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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

November 9, 1981

CITY MANAGER'S OFFICE
RECEIVED
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Housing Authority of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Agency Response to HUD Annual Review of the Agency's
Low Income Public Housing Program

SUMMARY

Attached is the Agency's responses to the Department of Housing and Urban Development (HUD) recommended corrective actions to be taken by the Agency as they relate to management, occupancy, engineering and financial functions.

BACKGROUND

Each year, HUD representatives review the general operational functions of the Agency. In September, 1981, HUD staff completed their yearly review of Agency operations. This review was conducted in four parts and consisted of a management review, occupancy audit, engineering survey and financial review.

With the exception of the engineering survey which will be sent to the Agency at a later date, various comments were made in the management, occupancy and finance areas (see Exhibit A). However, HUD has indicated in a letter of September 30, 1981 that the General Management Review disclosed no serious problems with the administration of the various programs. A corrective action response to each comment is covered in Exhibit B.

FINANCIAL DATA

There is no financial impact as a result of these findings as they will be handled as part of the Agency's daily administrative workload.

APPROVED
SACRAMENTO HOUSING AUTHORITY
CITY OF SACRAMENTO

11-24-81
All Districts

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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Housing Authority of the
City of Sacramento
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November 9, 1981

RECOMMENDATION

The staff recommends that the Agency responses to the HUD findings regarding the Agency's low income housing program be accepted and approved.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Interim Executive Director

TRANSMITTAL TO COUNCIL:

Walter J. Slipe

WALTER J. SLIPE, City Manager

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 SACRAMENTO SERVICE OFFICE
 545 DOWNTOWN PLAZA - SUITE 250
 MAILING ADDRESS: P.O. BOX 1978
 SACRAMENTO, CALIFORNIA 95809

REGION IX

September 30, 1981

IN REPLY REFER TO:

9.8 FTMA
 Farwell/440-2764
 (3)

Mr. Burnett Miller, Chairman
 Board of Commissioners
 Sacramento Housing and Redevelopment Agency
 P. O. Box 1834
 Sacramento, California 95809

Dear Mr. Miller:

Members of my staff have recently conducted a coordinated review of your Low Income Public Housing Program. The review, which was conducted in four parts, consisted of a Management Review, Occupancy Audit, Engineering Survey and Financial Review. Results of the Engineering Survey are being transmitted under separate cover. Reports of Findings and recommendations made during the Occupancy Audit and Financial Review are enclosed. We request that the Executive Director respond to the enclosed findings and recommendations in writing no later than November 1, 1981.

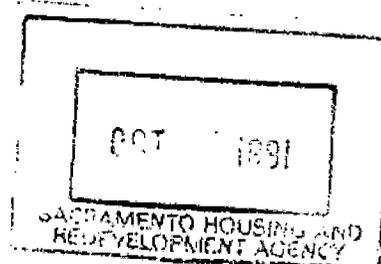
We are pleased to inform you that the General Management Review disclosed no problems of a serious enough nature to result in any Findings.

We would like to express our appreciation to the Executive Director and his staff for their cooperation and assistance during the course of the review. If you have any questions concerning the management review or this letter, please contact your Housing Management Officer, Carol A. Farwell at (916)440-2764.

Sincerely,

Paul A. Pradia
 Deputy Supervisor
 Housing Management

Attachments



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OCCUPANCY AUDIT REPORT

An Occupancy Audit was conducted to determine PHA compliance with occupancy provisions of the Housing Act of 1937, as amended, and Annual Contributions Contracts governing operation of your Low Income Public Housing Program. The audit consisted of a review of a sampling of individual tenant files and an evaluation of the policies and procedures used in making occupancy determinations.

In general, we were very pleased to discover that the administration of the program has noticeably improved since the previous occupancy audit was conducted in 1979. We did, however, note some deficiencies in your operation, and have detailed these below as Findings and Comments.

This report summarizes the Findings for the PHA and the Board of Commissioners and includes remedial actions recommended to the PHA, some of which have been initiated following the audit. A copy is being sent to the Executive Director under separate cover with two copies of the Occupancy Audit Findings Form HUD 52380 which lists required actions to be taken to correct individual tenant files reviewed. One copy of the Form HUD 52380, complete with a report of actions taken on each item is to be returned no later than November 1, 1981.

Finding No. 1 - Verification

Several of the tenant files reviewed lacked verification of the accuracy of income or asset information furnished by tenants. Upon admission and reexamination, all incomes and assets must be verified.

