Department of Housing and Urban Development's Cincinnati Service Office awarded three contracts at inflated prices for grass-cutting, painting apartment interiors, and tiling apartment floors in HUD-owned multi-family housing projects. These services are normally provided by or contracted for by project managers but were transferred to the service office for centralized procurement.

GAO believes that HUD's assumption of these responsibilities was inappropriate because it weakened the project managers' responsibility for and control over project operation and maintenance.

GAO is making several recommendations to resolve the deficiencies noted, including returning the responsibility for grasscutting, painting, and tiling to project managers.



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APRIL 12, 1979

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

COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

APRIL 11, 1979

B-167637

The Honorable Patricia Roberts Harris  
Secretary of Housing and Urban  
Development

Dear Mrs. Harris:

*DLG00021*  
As part of an ongoing review of the management and disposition of the Department of Housing and Urban Development-(HUD) owned multifamily housing projects for the Subcommittee on Manpower and Housing, House Committee on Government Operations, we identified three contracts awarded by the Cincinnati Service Office during 1978 which we believe warrant your immediate attention. These three contracts were for grasscutting, painting apartment interiors, and tiling apartment floors for which HUD had paid about \$920,000 more than appeared reasonable as of January 1979. Also, HUD may have paid an additional \$100,000 for services it did not receive, consisting of payments for painting and tile services not performed and duplicate and questionable payments for grasscutting and painting services.

These services are normally the responsibility of project managers and were being performed by them until the Cincinnati Service Office took over this responsibility. HUD officials told us that HUD took over contracting for these services primarily because it was dissatisfied with the way project managers were handling it. They told us that by contracting for the work, HUD could exercise better control to assure that the work was done properly. This would also eliminate some of the criticism from various sources that HUD had been providing substandard housing.

We believe that HUD's assumption of these project manager responsibilities was inappropriate because it weakened the project manager's responsibility for and control over project operation and maintenance. It also highlighted the questionable contracting practices and controls within the Cincinnati Service and Columbus Area Offices. The three contracts were awarded at inflated *DLG00022*

prices, and HUD reviews of billed invoices were done perfunctorily and failed to identify obvious inconsistencies in the invoices. Also, invoiced costs for all contracts were not being recorded by individual contract, which would have identified duplicate billings.

Furthermore, the two specification writers which HUD contracted to estimate the cost and develop the specifications for the procured services performed extremely poorly. Also, we question the need for HUD to contract for developing specifications for services as simple as grasscutting, painting, and tiling; particularly since some specifications, such as grasscutting, are already included in the HUD handbook.

The Cincinnati contracting officer left HUD in June 1978. In December 1978 the HUD Columbus Area Office awarded him a roof repair contract. The contract was canceled in February 1979 following receipt of his proposed amendment to increase the cost of the contract.

To prevent the unnecessary expenditure of funds and to provide reasonable assurance that the Government pays only for services it receives, we recommend that you review the Area Offices' contract practices to determine whether they comply with HUD contract policies. We also recommend that you:

--Issue no further work orders under the tile contract which expires on May 15, 1979.

--Not renew the expired grasscutting and painting contracts.

--Return the responsibility for painting, tiling, and grasscutting to the project managers. They should be held accountable to manage the projects efficiently and effectively. HUD should monitor project managers' performance and replace managers that do not perform satisfactorily.

--Ascertain whether continued contracting with the two specification writers involved in the three contracts is justified in view of the matters disclosed. Also, determine whether contracting for all specification writing in the Columbus Area Office is consistent with HUD policy and requirements.

- Withhold payment on unpaid invoices on the painting and tiling contracts until the matter is resolved as follows. Require all managers of projects where painting and tiling was done in 1978 by the contractors in question to assess the accuracy of the square feet shown on all invoices submitted by the contractors. The project managers should measure carefully the wall and ceiling area that could be painted in each size apartment to establish a reasonable standard. The project managers should then determine whether there is a reasonable explanation which would justify payment of the invoices as billed in all cases where the square feet invoiced by the contractor exceeded their standard. The project managers should remove new tile on a test basis to determine whether the underlayment was removed and replaced as invoiced.
- Obtain refunds for unjustified payments made to the paint and tile contractors.
- Record contract costs by individual contract, which would help detect duplicate charges.
- Review all contracts awarded by the Cincinnati contract officer during his tenure.
- Refer the matters in question to HUD's Office of Inspector General for further investigation of these and similar contracts.

Columbus Area Office officials generally agreed with our recommendations. They said that responsibility for contracting for grasscutting will be returned to all project managers. However, for other services such as painting, the Area Office will base its determination on its evaluation of each project manager's capability and willingness to assume the responsibility. Area Office officials said they have no alternative but to continue contracting for specification writing because the present manpower ceiling prevents hiring personnel to develop the necessary expertise in-house.

