

GAO

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Report to the Chairman, Subcommittee on
HUD-Independent Agencies, Committee
on Appropriations, House of
Representatives

April 1987

PUBLIC HOUSING

Problems Experienced in Rehabilitating Two Projects in Glen Cove, New York



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**Resources, Community, and
Economic Development Division****B-226419****April 15, 1987**

The Honorable Edward P. Boland
Chairman, Subcommittee on HUD-Independent
Agencies
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

In a January 10, 1986, letter you asked us to review the rehabilitation of the Daniel Daly and Kennedy Heights public housing projects in Glen Cove, New York. Specifically, you asked us to determine (1) the reasons for the delay in construction after work started and other difficulties experienced in the rehabilitation of the two projects, (2) how much work has been completed, and (3) how much money has been spent. The projects are adjacent to each other and contain 100 and 48 units, respectively. Funds to rehabilitate the projects, which are operated by the Glen Cove Housing Authority (GCHA), were provided by the Department of Housing and Urban Development (HUD) through its Low-Income Public Housing Program. Under this program HUD provides financial and technical assistance to public housing agencies that own and operate low-income housing projects.

On February 13, 1986, we briefed your office and the office of Congressman Robert J. Mrazek, who represents the Glen Cove area, on the status of the rehabilitation work. At that time the problems relating to the rehabilitation of the projects had not been resolved. Accordingly, we agreed to continue to monitor the situation and gather additional information on efforts to restart work on the projects. This report summarizes the information provided at the briefing and additional material which was subsequently gathered.

In summary, we found that the delay in the rehabilitation work was caused by the need for GCHA to dismiss the general contractor due to his poor performance, and because almost a year passed before an agreement was reached among the surety companies, GCHA, and a new general contractor to resume the work. The surety companies guaranteed the general contractor's performance and were to be responsible for all costs of completing the contract, including damages caused by his default, less any unspent contract funds. As of January 31, 1987, 67 of the 148 units in the two projects had been completed, including 20 that were nearly completed by the contractor GCHA dismissed. In addition, a substantial

amount of site work on the area surrounding the project buildings had been done. Approximately \$5 million had been expended on the projects by the end of December 1986, including \$1.2 million paid to the general contractor who was replaced.

During negotiations to resume the rehabilitation work, the surety companies raised the issue that GCHA had accepted and paid for work that HUD and GCHA said was defective. While the general contractor who was dismissed was on the job, HUD was concerned that defective work may have been accepted and paid for but did not take sufficient action to resolve this matter. The sureties have so far avoided paying the increased costs caused by the contractor's poor performance. HUD decided to pay the increased costs to avoid further delay but may in the future try to recover these costs from the surety companies.

The information in this report is based on our review of project records maintained by HUD's New York Regional Office and by GCHA; observations made when we visited the projects; and discussions with various HUD and GCHA officials, the architect for the project, and representatives of the surety companies that guaranteed that the general contractor would perform in accordance with his contract. Appendix V contains additional information on our scope and methodology.

Delays and Problems Experienced in Rehabilitating the Projects

HUD agreed in July 1982 to provide GCHA about \$6.1 million to rehabilitate the Daniel Daly and Kennedy Heights projects. GCHA signed contracts in July 1984 with four prime contractors—electrical, plumbing, heating and air conditioning, and a general contractor—to do the rehabilitation work, which was to be completed by August 6, 1986. The general contractor started work on August 10, 1984; however, problems with his work surfaced almost immediately. A September 1984 HUD inspection report pointed out that the general contractor's performance was unsatisfactory and that his work was proceeding at a slow pace. Subsequent HUD reports over the next few months continued to criticize his work. The problems caused by the general contractor also prevented the other three prime contractors from effectively carrying out their work and completing it on schedule. HUD and GCHA officials met with the general contractor on numerous occasions to try to get him to improve his performance, but their efforts were unsuccessful. Finally, in May 1985 GCHA refused to honor the contractor's April 1985 request for a payment of \$214,280. This action subsequently led to his leaving the job on June 13, 1985.

When the general contractor left, the surety companies that guaranteed his performance indicated to GCHA their intention to promptly resume the rehabilitation work. However, when the general contractor filed for bankruptcy in July 1985, the surety companies took the position that they could not legally take over the projects until granted permission to do so by the bankruptcy court. Although the court granted permission in late November 1985, it was another 6 months before a new general contractor began work on the projects.

Aside from the problem with the dismissed general contractor, a disagreement arose between HUD's construction analyst and GCHA's architect as to whether the architect had satisfactorily carried out his responsibilities for monitoring the rehabilitation work and recommending whether the general contractor should be paid. The role of the architect was important because his refusal to accept or recommend payment for faulty work or work not performed could be used to support GCHA's efforts to require the surety companies to pay to correct or complete such work.

Inspection reports filed by the construction analyst state that the architect approved overpayments for the work done, accepted poor quality and unsatisfactory work, and agreed to unnecessary plan changes. The architect contends, however, that he fulfilled his obligations to GCHA, that GCHA got more work from the general contractor than it paid for, and that the contractor's requests for payments were reduced for unacceptable work. HUD officials met with the architect to express their concern with his performance, but he told them that he was carrying out his responsibilities and if HUD wanted him to do more work, he would have to be paid more.

According to HUD's Deputy Regional Counsel and the GCHA attorney, because defective work and work not performed in accordance with the project plans and specifications may have been accepted and paid for, and the general contractor may have been paid for work not performed, GCHA's rights to have the surety companies pay for increased costs resulting from the general contractor's default were compromised. The surety companies raised this issue during the negotiations to resume the rehabilitation work, and neither GCHA nor HUD were successful in getting the surety companies to pay for the increased costs, including an estimated \$629,000 to correct the faulty work of the dismissed general contractor and the increased costs of the other prime contractors due to the general contractor's default. In order to avoid further delays in completing the projects by trying to compel the surety companies to pay

these costs, HUD has decided to pay them. HUD has yet to determine whether it will take any future action to recover all or a portion of these costs from the surety companies.

Extent of Rehabilitation Work Completed as of January 1987

As of January 31, 1987, rehabilitation work on 67 of the 148 units had been completed and a substantial amount of the site work was finished. The dismissed general contractor worked on 32 of these units—20 were nearly completed—and did some of the site work, including general excavation and the installation of drywells, concrete sidewalks, and curbs. When GCHA moved tenants into the 20 nearly completed units, they had a long list of items needing correction. In some units, for instance, bathroom ceramic tile work was unfinished, some areas were poorly painted, and interior doors were missing or improperly installed. Most of these items have been corrected by the GCHA maintenance staff. The site work also had several defects, including sidewalks that were cracked and uneven and have started to break up. Problems with the site work are to be corrected by the new general contractor.

The new general contractor has completed 47 units and has work underway on 38 others. In addition, he installed new roofs on the Daniel Daly buildings and has done a considerable amount of site work. The GCHA Executive Director told us that she is very pleased with the new general contractor's work and the progress that he is making in rehabilitating the projects. Although his agreement with GCHA provides for a June 25, 1987, completion date, the general contractor anticipates finishing sooner.