In the case of earned income, letter response from the employer is preferred in order to verify income. Pay checks or stubs are the next best source of income. Income tax or W-2 Forms are not considered a reliable means of verification of income since they may reflect only partial annual income or one W-2 may be presented, though there was more than one source of employment. Income tax returns and W-2 Forms show past instead of current or projected income, as needed to determine eligibility and rent. We caution that these forms may be accepted, but generally only as a last resort.

Verification of unearned income should be in the form of third party documents such as grant letters, welfare or Social Security Checks, etc. Verification that checks were viewed may be documented by notation or brief summary on the application form, including date and signature of interviewer.

Reported increases in income need not be verified. Rent reviews conducted between the established reexam times require verification if decreased income is reported. Certification for income such as babysitting, child support, day work, etc. should be placed in the file.

Consequently, obtain the documentation for individual tenant files requested on the enclosed Form HUD 52380. For future admissions and reexaminations, provide sufficient documentation of verification of income and deductions, as needed, for the tenant file.

Finding No. 2 - Tenant Files

The Findings for the individual tenant files reviewed are listed on the enclosed Form HUD 52380, as well as the enclosed individual Tenant File Review Sheets. We request that all files, for which discrepancies are noted, be reviewed for accuracy and completion.

Items Requiring Corrective Action

While not listed as Findings, the following situations do require corrective action:

1. Utility Allowances - The allowances for tenant purchased utilities are in need of revision. We recommend that the PHA utilize the consumption levels provided by Mr. Dongses, of our staff, in updating your utility allowances.
2. Project Identification Numbers - Project office staff are in need of training regarding the proper project numbers for each Low Income Public Housing Project. Please ensure that each project office employee is properly informed of the current identification number for each project so that forms requiring the number, i. e. leases, applications, reports, etc. may be filled in correctly.

Comment

Security Deposit - The current amount charged for security deposits is \$25. Since that amount cannot realistically be expected to cover the cost of damages, we recommend that you give serious consideration to establishing new amounts for security deposits. You may wish to consider setting different amounts for elderly projects than for family projects, based on your experience in the matter.

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FINANCIAL REVIEW

This section of the review report points out trends in the financial status of the Sacramento City and County Housing Authorities (PHA) owned Rental Housing Programs and how well the PHAs have complied with HUD Regulations for the programs. The narrative report is supported by financial information submitted by the PHAs to HUD over the past five years and additional information gathered at the on-site review the week of September 7, 1981. The financial information is presented in the form of trend statements attached as Schedules "A-1 through E-1" for the City PHA and "A-2 through E-2" for the County PHA.

The City and County also administer Section 23 Leased Housing Programs which are being phased out during fiscal year ending December 31, 1981. Due to their termination, the Section 23 programs are not included in this report.

From 1977 through 1981, the number of units in the City's program grew from 1570 to 1702. During the same period the County's program grew from 268 units to 371 units. Table I shows the budget growth of the two programs in terms of dollars per unit month.

TABLE I
BUDGET GROWTH
1977-1981

BUDGET ELEMENTS	<u>CITY</u>		<u>COUNTY</u>	
	P.U.M. Increase or (Decrease)	% Increase or (Decrease)	P.U.M. Increase or (Decrease)	% Increase or (Decrease)
Adm. Expense	\$ 16.42	98	\$ 17.09	76
Utilities Expense	6.60	65	4.70	64
Ord. Maint. Expense	23.31	73	33.53	99
General Expense	11.37	73	13.19	70
Routine Expense	59.53	79	69.29	83
Receipts	17.45	27	51.57	79
Subsidy	(3.51)	(10)	(20.97)	(41)
Reserve	(45.59)	(87)	(59.86)	(80)

For the trend period the City's combination of receipts and subsidy increased by \$13.94 P.U.M. and did not offset the accompanying \$59.53 increase in routine expense. Likewise the County's combination of receipts and subsidy increased by \$30.60 P.U.M. and did not offset an increase of \$69.29 P.U.M. in routine expense. The result of these particular trends has been a drastic decline in the reserves of both programs.

In 1977 receipts defrayed 75% of the City's total expenses. It is projected for the fiscal year ending December 31, 1981 receipts will only offset 55% of the City's total expenditures. For both the City and the County subsidy will only offset approximately 20% of total expenses for fiscal year ending December 31, 1981. The City projects ending fiscal year 1981 with reserves amounting to 5% of total expenditures. The County projects ending fiscal year 1981 with reserves amounting to 9% of total expenditures.