We briefed headquarters officials on February 1, 1979, concerning the matters discussed in this report. They told us they would investigate these matters immediately and would take appropriate corrective action. On February 13, 1979, these officials told us they had confirmed the problems disclosed and were taking corrective action as we recommended.

The questionable contracting practices and controls and payments for services not received are discussed in appendix I.

We shall be pleased to discuss any of these matters with you or members of your staff and shall appreciate receiving your comments on any action taken or planned.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the four committees mentioned above, the House Subcommittee on Manpower and Housing, House Committee on Government Operations; and the Director, Office of Management and Budget. We are also sending copies to your Inspector General and Assistant Secretary for Housing Management; and the Department of Justice.

Sincerely yours,



Henry Eschwege  
Director

QUESTIONABLE CONTRACTING PRACTICES IN OBTAINING  
MAINTENANCE SERVICES FOR HUD-OWNED  
MULTIFAMILY HOUSING IN THE COLUMBUS, OHIO, AREA OFFICE

BACKGROUND

HUD, pursuant to the provisions of the National Housing Act, as amended (12 U.S.C. 1701 et seq.), insures mortgage loans made by private lending institutions on various types of housing, including multifamily rental housing for low- and moderate-income families. In addition to insurance, HUD provides interest subsidies for housing intended for low- and moderate-income families. Because of mortgage defaults, HUD has acquired and is operating 22,800 housing units in 271 of these previously subsidized multifamily projects. The Columbus, Ohio, Area Office had 37 of these projects as of February 1979.

HUD operates and maintains its projects, through private real estate firms and area management brokers, until it sells or otherwise disposes of them. Project managers are responsible for day-to-day management of the projects, including routine maintenance.

We are nearing completion of an evaluation of HUD's management of its owned multifamily housing for the Subcommittee on Manpower and Housing, House Government Operations Committee. During our review, we noted what appeared to be excessively high costs for services contracted for several HUD-owned projects in Cincinnati and Dayton, Ohio, by HUD's Cincinnati Service Office. We, therefore, did enough work to ascertain the reasonableness of the costs being incurred.

EXCESSIVE PRICES PAID  
FOR MAINTENANCE SERVICES

Our limited review of three contracts showed that HUD has incurred costs of about \$920,000 more than appeared reasonable for grasscutting, painting of apartment interiors and replacing of floor tiles as follows:

Grasscutting	\$190,000
Painting	715,500
Floor tile	<u>14,500</u>
Total	<u>\$920,000</u>

Grasscutting

HUD contract number 046-78-2347N was negotiated with a private firm under the Small Business Administration section 8(a) program 1/ to cut grass at eight HUD-owned multifamily projects in Ohio from April 15, 1978, to October 31, 1978. The contractor was to receive \$15,700 each time the grass was cut at the following projects.

1. Olive Hill, Dayton.
2. Western Manor, Dayton.
3. Colonial Hills, Dayton.
4. Fay Apartments, Cincinnati.
5. Grandview, Cincinnati.
6. Eastwood, Cincinnati.
7. Westcott, Cincinnati.
8. Vernon Convalescent, Cincinnati.

The \$15,700 represents an average of \$146 per acre of grass cut, ranging from a low of \$120 per acre to a high of \$464 per acre. We believe the maximum price for one cutting at the eight projects should have been about \$5,300, or about \$50 per acre. Our estimate is based on 3/4 of a man-day to cut 1 acre of grass and prices paid by three other HUD-insured projects and three of the HUD-owned projects when they contracted for grasscutting. Total payments under the contract will be about \$290,000. On the basis of our estimate, the payments should not have been more than \$100,000; therefore, HUD has incurred unnecessary costs of about \$190,000 under this contract. See appendixes II and III for an explanation of our estimates.

The contractor agreed that the 3/4 man-day per acre standard for cutting grass that we used was reasonable but explained that edging, which is required by the specifications, is time consuming. Undoubtedly, edging requires additional time. It is unlikely, however, that edging once every four times the grass is cut, as required by the specifications, would account for the substantial cost per

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1/Section 8(a) of the Small Business Act of 1953 authorizes the Small Business Administration to enter into procurement contracts with Federal agencies and, in turn, to subcontract the work to small businesses. The program currently emphasizes providing subcontracts to businesses owned by socially or economically disadvantaged persons to enable them to become competitive with other firms bidding on Government contracts.

acre difference between our estimate and the contracted amount. It should also be noted that two of the HUD-insured projects listed in appendix III obtained grasscutting and edging for \$39 and \$31 per acre.