Project Costs Expected to Exceed \$7.7 Million

GCHA estimates that total project costs will exceed \$7.7 million—about \$1.6 million more than was originally budgeted. The estimated cost overrun includes \$246,919 to compensate the electrical, plumbing, and heating and air conditioning contractors for their additional costs due to the construction delay; and \$457,859 for GCHA's increased administrative costs, including over \$229,000 for security to protect construction materials and work against vandalism and theft. In addition to the cost increases related to the problems caused by the dismissed general contractor, substantial cost increases also resulted from unforeseen modifications and changes to the project plans and specifications. For example, \$204,000 was needed to upgrade the type of electrical wire used in the Daniel Daly project. GCHA expects that additional changes to the plans and specifications will be necessary before the projects are completed

As of December 31, 1986, about \$5 million had been spent on the projects, including payments of \$1.2 million to the original general contractor, \$1.3 million to the other three prime contractors, \$379,000 to the architect, and \$965,000 to the new general contractor. The remaining \$1.2 million was spent on a variety of items, including legal fees, project security, tenant relocation, general administrative expenses, and stoves and refrigerators purchased by GCHA for the units.

Observations

On the basis of the project inspection reports filed by the HUD construction analyst, it appears that HUD could have taken action earlier to have GCHA replace the contractor. However, we recognize that the decision on whether to terminate the construction contract or try to improve the general contractor's performance was judgmental. Therefore, we are not commenting on the reasonableness of HUD's and GCHA's decision to postpone contract termination in favor of an effort to improve the contractor's performance.

Also, if HUD had taken sufficient action to resolve its construction analyst's concerns regarding whether the architect accepted faulty work and approved overpayments for the work performed by the general contractor, the bond agreement guaranteeing the general contractor's work may not have been jeopardized and HUD may not have been placed in a position of paying for cost overruns due to the general contractor's default.

We discussed the information contained in the report with HUD officials and included their comments where appropriate. However, as agreed with your office, we did not obtain agency comments on this report. As requested by your office, copies of this report are being sent today to Representative Robert J. Mrazek. Unless its contents are publicly announced earlier, we plan no further distribution of the report until 30 days from the date of this letter. At that time, we will send copies to interested parties and make copies available to others upon request.

Major contributors to this report are listed in appendix VI.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Dexter Peach". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

J. Dexter Peach
Assistant Comptroller General

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Abbreviations

GAO	General Accounting Office
GCHA	Glen Cove Housing Authority
HUD	Department of Housing and Urban Development
RCED	Resources, Community, and Economic Development Division

Background on the Rehabilitation of the Daniel Daly and Kennedy Heights Public Housing Projects

On July 16, 1982, the Glen Cove Housing Authority (GCHA) and the Department of Housing and Urban Development (HUD) signed a contractual agreement under which HUD committed to provide about \$6.1 million to rehabilitate the Daniel Daly and Kennedy Heights public housing projects located in Glen Cove, New York. The projects were originally built through financial assistance provided by the New York State Division of Housing. GCHA's application for assistance was made under what HUD called the federalization program—an informal program that permitted public housing authorities to transfer projects that were developed with state or local funds into the Low-Income Public Housing Program. Through this program, HUD provides financial and technical assistance to public housing authorities who own and operate low-income housing projects. HUD approved on April 18, 1984, the detailed plans and specifications for the rehabilitation work at the projects. GCHA advertised for bids on May 7, 1984, and the low bidders were chosen at the bid opening on June 11, 1984. Work on the projects was to have been completed by August 6, 1986.

The Daniel Daly project, built in 1957, consists of eight three-story brick buildings containing 100 units (see fig. I.1). Kennedy Heights, built in 1963, has eight wood-framed townhouse-type structures containing 48 units (see fig. I.2). The projects are adjacent to one another and are administered by GCHA, whose administrative offices are located in one of the Daniel Daly buildings.

**Appendix I
Background on the Rehabilitation of the
Daniel Daly and Kennedy Heights Public
Housing Projects**

**Figure I.1: Daniel Daly Housing Project,
Glen Cove, New York**

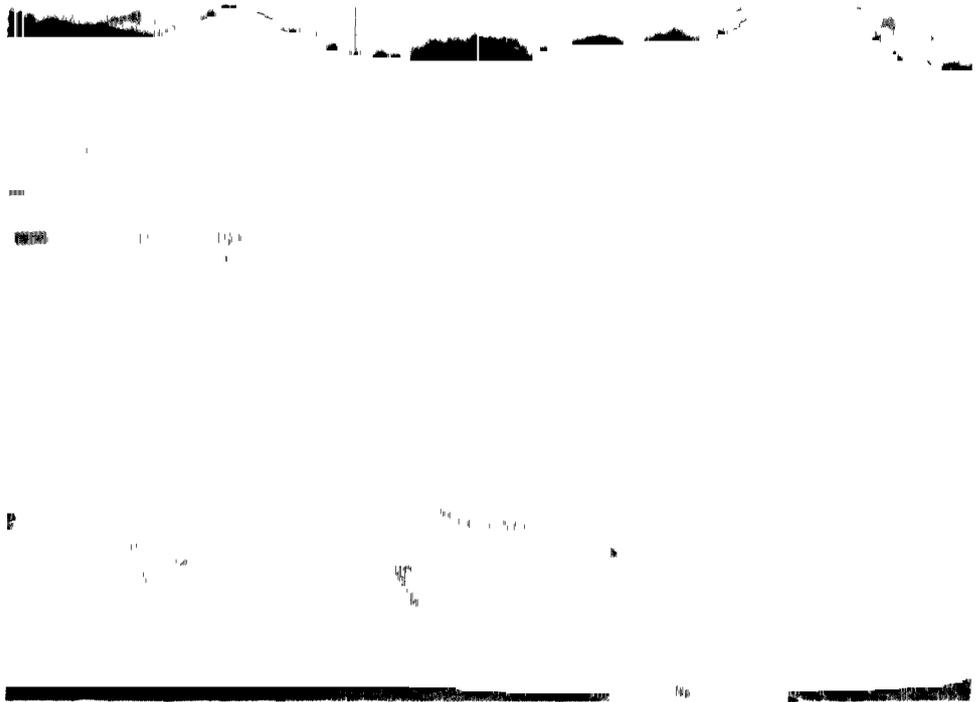
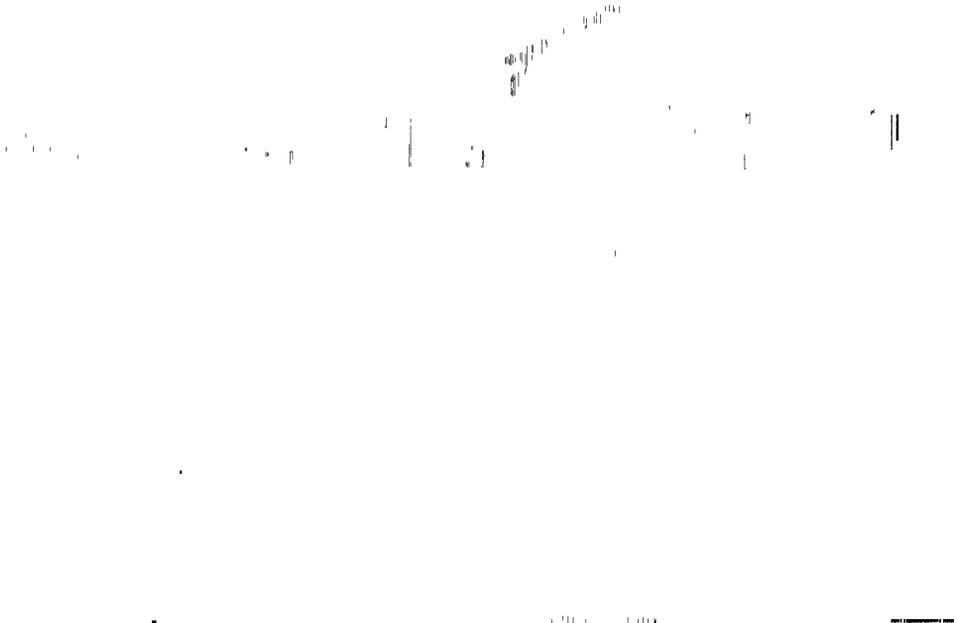


