



**OFFICE OF THE  
CITY AUDITOR**

**AN AUDIT OF THE  
CITY OF SAN JOSE'S  
HOUSING REHABILITATION PROGRAM**

- THE HOUSING DEPARTMENT NEEDS TO IMPLEMENT PROCEDURES TO IMPROVE INTERNAL CONTROL, DOCUMENT REHABILITATION PROJECTS, AND ENHANCE PROGRAM EFFECTIVENESS
- OPPORTUNITIES EXIST FOR HOUSING TO IMPROVE THE RELIABILITY AND USEFULNESS OF ITS REHABILITATION PROGRAM MANAGEMENT INFORMATION
- HOUSING NEEDS TO UPDATE AND IMPROVE ITS REHABILITATION PROGRAM APPLICATION PACKETS

**A REPORT TO THE  
SAN JOSE  
CITY COUNCIL**

**APRIL 1997**

**97-02**



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City Auditor

## CITY OF SAN JOSÉ, CALIFORNIA

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April 28, 1997

Honorable Mayor and Members  
of the City Council  
801 North First Street, Room 600  
San Jose, CA 95110

Transmitted herewith is a report on *An Audit Of The Housing Rehabilitation Program*. This report is in accordance with City Charter Section 805.

An Executive Summary is presented on the blue pages in the front of this report. The City Administration's response is shown on the yellow pages while the City Auditor's comments on the City Administration's response are shown on the green pages before the Appendices.

I will present this report to the Finance Committee at its May 14, 1997, meeting. If you need additional information in the interim, please let me know. The City Auditor's staff members who participated in the preparation of this report are Nestor Baula and Richard Raya.

Respectfully submitted,

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## **EXECUTIVE SUMMARY**

In accordance with the City Auditor's 1996-97 Audit Workplan, we have reviewed the Housing Department's (Housing) Rehabilitation Program. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

We thank the Housing Department staff and management for their cooperation during the course of this audit.

### **THE HOUSING DEPARTMENT NEEDS TO IMPLEMENT PROCEDURES TO IMPROVE INTERNAL CONTROL, DOCUMENT REHABILITATION PROJECTS, AND ENHANCE PROGRAM EFFECTIVENESS**

The Housing Rehabilitation Program provides the financial and technical expertise necessary to enable lower- to moderate-income families in San Jose to live in decent, safe, and sanitary housing. In September 1992, the City Auditor issued *An Assessment Of The Housing Department's Controls Over Its Housing Rehabilitation Programs*. In this audit report, we identified over 200 "threats" (any unwanted event or occurrence) confronting Housing's Rehabilitation Program and over 400 controls or procedures to prevent or mitigate those threats. As a result of our 1992 audit, Housing incorporated the identified controls and procedures into the Rehabilitation Program Handbook. However, our follow-up audit of Housing's Rehabilitation Program disclosed that Housing did not have any written procedures or other written instructions for 40 of the 112 rehabilitation projects in our sample. Specifically, Housing does not have written procedures or instructions for grant rehabilitation projects.

Further, our audit revealed that from 1992-93 through 1995-96 Housing:

- Increased the maximum amount for a rehabilitation grant project from \$3,000 to \$7,500;
- Increased the number of rehabilitation grants per year from 2 to 180; and
- Increased the amount awarded for rehabilitation grant projects from \$57,362 to \$1,191,133.

As a result, Housing does not have any written procedures or written instructions for a significant segment of its Rehabilitation Program. Accordingly, Housing should incorporate into its Rehabilitation Program Handbook written procedures for reviewing and approving grant applications, for obtaining property owner approvals of proposed and completed rehabilitation work, and for competitively selecting contractors for grant rehabilitation projects. In addition, Housing should use recoverable home repair grants as a means to accommodate both the needs of lower-income property owners and the Rehabilitation Program's need to roll over Housing funds for future projects.

Further, our compliance testing of Rehabilitation Loan projects and Paint grant projects for which Housing has written procedures are summarized below:

**SUMMARY OF 40 REHABILITATION LOAN PROJECTS TESTED  
FOR COMPLIANCE WITH REHABILITATION  
PROGRAM WRITTEN PROCEDURES**

<b>Rehabilitation Program Handbook Procedure/Policy Tested</b>	<b>Number of Projects in Compliance</b>	<b>Number of Projects Not in Compliance</b>	<b>% of Total Projects (40) Not in Compliance</b>
Staff are required to indicate the date and initial the required items on the documentation checklist as they are completed.	26	14	35%
Income verification for each applicant consists of current paystubs, income tax returns, and W-2 forms for the past two years from all members of the household.	37	3	8%
Staff are required to prepare a work write-up and cost estimate, and the owner of the property to be rehabilitated must approve the work write-up.	34	6	15%
Competitive selection of contractors.	34	6	15%

**SUMMARY OF 32 REHABILITATION PAINT GRANT PROJECTS  
TESTED FOR COMPLIANCE WITH REHABILITATION  
PROGRAM WRITTEN PROCEDURES**

<b>Rehabilitation Program Handbook Procedure/Policy Tested</b>	<b>Number of Projects in Compliance</b>	<b>Number of Projects Not in Compliance</b>	<b>% of Total Projects (32) Not in Compliance</b>
Staff are required to indicate the date and initial the required items on the documentation checklist as they are completed.	20	12	38%
Income verification for each applicant consists of current 1040 from all members of the household.	30	2	6%
The Notice of Completion (NOC) must be signed by the owner upon completion of the project.	31	1	3%

In addition, we found that of the 67 projects that required final permits from the City of San Jose or the State of California, such permits were not on file for 15 projects. Further, we found that Housing did not complete annual recertifications of affordability restrictions for the two projects in our sample for which such certifications were required. We also found that Housing did not

have complete documentation of required licenses or proofs of insurance for any of the 20 contractors we reviewed.

Further, we observed numerous instances of rehabilitation project contractors rendering poor quality and costly work resulting in dissatisfied Rehabilitation Program loan and grant recipients.

According to Housing management, Housing should not be held accountable for the poor customer service for the rehabilitation projects we identified. Further, Housing management contends that it cannot correct problems about which it does not know. However, in our opinion, had Rehabilitation Inspectors and other Housing staff performed required inspections and adequately documented the results of their inspections, Housing should have known about the rehabilitation project problems we identified.

Finally, Housing experienced significant budget and staff reductions beginning in 1993-94. Housing endured these budget and staff reductions without commensurate reductions in rehabilitation project workloads.

We recommend that Housing follow the written procedures in the Rehabilitation Program Handbook, add several new procedures to the Rehabilitation Handbook and submit a budget proposal to the City Council to provide the staff and resources necessary to implement the recommendations in this Finding.

By so doing, Housing will improve compliance with its own policies and procedures, reduce the risk that rehabilitation work will be of poor quality or too costly, enhance the Housing Rehabilitation Program's effectiveness, and improve

the condition of the City of San Jose's very low- to moderate-income housing stock.

**OPPORTUNITIES EXIST FOR HOUSING TO IMPROVE THE RELIABILITY AND USEFULNESS OF ITS REHABILITATION PROGRAM MANAGEMENT INFORMATION**

Housing formally reports on the timeliness of rehabilitation projects in the City's annual operating budget. Our review of Housing's Rehabilitation Program management information revealed that Housing:

- Does not measure the timeliness of each type of rehabilitation project;
- Does not measure the timeliness of the entire rehabilitation process;
- Does not periodically review backlogged rehabilitation projects; and
- Has not documented its Rehabilitation Program database standards.

In our opinion, Housing should: (1) establish timeliness standards for all types of rehabilitation projects starting with the initial interview date, (2) periodically review rehabilitation projects delayed beyond established time objectives, and (3) document its standards and controls over the Rehabilitation Program database. By so doing, Housing will improve the reliability and usefulness of its Rehabilitation Program management information.

**HOUSING NEEDS TO UPDATE AND IMPROVE ITS REHABILITATION PROGRAM APPLICATION PACKETS**

Housing provides prospective rehabilitation grant or loan recipients with an application packet. Our review of the application packet revealed that it is out-of-date and printed only in English. In our opinion, Housing needs to update the

information in the application packet and print the information in other languages common to San Jose.

## **RECOMMENDATIONS**

We recommend that the Housing Department:

### **Recommendation #1:**

Document its policies and procedures for rehabilitation grants. (Priority 2)

### **Recommendation #2:**

Add procedures to the Rehabilitation Program Handbook to obtain property owner approval of proposed and completed grant rehabilitation projects. (Priority 3)

### **Recommendation #3:**

Add procedures to the Rehabilitation Program Handbook regarding recipients' refusal to sign Notices of Completion (NOCs) and final payment certificates and staff documenting reasons for making final payments to the contractors when recipients refuse to sign NOCs and final payment certificates. (Priority 3)

### **Recommendation #4:**

Add procedures to the Rehabilitation Program Handbook to require an open purchase order process for selecting contractors for grant rehabilitation projects. (Priority 3)

**Recommendation #5:**

Add procedures to the Rehabilitation Program Handbook to require the use of recoverable home repair grants. (Priority 2)

**Recommendation #6:**

Use the revised standard checklists to ensure that rehabilitation project files contain all required documents. (Priority 3)

**Recommendation #7:**

Use the revised project checklist to provide a cross-reference among related projects when using common documents. (Priority 3)

**Recommendation #8:**

Follow the Rehabilitation Program Handbook regarding Rehabilitation Program applicant income eligibility. (Priority 3)

**Recommendation #9:**

Follow the Rehabilitation Program Handbook regarding recipient-signed Notice of Completion. (Priority 3)

**Recommendation #10:**

Follow the Rehabilitation Program Handbook regarding work write-ups and cost estimates even for simple and specific projects. (Priority 3)

**Recommendation #11:**

Follow the Rehabilitation Program Handbook regarding contractor selection for loan rehabilitation projects, as amended in the City Council-approved procedures. (Priority 3)

**Recommendation #12:**

Follow the written procedures in the Rehabilitation Program Handbook regarding City of San Jose Building Division and State Department of HCD permits. (Priority 3)

**Recommendation #13:**

Add procedures to the Loan Management Handbook regarding annual recertifications of affordability restrictions. (Priority 3)

**Recommendation #14:**

Amend the Rehabilitation Program Handbook regarding licenses and proof of insurance for rehabilitation contractors. (Priority 3)

**Recommendation #15:**

Update the Rehabilitation Program Handbook to incorporate City Council approved procedural changes. (Priority 3)

**Recommendation #16:**

Follow the Rehabilitation Program Handbook regarding inspection of rehabilitation projects and documenting the results of these inspections.

(Priority 3)

**Recommendation #17:**

Add procedures to the Rehabilitation Program Handbook to require the Rehabilitation Program Supervisor to (1) review the Customer Satisfaction Survey responses, (2) take appropriate actions to resolve any reported project deficiency, and (3) file copies of the Customer Satisfaction Survey responses in the project file as well as the contractor file. (Priority 3)

**Recommendation #18:**

Add procedures to the Rehabilitation Program Handbook to require before and after photographs to document Housing Rehabilitation projects. (Priority 3)

**Recommendation #19:**

Submit a budget proposal to the City Council to provide the staff and resources necessary to implement recommendations 1 through 18. (Priority 3)

**Recommendation #20:**

Establish and track timeliness performance measures for processing each type of rehabilitation project through the various milestones from the applicant's initial interview to the project's completion and payment. (Priority 3)

**Recommendation #21:**

Management periodically review Rehabilitation Program performance against established processing time objectives, ascertain reasons for any delays and take appropriate corrective action. (Priority 3)

**Recommendation #22:**

Document its Rehabilitation Program database input standards and controls and assign staff to review database activities for compliance with the standards. (Priority 3)

**Recommendation #23:**

Update the rehabilitation program application packet to provide eligibility criteria for emergency grants and multilingual information and application procedures for the rehabilitation program. (Priority 3)

## **INTRODUCTION**

In accordance with the City Auditor's 1996-97 Audit Workplan, we have reviewed the Housing Department's Housing Rehabilitation Program. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

We thank the Housing Department staff and management for their cooperation during the course of this audit.

# BACKGROUND

## Department Mission

The City of San Jose's (City) Housing Department (Housing) mission is

*"To assist San Jose's lower and moderate income families by increasing, preserving and improving housing that is affordable and livable, and to the extent possible, ensuring long-term affordability and contributing to neighborhood revitalization."*

## Department Organization And Staffing

Housing is composed of three programs:

- **Administration Program** - This program provides the Department's planning, organization, direction, and evaluation activities. It also provides fiscal management of the City's loan portfolio as well as review and advocacy of federal and state legislation concerning housing planning, financing, and development. The Administration Program is also responsible for the implementation of the federally-required Consolidated Plan which outlines the City's housing needs and requests funding to construct and rehabilitate low- and moderate-income units throughout the City.
- **Conservation and Development Program** - This program incorporates the housing project development and housing conservation (rehabilitation) sub-programs.
  - The Housing Project Development unit seeks to expand the supply of affordable housing to lower- and moderate-income households.
  - The Housing Conservation (Rehabilitation) unit's primary function is to return dwelling units occupied by lower- and moderate-income households to a livable condition by meeting Housing Code requirements for decent, safe, and sanitary housing. This unit also

administers the Paint Program, which contributes to the maintenance and revitalization of neighborhoods.

