

**U. S. Department of Housing and Urban Development
Office of Inspector General**



**Progress Payments for Construction at Savoy Place
New Orleans, Louisiana**

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Inspector General**

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Executive Summary

The Office of Inspector General, Inspections and Evaluations Division, conducts independent, objective examinations of U. S. Department of Housing and Urban Development (HUD) activities, programs, operations, and organizational issues.

We completed an inspection of HUD funds drawn from the Line of Credit Control System (LOCCS) to pay for construction at Savoy Place, the last phase of the Desire Development at The Housing Authority of New Orleans (HANO). The Desire Development is a three-phase HOPE VI development, comprising of Abundance, Treasure, and Savoy Place.

The objective of the inspection was to determine whether HUD funds drawn from LOCCS for Savoy Place before Hurricane Katrina corresponded with the cost of construction. To satisfy this objective, we compared progress payments HANO made to the developer, Michaels Development Company, with documentation of construction work performed. In addition, we discussed the records with key contractor personnel at HANO. We performed the fieldwork during July and August 2008.

We determined that the progress payments to Michaels were used for construction work completed at Savoy Place and that HUD funds drawn corresponded with the progress payments made.

If you have any questions concerning this report, please call Kenneth R. Taylor, Jr., Special Agent in Charge, at (202) 402-8416.

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Introduction

The Desire Development of The Housing Authority of New Orleans (HANO) is a three-phase HOPE VI development. The first two phases, Abundance and Treasure, were completed by late 2004. Construction on Savoy Place, the third phase, began in early 2005 and was under construction when Hurricane Katrina hit the city on August 29, 2005.

Our concern was whether U.S. Department of Housing and Urban Development (HUD) funds drawn from the Line of Credit Control System (LOCCS) for Savoy Place corresponded with the cost of construction through August 29, 2005. Therefore, we wanted to determine whether the funds were used for that purpose.

The Desire Development was devastated by Hurricane Katrina. Treasure and Abundance have already been reconstructed. Demolition of Savoy Place was completed in June 2008, and reconstruction is in progress.

Scope and Methodology

To achieve our objective, we identified the HUD funds drawn by HANO from LOCCS. We identified HANO's payments to the developer, Michaels Development Company (Michaels). Then we obtained records from IMS-Falcon, L.L.C., HANO's contractor for monitoring contract performance, to inspect progress payments claimed by and made to Michaels doing business as Savoy Place Associates, L.P. These records included the application and certification for payment, commonly called "pay apps," in addition to supporting financial records, inspections, and correspondence.

We performed our detailed analysis as follows: (1) we compared the payments to Michaels with the LOCCS draws, (2) we confirmed whether HANO inspected the construction progress and certified delivery of services, (3) we analyzed the relevant pay app for percentage of completion and compared it with construction estimates found in the post-Katrina correspondence, (4) we reviewed the support for HANO approved payments and confirmed approval of the pay apps, and (5) we summarized all LOCCS draws and payments to the developer. Throughout the process, we reviewed other related documents, such as inspections and correspondence, and discussed all documents with IMS-Falcon's senior consultant responsible for monitoring the project.

We conducted the inspection in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

Observation 1: Progress Payments for Construction at Savoy Place Were Paid for Work Performed.

Our inspection disclosed that construction effort at Savoy Place was generating the progress payments claimed. Greystar Development and Construction (Greystar) performed the construction services at Savoy Place. Greystar submitted pay apps to

Michaels for construction costs less 10 percent retainage. Michaels then invoiced HANO with the pay apps as support for the construction costs. IMS-Falcon monitored construction performance through site inspections and reviewing the pay apps. As a result, it certified delivery of services for each pay app. We reviewed the documents and photographs provided by IMS-Falcon and consider them reliable.

Observation 2: HUD Funds Drawn by HANO Corresponded with Progress Payments for Work Completed through August 29, 2005.

Our inspection disclosed that the funds HANO drew down corresponded with the progress payments for construction underway on Savoy Place before Hurricane Katrina. We compared the funds drawn from LOCCS with the progress payments to Michaels. HANO drew down \$11.7 million from LOCCS and made payments of \$11.9 million. Therefore, the progress payments were within 2 percent of the amount drawn for those payments.

Additionally, the progress payments to Michaels computed to 36.9 percent of contract completion. IMS-Falcon confirmed that 36.9 percent was a reasonable estimate of the overall construction completed before Hurricane Katrina.

Construction work was performed before Hurricane Katrina. Therefore, we relied on the documents and statements provided by IMS-Falcon to support our observations. In addition, IMS-Falcon provided digital photographs of Savoy Place before and after Hurricane Katrina to corroborate its statements and estimates.

Recommendation

We recommend that the Deputy Assistant Secretary for the Office of Public Housing Investments ensure that HANO follows standard closeout procedures when the Desire HOPE VI development is completed. These procedures include preparing a financial status report and obtaining an independent audit in accordance with 24 CFR (*Code of Federal Regulations*) 85.26. Savoy Place is the third and final phase of the HOPE VI portion of Desire. Therefore, completion of Savoy Place requires HANO to initiate HUD's standard closeout procedures for the Desire HOPE VI development.

Acknowledgements

This inspection was conducted and the report prepared under the responsibility of Ruth A. Ritzema, Deputy Assistant Inspector General for Investigations, Office of Investigation.

The fieldwork was supervised by Windell Durant, Supervisory Forensic Auditor. Leighton Eaves, Forensic Auditor, conducted the fieldwork.