Table I shows substantial P.U.M. increases in Administrative, Ordinary Maintenance and General Expenses. These same elements are included in Table II reflecting a national and regional comparison.

TABLE II
BUDGET COMPOSITION COMPARISON

BUDGET ELEMENTS*	City 1981	County 1981	National 1981	Regional 1981
Admn. Expense	\$ 33.14	\$ 39.62	\$ 17.71	\$ 26.6
Ordinary Maint. Expense	55.48	67.50	31.72	54.1
General Expense	26.98	32.17	14.64	31.3

*Elements expressed in terms of dollars, P.U.M.

The City and County both exceed the national averages of PHAs by a substantial amount. Bringing the above elements more in line with the national averages is not a goal in and of itself. The immediate objectives should be the development of plans to control these elements to a degree that will substantially improve financial solvency. Reduction of deficits should be a goal for at least two or three years.

All of the above three elements are directly tied to staffing levels. While the agency does not maintain a distribution of staff assigned to a program, a count of staff charges to the two programs was made during this review. The payroll register of the pay period ending July 24, 1981, was selected at random to observe charges per program. During the pay period ending July 24, 1981, there were 40 employees with "Maintenance" titles charging time to the City programs. Although this pay period's

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employee distribution may not accurately represent the annual staffing pattern, it is justified due to time and data contracts. Table III compares staffing ratios of two nearly comparable sized housing authorities and Sacramento's City Program.

TABLE III
STAFFING RATIOS

PHA	Avg. No. of Units Per Adm. Employee	Avg. No. of Units Per Maint. Employee	Total Units
Fall River, Maine	73.4	44.2	1880
Sacramento-City	106.4	42.55	1702
Lowell, Maine	61.8	37.2	1582

If the staff count from the payroll record proves accurate the City's program ranks well in Table III in terms of administrative employees per unit. Sacramento City occupies a logical position in Table III in terms of maintenance employees per unit, but not a strong position.

Staffing ratios will vary between housing authorities. We tend to expect administrative ratios not to vary as much as maintenance ratios. Organization and geography will more directly affect maintenance staffing ratios. While 16 administrative and 40 maintenance staff may not be excessive, the maintenance category may provide more allowance for reductions. Again, such revisions to the staffing strength are not for the sake of national or regional rankings, but to improve financial solvency.

Schedules C-1 and C-2 show that charges to tenants have risen steadily over the past four years. The City projects 54 vacancies during fiscal year ending December 31, 1981. Tenant Accounts Receivable not only relates to the quality of life style at a particular project site, it also reflects lost revenue. Vacancies can be reduced by management practices.

The accounting practices of both the City and County programs are sound and adhere to most HUD regulations and guidelines. Schedules D-1 and D-2 show excess funds being invested throughout the year. Schedules E-1 and E-2 show modernization expenditures in a timely manner.

Finding No. 1:

Fire Insurance Policy

The fire insurance policy did not contain a 30 day cancellation clause nor the mistake in location clause.

Recommendation:

The Fire Insurance Policy should contain the following:

- Clauses: 1) "To provide that cancellation may not be effected by the Company without thirty days prior written notice to the insured."
- 2) "It is hereby understood and agreed that the coverage afforded by this policy shall not be invalidated or affected by any mistake in the descriptions of premises, or otherwise mentioned in this policy."

Finding No. 2:

The trends summarized in this review show a definite decline in the financial solvency of both the City and County programs. The causes may or may not be due to management practices, inflation, and limitations on rental charges. Management practices that reduce administrative, maintenance, and general expense should be immediately considered by the City and County.

Recommendation:

As response to the review, the Agency should submit completed HUD Forms 52566 and 52573 for both the City and County programs showing planned staff distribution. Additionally, we request a narrative outline of any planned studies or management policies aimed at cost reduction and reduction of deficits. Our review of your responses may result in some follow-up meetings. We are aware that the decline did not occur overnight and may not be corrected overnight. Although our staff time is limited we are willing to assist you as much as possible in your planning efforts.



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

November 4, 1981

Paul Pradia, Deputy Supervisor
Housing Management Division
Dept. of Housing & Urban Development
545 Downtown Plaza, Suite 250
Sacramento, CA 95814

Dear Mr. Pradia:

With reference to your letter of September 30, 1981 relating to the review of the Agency's low income housing program, the following responses are submitted.