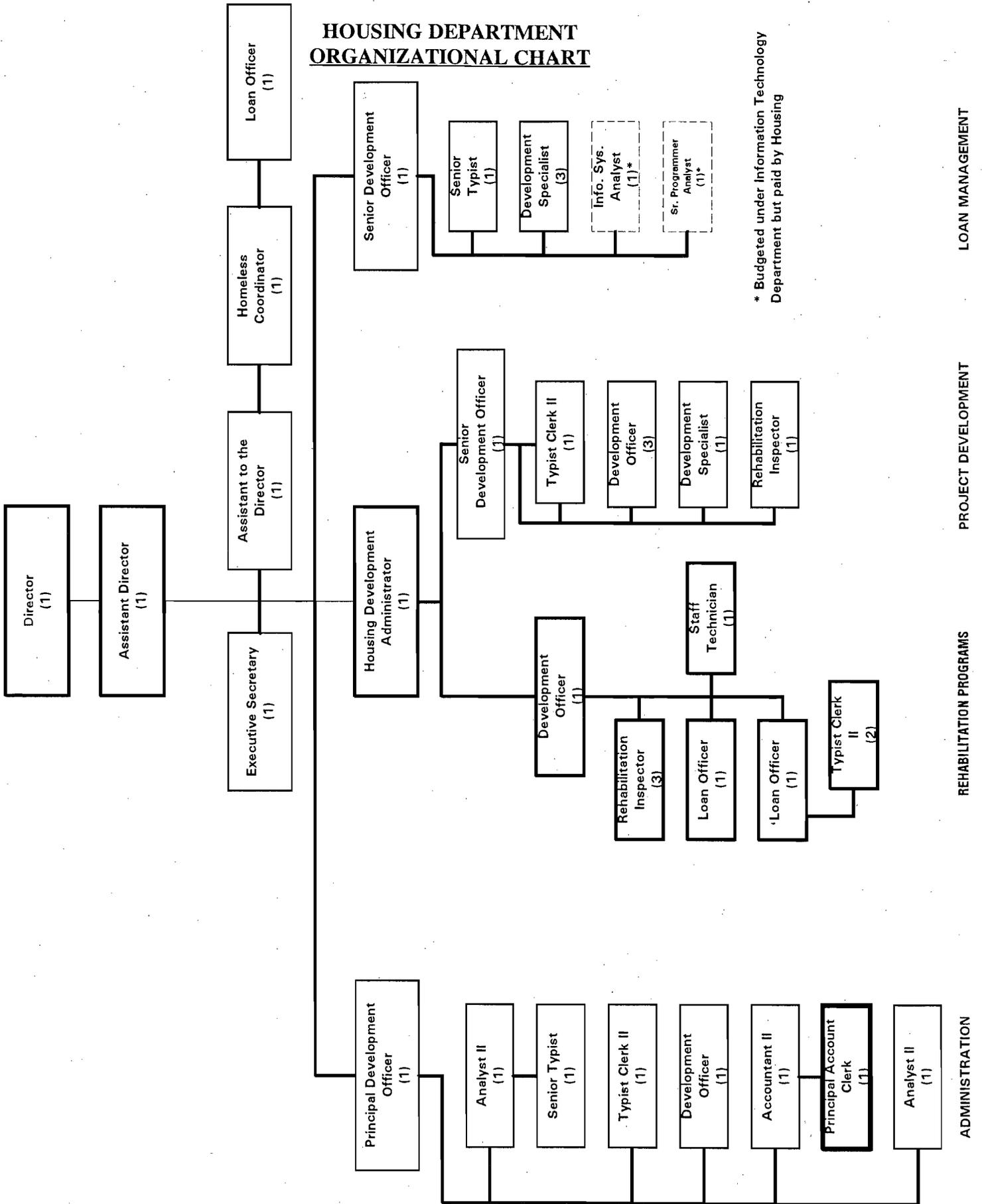
- **Loan Management Program** - This program provides management and maintenance of the department's loan portfolio. This involves the monitoring of City-financed or sponsored housing to ensure that the program and financial requirements of the loan terms are met, including: loan repayment schedules, resolution of late payments, and contract evaluation. This program also provides for the implementation of the department's Rehabilitation Program database management, information, and office automation systems used for reporting and planning purposes.

Housing's authorized full-time equivalent positions decreased 52 percent from a high of 75.5 positions in 1992-93 to 36 in 1995-96. For 1996-97, Housing's authorized positions increased to 38 with the addition of two City's Community Development Block Grant (CDBG) funded positions. These positions will help the Department with its goal of rehabilitating existing developments within the City.

Chart I shows Housing's organizational structure as of January 1997. The positions outlined in bold are directly related to the Rehabilitation Program.

CHART I

**HOUSING DEPARTMENT  
ORGANIZATIONAL CHART**



\* Budgeted under Information Technology Department but paid by Housing

**Budget And Financial Information**

Housing's operating and program expenditures are funded through various special revenue funds. Fund 443 (Low- and Moderate-Income Housing Fund), which accounts for the 20 percent property tax increment from the Redevelopment Agency and bond sale proceeds, is the primary source of funds for departmental operating expenditures and housing development projects. Fund 441 (CDBG Fund) is the primary funding source for the Rehabilitation Program. Other sources of funds for Housing's operating and program expenditures include Fund 440 (Housing and Homeless Fund), Fund 442 (Rental Rehabilitation Loan Fund), and Fund 445 (HOME Investment Partnership Program Fund).

*Operating Expenditures And Budget*

In the City's 1996-97 Adopted Operating Budget, Housing's budget is reported under the "Special Funds" section. Table I shows Housing's 1994-95 and 1995-96 actual operating expenditures, and 1996-97 adopted operating budget. Housing's 1996-97 operating budget is 16 percent less than the 1994-95 operating expenditures.

**TABLE I**

**HOUSING DEPARTMENT 1994-95 AND 1995-96 ACTUAL OPERATING EXPENDITURES AND 1996-97 ADOPTED OPERATING BUDGET**

	<b>1994-95 Actual</b>	<b>1995-96 Actual</b>	<b>1996-97 Adopted</b>
Administration	\$1,187,660	\$1,182,210	\$1,535,023**
Conservation & Development	3,122,519	2,331,667	1,711,110
Loan Management	0*	0*	353,562
<b>Total</b>	<b>\$4,310,179</b>	<b>\$3,513,877</b>	<b>\$3,599,695</b>

\* During 1994-95 and 1995-96, the budget for Loan Management was included under Conservation and Development.

\*\* For 1996-97, five positions in Conservation and Development were transferred to Administration.

Program Expenditures And Encumbrances

Table II shows Housing's 1994-95 and 1995-96 program expenditures and encumbrances by funding source. The 1995-96 expenditures and encumbrances of \$27.8 million represent a 42 percent reduction from the 1994-95 expenditures and encumbrances of \$47.8 million.

**TABLE II**  
**HOUSING DEPARTMENT**  
**PROGRAM EXPENDITURES AND ENCUMBRANCES**

Program Expenditures and Encumbrances	1994-95	1995-96
<b>Fund 440 - Housing and Homeless Fund</b>		
Housing and Homeless Project	\$ 552,140	\$ 2,252,561
<b>Fund 441 - Community Development Block Grant Fund - Title I</b>		
Housing Rehabilitation Loans	\$ 3,613,026	\$ 2,667,769
Relocation Payments and Service	3,999	979
Emergency Shelter Grant	1,758	1,758
Housing Pre-Development Loan Program	292,722	303,764
McKinney Shelter Grant	260,109	370,573
<b>Fund 442 - Rental Rehabilitation Loan Fund</b>		
Rental Rehabilitation Program	\$ 75,508	\$ 6,649
<b>Fund 443 - Low- and Moderate-Income Housing Fund</b>		
Housing Service Contracts	\$ 93,260	\$ 1,224
Housing Loans & Grants	37,384,967	18,891,586
Loan Management	0	20,211
CAHLIF Pledge Pool Program	0	2,000,000
<b>Fund 445 - HOME Investment Partnership Fund</b>		
Loans and Grants For Housing	\$ 5,165,234	\$ 813,696
Community Housing Development Organization	35,628	0
First-Time Homebuyer Loans	280,358	0
Housing Opportunities for People with AIDS (HOPWA) Grants	0	515,877
Total	\$47,758,709	\$27,846,647

**Department Accomplishments**

In Appendix I, the Housing Department summarizes its accomplishments regarding the Housing Rehabilitation Program.

## **SCOPE AND METHODOLOGY**

### **Audit Scope**

The purpose of this audit was to perform a follow-up review of the City Auditor's 1992 assessment on the Housing Department's (Housing) controls over its Housing Rehabilitation Programs. This follow-up review had the following objectives:

- Gather sufficient updated program information to obtain a general understanding of changes to the program since our previous report was issued in September 1992;
- Develop an audit program to test the efficiency, economy, and effectiveness of management's internal control system by:
  - observing operations,
  - interviewing personnel,
  - examining relevant data, and
  - analyzing reports, documents, and other information;
- Identify any instances of non-compliance, uneconomical practices, inefficient procedures, or ineffective operations for the controls tested;
- Audit any other areas of significance that may develop during the audit; and
- Prepare an independent, objective, and accurate audit report for City Council review.

During the course of our fieldwork, we identified certain other areas that we considered significant. Accordingly, we added the following audit objectives to our follow-up audit:

- Evaluate the status of audit recommendations from the previous audit;

- Determine whether Housing has met its processing time objectives for rehabilitation projects and whether Housing Rehabilitation Program statistics reported to the City Council are in agreement with the Rehabilitation Program database;
- Determine whether the information in project files was accurately reported and summarized in the Rehabilitation Program database;
- Determine whether the loan and grant recipients, as documented in the project files, are eligible for housing rehabilitation assistance;
- Determine whether the contractors who participate in the Housing Rehabilitation Program meet the eligibility requirements, including insurance coverage;
- Survey those Rehabilitation Program loan and grant applicants whose projects were completed;
- Review Housing Rehabilitation Program Administration costs;
- Compare the cost-effectiveness of (a) single-unit rehabilitation versus multi-family rehabilitation and (b) housing rehabilitation projects with affordability restrictions versus those without restrictions;
- Review Housing Rehabilitation project information packets and application forms to determine whether the information is current and complete; and
- Determine whether Housing has implemented controls to ascertain compliance with City Council policy.

To accomplish our objectives, we reviewed Housing's written policies, procedures, and other documents. We also tested Housing's internal controls to determine if they were in place and functioning as intended by interviewing Housing staff, observing operations, analyzing and testing Housing's records, visiting project sites, and interviewing program recipients.

Our audit sample for our review of rehabilitation project files and the internal controls as outlined above was drawn from the 868 projects completed between July 1, 1994, and March 15, 1996. In reaching the final sample, we selected projects by program category in approximate proportion to each category's ratio to total projects.<sup>1</sup> We selected the individual sample projects by using an interval sampling method. The interval depended on the number of samples required and the population for each type. In some cases, when a rehabilitation project in our sample was related to other rehabilitation projects, we also selected those other projects for testing. Our final actual audit sample consisted of 112 completed rehabilitation projects.

Our test of data from computer-based systems included comparing the information in the project files from our audit sample to Housing's Rehabilitation Program database. Except for the deficiency described in Finding II, we are satisfied that the information provided in the Rehabilitation Program database was reliable for the purposes of this audit.

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<sup>1</sup> Paint files comprised more than half of the total files. Consequently, if selected according to their proportion, the Paint files would have constituted a disproportionate number of files in the sample. Accordingly, we limited our sample of Paint files to 32 completed Paint projects.

# FINDING I

## **THE HOUSING DEPARTMENT NEEDS TO IMPLEMENT PROCEDURES TO IMPROVE INTERNAL CONTROL, DOCUMENT REHABILITATION PROJECTS, AND ENHANCE PROGRAM EFFECTIVENESS**

The Housing Department's (Housing) Rehabilitation Program provides the financial and technical expertise necessary to enable lower- to moderate-income families in San Jose to live in decent, safe, and sanitary housing. In September 1992, the City Auditor issued *An Assessment Of The Housing Department's Controls Over Its Housing Rehabilitation Programs*. In this audit report, we identified over 200 "threats" (any unwanted event or occurrence) confronting Housing's Rehabilitation Program and over 400 controls or procedures to prevent or mitigate those threats. As a result of our 1992 audit, Housing incorporated the identified controls and procedures into the Rehabilitation Program Handbook. However, our follow-up audit of Housing's Rehabilitation Program disclosed that Housing did not have any written procedures or other written instructions for 40 of the 112 rehabilitation projects in our sample. Specifically, Housing does not have written procedures or instructions for grant rehabilitation projects.