Figure 1.2: Kennedy Heights Housing
Project, Glen Cove, New York



Four Primary Contractors Hired to Do the Work

GCHA signed contracts totaling more than \$5.1 million with four prime contractors on July 27, 1984. The contractors were:

- **General Contractor (\$3,595,535):** The general contractor was responsible for most of the rehabilitation work. Major work items included installing new roofs, floors, doors, and windows; repairing damaged walls and ceilings; remodeling kitchens and bathrooms, including replacement of cabinets; painting all interior walls and ceilings; installing new catch basins, drywells, and related piping to facilitate site drainage; resurfacing the parking areas; and installing concrete walks, curbs, and gutters.
- **Plumbing Contractor (\$342,000):** The plumbing contractor's responsibilities included installing new bathroom and kitchen fixtures, hot water storage tanks, roof drains, and new plumbing lines.
- **Heating and Air Conditioning Contractor (\$457,333):** His responsibilities included installing new heating, ventilation, and air conditioning systems; cast iron boilers; fuel burners, duct work and roof fans, and relocating existing hot water heat piping.

-
- **Electrical Contractor (\$730,000):** Responsibilities of the electrical contractor included installing new interior and exterior meter banks, underground service and transformer pad, master TV antenna, alarm system for roof doors, receptacles for kitchen appliances and room air conditioners, smoke detectors, and exterior site lighting.

The remaining \$1 million of the \$6.1 million that HUD agreed to provide was to be used for such things as planning and administrative costs, tenant relocation costs, and contingency items.

Each of the four contractors was required to obtain a performance bond and a labor and material payment bond. These bonds were obtained from surety companies that guaranteed that the contractor would perform in accordance with the terms of his contract. Under the performance bond, if a contractor failed to perform, GCHA had the right to declare a default and require the surety company to (1) remedy the default, (2) complete the contract in accordance with its terms, or (3) obtain bids for completing the contract and arrange for a contract between GCHA and the lowest responsible bidder. In addition, the sureties were responsible for all costs of completing the contract less any unspent contract funds, including other costs and damages that were caused by the default of the contractor. Under the labor and material payment bond, the surety companies guaranteed that persons or companies supplying labor or material to the contractor would be paid. Appendix III discusses the actions taken by the sureties upon the default of the general contractor.

Oversight of Contractors' Performance

Various parties had responsibilities for ensuring that the work performed by the prime contractors was acceptable, performed in accordance with the project plans and specifications, and completed in a timely manner. Table I.1 contains a brief description of the roles of the principal parties.

**Appendix I
Background on the Rehabilitation of the
Daniel Daly and Kennedy Heights Public
Housing Projects**

**Table I.1: Principal Parties Involved in
Overseeing Prime Contractors'
Performance**

Principal party	Duties
HUD New York Regional Office	Responsible for providing GCHA technical assistance and guidance and making periodic site visits to inspect and evaluate the work and progress being made. At the conclusion of site visits, the construction analyst who inspected the project is responsible for discussing observations with the GCHA Executive Director and the GCHA architect and advising GCHA to take actions necessary to correct any deficiencies observed. HUD does not have any direct authority over the prime contractors. If warranted, HUD could refuse to advance additional funds to GCHA for the rehabilitation of the projects.
GCHA Board of Commissioners	Seven-member group, five appointed by the mayor of Glen Cove and two elected by the tenants, which sets policy and direction for GCHA operations. Responsible for approval of contractors' requests for payments based on the recommendation of the GCHA architect.
GCHA Executive Director	Hired by the GCHA Board of Commissioners to oversee the day-to-day operations of the housing authority. Responsible for performing administrative duties associated with the rehabilitation contracts, including processing change orders and payment requests; conducting biweekly meetings with the prime contractors and architect to discuss work status; and keeping the Board of Commissioners informed.
GCHA Clerk of the Works	A construction expert hired by GCHA to monitor the day-to-day work of the prime contractors. He reports to the GCHA Executive Director and is responsible for keeping GCHA officials, the GCHA architect, and the HUD construction analyst, who inspected the project for HUD, apprised of work progress and any construction problems that he identifies.
GCHA Architect	Hired by GCHA to plan and design the rehabilitation work and to ensure that the work progressed in accordance with contract terms. Also required to make periodic site visits to review the progress and quality of the work and to endeavor to guard GCHA against any defects and deficiencies in the work. He is also responsible for reviewing and recommending whether contractors' requests for payment should be made.

Problems Experienced in Rehabilitating the Projects

HUD began to find problems with the general contractor's performance soon after he started work on August 10, 1984. HUD inspection reports point out various deficiencies, including poor workmanship, lack of organization, and slow progress. In addition, the general contractor's performance hampered the other prime contractors' work. After numerous unsuccessful efforts on the part of GCHA and HUD to resolve the problems with the general contractor, GCHA refused to make a \$214,280 payment that the contractor requested in April 1985. Subsequently, in June 1985 the general contractor stopped working on the projects.

HUD also identified problems with the GCHA architect, including his acceptance of poor quality and unsatisfactory work, approval of overpayments for the work done, and agreement to unnecessary plan changes. HUD's attempts to get the architect to improve his performance were unsuccessful. The architect contended that he fulfilled his contractual obligations to GCHA. As discussed in appendix III, the possibility that, among other things, defective work of the general contractor was accepted helped the surety companies, which guaranteed the general contractor's work, to avoid paying \$629,000 in cost increases that resulted from the general contractor's default.

General Contractor's Performance Was Unacceptable

When the general contractor stopped work on the projects in June 1985, he had been paid a total of \$1,162,673 on his \$3.6-million contract—about 32 percent. The general contractor had nearly completed 20 of the 148 units before he left, but GCHA found a number of items in those units that needed correction. In addition, some work related to improving the grounds surrounding the buildings had been done—this work also had a number of defects—and various materials that the general contractor purchased for use on the projects were being stored at the project site.

Following is a brief description of the problems with work performed by the general contractor on the Daniel Daly and Kennedy Heights projects.