Occupancy

Finding 1: Tenant files lack accuracy in determining income and asset information.

Response:

Staff makes every effort to obtain the most reliable information possible as it relates to verification of income and assets. In those cases of earned income, staff will attempt to contact the employer for verification. A memo has gone out to all offices reminding them of verification procedure, not only for earned income but for unearned income as well. Also, each office will investigate those findings as indicated on HUD forms.

Tenant Files

Finding 2: Various items in individual tenant files need to be corrected.

Response:

All identified findings have been referred to staff for immediate correction.

Non-Finding Items

Utility Allowances/Security Deposits

Both of the above items are now being considered by the Agency Finance Division for revision and will be dealt with by June 30, 1982.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Mr. Pradia
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Project Identification Numbers

A list of project identification numbers has been sent to each field office with instructions for staff to familiarize themselves with the list.

Finance Division

Finding 1: Fire Insurance Policy

Response:

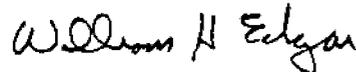
We have initiated action to get a Special Endorsement for our Agency Fire Insurance Policy to include a thirty (30) day cancellation clause and a mistake in location clause. A copy of our correspondence is attached (see Exhibit A) and a copy of the transmitted memorandum from the carrier (see Exhibit B).

Finding 2: Financial Solvency

Response:

We have phased out 15 Maintenance Men who were largely funded from HUD housing allocations causing an inordinate use of reserves since they were not reflected in the budget. We have also changed our cost allocation of central administration to a more equitable method which should reduce our administrative costs. This concludes our responses. If you need further assistance, please do not hesitate to contact us.

Sincerely,



WILLIAM H. EDGAR
Interim Executive Director

WHE/MC/drn



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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

October 6, 1981

Mr. Dave Murphy
Pickett-Rothholz & Murphy
P.O. Box 13190
Sacramento, CA 95813

Dear Dave:

A recent Department of Housing & Urban Development (HUD) review of our Fire Insurance Policy reveals that there is no 30 day cancellation clause nor the mistake in location clause.

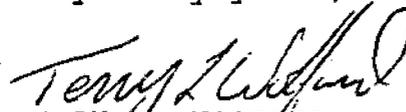
Please initiate action to provide a Special Endorsement to the applicable policy with the following clauses:

1. "To provide that cancellation may not be effected by the company without thirty days prior written notice to the insured."
2. "It is hereby understood and agreed that the coverage afforded by this policy shall not be invalidated or affected by any mistake in the descriptions of premises, or otherwise mentioned in this policy."

A copy of the Special Endorsement is to be provided to this Agency and a copy to Department of Housing & Urban Development, Attention: AHMB, P.O. Box 1978, Sacramento, CA., 95809.

Thank you for your attention to this matter.

Very truly yours,


TERRY L. WOLFORD
Director of Finance

TLW:dp

EXHIBIT A

Transmittal Memorandum

Date 10-9-81

Enclosed please find:

Endorsement showing the mistake in location clause and giving 30 days notice of cancellation. We appreciate your advising us of these omissions, please accept our apology for any inconvenience.

If checked here, please acknowledge receipt of enclosure. *Sara Petersen*

TO Mr. Terry L. Wolford
Director of Finance
Housing Authority of Sacramento
P.O. Box 1834
Sacramento, CA 95809

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SACRAMENTO, CALIFORNIA 95813
Phone: (916) 929-5522

3-1-84

SPECIAL ENDORSEMENT

It is hereby understood and agreed that the coverage afforded by this policy shall not be invalidated or affected by any mistake in the descriptions of premises, or otherwise mentioned in this policy.

It is also agreed that cancellation of the policy may not be effected by the company without thirty days prior written notice to the insured.

ENDORSEMENT #3

POLICY NUMBER MXP 456 4712	INSURED Housing Authority of the City of Sacramento, etal	EFFECTIVE 3-1-81sp
FIREMAN'S FUND INSURANCE COMPANY THE AMERICAN INSURANCE COMPANY NATIONAL SURETY CORPORATION ASSOCIATED INDEMNITY CORPORATION AMERICAN AUTOMOBILE INSURANCE COMPANY <i>Myron Dew Bann</i> PRESIDENT		PRODUCER PICKETT-ROTHHOLZ & MURPHY, Ins. Agts. & Brokers COUNTERSIGNATURE OF AUTHORIZED AGENT <i>David K. Murphy</i>

180009-6.65 SETS

EXHIBIT B