The contractor expressed concern about the low productivity of his grasscutting employees on the HUD projects. He explained that most of them are temporary and unaccustomed to good work habits. In contrast, the contractor acknowledged that the more permanent employees who generally work for his private business are considerably more productive. In effect, HUD is absorbing the higher cost attributable to the inefficient portion of his operation.

Because we considered the contract costs to be unreasonable, we inquired into the basis for the Government estimates which were used to negotiate the contract prices for grasscutting at two of the eight projects (Western Manor and Olive Hill). A HUD Cincinnati Service Office official told us HUD had contracted with a specification writer to develop the grasscutting specifications and prepare the cost estimates because the Cincinnati office lacked the necessary experience and knowledge.

The specification writer estimated that it would cost \$850 for each cutting at Western Manor and \$550 for each cutting at Olive Hill. (See app. IV for a discussion of the specification writer's estimating procedure.) The specification writer received a \$1,110 fee for preparing the grasscutting specifications and estimates.

We measured the grass area at these two projects and found that Western Manor has 2.2 acres of grass and Olive Hill has 5 acres of grass. Accordingly, the net effect of the specification writer's estimating procedure was to develop grasscutting estimates of \$386 per acre for Western Manor and \$110 per acre for Olive Hill. Not only are these amounts unreasonable, but it is inconceivable that the same estimating procedure used for both projects should result in such widely different estimates if reasonable care was exercised in assigning values to the various factors.

The HUD Cincinnati Service Office then negotiated contract prices of \$1,020 per cutting for Western Manor and \$600 per cutting for Olive Hill. These prices were \$170 and \$50 per cutting higher, respectively, than the specification writer's estimates and represented a price of \$464 per acre for Western Manor and \$120 per acre for Olive Hill. The grasscutting contractor told us that he did not want the contract for these two projects because he felt they would create too much of a disruption in his normal operation.

Nevertheless, he stated that he wanted to be responsive to the HUD request and quoted exaggerated prices, which were accepted. HUD was unable to explain why the higher prices were accepted.

In addition, the contractor did not always do an adequate job of grasscutting. Personnel at one project told us that in some cases the contractor left loose grass on the sidewalk for project personnel to pick up. The contractor was also paid in full for an incomplete grasscutting at this project, which the resident project manager considered unacceptable. One week after leaving some of the grass area uncut, the contractor cut the grass again. This cutting corrected the deficiency in the previous one and HUD paid for two complete cuttings.

HUD requires project managers to determine whether a grasscutting job is satisfactory. The manager's inspection report, submitted to the HUD Area Office, authorizes HUD to pay the contractor, assuming that the work was satisfactory. Our limited review showed that neither the project managers nor the HUD personnel responsible for reviewing the inspection reports adequately fulfilled their responsibilities.

We noted that grasscutting payments were often based on inspections dated as late as 30 days after the grass was cut. For example, the inspection reports for 30 of 126 cuttings paid at the time of our review were dated from 6 to 30 days after the grass was cut. In two other cases, the inspection dates were 2 and 4 days before the grass was cut. A casual reading of the inspection report would have detected this discrepancy. Furthermore, in 13 cases a second or third cutting had been made before the first cutting was inspected. In these 13 cases, 11 days or more had passed since the first cutting.

### Painting

Contract number 046-78-2283 was awarded to a private firm as lowbidder to paint and perform wall repair, as needed, for an unspecified number of HUD-owned apartments from January 3, 1978, to January 3, 1979. Under this contract, HUD was to pay \$0.26 per square foot for painting a vacant apartment and \$0.28 per square foot for painting an occupied apartment. These contract costs were consistent with estimates prepared by a specification writer before the invitations to bid were sent out. The specification writer who prepared the painting estimates was the same person who prepared the grasscutting estimates discussed earlier. The writer received \$400 for preparing the painting estimates and specifications.

Under the contract, HUD paid the contractor about \$800 for painting two-bedroom apartments with an average surface area of 3,000 square feet and about \$1,050 for painting three-bedroom apartments with an average surface area of 4,000 square feet.

The following schedule compares the 1977 costs for three HUD-owned Ohio projects and the 1978 costs for three HUD-insured Ohio and two HUD-owned Indiana projects with the costs of the centralized contract. The centralized contract costs are about 3 to 10 times more than what it cost when the project managers contracted for the painting.