Work Performed at the Daniel Daly Project

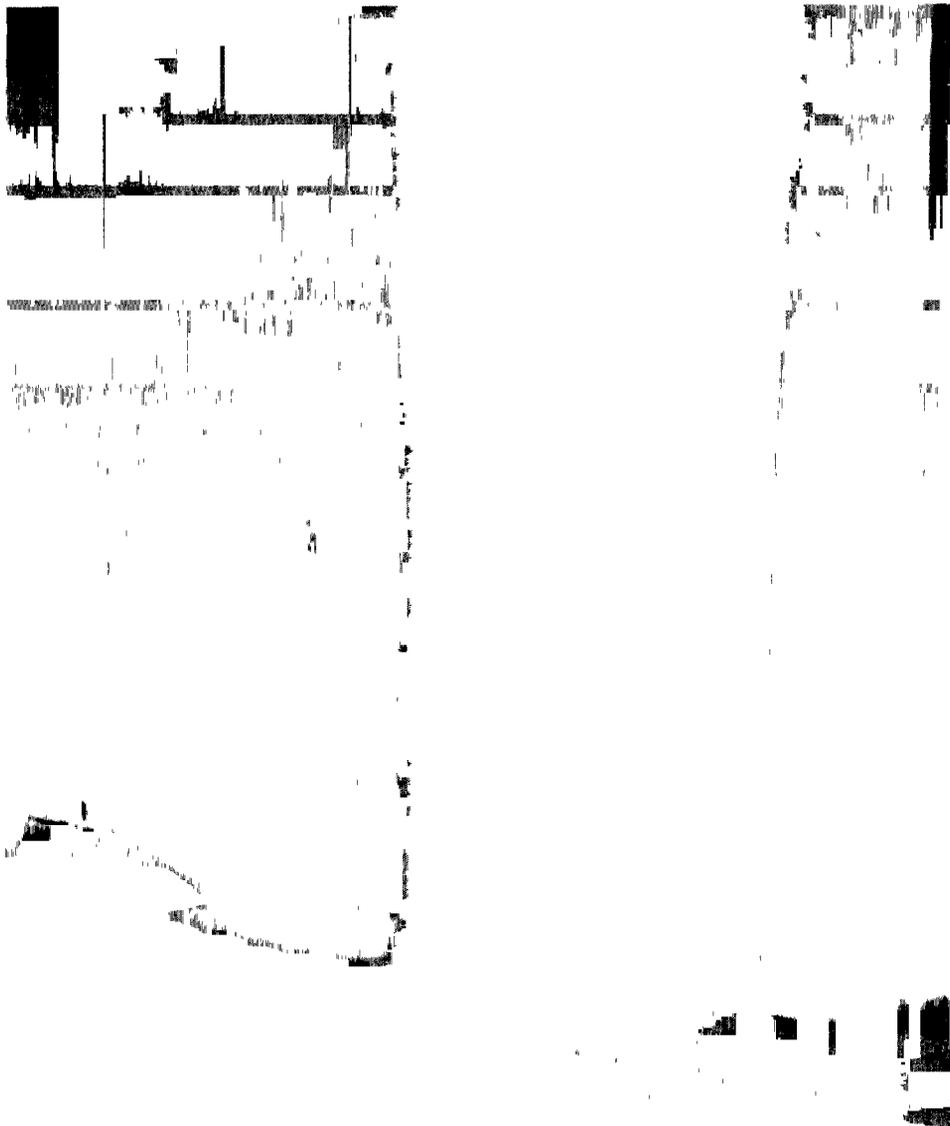
As discussed briefly in appendix I, renovation work to be performed by the general contractor on the 100 units at the Daniel Daly project included installing new windows and doors; repairing the roofs; replacing kitchen cabinets; remodeling the bathrooms, including installing ceramic tiles; replacing doors; and painting the interior of the units. On February 25, 1985, GCHA moved tenants into one of the two buildings that the general contractor worked on even though it was not

fully completed. According to the original construction schedule, approximately 44 units were to have been completed by this time. GCHA identified a long "punch list" of items in the 11-unit building in need of correction, including unfinished ceramic tile work, lack of painting or need to repaint in many areas, missing medicine cabinets, loose towel racks, and missing window screens. One of the more serious problems involved an improperly installed roof that subsequently caused water damage to the completed units, as well as to units in an attached building. GCHA moved tenants into the building because the general contractor, without GCHA approval, began demolition work on an adjacent building, which forced GCHA to move the tenants out of that building into the nearly completed units. Although the City of Glen Cove approved the units for occupancy, HUD refused to approve the units as completed.

Most of the punch list items were subsequently corrected by the GCHA maintenance staff. The leaking roof was not corrected, however, until March 1986, when a new general contractor made the repairs.

The adjacent building that the general contractor worked on contained 12 units. In this building he removed items needing replacement, including doors, windows, damaged walls, and kitchen cabinets; and he installed dry wall, metal doors, windows, and some kitchen cabinets and counter tops. However, a substantial amount of work was not done, and the units could not be occupied when the general contractor left. This building also suffered considerable water damage after the general contractor left as a result of leaks in its roof and the roof in the adjoining building. Figure II.1 shows 1 of the 12 units with water standing on the floor and water damage to the walls, ceiling, and kitchen cabinets that had been placed in the unit by the general contractor.

**Figure II.1: Water Damage to Daniel
Daly Unit**



**Work Performed at the
Kennedy Heights Project**

The renovation work to be performed by the general contractor on the 48 Kennedy Heights units included installing new storm doors and windows; replacing all roofs, damaged walls, and ceilings; installing new floors; adding insulation to the units; and painting all interior walls.

The renovation work needed on this project was not as extensive as on the Daniel Daly project. The general contractor installed new roofs on all 48 units and completed most of the remaining work on 9 units. According to the GCHA Executive Director, the roofs were replaced in an acceptable manner, but problems existed with other work items. For example, the nails used to install the subflooring in the units did not hold and have begun to come through the new vinyl tile floor. Consequently, all of the floors in the nine units, with the exception of the bathrooms which have ceramic tile, must be replaced. Other problems, which were part of the list of items to be corrected, included broken and missing floor tiles, incomplete installation of medicine cabinets, rough and unfinished doors, improperly installed and missing doors, lack of caulking and grouting, loose handrails, and the need to paint or repaint a number of areas. As in the case of Daniel Daly, GCHA maintenance personnel subsequently corrected most of the problems.

**Site Work at the Two
Projects**

Site work refers to work done to the areas surrounding the project buildings. This work included excavating work; installing new fencing where needed around the projects; installing new drywells, catch basins, and related piping; resurfacing the parking lot; installing playground equipment; replacing concrete walkways, ramps, steps, and curbs; and planting trees, shrubs, and ground covering. In addition, a retaining wall was to be replaced at Kennedy Heights and barriers installed to prevent continued erosion to a steep ravine on the Daniel Daly site.

In the opinion of the HUD's construction analyst, the site work performed by the general contractor was very poor and in certain cases was not performed in accordance with the projects' plans and specifications. For example, the concrete in some areas was less than the thickness required by the project specifications. In other areas the general contractor did not install a sufficient number of expansion joints that help prevent the concrete from cracking and breaking up. Overall, the pavement was very rough and wavy throughout the project site.

Our visits to the project confirmed the existence of the conditions described by the HUD construction analyst. The concrete sidewalks were rough and uneven in many areas, cracks were in the sidewalks and

**Appendix II
Problems Experienced in Rehabilitating
the Projects**

curbs, and the concrete had started to break up in some places. One sidewalk had a very severe slope that could be very dangerous for an elderly or handicapped person, particularly in inclement weather. Also, several areas had uncompleted concrete work that is unsightly and potentially dangerous. Figures II.2 and II.3 depict the condition of some of the site work during our September 1986 visit to the project.

**Appendix II
Problems Experienced in Rehabilitating
the Projects**

**Figure II.2: Crack in Concrete Sidewalk
at the Daniel Daly Project**

Figure II.3: Hazardous Condition
Adjacent to Sidewalk at the Kennedy
Heights Project



According to documentation in GCHA's project files, during construction the general contractor created potential health and safety hazards on the grounds of the Kennedy Heights project. Construction debris from remodeling the units—including wood planks and nails—was dumped on the lawn area, reportedly attracting rats and creating a danger to the residents, particularly the children. The general contractor also created a hazard at the Daniel Daly ravine area where he placed a large accumulation of earth, boulders, broken concrete, and other miscellaneous materials (see fig. II.4). This material subsequently began to slide down the existing slope; some of the material reached private property and the street below. The Kennedy Heights debris was subsequently cleaned up by GCHA maintenance personnel, but the hazardous conditions at the Daniel Daly ravine still existed when we visited the project in September 1986.

