
AUDIT REPORT



SECURITY COSTS OF MULTIFAMILY PROPERTY DISPOSITION PROPERTIES

OFFICE OF HOUSING

MULTI-LOCATION REVIEW

99-KC-113-0001

JULY 9, 1999

OFFICE OF AUDIT, GREAT PLAINS
KANSAS CITY, KANSAS



Issue Date	July 9, 1999
Audit Case Number	99-KC-113-0001

TO: William C. Apgar, Assistant Secretary for Housing-
Federal Housing Commissioner, H

Roger E. Niesen

FROM: Roger E. Niesen, District Inspector General for Audit, 7AGA

SUBJECT: Security Costs of Multifamily Property Disposition Properties

We completed a review of security costs incurred at HUD's Multifamily Property Disposition properties. The objective of our review was to assess the adequacy of controls over the process that determined the level of and type of security obtained for Multifamily Property Disposition properties. We initiated the review as a result of a problem that was referred to us by HUD's program staff.

We concluded neither HUD nor its Property Management contractors had established a method to determine the level and type of security needed at the properties. HUD and the Property Management contractors assumed all properties needed high levels of security when HUD first took control of the properties. As a result, HUD has no assurance that \$38 million spent on security services was necessary or appropriate. During our review, when we brought this situation to the attention of HUD officials, they immediately began working on ways to improve the process.

Within 60 days, please provide us, for the recommendation made in this report, a status report on: (1) the corrective action; (2) the proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please provide us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (913) 551-5871.

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Executive Summary

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We concluded neither HUD nor its Property Management contractors had established a method to determine the level and type of security needed at the properties. HUD and the Property Management contractors assumed all properties needed high levels of security when HUD first took control of the properties. As a result, HUD has no assurance that \$38 million spent on security services was necessary or appropriate. During our review, when we brought this situation to the attention of HUD officials, they immediately began working on ways to improve the process.

Procedures Were Needed To Determine Levels And Types of Security

HUD did not conduct security surveys nor did it implement any other procedures to otherwise determine appropriate levels and type of security for its properties. Instead HUD relied on the Property Management contractor to determine the levels and type of security needed at each individual property. However, the contractors did not have security analysts on their staffs to accurately determine the appropriate level and type of security at each of the properties, nor did they subcontract with an expert to make the determination. In general, the contractors placed a large number of guards at the properties upon takeover and left them there for an indeterminate period.

Recommendation

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner assures the Property Disposition Centers follow through on the actions they initiated to improve the process to determine the level and type of security needed at Multifamily Property Disposition properties.

We held an exit conference with the Supervisor-Project Officer, Eastern and Atlantic Servicing Branch by telephone on March 25, 1999. We presented our draft finding to the Assistant Secretary for Housing-Federal Housing Commissioner during the review. The Assistant Secretary provided written comments to our draft finding on June 29, 1999. The complete text of his comments is included as part of our finding.

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Introduction

One of the organizational changes that occurred under HUD's 2020 management reform plan was the creation of Multifamily Development Centers to carry out asset management and asset development. The centers were created to provide leadership for HUD staff who provide technical expertise in managing multifamily properties. In addition, the initiative consolidated operations to facilitate the multifamily asset development and management processes. This resulted in separate centers for Department-wide Enforcement Authority, Section 8 Financial Processing and Property Disposition.

HUD consolidated its multifamily property disposition efforts into two centers; one in Atlanta, Georgia and the other in Fort Worth, Texas. Property disposition efforts were consolidated to better use scarce personnel resources, provide consistency of procedures, and ensure the availability of proper legal expertise. Prior to the reform, property disposition functions were performed by the local HUD field offices.

When HUD assumes control of a multifamily property, the applicable center is responsible to control the costs of maintaining the property. One major category of cost is security.

Audit Objectives

The objective of our review was to assess the adequacy of controls over the process that determined the level of and type of security obtained for Multifamily Property Disposition properties.