Further, our audit revealed that from 1992-93 through 1995-96  
Housing:

- Increased the maximum amount for a rehabilitation grant project from \$3,000 to \$7,500;
- Increased the number of rehabilitation grants per year from 2 to 180; and

- Increased the amount awarded for rehabilitation grant projects from \$57,362 to \$1,191,133.

As a result, Housing does not have any written procedures or written instructions for a significant segment of its Rehabilitation Program. Accordingly, Housing should incorporate into its Rehabilitation Program Handbook written procedures for reviewing and approving grant applications, for obtaining property owner approvals of proposed and completed rehabilitation work, and for competitively selecting contractors for grant rehabilitation projects. In addition, Housing should use recoverable home repair grants as a means to accommodate both the needs of lower-income property owners and the Rehabilitation Program's need to roll over Housing funds for future projects.

Further, our compliance testing of Rehabilitation Loan projects and Paint grant projects for which Housing has written procedures are summarized below:

**SUMMARY OF 40 REHABILITATION LOAN PROJECTS TESTED FOR COMPLIANCE WITH REHABILITATION PROGRAM WRITTEN PROCEDURES**

<b>Rehabilitation Program Handbook Procedure/Policy Tested</b>	<b>Number of Projects in Compliance</b>	<b>Number of Projects Not in Compliance</b>	<b>% of Total Projects (40) Not in Compliance</b>
Staff are required to indicate the date and initial the required items on the documentation checklist as they are completed.	26	14	35%
Income verification for each applicant consists of current paystubs, income tax returns, and W-2 forms for the past two years from all members of the household.	37	3	8%
Staff are required to prepare a work write-up and cost estimate, and the owner of the property to be rehabilitated must approve the work write-up.	34	6	15%
Competitive selection of contractors.	34	6	15%

**SUMMARY OF 32 REHABILITATION PAINT GRANT PROJECTS  
TESTED FOR COMPLIANCE WITH REHABILITATION  
PROGRAM WRITTEN PROCEDURES**

Rehabilitation Program Handbook Procedure/Policy Tested	Number of Projects in Compliance	Number of Projects Not in Compliance	% of Total Projects (32) Not in Compliance
Staff are required to indicate the date and initial the required items on the documentation checklist as they are completed.	20	12	38%
Income verification for each applicant consists of current 1040 from all members of the household.	30	2	6%
The Notice of Completion (NOC) must be signed by the owner upon completion of the project.	31	1	3%

In addition, we found that of the 67 projects that required final permits from the City of San Jose or the State of California, such permits were not on file for 15 projects. Further, we found that Housing did not complete annual recertifications of affordability restrictions for the two projects in our sample for which such certifications were required. We also found that Housing did not have complete documentation of required licenses or proofs of insurance for any of the 20 contractors we reviewed.

Further, we observed numerous instances of rehabilitation project contractors rendering poor quality and costly work resulting in dissatisfied Rehabilitation Program loan and grant recipients.

According to Housing management, Housing should not be held accountable for the poor customer service for the rehabilitation projects we identified. Further, Housing management contends that it cannot correct problems about which it does not know. However, in our opinion, had Rehabilitation Inspectors and other Housing staff performed required inspections and adequately documented the results of their inspections,

Housing should have known about the rehabilitation project problems we identified.

Finally, Housing experienced significant budget and staff reductions beginning in 1993-94. Housing endured these budget and staff reductions without commensurate reductions in rehabilitation project workloads.

We recommend that Housing follow the written procedures in the Rehabilitation Program Handbook, add several new procedures to the Rehabilitation Handbook and submit a budget proposal to the City Council to provide the staff and resources necessary to implement the recommendations in this Finding.

By so doing, Housing will improve compliance with its own policies and procedures, reduce the risk that rehabilitation work will be of poor quality or too costly, enhance the Housing Rehabilitation Program's effectiveness, and improve the condition of the City of San Jose's very low- to moderate-income housing stock.

**Objective Of The Housing Rehabilitation Program**

The Housing Rehabilitation Program provides the financial and technical assistance to owners to enable lower- and moderate-income families to live in decent, safe, and sanitary housing. The Rehabilitation Program currently provides loans and grants to owners of single- and multi-family housing units, including mobilehomes. In addition to the rehabilitation of existing units, the Rehabilitation Program also provides for replacement of housing where it is more economical to replace than to repair.

Housing currently offers the following five types of housing rehabilitation sub-programs:

- **Housing Preservation Program (HPP).** Under the HPP program, the City grants up to \$7,500 to lower-income households, lends up to \$55,000 to eligible lower-income homeowners of single-family properties, and up to \$62,500 to eligible lower- and moderate-income homeowners of duplex properties to make repairs to their properties.<sup>2</sup>
- **Mobilehome Repair Loan Program (MRLP).** Under this program, the City grants up to \$7,500 to lower-income households or lends up to \$15,000 to eligible lower- and moderate-income mobilehome owners to make repairs to their homes.<sup>2</sup>
- **Rental Housing Rehabilitation Program (RHR).** The City lends funds to the owners of rental housing that lower-income households occupy to make repairs to those properties. Maximum loan amounts are: (a) \$55,000 for single-family residences; (b) \$110,000 for duplexes; and (c) \$25,000 for the first unit plus \$20,000 for each additional unit on properties with three or more units.<sup>2</sup>
- **Housing Emergency Loan Program (HELP).** The City grants up to \$7,500 to eligible lower-income or nonprofit owners for emergency repairs to single-family, duplex, and multi-family properties of up to eight units.<sup>2</sup>
- **Paint Grant Program (PGP).** The City grants all or a portion of the cost of painting the exterior of single-family residences, mobilehomes, duplexes, and small rental properties that lower- and moderate-income households occupy.

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<sup>2</sup> Maximum limits for loans and grants may be exceeded upon the Director's or the City Council's approval.

## **FOLLOW-UP OF THE 1992 HOUSING REHABILITATION PROGRAM AUDIT**

In 1992, the City Auditor issued *An Assessment Of The Housing Department's Controls Over Its Housing Rehabilitation Programs*. In this audit report, we identified over 200 "threats" (defined as "*any unwanted event or occurrence*") confronting Housing's Rehabilitation Program. With the help of Housing, we identified the "threats" by analyzing the federal and state laws and regulations, City Council policies, and Housing's own Housing Rehabilitation Program policies and procedures. In turn, Housing identified over 400 controls designed to mitigate the identified threats.

We followed up on our 1992 audit by taking a sample of Housing Rehabilitation Program projects and testing them against the controls described in the 1994 Rehabilitation Program Handbook.

### *Audit Sample Methodology*

Our audit sample consisted of 112 completed rehabilitation projects drawn from the 868 projects completed between July 1, 1994, and March 15, 1996. For each project or application we selected, we reviewed the project files for evidence of compliance with Housing's Rehabilitation Handbook. If a project we selected for testing was at a site for which a prior rehabilitation loan or grant was given, we also reviewed the project files for the prior loan or grant. We also contacted 58 grant or loan recipients to assess their satisfaction with Housing's Rehabilitation Program. Finally, we visited the project sites or interviewed the project recipients for rehabilitation or paint projects when the recipient stated that he or she was not satisfied or only partially satisfied with the rehabilitation work performed on their property and was willing to talk to us regarding their project.

## **No Written Procedures For A Major Portion Of The Rehabilitation Projects**

For our follow-up audit of the Housing Rehabilitation, we reviewed the procedures in the Rehabilitation Program Handbook so that we could test whether Housing had complied with these procedures. Our audit disclosed that Housing has not documented its policies and procedures for Housing's rehabilitation grants. Specifically, according to Housing, the Rehabilitation Program has less stringent, albeit undocumented, requirements for grant rehabilitation projects regarding the following:

- **Eligibility documentation.** Before Housing approves a loan rehabilitation project, the Rehabilitation Program Handbook requires that all the required eligibility documentation must be submitted. Such eligibility documentation consists of income verification (bank statements; current paystubs; income tax returns and W-2 forms for the past two years; and Social Security Benefits or Disability Income Statements, if applicable) and property ownership verification (grant deed, deed of trust, or a current property tax bill). With regard to grant rehabilitation projects, Housing stated that the need to address immediate health and safety needs may outweigh the need to ensure that file documentation is complete. According to Housing, the Rehabilitation Program does require proof of income eligibility and proof of ownership in some form to make a grant decision; however, only one form of income eligibility documentation is required. Finally, Housing considers a Damar property valuation report showing that the applicant is the property owner as sufficient proof of ownership for grant rehabilitation projects.
- **Work Write-up and Cost Estimate.** For loan rehabilitation projects, the Rehabilitation Program Handbook requires the rehabilitation staff to prepare a work write-up and cost estimate and to obtain the recipient's approval on the plans and description of work. For grant rehabilitation projects, Housing does not require

the rehabilitation staff to prepare a work write-up for projects that need to be performed immediately or for simple projects, such as roof replacement or fumigation.

- **Contractor Selection.** For loan rehabilitation projects, the Rehabilitation Program Handbook requires the rehabilitation staff to conduct and document a bidding process. For grant rehabilitation projects, due to the urgency of many of the projects, Housing requires only one bid.
- **Project Completion Documentation.** For loan rehabilitation projects, the Rehabilitation Program Handbook requires the Notice of Completion (NOC) and the final payment certificate to be part of the project documentation. For grant rehabilitation projects, Housing does not require an NOC. Because the contractual relationship in grant rehabilitation projects is between the City and the contractor, Housing does not require the recipient to sign the payment certificate. Furthermore, Housing accepts the contractor's invoice as a substitute for the payment certificate in grant rehabilitation projects.

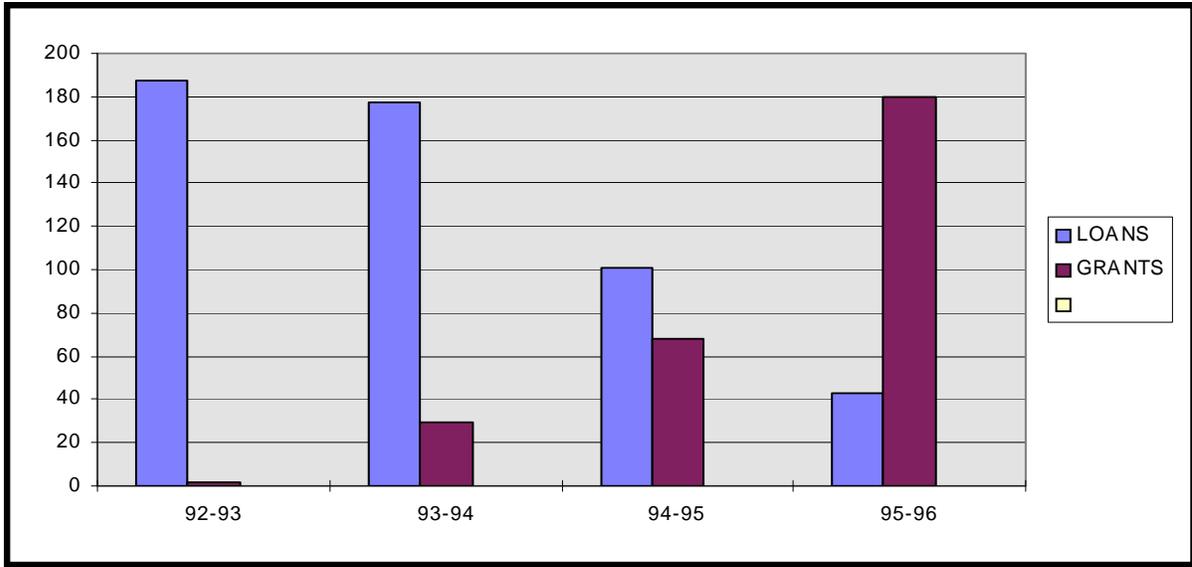
Housing provides rehabilitation grants up to \$7,500<sup>3</sup> to lower income households under the HELP, HPP, and MRLP rehabilitation programs. Since 1992-93, the number of rehabilitation grants has significantly increased to the point that they now constitute a major portion of Housing's rehabilitation projects. The following charts show this trend of increased usage of rehabilitation grants.

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<sup>3</sup> The maximum limit for grants may be exceeded upon the Housing Director's or the City Council's approval.