Figure II.4: Hazardous Condition at Daniel Daly Ravine



Termination of General Contractor and Related Concerns With GCHA Architect

HUD and GCHA began to find problems with the general contractor's work shortly after it was initiated. They tried to work with the general contractor to resolve these problems, but their efforts were unsuccessful. GCHA refused to make an April 1985 payment to the general contractor, and he subsequently abandoned the job.

HUD's construction analyst also questioned the performance of GCHA's architect who was responsible for reviewing the general contractor's work and recommending whether the contractor should be paid. He questioned, among other things, the amount of time the architect spent on the job and his approval of payment for poor quality work.

HUD and GCHA Found Problems With General Contractor's Work Soon After It Began

The HUD construction analyst who was responsible for periodically inspecting the projects began to have concerns with the general contractor's work in September 1984, and the work got progressively worse from that point on. He said that the general contractor's work was unorganized and that his overall workmanship was extremely poor.

The construction analyst first reported problems with the general contractor's performance in his September 27, 1984, report—work started on August 10, 1984. His report pointed out that the general contractor's organization, operations, and supervision on the job were unsatisfactory and that the work was proceeding at a slow pace. Subsequent reports, which were filed on a 1-to-2 week basis, became more critical of the general contractor's performance. For example, according to the February 28, 1985, report, the general contractor was behind schedule, operations were unorganized, and supervisory people at the site were not qualified. Further, the work was unsatisfactory and unacceptable on the one building at the Daniel Daly project that the general contractor had nearly completed. According to later reports, conditions did not improve and the number of workmen on the job dwindled until the general contractor finally left the project.

On the basis of the problems raised in the construction analyst's reports, the Chief of Construction from HUD's Architectural, Engineering, and Cost Branch,¹ New York Regional Office, first met with the general contractor, architect, and GCHA officials in November 1984 to emphasize HUD's concerns in order to get the general contractor to improve his

¹During construction, this branch's responsibilities include making periodic visits to the project site to evaluate the construction work and progress. The public housing authority executive director or architect are to be advised of any problems identified.

operations. The general contractor indicated a willingness to cooperate, but no tangible improvements were made. Subsequent meetings between the Chief of Construction and the general contractor met with the same results.

The GCHA Executive Director told us that GCHA personnel also began to identify problems with the general contractor's work soon after it started. The Clerk of the Works continuously identified problems with the general contractor's work, which were brought to the GCHA Executive Director's attention, as well as the attention of the GCHA Board of Directors, HUD, the contractor, and the architect. The executive director also told us that she met every 2 weeks with all prime contractors to discuss progress and associated problems. Although the general contractor said that he would take corrective action, usually no action was taken or it was short-lived. GCHA also sent several letters to the general contractor in an attempt to get the project back on course.

On March 14, 1985, a meeting was held by the Chief of HUD's Architectural, Engineering and Cost Branch, in conjunction with an inspection of the housing units the general contractor nearly completed at the Daniel Daly project. As a result of that meeting, GCHA, at HUD's request, informed the general contractor in writing of HUD's and GCHA's concern over his poor workmanship, extensive delays, completely disorganized worksite, and a lack of proper safety precautions. GCHA also requested that the general contractor put a bonafided construction superintendent on the job and informed the general contractor that his actions had caused an unwarranted hardship on the housing authority, loss of rental income, undue anxiety to the residents, and a delay in the work of the other prime contractors.

HUD's Chief of the Architectural, Engineering, and Cost Branch said that on the basis of his visits to the project site and the regular inspections made by the HUD construction analyst from his office, it was his opinion that the general contractor did not effectively manage or carry out the work. There was an overall lack of coordination and supervision on the job, and although the chief and/or his staff met frequently with the general contractor and GCHA officials to discuss the problems that HUD identified, any improvements were only temporary. The work performed by the other three prime contractors was acceptable but, since much of their work was dependent on work performed by the general contractor, they were unable to perform effectively. For example, on May 23, 1985, the plumbing contractor advised GCHA that due to the lack of progress by the general contractor, he could not fulfill his contractual obligations

in a timely manner. The contractor could not complete the plumbing work in one of the Daniel Daly buildings because the kitchen cabinets and tops had not been installed and the finish sheetrock, spackling, taping, and painting had not been completed.

**GCHA Refused Contractor's
April 23, 1985, Payment
Request**

The problems with the general contractor came to a head when, at HUD's suggestion, GCHA refused to honor the contractor's April 23, 1985, request for a payment of \$214,280.90. The decision was based on the general contractor's poor performance and the fact that he had not paid several persons or firms working for or supplying materials to him. GCHA records show that the general contractor owed his subcontractors and suppliers about \$488,000. The contract between GCHA and the general contractor provided that, to protect its interest, GCHA could withhold payment until proof was furnished that all subcontractors had been paid.

HUD's Director of Housing Development, New York Regional Office, told us that HUD did not recommend that GCHA withhold payments sooner because when a contractor is not doing a good job HUD normally tries to work with him, in cooperation with the project owner, architect, and surety companies to improve his work performance. The last resort is to recommend that the project owner take the steps necessary to replace the contractor. In addition to the legal complications that usually result from such action, delays in completing the project occur because of the time it takes to find another contractor to complete the work. The director also pointed out that it is very difficult to determine when it is in the best interest of the government and the project owner to replace the contractor. Although most jobs have problems, they are eventually resolved.

The Deputy Counsel for HUD's New York Regional Office also told us that when a construction contract is terminated for poor performance the project owner is forced to deal with the contractor's surety company. He said that surety companies generally try to settle the matter with as little cost to them as possible. Therefore, they often take their time in reaching an agreement to resume the work in hopes that the project owner, anxious to get the work started, will be willing to accept terms that are less costly to the surety company.

The Director of Housing Development believes that in the Glen Cove case, HUD acted more quickly than usual in identifying problems and trying to resolve them with the general contractor. He said that the

Chief of Construction met several times with the general contractor soon after the construction analyst began to identify problems. When conditions did not improve, the director personally met with the general contractor and the other concerned parties to try to get the project back on track. In addition, the Chief of the Architectural, Engineering, and Cost Branch recommended to him that another general contractor be hired to complete the job after the chief's March 14, 1985, visit. As a result, the director again met with the general contractor on April 4, 1985, but the contractor's performance did not improve.

On May 6, 1985, GCHA informed HUD and the surety companies that it had refused the general contractor's \$214,280 payment request and that it was considering terminating his contract. Subsequently, on May 16, 1985, a consulting firm hired by the surety companies, and representatives of HUD and GCHA, made an inspection of the project. Thereafter, the surety companies indicated their intention to take over responsibility for completing the project. The general contractor left the project on June 13, 1985. GCHA gave the general contractor written notice on July 26, 1985, that it was terminating his right to proceed under the contract and declaring him in substantial breach of the contract.

**Questions Raised
Concerning GCHA
Architect's Performance**

The architect GCHA hired to plan and design the rehabilitation work was responsible, once construction started, for visiting the projects on a regular basis to inspect the work, to report any deficiencies to GCHA, and to determine if the work was proceeding in accordance with the contract documents. The architect's contract provides that he endeavor to guard GCHA against defects and deficiencies in the completed work. He was also responsible for reviewing the contractors' payment requests for work performed and materials stored on site and recommending whether GCHA should make the payment. The role of the architect is important not only in regard to the work performed but also if GCHA has to deal with a prime contractor's surety companies because of a contract default. If a default occurs, the architect's refusal to accept or recommend payment for faulty work or work not performed would support GCHA's efforts to have the surety companies pay the cost to correct or complete the work.