	Number of bedrooms	Average cost, based on contract price	Cost incurred		
			By project		By HUD Indianapolis Area
			With project personnel	Under contract	Office under contract
Western Manor Dayton, Ohio	2 3	\$ 800 1,050	\$100 120	\$ - -	\$ - -
Olive Hill Dayton, Ohio	2 3	800 1,050	85 110	250 300	- -
Wide World II Cincinnati, Ohio	3	1,050	-	260	-
Middlebury Village Elkhart, Indiana	2	800	126	-	-
Pinetree Village Anderson, Indiana	2 3	800 1,050	- -	- -	200 220
Summit Square Dayton, Ohio (note a)	2 3	800 1,050	103 116	- -	- -
Lakeview Estates Dayton, Ohio (note a)	3	1,050	-	175	-
North Lake Hills Dayton, Ohio (note a)	2 3	800 1,050	- -	125 175	- -

a/ HUD-insured project.

As noted above, neither the projects nor the HUD Indianapolis Area Office were paying more than \$250 for two-bedroom and \$300 for three-bedroom apartments even when painting and minor wall preparation were contracted for. The prices are also consistent with prices that we obtained locally. For example, the cost of painting and minor wall preparation ranged from \$195 to \$270 for vacant two-bedroom apartments and \$275 to \$315 for vacant three-bedroom apartments. Ironically, the lowest of the local estimates that we obtained was from the same paint contractor doing the painting for HUD under the centralized contract.

The paint contract provided that the contractor repair wall openings up to 16 square feet. We believe that provisions for drywall repair of this magnitude should not have been part of the specifications because the contractors' bids undoubtedly were inflated to provide for such contingency in every apartment. Also, the specifications appear to have caused confusion among the contractors, whose bids ranged from a low of 26 cents per square foot to over \$4.80 per square foot.

Our estimates did not include repairs as discussed above. Therefore, we have added \$50 per apartment to our estimate, which we believe to be extremely generous based on our review at Western Manor and Olive Hill. For example, at Western Manor the contractor did major drywall repair in only 1 of the 64 apartments in our sample, but the prices for all 64 were based on the contract price. The repair in this apartment (1820E) was limited to one bedroom which had fire damage. The contractor not only received \$1,050 for painting 4,037 square feet of area in this three-bedroom apartment, but was also paid \$646 for washing the smoke damage from the same 4,037 square feet. The Western Manor resident manager told us that the contractor refused to repair drywall damage of less than 16 square feet in another apartment (1820C). This repair was eventually done by project personnel.

In view of the preceding, we believe that a reasonable average price for painting and wall repair in accordance with the specifications would not exceed \$300 for two-bedroom apartments and \$350 for three-bedroom apartments. On this basis, the unnecessary cost to the Government under this contract has been about \$500 for each two-bedroom apartment and about \$700 for each three-bedroom apartment. As of January 1979, the contractor had been paid for painting 1,225 apartments. Other invoices had been received for work done through January 3, 1979, when the contract expired but had not yet been paid.

Our review included 96 of the two- and three-bedroom apartments. Of this total, about 60 percent were two-bedroom apartments and 40 percent were three-bedroom apartments. Assuming that these same percentages apply to the entire 1,225 apartments, whose contracts have been paid, we estimate that the unnecessary cost to the Government under this contract has been about \$715,500.

### Tile

HUD negotiated contract number 046-78-2348N with a private firm under the Small Business Administration section 8(a) program to do tile and carpet work in an unspecified number of apartments during the period May 15, 1978, to May 15, 1979. Under the tile portion of the contract, the contractor was to remove old underlayment and tile, as needed, and install new underlayment and tile. For those services, HUD contracted to pay \$3.12 per square foot in vacant apartments and \$3.83 per square foot in occupied apartments. These prices were 70 cents and 81 cents per square foot higher than the HUD specification writer's estimates of \$2.42 per square foot vacant and \$3.02 per square foot occupied for these same services. The specification writer was paid \$450 for developing the specifications and preparing the cost estimates. HUD officials were unable to explain why the higher negotiated amounts were accepted.

We obtained quotations from three contractors for similar services that ranged from \$1.57 per square foot for a vacant apartment to a maximum of \$2.10 per square foot for an occupied apartment. These estimates are substantially lower than the specification writer's cost estimate and about half the contract price. Based on the quotations we obtained, the estimated unnecessary cost to HUD under this contract ranges from \$1,211 to \$1,568 for a typical occupied 700-square foot apartment on which this work was done, as shown in the following schedule.