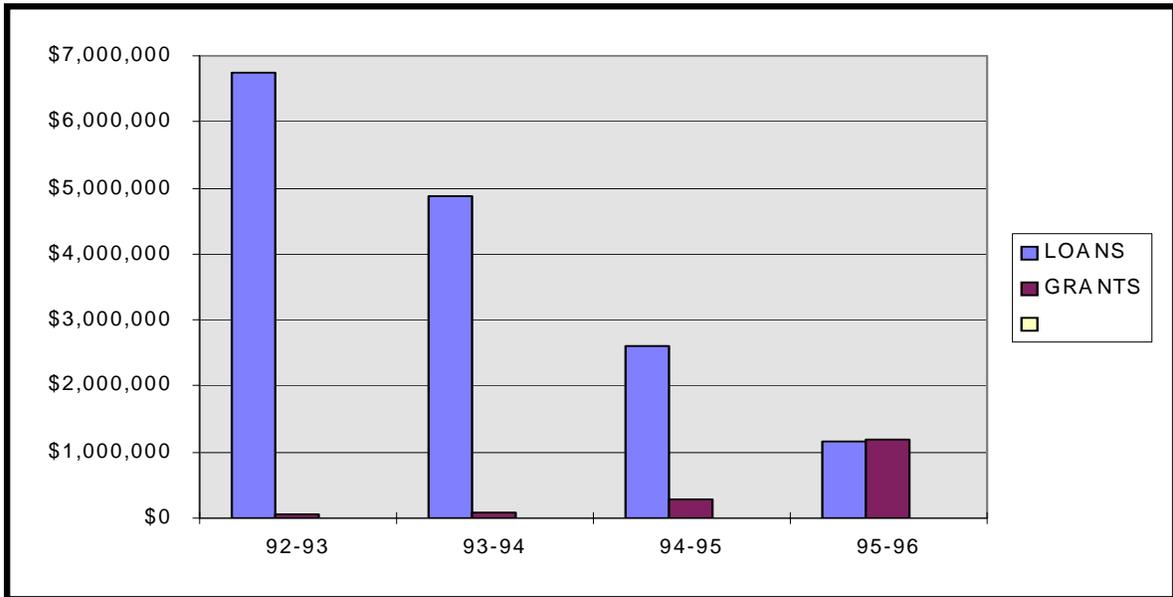
### CHART II

#### NUMBER OF APPROVED REHABILITATION LOANS AND GRANTS



### CHART III

#### DOLLAR AMOUNT OF APPROVED REHABILITATION LOANS AND GRANTS



As shown in the above charts, the number of grants increased from two in 1992-93 to 180 in 1995-96 and the grant dollars increased from \$57,000 in 1992-93 to \$1.2 million in 1995-96. Furthermore, while grants constituted only 1 percent of the rehabilitation projects processed in 1992-93, they were 81 percent of the rehabilitation projects in 1995-96. In dollar terms, grants increased from one percent of total approved rehabilitation funding in 1992-93 to 50 percent of total approved rehabilitation funding in 1995-96.

In the City Auditor's 1992 Housing Rehabilitation Program audit report, we stated

*The Benefits Of Written Policies And Procedures*

*Written policies and procedures are an essential part of an organization's internal control structure. "Policies are general statements that guide thinking and action in decision-making." Procedures detail the manner in which staff should perform their duties in implementing the policies. Procedures consist of a set of specific steps in chronological order and serve as a guide to action.*

*The advantages of having policies and procedures are that they (1) reduce the need for managerial direction of routine matters, (2) improve efficiency through standardization of actions, (3) facilitate the training of personnel, and (4) document institutional knowledge so that operations can continue in the absence of key employees. **To be useful, policies and procedures must be in writing** so that they are clearly delineated and yet flexible enough to be adaptable to new situations. **By keeping them in manuals, the Housing Department can make policies and procedures easily accessible to staff.** (Emphasis added)*

The City Auditor concluded that "*The Housing Department Needs to Complete The Documentation of Its Policies and Procedures*" and recommended that Housing:

**Recommendation #11.** *Prepare or complete the documentation of its internal controls for Rehabilitation Programs in the following areas:*

- *Tracking of loan processing;*
- *Loan monitoring procedures (including the computerized database of loan information);*
- *Standardized Loan Committee loan packages;*
- *Coordination with U.S. Escrow;*
- *Subsidiary loan ledger reconciliations;*
- *Rehabilitation Inspector procedures and guidelines;*
- *Paint Rebate Program procedures;*
- *Contractor conflict of interest issues; and*
- *Departmental code of ethics.*

and

**Recommendation #12.** *Use the controls listing presented in this report to help complete the documentation of its internal controls for the Rehabilitation Programs.*

In its official written response to the above recommendations, Housing stated:

**(Recommendation #11 response)** *The Department concurs with this recommendation . . .*

**(Recommendation #12 response)** *The Department concurs with this recommendation in concept. However, we have not had the opportunity to review the controls listing in detail. We do agree that complete documentation of important internal Department controls is necessary. We*

*will complete our review of the listing within 90 days and advise you of any actions that have already been taken, and any actions that we intend to take, along with an implementation schedule. (Emphasis added)*

Without written policies and procedures, the Rehabilitation Program staff lacks definitive guidelines in performing their duties relating to a significant portion of their project workload. Of the 112 completed projects in our audit sample, 40 were rehabilitation grants. Our review of the rehabilitation grants indicated that the documentation practices were generally less stringent for the grants as compared to loans. In our opinion, Housing should document its policies and procedures for reviewing and approving rehabilitation grants, and for obtaining property owner approvals of proposed and completed projects.

1 We recommend that the Housing Department document its policies and procedures for rehabilitation grants. (Priority 2)
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**Housing Should Incorporate Into Its Rehabilitation Program Handbook Procedures For Obtaining Property Owner Approvals Of Proposed And Completed Grant Rehabilitation Work**

When Housing documents its policies and procedures for rehabilitation grants, it should include procedures for obtaining (1) property owner approvals of proposed rehabilitation work in the form of a work write-up signed by the property owner and (2) property owner approval of completed rehabilitation work in the form of a Notice of Completion or the property owner's signature on the final payment certificate.

Property Owner Approval Of Proposed Grant Rehabilitation Work

For loan rehabilitation projects, the Rehabilitation Program Handbook requires the Rehabilitation staff to prepare a work write-up and obtain a recipient's approval on the plans and description of work. However, Housing does not have any written procedures or policies that require grant recipients to approve proposed rehabilitation work on their property.

The Rehabilitation Program Handbook already requires Rehabilitation staff to prepare a simplified work write-up and cost estimate for emergency loan projects. For grant rehabilitation projects, Housing could also require Rehabilitation staff to prepare a simplified work write-up for grant recipient approval. Similarly, Housing could have grant recipients sign the Housing inspector's or the contractor's work write-up. By so doing, Housing would be able to document the grant recipient's understanding and consent to the scope and schedule of the project. The grant recipient's signature would also provide an independent verification of rehabilitation fund expenditures and provide an element of cost control and accountability.

Further, our survey of other jurisdictions disclosed that in Sacramento, California, the Rehabilitation Program requires staff to obtain the owner's signature on the scope of work even for emergency projects. The same requirement exists in the City of San Diego. According to the San Diego Housing Commission staff,

*Inspectors are required to obtain the homeowner's written approval of the work write-up, even in the case of grants. The inspector does an initial walk-through with the applicant, then completes an assessment of the work needed and costs back at the office, then goes back to the applicant to receive his or her written approval. The owner generally signs off on the work write-up. In the event that the inspector does not*

*complete a work write-up because the project is a simple item (such as a roof), the owner signs off on the contractor's work contract.*

Finally, our survey of Rehabilitation Program project recipients revealed that a project recipient was frustrated in part by the lack of information regarding her project (See Page 59). Housing can eliminate such frustration by requiring its Rehabilitation inspectors to prepare a description of the work to be done and inform homeowners of the rehabilitation plans and schedules.

In 1991, the engineering and planning consultants Freitas & Freitas conducted an evaluation of the City of San Jose Housing Rehabilitation Program. In their evaluation, the consultants noted the need for a customer service approach throughout the rehabilitation process. With regard to informing the program recipients, the consultants noted the following,

*In developing program policies and procedures, there should be a real effort to "put yourself in the customer's shoes" and try to view the program from the customer's perspective. This includes providing clear and simple information to potential applicants describing the various steps that will occur during the rehabilitation process and estimated time frames. Prior to the start of rehabilitation work, the Department could provide applicants with written information on "what to expect during the rehabilitation process."<sup>4</sup>*

*Property Owner Approval Of Completed Rehabilitation Work*

The property owner's approval of completed grant rehabilitation work can be in the form of a Notice Of Completion or the owner's signature on the final payment certificate. The Rehabilitation Program

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<sup>4</sup> *Evaluation of the Housing Rehabilitation Program*, Freitas & Freitas (Engineering and Planning Consultants) October 1991, page 13.

Handbook already requires that these two documents be prepared upon the conclusion of a rehabilitation loan project. The NOC is the formal document that states that the contractor has completed the project and the property owner is satisfied with the work. The main purpose of the NOC is to notify subcontractors that the period for filing mechanics liens has commenced. The final payment certificate is used to document the owner's written approval of the work, the contractor's statement of project completion, and the Rehabilitation staff's final inspection. The main purpose of the payment certificate is to authorize final payment to the contractor. For Paint projects, Housing uses a form called Notice of Completion -- Paint Program to obtain the property owner's signature and document his or her satisfaction with the project. Housing does not have written procedures for grant rehabilitation projects that require grant recipients to sign an NOC or a final payment certificate.

In responding to our inquiry regarding the absence of the NOC in some of the grant rehabilitation project files, Housing stated, ". . . *this (NOC) document is only necessary when a general contractor and subcontractors are involved. . . . An NOC is needed to protect the property owner from subcontractor claims.*" Likewise, in explaining why Housing did not obtain the recipient's signature on the Final Payment Certificate for a grant, the department stated,

*Because this is a grant and the owner does not have to pay the City any funds, it is not required that he/she sign the Payment Certificate. The actual relationship is between the City and the Contractor. We prefer to get a signature to ensure that the homeowner is satisfied, but it is not absolutely required in these situations.*

In addition to their importance in documenting that work is completed and final payment is justified, the NOC and the final payment certificate are essential in determining recipient satisfaction. The NOC and the final payment certificate are the ultimate documents that will indicate whether the objective of customer service has been achieved for a particular project or recipient. Without an NOC, the final payment certificate, or some other type of signed completion certificate, the recipient does not formally confirm that they are satisfied that the work was performed according to the project agreement. Consequently, a recipient who is not satisfied with the work may feel ignored or used.

Our survey of other jurisdictions indicated that an NOC or some other type of recipient-signed completion certificate is required even for grant projects. The following describes the NOC requirements in two of the jurisdictions we surveyed:

- **San Diego Housing Commission** -- *"(With regard to grants) We do a final walk-through with the client. The client signs a statement attached to a copy of the check to be paid to the contractor, which confirms that the client accepts the contractor's work and authorizes full payment."*
- **Oakland Office of Housing and Neighborhood Development** -- *"A payment request is required to be submitted when the project is completed. The owner's signature on the payment request shows that he is satisfied with the work."*

Finally, in its publication entitled *Streamlining Rehabilitation Programs*, the US Department of Housing and Urban Development (HUD) recommends that the Rehabilitation Program utilize a formal certificate of

completion signed by the homeowner, contractor, and rehabilitation specialist. According to HUD,

*When all work has been completed according to contract and all lien waivers and warranties have been submitted, a certificate of completion is issued. The certificate is signed by the homeowner, contractor, and rehabilitation specialist. All of these parties certify that all work is completed and accepted. Copies of the certificates are given to each party and an additional copy is placed in the homeowner's case file.*

In our opinion, Housing Rehabilitation staff should secure the recipient's signature on the NOC and the final payment certificate for all types of rehabilitation projects. It should be made clear in the NOC or final payment certificate that it is the recipient's responsibility to ascertain that all work has been done to his or her satisfaction. If a recipient refuses to sign the NOC or the final payment certificate, the Housing staff should document the reasons why. Housing staff should also document the reasons for making the final payment to the contractor when the recipient refuses to sign the NOC or final payment certificate.

2 We recommend that Housing add procedures to the Rehabilitation Program Handbook to obtain property owner approval of proposed and completed grant rehabilitation projects. (Priority 3)

3 We recommend that Housing add procedures to the Rehabilitation Program Handbook regarding recipients' refusal to sign NOCs and final payment certificates and staff documenting reasons for making final payments to the contractors when recipients refuse to sign NOCs and final payment certificates. (Priority 3)

## **Open Purchase Order Process For Competitively Selecting Contractors For Grant Rehabilitation Projects**

Housing currently does not have written procedures for selecting contractors for grant rehabilitation projects. In practice, however, Housing stated that it requires only one bid for grant rehabilitation projects.