According to reports he filed on his visits to the project, HUD's construction analyst had a number of serious concerns about the architect's performance. Most of his reports state that the architect's performance was inadequate. The reports point out that the architect did not spend a sufficient amount of time at the projects and contend that he approved

overpayments for the work done, accepted poor quality and unsatisfactory work, and agreed to unnecessary plan changes. The construction analyst brought these concerns to the architect's attention, but the architect maintained that he was acting responsibly.

The architect believes that he carried out his obligations to GCHA. According to the architect, he warned GCHA and HUD about the general contractor's work several times. In his opinion, however, GCHA actually got more work from the general contractor than was paid for and the contractor was not paid for any work that was not done. Although only 20 of 148 units were near completion, he said much of the site work was also completed. The architect also said that, on the basis of his firm's on-site visits, certain work performed by the general contractor was not accepted and the contractor's payment for that work reduced. For example, he said that not all of the concrete work was accepted and therefore was not paid for. Neither the architect nor GCHA, however, was able to provide us with copies of general contractor payment requests showing a reduction in payment for work found unacceptable.

The architect said that, in his opinion, GCHA should have hired a construction management team to oversee the job on a day-to-day basis to ensure that the work was performed in accordance with the project plans and specifications. He believes that the GCHA Clerk of the Works, who was at the project site on a daily basis, did not have sufficient authority to deal with the general contractor when problems arose and could not provide adequate coverage for such a job.

The architect recommended that GCHA pay all eight of the general contractor's payment requests. However, after GCHA refused to make the eighth payment in the amount of \$214,280 the architect agreed with GCHA's decision in light of the fact that the general contractor was 20 weeks behind schedule and because some of his subcontractors had not been paid. The architect told GCHA that his firm approved the last payment request based on the work that had been completed and the material stored on site.

According to the Director of Housing Development, HUD New York Regional Office, there has been a general disagreement between HUD and architects as to what their specific responsibilities are in relation to the work performed. HUD believes that, at a minimum, architects are responsible for ensuring that the work performed is in compliance with the contract documents, which includes the project plans and specifications. Architects contend that they would have to spend a great deal more

time at a project than the periodic visits required by HUD and would have to be paid more. Also, the director told us, it is very unusual to have problems with both the architect and the general contractor on the same job. The director said that he and the Chief of the Architectural, Engineering, and Cost Branch met with the GCHA architect on at least two occasions to express their concern with his performance. The architect told them that he was doing his job in accordance with his contract and that if HUD wanted him to do more he would have to be paid more money.

According to the director, the architect will be carrying out his responsibilities on the projects until they are completed and has agreed to improve his performance. On the basis of the concerns that the construction analyst had with the architect's performance, HUD considered recommending that GCHA replace the architect but decided against it because it would, in all likelihood, have resulted in significant time delays. He said that it is very difficult to get an architect to take over in the middle of a job and to accept another architect's plans and specifications. As of December 31, 1986, the architect had been paid a total of \$378,741 for his work on the projects.

Efforts to Restart the Daniel Daly and Kennedy Heights Rehabilitation Work

Before the general contractor left the projects on June 13, 1985, the surety companies indicated their intention to assume responsibility for completing the work. Subsequently, however, the general contractor filed for bankruptcy and the surety companies took the position that they could not take over the projects until given permission by the bankruptcy court. Although this court gave permission in November 1985, work on the projects was not resumed until May 1986.

An agreement among GCHA, the surety companies, and the new general contractor to complete the rehabilitation work provided that liquidated damages¹ were not to be assessed against the surety companies, the new general contractor could request funds from HUD to correct the faulty work of the previous general contractor, and the other prime contractors could request HUD to provide funds to pay for their increased costs resulting from the construction delay. Costs for the corrective work and construction delays are estimated at \$629,000. Although the dismissed general contractor's performance bond agreement provides that the surety companies may be liable for costs and damages resulting from a contract default, HUD decided to pay these costs to prevent further construction delays, which would likely have resulted from attempting to require the surety companies to pay. HUD has not decided whether to take action to recover these costs from the surety companies in the future but believes it may be difficult to do so.

Work on the projects resumed in early May 1986, and the agreement to complete the rehabilitation work was finalized on June 30, 1986. As of January 31, 1987, the new general contractor had completed a total of 47 units and was working on 38 others. A substantial amount of the site work had also been completed. The takeover agreement provides for a June 25, 1987, completion date, but the general contractor anticipates finishing earlier. GCHA estimates that total costs to complete the project could exceed \$7.7 million—a \$1.6-million increase over the original projected costs.

¹Liquidated damages are monetary damages that, under the terms of the dismissed general contractor's bond agreement, were to be assessed against the surety companies to cover GCHA's losses or damages resulting from delays in completion of the project that were caused by the general contractor. The damages were to be assessed at the rate of \$150 per dwelling unit for each day of delay until the work was completed and accepted.

Bankruptcy Petition Initially Stalled Resumption of Work

During July 1985 GCHA provided an engineering consultant hired by the surety companies with information the surety companies needed to secure another contractor to resume the work. On September 5, 1985, however, the attorneys for the general contractor advised the GCHA attorney that because their client had filed for bankruptcy the automatic stay provision of the bankruptcy code prohibited any attempt by GCHA to terminate the construction contract or complete the work. According to the attorneys, violation of this provision has been deemed contempt of court. As a result, the surety companies took the position that they could not legally begin work on the projects until they received permission from the United States Bankruptcy Court. GCHA did not agree and notified the sureties that it expected them to proceed in accordance with their responsibilities under the bond agreement. The attorney for GCHA and the Chairman of the GCHA Board of Commissioners appeared before the United States Bankruptcy Court for the Eastern District of New York on November 13, 1985, to present reasons why the court should declare the automatic stay provisions of the bankruptcy code inapplicable in the Glen Cove case. The court indicated that it agreed with GCHA's position and formally lifted the stay on November 20, 1985.

According to the GCHA Chairman, after he and the GCHA attorney appeared before the bankruptcy court, a representative for the surety companies indicated that work on the projects would start within 2 weeks. When no action was taken, the Chairman informed the representative in a December 18, 1985, letter that he planned to seek approval from HUD and the GCHA Board of Commissioners to initiate court action against the surety companies to hold them liable for damages and completion of the projects. The surety companies subsequently advised the Chairman that they anticipated being in a position to reach agreement on resumption of the work "as the new year begins." Several contractors made proposals to complete the work, but no progress toward an agreement was made until February 1986.

Tentative Takeover Agreement Stopped HUD's Plans to Sanction Surety Companies

The Regional Administrator, HUD New York Regional Office, sent letters to the presidents of the surety companies on February 21, 1986, to express his concern over their delay in completing the Glen Cove projects. The Regional Administrator told them that

"As you are aware, part of the consideration for the commitment by our agency to fund this project, was the express agreement by the sureties that they would guarantee the prompt completion of the work by the construction contractor, Despite

repeated notification to you of the default of . . . , you have willfully and persistently refused to fulfill your obligations under the terms of your performance bond.

“As a result of your misconduct and recalcitrance in the performance of your obligations, the condition of this project has deteriorated, the tenants have been placed at a disadvantage, and the government’s role in providing decent, safe, low-income housing . . . , has been frustrated and hampered.”

The letters also advised the sureties that, unless the matter was satisfactorily resolved within 10 days, HUD planned to take action to deny them further participation in HUD construction projects.

At about the same time that the Regional Administrator warned the sureties about the delay, a general contractor, who has worked on a number of HUD projects, met with the Regional Director for Housing Development and the GCHA Chairman to discuss his interest in completing the work on the projects. As a result, the GCHA attorney, the attorney for the new general contractor, and the attorney representing the surety companies initiated discussions on a possible takeover agreement. On the basis of the progress made toward reaching an agreement to resume the rehabilitation work, HUD decided not to take action against the surety companies. The three parties, however, did not reach agreement on the details of the takeover agreement until early May 1986 and, after HUD’s review, it was finalized on June 30, 1986.