Estimated Unnecessary Cost to Government  
under Contract Compared with  
Quotations from Cincinnati Businesses

<u>Description</u>	Contract cost per square foot May 1978-May 1979	Cost per square foot based on quotes obtained from Cincinnati businesses December 1978		
		<u>Firm A</u>	<u>Firm B</u>	<u>Firm C</u>
Removing old underlayment and tile	a/\$1.55	\$ .45	\$ .50	\$ .68
Furnish and install masonite underlayment	.75	.50	.50	.56
Furnish and install vinyl tile	.80	.60	.59	.84
Service charge	.02	—	—	—
Total for vacant apartment	3.12	1.55	1.59	2.08
Additional charge for occupied apartment	b/ 0.71	.02	—	.02
Total for occupied apartment	<u>\$3.83</u>	<u>\$1.57</u>	<u>\$1.59</u>	<u>\$2.10</u>
Total for 700-square-foot occupied apartment	<u>\$2,681.00</u>	<u>\$1,099.00</u>	<u>\$1,113.00</u>	<u>\$1,470.00</u>
Unnecessary cost under contract compared with firms A, B, and C		<u>\$1,582.00</u>	<u>\$1,568.00</u>	<u>\$1,211.00</u>

a/Includes \$1.20 per square foot to remove underlayment and \$0.35 per square foot to remove tile.

b/Represents 23 percent add on for occupied apartment.

The trade practice appears to be to remove the old underlayment and tile only if necessary. Our review of paid invoices disclosed that tile work was done in only 24 apartments and that the contractor charged for removal of some underlayment in 14 of the apartments. Without the underlayment charge, the contractor price is reduced substantially, but it is still about 72 percent higher than the quotations we obtained (\$1.93 1/ per square foot under contract versus \$1.12 2/ per square foot from Firm A, the lowest bidder).

As of January 1979, HUD had paid the contractor about \$103,300 for all tile and carpet work done under this contract. Of this total, \$34,100 was for tile work done in 24 apartments for an average of about \$1,420 per apartment. On the basis of a 72-percent higher price, we estimate that the total unnecessary cost to the Government for the 24 apartments has been about \$14,500 and will increase by about \$600 for each apartment invoiced in the future at an average cost of \$1,420. If payments for other apartments are higher, as indicated by some outstanding unpaid invoices, the future unnecessary cost per apartment will be more than \$600.

Furthermore, there may be serious questions about the contractor's capability to do the work satisfactorily. For example, at least seven project managers have complained about the quality of the contractor's tile and carpet work, as well as his failure to respond to their requests for work. In at least one instance, the project manager refused to accept the work done. The work in question, invoiced at \$2,334, involved overcharges by the contractor, as discussed on page 12.

#### PAYMENTS FOR SERVICES NOT RECEIVED

Our review of the three contracts revealed that HUD may have paid an additional \$100,000 for services it did not receive, consisting of \$92,000 for overestimating the surface area painted, \$7,000 for duplicate and questionable payments for grasscutting and painting, and \$1,000 for tile work not done. A discussion of these overcharges follows.

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1/Contract price of \$3.83 minus \$1.90 (\$1.55 plus \$0.35 representing 23 percent add on).

2/Firm A's price of \$1.57 minus \$0.45.

Overestimating surface area painted

Our measurement of typical apartments in two projects indicated that the paint contractor has consistently charged for painting more surface area than possible at apartments in the projects. (Western Manor and Olive Hill.) We also measured two apartments at the Navarre Garone project which were not typical of other apartment sizes in the project. One of these apartments was assessed charges for more surface area than was painted. The overcharges occurred on 61 of the 96 two-and three-bedroom apartments we reviewed. For 40 apartments the overcharges ranged from 6 to 52 percent.

The overcharges were undetected primarily because HUD did not require project managers to verify the area of square feet invoiced by the contractor. In fact, the inspection reports signed by the project managers provide for only a general acceptance of the quality of the work done. Also, the project managers were not aware of the paint contract requirements and allowed the contractor great latitude in the scope of his work. Based on our limited review at these three projects, the contractor's overcharges may average about \$75 per apartment, or about \$92,000 for the 1,225 apartments for which invoices and payments had been made as of January 1979.

The specifications provided that the contractor must use sufficient coats of paint to provide proper coverage, film thickness, and finish appearance. If more than one coat were required to achieve a satisfactory appearance, the contractor would still be paid as if one coat were applied. The rate per square foot bid by the contractor was to provide for such contingencies. The specification writer told us that he also stressed this point to the HUD contracting officer before the prebid conference with the prospective bidders.

Our estimates of wall and ceiling surface at the three projects are shown in the schedule below.

<u>Project</u>	<u>Estimated square feet</u>	
	<u>two-bedroom apartment</u>	<u>three-bedroom apartment</u>
Western Manor	3,100	4,200
Olive Hill	3,100	4,200
Navarre Garone	6,500	7,100

The contractor's invoiced measurements of two- and three-bedroom apartments, however, were generally greater than our figures. For example, 61 of the 96 two- and three-bedroom apartments in our review at the three projects were invoiced an average of 437 square feet in excess of our measurements. At an average rate of 27 cents per square foot, this represents an average overcharge of about \$75 per apartment when spread over the 96 apartments in our review. The averages and ranges of excess square feet invoiced by the contractor for the three projects are shown in the schedule below.