Implicit in the San Jose Municipal Code (Municipal Code) and the City Purchasing Policies are the goals of competition, fairness, economy, and openness. These goals are in keeping with authoritative standards of government purchasing, expressed in the book State and Local Government Purchasing,

*Definition of the purchasing function begins with a clear understanding of the fundamentals of public contracting. Chief among them are competition, impartiality, conservation of funds, and openness. Briefly translated, they mean that public business is to be offered for competition; that bidders are to be treated alike and contracts administered alike, without favoritism; that economy and value are basic aims; and that documents used and actions taken are public information." (Emphasis added).*

The Municipal Code and City Purchasing Policy No. P-500 provide a way to follow a competitive contractor selection process for grant rehabilitation projects and, at the same time, arrange for immediate availability of services for emergency projects. The applicable Purchasing procedure is the Open Purchase Order.

The purpose of the open purchase order is to serve as ". . . a means of procuring supplies, materials, equipment or services when the amount or nature of the specific items or services cannot be predicted before they are needed . . ." An open purchase order may be issued to more than one vendor for the same item. Further, it may remain valid for a period of

twelve calendar months. Therefore, in our opinion, the open purchase order process would be an effective and efficient way to ensure a competitive selection process and obtain the most advantageous price for the City. This is possible because in an open purchase order the Housing Department, with the help of the Purchasing Division, can evaluate the vendors' quotations before the services are actually required, based on (1) price, (2) responsible bidder, (3) vendor proximity to the user, (4) completeness of inventory, (5) quality of past service, and (6) consistency in offering the lowest price during previous business dealings with the City.

Furthermore, our survey of other jurisdictions disclosed that in Sacramento, California, the Housing Rehabilitation Program utilizes a competitive selection process to select contractors for its grant projects. According to the Sacramento Housing Rehabilitation Program staff,

*On a biennial basis, the Agency conducts an outside selection process to select six contractors: 3 primary and 3 alternates. The Agency starts with an RFP; it advertises in the construction trade and minority publications that it is accepting proposals. An interested contractor must meet the Agency's licensing and insurance requirements in order to submit a proposal. A review panel of six (five from the community and one from the Agency) review the written proposals and interview the contractors. The contractors are then ranked according to the results of the proposal evaluations and the oral interviews. The three top scoring contractors are designated as primary contractors. The next three are the alternates.*

*The emergency work consists of a lot of repetitive work, such as replacing water heaters. Therefore the Agency negotiates with the selected contractors the prices of the various types of emergency work for the entire year. The price schedule will apply to approximately 80% of the year's work items. Because the RFP process is complicated and time-consuming, the Agency provides two-year contracts with two one-year renewal options. The contracts allow the Agency to terminate the chosen contractors if they fail to meet agreed*

*upon criteria, such as failure to respond to a work order within 48 hours, failure to replace a water heater within 5 days, etc.*

In our opinion, the Housing Department should implement an open purchase order process for selecting contractors for grant rehabilitation projects.

4 We recommend that Housing add procedures to the Rehabilitation Program Handbook to require an open purchase order process for selecting contractors for grant rehabilitation projects. (Priority 3)

**Housing Should Implement Recoverable Home Repair Grants  
To Comply With The City Council Policy  
To Roll Over Housing Funds For Future Projects**

The City has had a long-standing policy favoring rehabilitation loans over grants, with the premise that as loan funds revolve, they can be reused to assist additional needy people. A recommendation in the 1988 Mayor's Task Force Report *San Jose -- A Commitment to Housing* stated, "*Housing programs should be designed so that City housing funds quickly roll over for future projects, without jeopardizing affordability for the low income households.*"

We have shown earlier that between 1992-93 and 1995-96 rehabilitation grants have become a significant portion of the rehabilitation projects. Specifically, grant rehabilitation projects constituted over half of the 1995-96 approved rehabilitation project funding. If we consider the fact that in 1995-96, the Rehabilitation Program also approved \$980,000 in Paint grants, grants constituted 65 percent of all Rehabilitation Program project funding.

According to Housing,

*Grants make sense in some cases for a few reasons:*

*(1) Staffing -- It takes more staff time to underwrite a loan--since you have to be concerned with credit-worthiness and security issues that are not concerns when making a grant--and to prepare and execute loan documents. Additionally, it takes staff to monitor loans, even when they are deferred. With a small loan, the cost to process and monitor the loan may be more than the repayment the Department would ever realize.*

*(2) Security -- When there is no security in a structure, such as when a mobilehome is so old that it has little if any resale value, it does not make sense to lien the property (or coach).*

We agree with Housing that grants require less staffing to process and monitor than loans. However, this increase in the use of grants may potentially conflict with the City Council policy to roll over Housing funds for future projects.

We determined during our audit that Housing can roll over housing funds for future projects without jeopardizing affordability for the low-income households by using recoverable home repair grants in place of straight grants, for which no funds are expected to be recovered. Specifically, our survey of other jurisdictions revealed that the San Diego Housing Commission offers recoverable home repair grants. According to the Commission's Home Repair Grant information flyer,

*The San Diego Housing Commission provides Home Repair Grants up to \$3,000 to very low income homeowners occupying single family residences located within the City of San Diego. The grants are used to eliminate health and safety hazards found on the property. The grants are to be repaid in full, without interest, upon the owner selling, transferring title, or refinancing the property. If the costs exceed \$3,000, the owner must provide the additional funds necessary to complete the required rehabilitation items. If the homeowner is unable to provide additional funds, or if the rehabilitation costs far exceed the \$3,000 grant limit, the homeowner may be eligible for a low interest loan from the Housing Commission to accomplish the rehabilitation. Grants cannot be provided in conjunction with rehabilitation loans. (Emphasis added)*

With a recoverable home repair grant, Housing would still need to verify and document the applicant's income eligibility and ownership of the property. Such verification is the same as required for straight grants. The grantee would also need to sign a memorandum of agreement for the recoverable grant which would need to be recorded with the County Recorder in order to encumber the property. However, unlike the regular rehabilitation loans, a recoverable grant would not require a credit check of the applicant nor extensive loan monitoring because the grant would need to be repaid only upon the owner selling, transferring title to, or refinancing the property.

In our opinion, recoverable home repair grants are an efficient way for Housing to comply with the City Council policy to roll over housing funds for future projects.

5 We recommend that Housing add procedures to the Rehabilitation Program Handbook to require the use of recoverable home repair grants. (Priority 2)

**Test For Compliance With Written Procedures**

Our compliance testing of rehabilitation loan projects and paint grant projects for which Housing has written procedures are summarized below:

**SUMMARY OF 40 REHABILITATION LOAN PROJECTS TESTED  
FOR COMPLIANCE WITH REHABILITATION  
PROGRAM WRITTEN PROCEDURES**

<b>Rehabilitation Program Handbook Procedure/Policy Tested</b>	<b>Number of Projects in Compliance</b>	<b>Number of Projects Not in Compliance</b>	<b>% of Total Projects (40) Not in Compliance</b>
Staff are required to indicate the date and initial the required items on the documentation checklist as they are completed.	26	14	35%
Income verification for each applicant consists of current paystubs, income tax returns, and W-2 forms for the past two years from all members of the household.	37	3	8%
Staff are required to prepare a work write-up and cost estimate, and the owner of the property to be rehabilitated must approve the work write-up.	34	6	15%
Competitive selection of contractors.	34	6	15%

**SUMMARY OF 32 REHABILITATION PAINT GRANT PROJECTS  
TESTED FOR COMPLIANCE WITH REHABILITATION  
PROGRAM WRITTEN PROCEDURES**

<b>Rehabilitation Program Handbook Procedure/Policy Tested</b>	<b>Number of Projects in Compliance</b>	<b>Number of Projects Not in Compliance</b>	<b>% of Total Projects (32) Not in Compliance</b>
Staff are required to indicate the date and initial the required items on the documentation checklist as they are completed.	20	12	38%
Income verification for each applicant consists of current 1040 from all members of the household.	30	2	6%
The Notice of Completion (NOC) must be signed by the owner upon completion of the project.	31	1	3%

In addition, we found that of the 67 projects that required final permits from the City of San Jose or the State of California, such permits were not on file for 15 projects. Further, we found that Housing did not complete annual recertifications of affordability restrictions for the two projects in our sample for which such certifications were required. We also found that Housing did

not have complete documentation of required licenses or proofs of insurance for any of the 20 contractors we reviewed.

**Required Documentation Checklists  
Were Missing Or Not Consistently Completed**

The Rehabilitation Program Handbook requires that Rehabilitation staff indicate the date and initial the required items on the documentation checklist as they are completed. During the period of our audit sample, the Housing Rehabilitation staff had several documentation checklists available for their use. However, our review indicated that a checklist was not used or not fully used for 36 percent of the completed projects in our audit sample. Specifically, 26 files in our audit sample of 72 completed loan and paint project files were not in compliance with the Rehabilitation Program Handbook with regard to the use of checklists.

During our discussions regarding the checklists, Housing indicated that the current checklists may be outdated. Consequently, Housing designed new standard checklists that the staff will use to ensure that all required rehabilitation project documentation is completed. These checklists are shown in Appendix B.

6 We recommend that Housing use the revised standard checklists to ensure that rehabilitation project files contain all required documents.  
(Priority 3)

During our discussion with Housing, we also suggested that the revised project checklists provide for a cross-reference to related projects. Specifically, during our review of project files, we encountered difficulties

in locating documents that were supposed to be in the project files we were reviewing. With the help of rehabilitation staff, we located some of these documents in the files for related projects. These related projects were multiple rehabilitation loans or grants for the same project site. Although a separate file was set up for each loan or grant, the subsequent loan or grant often used documents collected and filed with the prior loan or grant. This practice is appropriate if the information in the document for the prior loan or grant is still current and applicable for the subsequent loan or grant. However, we found that there is no consistent method of cross-referencing the files so that the needed document can be easily located. In our opinion, the project checklist is the ideal document to provide such cross-referencing among related rehabilitation projects. This cross-referencing is now provided in Housing's revised checklists (see Appendix B).

7 We recommend that the Housing Department use the revised project checklist to provide a cross-reference among related projects when using common documents. (Priority 3)

**Required Recipient Income Eligibility Documentation Was Missing Or Incomplete**

According to the Rehabilitation Handbook, income verification for each applicant consists of current paystubs, income tax returns, and W-2 forms for the past two years from all members of the household. The Paint Program requires a current Form 1040 or a copy of the applicant's social security income. When we reviewed the project files, we did not find in the designated file the required income eligibility documentation for three of the

40 completed rehabilitation loan projects in the sample and for two of the 32 completed paint projects.

8 We recommend that Housing follow the Rehabilitation Program Handbook regarding Rehabilitation Program applicant income eligibility. (Priority 3)

It should be noted that during our review of project files, we found that some Rehabilitation Program recipients did not provide required copies of income tax returns because they said that they had no income, or that they did not earn enough money to file tax returns. During our audit, we identified that the City of San Diego's Housing Commission uses a Tax Return Certification form for applicants who had no income or did not file tax returns. We subsequently informed Housing of the San Diego Housing Commission practice. In response to our discussion, Housing developed and now uses a Certification of Non-Filing Status which is shown in Appendix C.

**Required Notice Of Completion Signed  
By The Recipient Was Not Completed  
When The Contractor Was Fully Paid For One Paint Project**

The Paint Grant Program procedures in the Rehabilitation Program Handbook state,

*When contractor's work is complete, and upon receipt of a Notice of Completion. . . signed by the owner, the Paint Program Coordinator conducts a final inspection to verify adequacy of work. If work is found to be satisfactory, a payment certificate is prepared, signed by the Paint Program Coordinator and presented to the supervisor for signature. It is then forwarded to the Accounts Payable section for processing.*

When we reviewed the project files, we found one completed Paint Grant project for which the paint grant recipient did not sign the Notice of Completion. It should be noted that the recipient of this project was one of the recipients in our sample who expressed dissatisfaction with her Paint project (see Page 82).

9 We recommend that Housing follow the Rehabilitation Program Handbook regarding recipient-signed Notice of Completion. (Priority 3)

**Required Work Write-Ups, Cost Estimates, And/Or Owner Approvals Were Missing Or Incomplete**

The Rehabilitation Program Handbook requires that Rehabilitation staff prepare a work write-up and cost estimate. The Housing Inspector's work write-up and cost estimate limit the contractor's scope of work to only necessary items, and provide a reasonable bidding range for contractors. The Rehabilitation Program Handbook also requires that the owner of the property to be rehabilitated approve the work write-up. According to the Rehabilitation Program Handbook, "*The Rehab Inspector obtains the owner's approval and signature on the plans and Description of Work.*"

Either the work write-up, the inspector's cost estimate or owner approval was missing in six of the 40 project loan files we tested. For some of the projects in our sample, the contractor, not the Housing Inspector, provided both the scope of work and the cost estimate.