Audit Scope and Methodology

We performed our on-site work between December 1998 and March 1999 at the Fort Worth Property Disposition Center and at HUD Headquarters. To assess the controls over the process to determine the level and type of security, we reviewed the Property Management contract with the Fort Worth Property Disposition Center and the contract the Property Manager had with a subcontractor. We interviewed property management officials, subcontractor employees, HUD program officials, and Officers from the Kansas City Police Department. We also reviewed security billing records, incident reports, and crime statistics for properties around the Kansas City Area.

The audit covered the period from June 1997 through December 1998. The review period was adjusted as necessary. We conducted our review in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Assistant Secretary for Housing-Federal Housing Commissioner.

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HUD Needs To Establish A Method to Determine the Level of Security Requirements at Multifamily Property Disposition Properties

Neither HUD nor its Property Management contractors established a means of determining the level and type of security needed at the Multifamily Property Disposition properties. HUD and the Property Management contractors assumed all properties needed high levels of security when HUD first took control of them. As a result, HUD spent more than \$38 million on security services without assurance that the levels and types of security were appropriate.

HUD Guidelines

The management of multifamily properties is controlled by HUD Handbook 4315.1, Multifamily Property Disposition - Management. The Handbook makes HUD responsible for controlling the cost of maintaining the multifamily properties in its inventory. Section 1-4 of the Handbook says, "Multifamily HUD-owned and Mortgagee-In-Possession projects must be managed in a manner that will protect the financial interests of the Federal Government..." The manner selected should be the least costly of any reasonable alternatives.

The Handbook also discusses security needs at multifamily projects. Section 5-20 says, "In meeting statutory requirements to keep projects decent, safe and sanitary, ...[HUD]... must determine the need and extent of, and implement, security measures to maintain safe housing for the residents and safe work areas for contractors and subcontractors." This section also says, "Based on individual project needs, security measures can range from periodic visits from a Property Management employee, to a complex system of regulated access doors, closed circuit cameras, unarmed security guards and, in the extreme, armed guard services." According to the Handbook, armed guards should only be used in special cases, and their use should be limited. The Handbook says, "The employment of armed guards is a temporary, last resort to be used only until the project can be secured."

The Handbook also says security surveys should be performed at the multifamily properties when security is a concern. "If Security is a concern at a project, the services

of a security expert should be procured, generally using a fixed-price contract, or subcontract if performed by the Property Management contractor. The security expert should survey and analyze the project to identify security concerns and recommend security systems and programs to alleviate those concerns.” The Handbook says the survey and recommendations should include, “to the maximum extent possible, reliance on electro-mechanical security systems which minimize the number of security guards required.”

HUD Did Not Have Procedures to Determine Levels of Security

HUD did not conduct security surveys nor did it implement any other procedures to otherwise determine appropriate levels and type of security for its properties. Instead HUD relied on the Property Management contractor to determine the levels and type of security needed at each individual property. However, the contractors did not have security analysts on their staffs to accurately determine the appropriate level and type of security at each of the properties, nor did they subcontract with an expert to make the determination. In general, the contractors placed a large number of guards at the properties upon takeover and left them there for an indeterminate period.

HUD and contractor staff at the two Property Disposition Centers assumed that all properties needed high levels of security when they were first taken over because the properties had management and social problems. HUD and the contractors believed the typical property entering HUD’s inventory had sustained long-term, deferred maintenance and was in a distressed condition throughout. HUD and the contractors also believed the properties were frequently drug and gang infested and inhabited by a large element of undesirable residents. This led HUD and the contractors to the conclusion that at acquisition, an immediate, large outlay of funds for security guards was required to protect the residents and the property.

HUD’s lack of an established method to determine the appropriate level of security for its properties caused HUD to spend a large amount on security services without assurance that the level and type of security was appropriate. We determined that HUD spent a total of \$38,015,559 on security services at the 67 properties in its inventory from June 1997 to December 1998. This amounts

to an average cost of \$31,522 per property, per month for security services. The following chart shows the average per month and the average per unit, per month cost of security incurred by the two contractors (AMI and ARCO) at the two Centers. HUD spent an average of \$472 per unit, per month for security at its properties.