<u>Project</u>	<u>Invoices reviewed</u>		<u>Excess square feet invoiced by contractor</u>	
	<u>Number of apartments</u>	<u>Apartments with excess square feet</u>	<u>Total</u>	<u>Average</u>
Western Manor	64	40	8,579	214
Olive Hill	30	20	17,244	862
Navarre Garone	<u>2</u>	<u>1</u>	<u>840</u>	a/ <u>840</u>
	b/ <u>96</u>	<u>61</u>	<u>26,663</u>	<u>437</u>

a/Excess due to contractor not painting entire apartment.

b/Of this total, 66 were occupied when painted.

#### Duplicate and questionable payments

The grasscutting contractor had billed HUD and been paid twice for the same service. We notified the Columbus Area Office Director of Housing about these overcharges, representing four duplicate payments amounting to about \$5,470, in a November 22, 1978, letter. The contractor refunded the duplicate payments on December 22, 1978.

We believe the duplicate payments were due to project manager carelessness and the recordkeeping system in the HUD office, which fails to identify charges by contract and dates that services were rendered.

We also identified two questionable payments for painting at Western Manor amounting to \$1,651. In one case, HUD paid \$862 for the painting of apartment 1920C on March 8, 1978, and subsequently paid \$789 for the same service on the same apartment on April 24, 1978, 6 weeks later. Not only was this apartment occupied by the same tenant during March and April,

but project personnel told us that apartment 1920C had been painted only once, in April 1978. The second questionable payment, amounting to \$789, was for the painting of apartment 1912B, presumably on April 24, 1978. However, there is no apartment 1912B in the project.

The Western Manor resident manager explained that his unfamiliarity with the project during this period contributed to the above situations. As of April 24, 1978, he had been the resident manager for only 2 months.

#### Charges for tile work not done

Our review disclosed two instances where the tile contractor charged for work not done. The overcharge in these two instances was about \$984, as discussed below:

##### Eden Apartments, Cincinnati

The contractor invoiced for retiling most of the floor area in apartment 25 during October 1978. The project manager told us that he made a sample inspection of the contractor's work by removing some of the new tile in the hallway, one area from which the old tile was to be removed. The project manager's inspection disclosed that the old tile was still in place. In effect, HUD paid \$237 for having old tile removed which, on the basis of the sample inspection, may not have been removed entirely.

##### Western Manor, Dayton

The contractor invoiced for laying 1,212 square feet of underlayment and tile in apartment 1804C, a three-bedroom apartment. Our previous measurement of the floor plan of a typical three-bedroom apartment at Western Manor disclosed that the maximum area is only 1,020 square feet, including the floor area in the bathroom and kitchen which are covered by a permanently installed bathtub, sink, and counter tops. Excluding this area and the area for walls between the rooms would decrease the area that could be tiled by 100 square feet, leaving a maximum 920-square-foot area to be tiled.

In effect, the invoiced area represents an overcharge of about 32 percent, or about \$747. This invoice had not been paid as of January 11, 1979.

REPAINTING OF SAME APARTMENTS

We identified five apartments at Western Manor and Olive Hill that were painted twice completely within a 2- to 4-month period, as shown in the schedule below.

<u>Project</u>	<u>Apartment Number</u>	<u>Bedrooms</u>	<u>Date painted</u>	<u>Square feet invoiced</u>	<u>Cost of painting</u>	<u>Apartment painted While occupied</u>	<u>After vacated</u>
Olive Hill	217	3	7/17/78	5,535	\$ 1,439.10	—	Yes
Olive Hill	217	3	9/10/78	5,300	1,378.00	—	Yes
Olive Hill	7419	2	3/10/78	3,123	874.44	Yes	—
Olive Hill	7419	2	4/19/78	3,878	1,008.28	—	Yes
Western Manor	1820F	3	4/18/78	4,469	1,251.32	Yes	—
Western Manor	1820F	3	8/28/78	4,409	1,146.34	—	Yes
Western Manor	1928C	3	4/24/78	4,469	1,251.32	Yes	—
Western Manor	1928C	3	6/30/78	4,919	1,278.94	—	Yes
Western Manor	1804D	3	3/8/78	4,037	1,130.36	Yes	—
Western Manor	1804D	3	6/30/78	4,919	1,278.94	—	Yes

Such extensive painting seems unnecessary over such a short period. For example, at Olive Hill, apartment 217 did not need complete painting a second time. Olive Hill personnel determined that only the kitchen and other small areas of this apartment needed painting. The contractor painted the entire apartment, however, in accordance with what he purported to be a HUD requirement that any apartment painted must be painted in its entirety. HUD Columbus Area Office officials were uncertain as to whether that was a HUD requirement.