Housing explained that the projects for which we found no work write-up, inspector's cost estimate, and/or the owner's written approval of the

work write-up were simple projects, such as roof replacements, and as such no separate work write-up was necessary.

In our opinion, even for projects that are simple and specific, Housing should follow the Rehabilitation Program Handbook and provide the recipient with a written description of the scope and schedule of the rehabilitation work proposed on his or her property. Housing should require the Rehabilitation staff to prepare this work write-up and ask the recipient to sign it in order to document his or her understanding of and consent to the project scope and schedule.

10 We recommend that Housing follow the Rehabilitation Program Handbook regarding work write-ups and cost estimates even for simple and specific projects. (Priority 3)

**Required Competitive Selection Of Rehabilitation Contractors Was Not Performed For 6 Of 40 Loan Projects**

According to the Rehabilitation Handbook, contractor bid requirements vary among the Housing Rehabilitation Programs. The HPP, MRLP, and RHR program guidelines for contractor bidding state that "a *minimum of two written bids is required for roof loans less than or equal to \$15,000.*" Guidelines for non-roof loans also call for three or more fundable bids<sup>5</sup> in the bidding process. With regard to the HELP program, the Rehabilitation Handbook states, "*The Rehab Staff is responsible for*

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<sup>5</sup> A fundable bid is a bid that falls within a range of plus ten percent (+10%) to minus ten percent (-10%) of the rehabilitation inspector's cost estimate.

*conducting a simplified bid process on behalf of the owner. The Rehab Inspector obtains at least two oral bids from contractors who are on the Department's approved list. Such bids must be confirmed in writing and reviewed by the Rehabilitation Supervisor prior to presentation to the borrower, who then selects the contractor."* Finally, the Paint Program requires that the homeowner solicit bids from at least three pre-approved contractors.

Of the 40 loan project files in our audit sample, 6 did not contain documentation that the required competitive selections of contractors were performed.

It should be noted that starting in 1995-96, the City Council has approved changes in the contractor selection procedures (see Page 46). These procedures were implemented after our sampled projects were completed. Under the new procedures, the project recipient will take over the responsibility for contractor bidding and selection. However, Housing still needs to incorporate these new procedures in the Rehabilitation Program Handbook.

11 We recommend that Housing follow the Rehabilitation Program Handbook regarding contractor selection for loan rehabilitation projects, as amended in the City Council-approved procedures. (Priority 3)

**Of The 67 Projects That Required Final Permits  
From The City Of San Jose Or State  
Of California Such Permits Were Not On File For 15 Projects**

The Rehabilitation Program Handbook states that "*All rehabilitation performed will conform to all applicable codes, statutes, and ordinances relating to use and occupancy.*" Further, the Handbook requires that neither the Housing inspector nor the supervisor is supposed to authorize the final payment to a contractor until all building permit sign-offs have been made.

The City of San Jose requires a final inspection and approval of rehabilitation projects. According to the San Jose Building Code:

*To obtain a permit an applicant shall file a completed application, in writing, on a form furnished by the Building Official for that purpose.*

*There shall be a final inspection and approval of all buildings and structures when completed and ready for occupancy and use.*

With regard to mobilehome rehabilitation, the California Department of Housing and Community Development (HCD) is the governmental agency which administers construction and repair permits. According to the California Code of Regulations,

*Any person proposing to make an alteration, conversion, or addition to a vehicle bearing or required to bear an insignia of approval, or Title VI (24 C.F.R.) label, shall file an application with, and obtain approval of, the department. Upon completion of the alteration, conversion, or addition the applicant shall request the department to make an inspection pursuant to Sections 4010 and 4011 of these regulations.*

Beyond City code and State Health and Safety regulations requirements, final construction permits are an important element of customer service. These documents provide assurance to the recipient that his or her project has passed governmental health and safety standards.

Our review of rehabilitation project files disclosed 15 projects where Housing made 100 percent completion payments to contractors without the required permits being on file.

Appendix D lists the 6 rehabilitation projects for which the City's Building Division does not have a record of final permits. Appendix E lists the 9 mobilehome rehabilitation projects for which the HCD does not have a record of final permits. Housing's response and the City Auditor's conclusions for each project are also shown in Appendices D and E.

12 We recommend that Housing follow the written procedures in the Rehabilitation Program Handbook regarding City of San Jose Building Division and State Department of HCD permits. (Priority 3)

**Annual Recertifications Of Affordability Restrictions Were Not Completed**

The Rehabilitation Program Handbook adopts, by reference, the procedures in the Loan Management Handbook regarding annual certification of affordability restrictions from owners of rehabilitation projects. An affordability restriction, recorded on the title to real property, places limits on the sales price the owner of a rehabilitated property can realize or rents that a landlord can charge. These limits are based on the State determination of housing costs affordable to very low-, low- or moderate-income households. According to the Loan Management Handbook, "*Each loan is monitored for affordability and occupancy requirements . . .*" The process to monitor affordability requirements is spelled out in loan agreements between the City and the owners of rehabilitation properties, which state,

. . . The Assisted Units shall be rented or otherwise made available at Affordable Housing Costs to Low Income Households.

On an annual basis, on or before the anniversary of the closing of the Loan, Borrower shall submit a report (the "Annual Report") to the City which contains, with respect to each Assisted Unit, the rental rate and income and family size of the occupant. The Annual Report shall be based on information supplied by the tenant or occupant of each Assisted Unit in a certified statement on a form provided or previously approved by the City. When the Assisted Unit is vacated, for any reason whatsoever, by the person or family, the Assisted Unit shall then again be rented or otherwise made available at Affordable Housing Cost to Low Income Households.

. . . In the event of any Default . . . (the) City . . . shall have the right to lease and Borrower shall lease to the City . . . on demand for a rental of \$1.00 per Assisted Unit per year . . .

In the event . . . the Borrower receives rents . . . in excess of what Borrower is permitted to charge . . . Borrower agrees . . . to pay to the City the full amount of such excess immediately on demand by the City. (Emphasis added)

We identified two projects in our audit sample for which annual recertifications of affordability restrictions were required. For both of these rehabilitation projects, our review disclosed that the annual recertifications were not documented in the project files. Table III shows the two rehabilitation projects in our sample for which annual recertifications of affordability restrictions were not completed.

**TABLE III**  
**PROJECTS WITH NO DOCUMENTATION OF ANNUAL RECERTIFICATION OF AFFORDABILITY RESTRICTIONS**

Project #	Description	Auditor Comments
18106	This combination of a \$118,915 loan and a \$2,500 grant was to bring four rental units up to compliance with City code and decent, safe, and sanitary condition. The rehabilitation project was approved in March 1993 and completed in February 1995.	The project file contains the forms showing the income and household size signed by each tenant. These forms were provided for the tenant income eligibility verification during the pre-rehabilitation process. However, no annual recertifications are on file in either the project file or the loan file.
R93007	This \$90,000 loan was to demolish and reconstruct one dwelling unit of a two-dwelling unit property and make minor repairs on the other dwelling unit. The rehabilitation project was approved in January 1993 and completed in August 1994.	The project file contains the income verification from the owner and the tenant of the property at the time the application was filed. However, no annual recertifications for 1995 or 1996 are on file in either the project file or the loan file.

Housing should incorporate the specific language in the loan agreements regarding annual recertifications of affordability restrictions to its Loan Management Handbook.

13 We recommend that Housing add procedures to the Loan Management Handbook regarding annual recertifications of affordability restrictions. (Priority 3)

**Housing Did Not Have Complete Documentation  
Of All Required Licenses Or Proofs Of Insurance Coverages  
For Any Of The 20 Contractors We Reviewed**

The Rehabilitation Handbook specifies the eligibility requirements for contractors who wish to participate in the City's Rehabilitation Program. These eligibility requirements are as follows:

- A. *Each contractor must possess a valid current B-1 or C license issued by the State of California, Department of Consumer Affairs, Contractors State License Board.*
- B. *The contractor shall carry or require that there be carried workers' compensation and employers' liability insurance for all of his or her employees and those of any sub-contractors engaged in work at the site in accordance with all applicable statutory workers' compensation laws.*
- C. *The B-1 contractor shall carry or require that there be carried during the term of the contract a commercial automobile liability insurance policy with a minimum limit of not less than \$1,000,000 combined single limit for bodily injury and property damage coverage for premises/operations and completed operational products. The requirement is the same for a C contractor except the amount is reduced to \$500,000.*
- D. *The B-1 contractor shall carry or require that there be carried during the term of the contract a commercial general liability insurance policy with a limit of not less than \$1,000,000 combined single limit for bodily injury and property damage. Coverage shall be applicable to any and all owned, leased, hired, or non-owned vehicles used in pursuit of any of the activities associated with this contract. The requirement is the same for a C contractor except the amount is reduced to \$500,000.*

- E. *The City shall be named as an additional insured and loss payee, and policies of insurance shall expressly provide therein that they shall not be terminated by the insurer or the contractor until a thirty (30) day written notice of the intended revocation thereof shall have first been given to the owner and the City by such insurer or contractor.*

The Housing Rehabilitation Handbook requires the Rehabilitation Inspectors to verify each contractor's insurance coverage and valid State contractor's license prior to the execution of the contract. According to the Rehabilitation Handbook,

*After the contractor has been selected by the property owner but before the Owner-Contractor Agreement is executed, the Rehabilitation Inspector will verify that the contractor's required insurance coverage and valid State contractor's license have expiration dates extending beyond the anticipated date of completion of construction. If either the insurance or license have lapsed or are likely to expire before completion of construction, the Inspector will require that this situation be corrected prior to execution of the Owner-Contractor Agreement.*" (Emphasis added)

Further, according to the Handbook, *"Proof that the general contractor has satisfied the above eligibility requirements shall be provided to the City in such form and at such time as the City may reasonably request."* Housing has maintained contractor files containing documentation that the contractor met Housing's eligibility requirements. However, Housing has not updated the contractor files consistently. Our sample of contractor files indicated that the sampled files did not show proof of meeting one or more of the State licensing and City insurance requirements. Our audit sample consisted of 20 contractors selected from the Rehabilitation Program database. Every contractor file in the audit sample had at least one exception regarding documentation of required insurance coverage and contractor's license. Table IV below lists the contractor file deficiencies we noted and the number of contractor files with each deficiency.

**TABLE IV**  
**CONTRACTOR FILE DEFICIENCIES**

Description of Deficiency	Number Of Contractor Files With The Deficiency (From Audit Sample Of 20 Contractor Files)
Expired license documentation on file	11
Expired or missing Automobile Insurance	6
Expired or missing General Liability Insurance.	4
Expired or missing Workers' Compensation insurance	6
City is not named as Additional Insured on the Commercial Automobile Liability insurance.	14
City is not named as Additional Insured on the General Liability insurance.	11
Insufficient Automobile Liability insurance.	2
Insufficient General Liability insurance.	2
The expiration date is not indicated on the insurance certificate.	1

In addition to providing a reliable list of eligible contractors for Rehabilitation projects, current contractor records are needed to document the City's position in case of contractor debarment. According to the San Jose Municipal Code, the purpose of the debarment ordinance is " . . . to establish a procedure for debarment of contractors from performing work under housing program contracts in order to adequately and properly address instances of substandard performance or other lack of responsibility of those contractors." Housing recommended this ordinance in November 1993 specifically to address problems with contractors in the Housing Rehabilitation Program. According to Housing,

*The existing regulations governing the debarment of contractors are applicable to public works contracts where the City or the Redevelopment Agency is directly hiring contractors for construction, repair or maintenance of public facilities. The Housing*

*Rehabilitation Program is different in that, although the rehabilitation is financed with City funds, the contractors who bid on projects to rehabilitate or replace dwellings do not contract with the City but with the property owner. The Housing Department assists the property owner in the process of contractor selection by maintaining a list of contractors eligible to bid on rehabilitation projects and supervising the bid process, including limiting access to those contractors who meet certain minimum requirements (such as maintenance of adequate insurance). (Emphasis added)*

Furthermore, it should be noted that the grounds for debarment include

*Evidence that the contractor lacks financial responsibility, such as failure to carry or maintain adequate insurance as required by the city. . . (Emphasis added)*

In response to our inquiry regarding the lack of contractor license or insurance documentation, Housing stated, "*Where did our requirements say we needed a hard copy of (the) most recent license/insurance? All our requirements say is that we verify they are up to date.*"

It should be noted that Audit staff contacted the California Contractors State License Board and confirmed that all 11 contractors with expired licenses on file did, in fact, have current licenses. In our opinion, Housing should similarly call the Contractors State Licensing Board to "verify" that contractors' licenses are up-to-date. Housing should also document in their contractor files the date and results of such inquiries.