Security Costs			
	Total Costs	Average Per Property Per Month	Average Per Unit Per Month
AMI	\$12,789,037	\$22,919	\$484
ARCO	\$25,226,522	\$38,930	\$460
All Properties	\$38,015,559	\$31,522	\$472

Costs of this magnitude indicate that security is a serious issue at HUD's Multifamily Property Disposition properties. HUD Handbook 4315.1 requires special consideration when security is an issue and says security experts should be consulted.

Auditee Comments

This is in response to your May 28, 1999, memorandum concerning your office's draft audit finding on the subject. You request that we relate what changes have already been made in the way the two Multifamily Property Disposition Centers determine the kinds and levels of security services that will be obtained at the properties managed by the Centers. As agreed, the office of Housing is diligently working to establish an improved process.

The Ft. Worth Property Disposition Center is taking the lead, working with the contracting staff who report to the Atlanta Administrative Service Center. Together, they have been working with the General Services Administration, researching how to establish a means to obtain security analysis services, particularly through General Services Administration lists. A General Services Administration list of schedules for such services was located at the General

Services Administration Seattle Office, with three firms possibly providing security analyses. These schedules are being reviewed to see how well they might work for the Property Disposition Centers.

In addition, a representative of the Ft. Worth Property Disposition Center has met with ADT Security Services, Inc., which is on the General Services Administration list for providing security equipment. Part of what ADT provides is limited evaluation of the security needs of a property. Representatives of the Ft. Worth Property Disposition Center and its project management contractor, AMI, Inc., met with ADT at a HUD-owned project, for which ADT will prepare a sample evaluation of security needs. The General Services Administration also is trying to interest other firms in providing this service, such as Pinkerton's.

We have looked into the past security procurement practices of the two Property Disposition Centers. While we have determined that the Property Disposition Centers did not obtain the services of security experts to provide analyses of the needs of each project when security was an issue, as required by Handbook 4315.1, the Property Disposition Centers did obtain the recommendations of their professional contract project managers. Each project manager would consult with a firm subcontracted to supply security guard services. The local police were also consulted in some instances.

Given the security problems we usually encounter when taking over control of properties these days, security guards are hired for many projects. Initially the Property Disposition Centers, with input from their contract property managers, hire sufficient guard presence to establish control. The level of this service is re-examined later and scaled back when project conditions improve and a reduction is warranted.

I appreciate your bringing this matter to our attention. By implementing your recommendation, we hope to improve the entire process.

While the number of guards at each property usually decreased over time, we found that neither HUD nor the management contractor used a well defined, reliable method to determine when security levels should be decreased.

When complete, the actions HUD has already initiated should correct this problem.

Recommendation

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner assures the Property Disposition Centers:

- 1A. Develop and implement procedures to determine the level and type of security needed at Multifamily Property Disposition properties.

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Management Controls

In planning and performing our audit, we considered the management controls of the Property Disposition Centers in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Control

We determined the following management control was relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

We assessed the relevant control identified above.

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

Significant Weakness

Based on our review, we believe the following item is a significant weakness:

- Program Operations.

Neither HUD nor its Property Management contractors established a means of determining the level and type of security needed at the Multifamily Property Disposition properties (see Finding 1).

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Follow Up On Prior Audits

This is the first Office of Inspector General audit that assessed controls over the level and type of security services acquired for Multifamily Property Disposition properties by the two Property Disposition Centers.

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Washington, DC 20515
Director, Housing and Community Development Issue Area, United States General Accounting
Office, 441 G Street NW, Room 2474, Washington DC 20548
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Resources, B373 Rayburn House Office Building, Washington, DC 20515
Chief, Housing Branch, Office of Management & Budget, 725 17th Street, NW, Room 9226,
New Executive Office Building, Washington, DC 20503