PERFORMANCE OF SPECIFICATION WRITERS

The Cincinnati Service Office uses specification writers to prepare specifications and inspect single family housing. The specification writing for grasscutting, painting, and tiling at the multifamily projects was an incidental requirement placed on these specification writers who were paid a fixed amount. The two specification writers who prepared the specifications for grasscutting, painting, and tiling received over \$42,000 each for their total single and multifamily specification writing and inspection services during 1978.

Based on the performance of these writers in preparing the specifications and estimates for the services discussed in this report, we question whether HUD should retain these writers. In our opinion, their cost estimates were primarily responsible for the unreasonable prices negotiated for the three contracts we reviewed.

### CONCLUSIONS

HUD had paid about \$920,000 more than reasonable as of January 1979 for grasscutting, painting of apartment interiors, and tiling apartment floors under three contracts awarded by the Cincinnati Service Office. Also, HUD may have paid an additional \$100,000 for services it did not receive.

### RECOMMENDATIONS

To prevent the unnecessary expenditure of funds and to provide reasonable assurance that the Government pays only for services it receives, we recommend that you review the Area Offices' contract practices to determine whether they comply with HUD contract policies. We also recommend that you:

- Issue no further work orders under the tile contract which expires on May 15, 1979.
- Not renew the expired grasscutting and painting contracts.
- Return the responsibility for painting, tiling, and grasscutting to the project managers. They should be held accountable to manage the projects efficiently and effectively. HUD should monitor project managers' performance and replace managers that do not perform satisfactorily.
- Ascertain whether continued contracting with the two specification writers involved in the three contracts is justified in view of the matters disclosed. Also, determine whether contracting for all specification writing in the Columbus Area Office is consistent with HUD policy and requirements.

- Withhold payment on unpaid invoices on the painting and tiling contracts until the matter is resolved as follows. Require all managers of projects where painting and tiling was done in 1978 by the contractors in question to assess the accuracy of the square feet shown on all invoices submitted by the contractors. The project managers should measure carefully the wall and ceiling area that could be painted in each size apartment to establish a reasonable standard, where practicable. The project managers should then determine whether there is a reasonable explanation which would justify payment of the invoices as billed in all cases where the square feet invoiced by the contractor exceeded their standard. The project managers should remove the new tile on a test basis to determine whether the old underlayment was removed as invoiced.
- Obtain refunds for unjustified payments made to the paint and tile contractors.
- Record contract costs by individual contract, which would help detect duplicate charges.
- Review all contracts awarded by the Cincinnati contract officer during his tenure.
- Refer the matters in question to HUD's Office of Inspector General for further investigation of these and similar contracts.

We discussed the matters in this report with appropriate HUD field officials in December 1978 and January 1979. We also briefed the Columbus Area Director on January 31, 1979, and HUD headquarters staff on February 1, 1979. These officials generally agreed with our recommendations. Columbus Area Office officials said that grasscutting will be returned to all project managers but that for other services, such as painting, the Area Office would base its determination on its evaluation of each project manager's capability and willingness to assume the responsibility. Area Office officials said they have no alternative but to continue contracting for specification writing because the present manpower ceiling prevents hiring personnel to develop the necessary expertise in-house.

Headquarters officials told us that they would immediately look into the matters we identified and would take appropriate corrective action. On February 13, 1979, these officials told us they had confirmed the problems disclosed and were taking corrective action as we recommended.

ESTIMATED UNNECESSARY COST TO HUD FOR GRASSCUTTING

<u>Project</u>	<u>Contract cost per cut</u>	<u>Actual or estimated acres of grass</u>	<u>Contract cost per acre</u>	<u>GAO estimate per cut (note a)</u>	<u>Actual number of cuts during 1978</u>	<u>Unnecessary cost to Government under the contract</u>	
						<u>Per cut</u>	<u>Total</u>
Olive Hill	\$ 600	5.0	\$120	\$ 248	19	\$ 352	\$ 6,688
Western Manor	1,020	2.2	464	109	18	911	16,398
Colonial Hills	2,911	b/24.0	121	1,188	20	1,723	34,460
Fay Apartments	6,480	b/40.0	162	1,980	15	4,500	67,500
Grandview	770	b/ 5.0	154	248	23	522	12,006
Eastwood	3,588	b/30.0	120	1,485	22	2,103	46,266
Westcott	220	b/ 1.0	220	50	23	170	3,910
Vernon Convalescent	<u>110</u>	<u>.3</u>	367	<u>15</u>	21	<u>95</u>	<u>1,995</u>
Total	<u>\$15,699</u>	<u>107.5</u>		<u>\$5,323</u>		<u>\$10,376</u>	<u>\$189,223</u>
Average			<u>\$146</u>				

a/See appendix III for basis of GAO estimate (i.e., maximum of \$49.50 per acre).

b/Based on actual percentage relationships found between total project acreage and grass area at Western Manor and Olive Hill, we estimated grass area at 60 percent of total acreage of project, except for Fay Apartments which was estimated at 50 percent based on information obtained from resident manager.