With regard to contractor insurance coverage, the Rehabilitation Program Handbook requires the Rehabilitation staff to verify that the

contractor the property owner selected has the required insurance coverages. According to Housing, the Finance Department's Risk

Management Division has agreed to take over the responsibility for documenting contractor insurance coverage. Consequently, as part of the documentation for approving a rehabilitation or paint project, Housing should obtain written verification from the Risk Management Division that the selected contractor has met the City's insurance coverage requirements. In our opinion, Housing should amend the Rehabilitation Program Handbook to reflect this procedural change.

14 We recommend that Housing amend the Rehabilitation Program Handbook regarding licenses and proof of insurance for rehabilitation contractors. (Priority 3)

**Housing Should Update The Rehabilitation Program Handbook To Incorporate City Council Approved Procedural Changes**

In 1995-96, in order to maximize production with the reduced staff and program resources available in the budget, the City Council approved new contractor selection procedures. Basically, the new procedures allow the recipient to choose his or her own contractor and the contractor does not need to be in Housing's pre-qualified list. However, Housing will still verify the contractor's license and insurance coverage to determine whether the contractor meets the City's eligibility requirements. Table V below compares these new contractor selection and project inspection procedures to the old procedures.

**TABLE V**  
**COMPARISON OF OLD AND NEW PROCEDURES**  
**FOR CONTRACTOR SELECTION AND PROJECT INSPECTION**

<b>Old Procedure</b>	<b>New Procedure</b>
Following property inspection and compilation of a deficiency list, the Rehabilitation inspector prepares a detailed scope of work, reviews the scope with the owner and makes revisions according to the wishes of the owner, and puts the project out for a competitive bid.	The Rehabilitation inspector inspects the property and prepares a deficiency list, which specifies the items which must be corrected as a condition of the loan (such as immediate threats to health and safety) as well as other items qualifying for the City's funding at the owner's discretion. The contractor selected by the owner develops the scope of work and contract amount.
The Rehabilitation inspector oversees the bid opening process, reviews bid results with the owner, and assists the owner in the selection of a contractor. Housing maintains a list of pre-qualified contractors who meet State licensing and City insurance requirements.	The owner, using instructions provided by Housing, obtains his or her own contractor. The contractor selected does not have to be on the City's pre-qualified list. The owner submits the selected contractor and itemized bid to the department. Housing's review is limited to checking that the contract estimates are reasonable and the contractor is qualified.
The Housing Rehabilitation Program uses a standard specifications manual which requires that all work and materials meet certain criteria (often exceeding those required to meet the Building Code).	With the exception of roofing materials, Housing will no longer maintain work and materials specifications. Compliance with the Building Code will be assured by the City's Building inspectors.
The Rehabilitation Inspector serves as construction manager for the owner, conducts numerous inspections throughout the construction process to ensure compliance with the specifications and completes the work write-up in the contract. The Rehabilitation Inspector also negotiates any Change Orders, signs all Payment Requests, and serves as mediator between owner and contractor.	The owner is responsible for contract administration and negotiation of Change Orders. Inspection by the Rehabilitation Inspector is limited to verifying that the work has progressed or has been completed as claimed and that payment is warranted.

According to the old procedures, the rehabilitation staff was required to oversee the contract bidding and contractor selection, complete the work write-up in the contract, and conduct inspections throughout the construction process to ensure compliance with the project specifications. Under the new procedures, the project recipient will generally take over

those responsibilities. The Rehabilitation Inspector, however, will still be responsible for (1) initially inspecting the property and documenting a

deficiency list; (2) checking whether the contractor possesses the license and insurance coverage Housing requires; (3) reviewing the contractor estimates; (4) verifying that contractors have obtained final construction permits, and (5) verifying that the work has progressed or has been completed as claimed and that payment is warranted.

15 We recommend that Housing update the Rehabilitation Program Handbook to incorporate City Council approved procedural changes. (Priority 3)

**For Some Rehabilitation Projects, Contractors Rendered Poor Quality And Costly Work, Resulting In Dissatisfied Rehabilitation Loan And Grant Recipients**

We contacted by telephone 58 loan and/or grant recipients of completed Housing Rehabilitation projects in our audit sample. Of these 58 recipients 46 or 79 percent said that they were "**satisfied**" with the Housing Rehabilitation Program. However, 12 recipients, or 21 percent of those contacted, said they were either "**not satisfied**" or "**partly satisfied**" with the Rehabilitation Program. It should be noted that of the 46 recipients who said they were "**satisfied**" with the Housing Rehabilitation Program, 15 recipients said they were "**not satisfied**" with the work of the contractor or the prices the contractor charged. We classified such recipients as "**partly satisfied**" with their rehabilitation project.

Below are the reported experiences with the Rehabilitation Program of the 23 loan and/or grant recipients of completed projects who said they were not satisfied or only partly satisfied with their rehabilitation project and were

willing to talk to us. The remaining 4 loan and/or grant recipients of completed projects who indicated that they were not satisfied or only partly satisfied with the Rehabilitation Program would not provide us with details about their projects.

**Reported Experiences Of 23 Loan And/Or Grant Recipients Of Completed Rehabilitation Projects**

*Projects #E94064 And H94151*

The recipient received a \$6,785 loan for emergency roof repair, an \$18,163 combination loan and grant for linoleum repair in the family room and bathroom and house painting. Both projects were completed in 1995.

The recipient was satisfied with the roof repair project, but extremely unhappy with certain aspects of the linoleum repair and house painting project. He said that the paint job was very sloppy and the new linoleum in the family room is either defective or improperly installed.

During our site visit, the recipient showed us the following Rehabilitation project deficiencies:

*Painting Problems*

- There were several large areas where the final coat of paint was blotchy or so thinly applied that the primer clearly showed;
- The portion of the chimney above the roof and some sections of the fence were not painted;
- Parts of the eaves near the front door and in the backyard were not painted;

- Light fixtures were splattered with paint and not cleaned;
- Sections near the garage roof were overpainted;
- The garage roof was splattered with paint and not cleaned; and
- Several areas of the concrete patio and sidewalk in the backyard were splattered with paint.

#### Linoleum Problems

- The linoleum installed in the family room is warped in at least two places;
- There is a hole in the linoleum next to an electrical outlet; and
- The linoleum at the entryway to the bathroom was covered with an extra-wide metal strip to hide the installation mistakes.

According to the recipient, the contractor said that the project would be completed within two weeks; however, the project actually took over 45 days. During that 45-day period, the family suffered a lot of inconvenience because the family room could not be used. The recipient said that the project would have been completed sooner if the contractor had spent full days on the project. Instead, the contractor worked evenings only, as if it were just a part-time job.

The recipient was ill when the project was finally completed. The recipient said that he signed the completion certificate because he was afraid that the contractor would put a lien on his house if he did not sign the papers. The contractor also promised that he would come back to complete the project and make any needed corrections. The recipient said that the contractor did come back but was unable to fix the linoleum

defects. With regard to the paint job, the contractor did nothing to correct the defects.

The recipient feels that Housing should have monitored the project more closely to make sure that the work was performed in a professional manner. He would like to have the defects in the project corrected; however, he would like another contractor to make the corrections. He no longer wants to deal with the original contractor.



**Project #H94151 -- The painters did not paint the upper portion of the chimney.**

Projects #M94019, E94023, And P95303

The purpose of the original mobilehome Rehabilitation project was to replace the roof, install a swamp cooler, and provide new skirting, earthquake bracing, new carpet, ceiling repair, new doors, faucet replacement, and new toilets. The Housing Rehabilitation Program database showed that the recipient was given a \$15,000 loan plus a \$989 grant. However, the recipient said that she did not receive the \$989. She only recalled receiving a \$200 contingency supplement from an unknown source. The Housing database showed that the recipient was also given a \$1,400 Paint Grant and an emergency grant for which no dollar amount was recorded. The recipient stated that she was provided with a \$4,400 emergency grant to install air conditioning in her home.

The recipient stated that she felt "ripped off" by the Rehabilitation Program. She said that in many instances, the work on her home was done very poorly and for inflated prices. During our site visit, she reported to us the following examples of poor work and inflated prices.

- **Ineffective Swamp Cooler.** The swamp cooler directed cool air to only the rear bedroom of the mobilehome. The recipient said that when she told the Housing Inspector about this problem, he told her that she should be satisfied with the work;
- **Leaky Swamp Cooler.** The new swamp cooler leaked so much water that a huge stain formed on the ceiling, extending from the living room to the back bedroom. This stain is still there;
- **Costly Toilets.** The new toilets were ultra-low flow (ULF) models which cost \$300 each. These toilets qualified for the \$75 government rebates. The recipient does not know who received the rebates on these toilets, or why the toilets were so expensive;

- **Costly Bathroom Repairs.** The recipient did not understand how new shower doors in one bathroom and two new sink faucets could add up to \$690;
- **Leaky Toilets.** Water leaked from the bottom of the toilets and the contractor was reluctant to make repairs because he claimed that was the responsibility of the subcontractor who installed the toilets. The water leak caused the flooring to become saturated and for part of the flooring to warp and separate from the bathtub;
- **Improperly Installed Toilets.** The seat on the toilet in the rear bathroom was not installed properly. Shortly after it was installed, it became loose and started to "wobble around";
- **Sloppy Work.** In a rear bedroom, the contractor knocked out the closet rails and did not repair them. Unsightly caulking was applied to the trim of the ceiling. Also, paint which was intended for the ceiling was sprayed onto some portions of the walls;
- **Work Not Done.** According to the bid documents, the contractor was supposed to replace the warped panels in the ceiling but the contractor did not do so;
- **Poor Quality Carpeting.** The carpeting installed under the original project was of very poor quality compared to the new carpeting the recipient was able to get at lower cost;
- **Inappropriate Molding.** The old moldings from the kitchen floor were reused for the new floor;
- **Costly and Poor Quality Painting.** The painter failed to properly paint some sections above one of the windows and some of the trim and awnings. He painted the trim on one awning, but not on the adjacent awning. The painter's answer to the recipient's request for painting on the trim was "*What do you want for a city job? You can't get custom painting.*" The recipient said that \$1,400 was so pricey that more painting should

have been done. The recipient said that her neighbor got an \$850 bid for a paint job on a larger home, with the trim and decorative wood included in the price; and

- **Wrong Paint Color.** For the paint color, the recipient requested Oxford Brown paint, a very dark shade, yet the brown paint used on her home was very pale and light.

The recipient said that the original contractor was supposed to give her back the full value of the swamp cooler because it did not work properly. However, the contractor reneged on this agreement. The recipient said that Housing staff then arranged to have another contractor take the swamp cooler and give the recipient half the monetary value of the cooler. However, because the recipient badly needed an air conditioner for health reasons, Housing offered her a grant of \$4,400 to replace the swamp cooler with a new air conditioning unit. The recipient was appalled at the price and she offered to bypass Housing's bidding process. She called around on her own and was able to get an air conditioner for \$2,450 that was a half-ton larger than the one which Housing had offered. With the leftover grant funds of \$1,950, the recipient said that she was also able to get an energy saving dishwasher, an oven, and half the cost of her living room carpeting. She believed that Housing would save a lot of money if it allowed the homeowners to do their own shopping for the worklist items. She also felt that the homeowners should be allowed to select and work with their own contractors. For the Housing projects on her home, she was neither consulted on the selection of the contractor nor did she recall seeing a bidder's list for the projects.

The recipient reported that the Housing Inspector overseeing the original project was overbearing towards her. She said that the Housing

Inspector was not friendly or not responsive to her complaints about the poor quality of the work and he did not make sure that the contractor performed according to the contract. For the paint project, the recipient said that she had not been asked to sign any completion certificate.



**Project #M94019 -- The new swamp cooler leaked so much water that a huge stain formed on the ceiling, extending from the living room to the back bedroom.**



**Project #P95303 -- The painter did not paint the trim on this awning, although he painted the trim on the adjacent awning. He also missed some sections above this window.**

Project #E95066

The recipient received a \$7,500 grant for emergency replacement and relocation of a water heater, re-plumbing work, replacement of a natural gas line and electrical service panel, and mandatory electrical work. The certificate of completion shows that the project was completed in January 1996. However, the recipient said that the contractor still had much unfinished work until April 1996. After making her wait two months without doing any work, the contractors rushed to get the job done all at once and stayed until midnight working on the job. The noise kept her family awake. The recipient was extremely unhappy with the project. During our site visit, she pointed out the following Rehabilitation project deficiencies:

- **Holes Not Fixed.** The contractor did not patch the holes he made when he took out the old plumbing. The holes were in the bathroom wall under the sink, in the bathroom floor between the toilet and the bathtub, and in the kitchen floor next to the stove. The recipient said that bugs and mice entered the house through these holes. She had to put a mousetrap next to the hole in the kitchen to catch the mice;
- **Contractor Damage Not Repaired.** The contractor damaged but did not repair or replace the linoleum in the bathroom and the kitchen. In addition, while installing new plumbing, the contractor damaged but did not repair the kitchen cold water faucet; and
- **Improper Clean Up.** The contractor did not clean up properly after the job. The contractor just left the old pipes in the basement.