HUD to Pay for Increased Costs Resulting From Contractor’s Default

HUD received a copy of the proposed takeover agreement to review on May 12, 1986. In the letter transmitting the agreement, the GCHA attorney said that, in his opinion, the agreement provided a satisfactory resolution for resumption of the work and that the interests of GCHA and HUD were adequately protected. The new general contractor, he said, would complete work on the project with the remaining unspent funds—\$2,466,200—and would repair and correct all defective work by the previous contractor at no additional cost to GCHA or HUD.

After reviewing the agreement, HUD discussed two primary concerns with the GCHA attorney and the new general contractor on June 2, 1986. Those concerns related to

- an addendum prepared by the new general contractor, which gave him authority over the work performed by the other prime contractors and
- various provisions in the agreement that relieved the original surety companies of responsibility for the satisfactory completion of the projects and transferred it to the new general contractor.

As a result of the meeting, the contractor's addendum to the agreement was deleted, and it was agreed that the GCHA attorney would have the agreement modified to show that the surety companies would remain obligated for the satisfactory completion of the previous general contractor's work. However, the takeover agreement, which was finalized on June 30, 1986, was not revised to show that the surety companies remained responsible for the satisfactory completion of the work on the projects. The GCHA attorney told us that the surety companies would not agree to this change and did not believe it necessary since the new general contractor assumed responsibility for the work and his work is bonded.

According to the Deputy General Counsel, HUD New York Regional Office, since HUD was not a party to the agreement, it had to depend on assurances from the GCHA attorney that the agreement would be changed before it was finalized. He agreed that, even though the agreement provides that the surety companies are relieved of further responsibility for the work, GCHA and HUD are protected since the new general contractor agreed to assume the responsibility for satisfactory completion of the project and his work is bonded. However, regardless of the agreement, in the Deputy General Counsel's opinion, HUD still has the right to take the surety companies to court if necessary to protect HUD's and GCHA's interests.

The final takeover agreement also contained provisions that could substantially increase the amount of money HUD puts into the projects. These provisions waived GCHA's right to receive liquidated damages from the surety companies, which could have been used to help pay project costs. It also provided that the new general contractor could request HUD to provide funds to pay him to correct the faulty work of the dismissed general contractor and that the other three prime contractors could request funds from HUD for damages due to delays or increases in costs. HUD decided to pay these costs even though the dismissed general contractor's performance bond agreement states that the surety companies would provide sufficient funds to pay the costs to complete the work—less any unspent contract funds—including other costs and damages that they may be responsible for as a result of contract default. According to the Director of Housing Development, HUD New York Regional Office, after reviewing the agreement HUD tried to get the surety companies to pay for the increased costs but were not successful. In HUD's opinion, its ability to require the surety companies to pay for the increased costs was jeopardized and trying to require them to pay at this time would likely result in further delays in completing the projects.

According to the GCHA attorney, in negotiating the takeover agreement a major consideration was what GCHA could expect to obtain from the surety companies if the case had to be taken to court to force them to fulfill their obligations under their bond agreement with the dismissed general contractor. He said that GCHA's rights to damages under the bond agreement were compromised because it appears that GCHA, on the basis of the architect's recommendation, may have paid for defective work and work not performed in accordance with the approved plans and specifications, and because the contractor may also have been paid for work not performed. The attorney said that this issue was raised by the surety companies during the negotiations and it provided them a strong bargaining position to avoid paying for damages and corrective work. Accordingly, in his opinion, the final agreement was the best that could have been obtained under the circumstances. The attorney said that while HUD and GCHA could have taken the surety companies to court to recover these costs, he does not believe the outcome would have been any better than the agreement reached.

According to the Deputy Regional Counsel, HUD New York Regional Office, it is difficult to say whether an agreement more favorable to HUD could have been worked out with the surety companies. He believes HUD may have gotten more out of the surety companies through a law suit, but it would have taken a long time and further delayed completion of the projects. He agreed, however, that for the reasons discussed above, it appears that the surety companies are in a very good position to defend themselves.

The Director of Housing Development, HUD New York Regional Office, told us that one of the most important considerations in the negotiations to resume the rehabilitation work was the desire to get the work started as quickly as possible. More delay would have further increased the costs to complete the projects and had a negative impact on the tenants. The director believes the agreement was, therefore, the best obtainable without causing further delay. Although HUD is not obligated to pay for the cost increases caused by the general contractor's default, it has decided to do so in order to get the project completed as soon as possible. He also said that HUD has not decided whether it will try to recover these costs from the surety companies through litigation.

Under the terms of the takeover agreement, the surety companies for the dismissed general contractor did agree to pay the new general contractor \$450,000 so that he could pay the claims of persons and firms

who worked for or supplied materials to the dismissed general contractor but were not paid. The surety companies made this payment in accordance with the labor and material payment bond they provided the dismissed general contractor.

**Additional Costs to Prime
Contractors Estimated at
\$629,000**

The electrical, heating and air conditioning, and plumbing contractors submitted to GCHA change orders to their contracts to cover increased costs due to the delays. The change orders, which HUD has approved, amount to \$246,919. The contractors had initially submitted estimates totaling over \$322,519, but the amounts were reduced after HUD asked them to reevaluate the estimates.

According to the Chief of the Architectural, Engineering, and Cost Branch, HUD New York Regional Office, the new general contractor, in accordance with the terms of the takeover agreement, is asking for additional funds to correct the faulty work of the previous contractor. The general contractor estimates that it will cost about \$381,595 to correct the defective work and work that has been vandalized and has deteriorated since the dismissed general contractor left the job in June 1985. Therefore, the total costs to the prime contractors for delays and corrective work are expected to run about \$629,000.

In addition to the prime contractors' costs, GCHA's administrative costs have also increased substantially—from an estimated \$150,725 to \$608,584. This cost increase relates to administrative salaries, legal expenses, and project security. For example, when the general contractor left the project GCHA hired a security agency for \$4,200 a week to protect the completed work and construction materials—purchased by the general contractor and stored on site—against vandalism and theft. As of December 31, 1986, GCHA had paid \$272,507 for round-the-clock security—\$229,507 was paid from project funds and the remaining \$43,000 was paid from GCHA operating funds. The Director of Housing Development told us that security costs would have increased significantly even if the general contractor had not defaulted.

**Total Project Cost Expected
to Exceed \$7.7 Million**

GCHA estimated as of January 31, 1987, that total costs to complete the projects will be \$7,749,565—about \$1.6 million more than originally planned. In addition to the cost increases related to the problems caused by the dismissed general contractor, substantial increases have also resulted from unforeseen conditions at the projects, which required modifications and changes to the original plans and specifications. For

**Appendix III
Efforts to Restart the Daniel Daly and
Kennedy Heights Rehabilitation Work**

example, \$204,000 was needed to upgrade the type of electrical wire used in the Daniel Daly project and \$68,000 to remove asbestos found in a boiler room. Also, GCHA's estimate does not include all of the funds that the new general contractor is expected to request to cover his costs to correct defective work or unanticipated change orders that are likely to occur as the work continues. Table III.1 compares GCHA's estimated costs to complete the project when work started on August 10, 1984, with GCHA's January 31, 1987, estimate.