CRITERIA USED BY GAO TO ESTIMATETHE COST OFCUTTING 1 ACRE OF GRASS

In the absence of HUD criteria to use in developing a Government estimate for comparison with the contractor's estimate, we made our own estimate based on the following criteria.

1. Estimates of time required by Western Manor, Olive Hill, and Fay Apartments to cut grass before the contract was awarded, as shown in the schedule below.

<u>Project</u>	<u>Acres of grass</u>	<u>Staff-days required</u>		<u>Equipment used</u>
		<u>Total</u>	<u>Per acre</u>	
Western Manor Dayton, OH	2.2	2.5	1.1	Push power mower
Olive Hill Dayton, OH	5.0	2.5	0.5	Riding mower
Fay Apartments Cincinnati, OH	40.0	35.0	0.9	Tractor, mower, and edger

2. Estimates of time and cost at three other HUD-insured projects, as follows:

<u>Project</u>	<u>Acres of grass</u>	<u>Staff-days required</u>		<u>Contract cost</u>	<u>Equipment used</u>
		<u>Total</u>	<u>Per acre</u>		
Summit Square Dayton, OH	2.1	3.0	1.4	<u>a/</u> \$ 64.00	Riding mower owned by project
Charing Cross Westerville, OH	11.0	7.0	0.6	<u>b/</u> 425.00	60 in. cutting tractor, push mower, and edger
Winchester Station Columbus, OH	8.0	4.5	0.6	<u>c/</u> 250.00	60 in. cutting tractor, push mower, and edger

a/Represents direct labor only.

b/Equals \$39 per acre for cut and trim under contract.

c/Equals \$31 per acre for cut and trim under contract.

The above schedule indicates that when the HUD-owned project does the cutting, it takes between 1/2 day to 1 day per acre, depending on the equipment used. One HUD-insured project, while taking longer (i.e., 1.4 days), did it much cheaper because of the rate. Also, two other HUD-insured projects were able to contract for grasscutting and edging at a cost of \$31 and \$39 per acre, which means that the direct labor on the job should not have exceeded \$20 per acre (i.e., one-half of \$39) to allow the contractor to cover his administrative expenses and profit. At \$20, a \$4 per hour employee would not use more than 0.6 staff-days per acre.

In summary, therefore, we believe that 3/4 staff-days per acre would be sufficient, with proper equipment, to cut grass at the projects reviewed. The 3/4 staff-day criteria is also consistent with our general knowledge of time needed to cut smaller plots of grass.

3. A direct labor rate of \$33 per day was used. This is based on the actual hourly rate paid by the grasscutting contractor to his employees (i.e., \$4.06 per hour).
4. An arbitrary add on of 100 percent to the established direct labor cost for all other expenses and profit results in a total cost of \$5,323. Based on actual data from the grasscutting contractor's records for 1977 and 1978 through October 31, 1978, we estimate that 100-percent add on amounts to a contract profit of about 10 to 20 percent.
5. On the basis of the above criteria, we estimate the maximum cost for cutting grass under contract to be \$49.50 per acre.

PROCEDURE USED BY GRASSCUTTING SPECIFICATIONWRITER TO DEVELOP COST ESTIMATE

The specification writer told us that his grasscutting estimate was prepared as follows:

- He visited the eight projects to familiarize himself with each project.
- He selected one building of each type at a project and determined the amount of grass in the area associated with that type of building. This determination was made by "walking off" the distance rather than making a precise measurement of the grass area. He identified this grass area as a "yard," the term commonly associated with the grass area surrounding a building, which was to be the basis for his cost estimate.
- He also determined the amount of grass in the areas not associated with a specific building, such as the playground area, through the "walk off" method.
- The additional grass area was allocated to each building on the basis of the number of buildings in the project. This increased the grass area associated with each building and became the adjusted grass area in the yard around each building.
- He applied a time factor for the edging, debris removal, and truck usage associated with the adjusted yard area around each building.
- He assumed that two persons were needed to cut each yard, added a factor for administrative expenses and profit, and estimated a total cost to cut the grass for each adjusted yard area.
- The total cost estimate for grasscutting at each project was then established by multiplying the cost for each adjusted yard area by the number of yards in the project.

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