Table III.1: Comparison of Estimated Completion Costs on August 10, 1984, and January 31, 1987

Budget Item	Estimated cost		Percentage Increase
	August 10, 1984	January 31, 1987	
Planning costs, including architectural and engineering fees, surveys, and maps	\$375,618	\$440,358	17
Site improvements	871,695	871,695	0
Dwelling construction	3,692,057	4,714,731	28
Dwelling equipment	264,252	264,252	0
Nondwelling construction	368,231	368,231	0
Nondwelling equipment	74,310	74,310	0
Administrative costs, including salaries, legal expenses, and security costs	150,725	608,584	304
Tenant relocation	99,000	117,000	18
Initial operating deficit	72,000	72,000	0
Contingency funds	174,430	218,404	25
Total	\$6,142,318	\$7,749,765	26

GCHA had spent a total of about \$5 million on the projects as of December 1986. Of this amount \$3,421,623 was paid to the four primary contractors—dismissed general contractor, \$1,162,673; new general contractor, \$964,672; electrical contractor, \$803,465; heating and air conditioning contractor, \$311,119; and the plumbing contractor, \$179,694. About \$379,000 has been paid to the architect. The rest of the money was spent for such things as project security, legal fees, tenant relocation, general administrative expenses, and stove and refrigerators that GCHA purchased for the units.

**Construction Delays
Reduced GCHA Rental
Income**

In addition to increased rehabilitation costs and the negative impact on the tenants living in the project, the delay in completing the projects resulted in the loss of rental income to GCHA. According to the GCHA Executive Director, GCHA has lost as much as \$5,600 a month in rental income because 28 of the units could not be occupied due to their poor

physical condition. Twelve of these units had been unoccupied prior to June 1985 because of the condition they were left in by the general contractor. The remaining 16 units were not rehabilitated by the dismissed general contractor but would have been completed and occupied had he completed the work as scheduled.

Progress Being Made Toward Completion of Project

The GCHA attorney notified the new general contractor on April 23, 1986, that the GCHA Board of Commissioners had approved the takeover agreement and that it had been forwarded to HUD for approval. The contractor was told that he could start work immediately if he could provide evidence that he was satisfactorily insured. The general contractor subsequently began work on a building in the Daniel Daly project in early May 1986. The previous general contractor had started work on that building, but a substantial amount remained to be done. In addition, a leaky roof had caused extensive water damage to the building since the previous general contractor left the project. Among other things, water damaged counter tops, wooden doors and closet shelves, drywall, metal accessories, and a number of uninstalled kitchen cabinets that had been stored in the apartment units.

As of January 31, 1987, the new general contractor had completed a total of 47 units—35 at the Daniel Daly project and 12 at the Kennedy Heights project. He was working on 32 Daniel Daly units—20 were almost completed—and 6 Kennedy Heights units and had installed new roofs on all 8 Daniel Daly buildings. In total, 67 units had been completed, including the 20 units that the previous general contractor nearly completed. In addition, the general contractor had completed a substantial amount of site work. He planted trees and shrubs, installed new fencing around the projects, installed cribbing to prevent erosion at the Daniel Daly parking lot and problem areas at Kennedy Heights, and had done a considerable amount of concrete work. He had also started on the work needed to prevent the severe erosion problem at the Daniel Daly ravine. The GCHA Executive Director told us that she is very pleased with the new general contractor's work and the progress that he is making.

The general contractor's superintendent for the rehabilitation work anticipates that the project will be finished before the June 25, 1987, completion date provided for in the takeover agreement.

Observations

When the rehabilitation work on the Daniel Daly and Kennedy Heights projects started in August 1984, it was anticipated that the work would be completed in August 1986 and that HUD would not have to spend more than about \$6.1 million. About 2-1/2 years have passed and the work is still not complete. HUD's financial obligation could increase by more than \$1.6 million.

The sequence of events that has left HUD and the GCHA in the position they now find themselves started with the general contractor's inability to carry out the work required under his contract. His performance, by all accounts and from our own observations, was unsatisfactory. Both GCHA and HUD began to find problems with the general contractor's work in September 1984—a month after he started. The contractor's work was found to be unorganized, of poor quality, and progressing slowly. However, in order to avoid delays that occur when a contractor must be replaced, HUD and GCHA officials met with the general contractor numerous times to try to get him to improve his performance. When they had no success, GCHA refused to honor the contractor's April 1985 payment request of \$214,280. The general contractor had been on the job for 9 months when this action was taken, and he left the job a month later, on June 13, 1985.

On the basis of the project inspection reports filed by the HUD construction analyst, it appears that HUD could have taken action earlier to have GCHA replace the general contractor. However, the decision as to when it was in the government's and GCHA's best interest to terminate the general contractor's contract, rather than continue to work with him in trying to get him to perform at a satisfactory level, was judgmental. Therefore, we are not commenting on the steps that HUD and GCHA took in this regard.

The adequacy of the GCHA architect's performance is difficult to determine. HUD's construction analyst reported that the architect approved overpayments for the work done, accepted poor quality and unsatisfactory work, and agreed to unnecessary plan changes. On the other hand, the architect contends that he fulfilled his obligation to GCHA, that GCHA actually got more work from the general contractor than was paid for, and the general contractor's requests for payments were reduced in instances where workmanship was unacceptable. HUD officials met with the architect to express their concern with his performance, but he would not change his position. Because of the seriousness of the concerns HUD's construction analyst had with the architect's performance and its potential impact on the general contractor's bond agreement, we

believe that HUD was remiss in not taking sufficient action to resolve these problems as they were identified. If HUD had resolved the concerns with the architect's performance, the bond agreement guaranteeing the general contractor's work may not have been jeopardized, and HUD may not have been placed in a position of paying for cost overruns due to the general contractor's default.

Objectives, Scope, and Methodology

In a January 10, 1986, letter, the Chairman of the Subcommittee on HUD-Independent Agencies, House Committee on Appropriations, asked us to review the rehabilitation of the Daniel Daly and Kennedy Heights public housing projects. These projects are located in Glen Cove, New York, and are administered by the Glen Cove Housing Authority. The Department of Housing and Urban Development provided the funds for the rehabilitation work. Specifically, we were asked to determine

- the reasons for the delay in construction after work started and other difficulties experienced in the rehabilitation of the two projects;
- the amount of work completed to date; and
- the amount of money that has been spent.

To determine the causes of the construction delays and other problems related to the rehabilitation work, we reviewed and analyzed documentation in the project files maintained by the Office of Housing, HUD New York Regional Office, and by GCHA. The data in these files included GCHA's application for HUD financial assistance and related documentation; GCHA contracts with the four prime contractors and architect; the contractors' performance bonds and labor and materials bonds; HUD, GCHA, prime contractors', and surety company correspondence concerning the general contractor's work and efforts to resume the work after the general contractor was dismissed; and project inspection reports prepared by the HUD construction analyst, GCHA architect, and GCHA Clerk of the Works. We also discussed the rehabilitation work and related problems with HUD officials from the Office of Housing, New York Regional Office; GCHA Executive Director, Clerk of the Works, attorney, and members of the Board of Commissioners; representatives of the surety companies for the dismissed general contractor, and the new general contractor's project superintendent.

The extent of work completed to date was determined by analyzing the prime contractors' requests for payments, discussions with the GCHA Executive Director and Clerk of the Works, and observations we made while visiting the projects. The amount of money spent on the projects was determined through a review of budget and expenditure records maintained by GCHA.

Our review was performed between January and December 1986 and was conducted in accordance with generally accepted government auditing standards. The views of directly responsible officials were

sought during the course of our work and are incorporated where appropriate. As agreed with the requestor's office, we did not obtain formal agency comments on a draft of this report.

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