The recipient said that the project cost was excessive. All she needed was a new water heater, which she said cost around \$250 based on

prices she saw in hardware stores. Neither the Housing Inspector nor the contractor explained to her why the other work (plumbing and rewiring) needed to be done. The contractor decided the scope of the work without consulting her. The contractor also re-did work on kitchen plumbing that was done only two months earlier. She felt that somebody was just using her to get the grant money. She did not know whom to contact at Housing. She said that no inspector visited the project or talked to her.

The recipient said that the project took from November 1995 to April 1996 to complete. She was without hot water for two weeks. This was a tremendous hardship for her because she suffers from arthritis. She asked why, if it was supposed to be an emergency, did it take that long to finish the job. The contractor gave her some papers to sign at the start of the project. However, she said she was not asked to sign any papers at the end to indicate her agreement that the job was finished to her satisfaction.



**Project #E95066 -- The contractor did not patch the holes he made when he took out the old plumbing. The holes were in the bathroom wall under the sink, in the bathroom floor between the toilet and the bathtub, and in the kitchen floor next to the stove. The recipient said that bugs and mice entered the house through these holes. She had to put a mousetrap next to the hole in the kitchen to catch the mice.**

Project #H93101

This was originally a \$30,000 loan for bath and kitchen repair, roof and gutter replacement, and window replacement. During our telephone survey and site visit, the recipient stated that he and his wife had a horrible experience with the original contractor. The recipients ultimately paid the contractor over \$30,000 for work that was not done or was done very poorly. The recipients also had to pay an extra \$18,000 to have other contractors redo the original contractor's work. They did not understand why Housing paid the contractor over \$30,000 when most of the work was clearly substandard.

The recipients said that early in the project, they left for a week so that the contractor would have room to work. When the recipients returned home they found their bathroom cabinets sitting in the backyard, along with a large pile of other debris. The recipients said that the cabinets did not even need to be removed from the bathroom.

This Rehabilitation project included the installation of two ovens in the kitchen. However, the contractor could not install the appliances properly and get them to work. The recipients were particularly disturbed that they could not use their ovens during the Christmas holiday.

Another example of the contractor's substandard performance was the work on the countertop and kitchen sink. The recipients said that the contractor did not measure the kitchen sink properly and made the hole on the countertop too large. As a result, the kitchen sink could not be installed and it sat on the kitchen floor for six months. The contractor was willing to make the necessary adjustments to complete the installation, but

he asked the homeowners to share the cost of the adjustments. The recipients were "galled" that the contractor asked them to pay extra to correct his mistake.

The recipients did not like the contractor's attitude. The wife said that the contractor treated her as if she did not belong in her own home.

The recipients said that the Rehabilitation Inspector asked the recipients to sign the payment certificate. Although the work was clearly unsatisfactory, the recipients signed the payment certificate just to get the contractor out of their home. The wife was in the hospital at the time the husband signed the payment certificate. According to the wife, she suffered a breakdown because of all the troubles with the contractor. According to the husband, he himself lost 40 pounds from his experience with the contractor.

The husband said that on the day he signed the payment certificate he was left out of the discussion between the Housing Inspector and the contractor. The husband wanted to go down the list of items the contractor did not complete, but was ignored. He said that it was his understanding that Housing was responsible for monitoring the contractor's work and ensuring that the contractor performed according to the contract. However, this was clearly not the case. The husband showed us two more payment certificates after the "100 percent complete," certificate. The two additional payment certificates increased the size of the loan several thousand dollars beyond \$30,000. As was noted above, in order to complete the work, the homeowners had to hire other contractors and pay an additional \$18,000.

The homeowners informed the Housing Inspector that they were very dissatisfied with the original contractor and the inspector suggested that they go to arbitration. However, the inspector did not offer information or help in filing a complaint or going to arbitration. Also, the homeowners said that the Rehabilitation staff promised that they would not need to pay for the work to remedy the original contractor's mistakes. However, the homeowners ended up with an \$18,000 increase in their Housing Rehabilitation loan to pay the other contractors.

The homeowners are still interested in filing a suit against Housing or the original contractor or pursuing arbitration to try to recover their additional costs and reduce their Housing Rehabilitation loan.



**Project #H93101 -- Early in the project, the recipients left for a week so that the contractor would have room to work. When the recipients returned they found their bathroom cabinets sitting in the backyard, along with a large pile of other debris. The recipients said that the cabinets did not even need to be removed from the bathroom.**

Projects #17133 And #E94017

The purpose of the \$36,473 loan and \$3,000 grant was to install kitchen cabinets, adjust joints, install support, repair the garage, repair the roof, replace the hall bath, repair and clean the dryer and remove tar, install a kitchen sink, replace the window frame, and install grab bars in the bathroom. During our site visit, the recipient showed us the following project defects:

- **Improperly Installed Door.** The contractor did not install the security screen for the back door correctly. The door does not fit the frame and there is a large gap between the door and the frame when the door is closed;
- **Deadbolt Not Installed.** The contractor did not install the deadbolt for the back door;
- **Improperly Installed Carpeting.** An unsightly portion of the carpet the contractor installed on the inside of the house protrudes under the back door frame to the outside of the house;
- **Poor Quality Gate.** The front redwood gate which was supposed to be new has already started to break down;
- **Defective Heater.** The new wall heater does not work;
- **Defective Shower.** The new shower does not work;
- **Paint Problems.** The exterior paint has started to chip in several areas and the interior paint is peeling extensively in one section of the living room;
- **Downspout Improperly Installed.** The contractor did not properly secure a newly installed downspout which caused it to fall off in one piece;

- **Required Work Not Done.** The contractor never provided the splashblocks which were part of the contract nor removed the tar from inside the dryer as required in the contract. In addition, the contractor did not install the kitchen spray faucet which the recipient claims she specifically requested. Further, there are still visible bulges on the roof the contractor was supposed to repair;
- **Defective Window.** The front window is leaking;
- **Wrong Door.** The inside door to the garage, which was supposed to be "self-closing", is not self-closing;
- **Poorly Installed Pantry Door.** The contractor did not properly install the pantry door which subsequently fell off its hinges;
- **Sloppy Work.** The contractor did not install the plywood ceiling above the water heater. He also left uncovered the insulation behind the water heater. The recipient said that according to the contract, the contractor should have covered the area with drywall;
- **Poor Quality Kitchen Countertop and Cabinets.** The new kitchen countertop the contractor installed was not Formica as it was supposed to be. According to the recipient, the countertop installed has started to chip, peel, and break in several sections. In addition, the new kitchen cabinets have started to fall apart; and
- **Oven and Range Malfunctions.** The new oven and three of the four burners on the gas range do not work. According to the recipient, the gas range and the oven were supposed to be "pilotless". However, when she turned the appliance on, the gas came out but was not lighted. Because of the hazardous condition, we advised her to notify PG&E. We also informed Housing of the situation. Housing sent a contractor to look at the recipient's range. According to Housing, the recipient has not properly maintained and cleaned the ignition devices. As a

result, the devices are clogged with grease and other spilled food. Housing considers the cleaning and maintaining of newly installed appliances and other fixtures to be the responsibility of Rehabilitation loan or grant recipients.

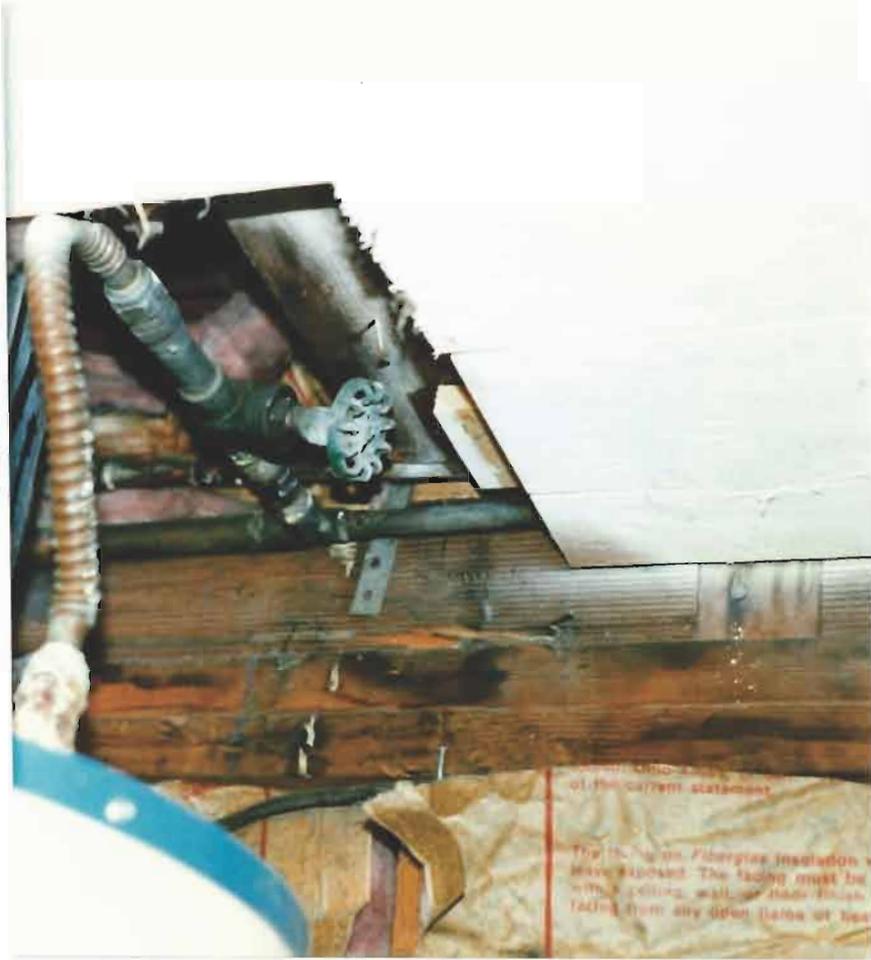
The recipient said that the intent of the Housing Rehabilitation Program was good and that Housing did their best to help. However, she felt that Housing should not have paid the contractor the full amount until he finished the entire project. The first contractor disappeared before completing the work. She resents having to pay a loan for work which was never done or which was done very poorly.



**Project #17133 -- The security screen for the back door does not fit the frame. When the door is closed, there is a large gap between the door and the frame.**



**Project #17133 -- An unsightly portion of the carpet the contractor installed on the inside of the house protrudes under the back door frame to the outside of the house.**



**Project #17133 -- The contractor did not install the plywood ceiling above the water heater and left uncovered the insulation behind the water heater. The contractor should have covered the area with drywall.**

Project #H94029

The purpose of this \$25,922 loan was to repair the plumbing and the dilapidated condition of the recipient's home. The recipient felt that the rehabilitation work she received was not worth the cost of the project. She pointed out the following defects to us:

- **Hole in the washroom wall.** The contractor did not secure the plate for the water heater pipe hole. The plate now hangs loose on the water heater pipe. According to the recipient, many bugs now come in through this hole;
- **Poorly fitted doors.** The back door of the house, leading to the laundry room, does not close properly. The door is too narrow for the frame and allows a draft as well as insects to enter the house. The other back door of the house, leading to the patio, also allows a heavy draft to enter the house;
- **Poorly fitted windows.** The double-paned windows in the front of the house also let a draft into the house. The windows are very difficult to open or close;
- **Defective thermostat.** The thermostat stopped working six months after the contractor installed it. Even when it was working, it could not regulate the temperature very well. The house would be "freezing" before the thermostat turned on the furnace, and "burning up" before the thermostat turned it off. A representative from PG&E came to her home to inspect her heater and told her there was a short in the thermostat, and that furthermore, it was the wrong kind of thermostat for her heating unit;
- **Splintered baseboard.** The baseboards in the bedrooms are splintered at the corners. The contractor pieced the baseboards together from various pieces of boards which did not necessarily match;

- **Unpatched hole in the bedroom closet wall.** The contractor made a large rectangular hole in the bedroom closet when he worked on the bathroom plumbing. When the job was finished, the contractor did not close the hole;
- **Dried out and cracked caulking.** The caulking around the window frames has already dried out and cracked extensively;
- **Improperly positioned downspouts and splashblocks.** Some of the downspouts around the home do not divert rain run-off away from the house. The front downspout is directed along the side of the house. The splashblocks under the other downspouts are either flat or graded toward the house; and
- **Insufficient backyard rototilling.** As part of the project, the contractor rototilled the backyard but it is still very bumpy and uneven.

According to the recipient, the contractor originally told her that he would be done with the project in one month but took seven months to finish. The contractor's work was messy throughout this time. Specifically, he did not put plastic covering on the carpet while working inside the house. Once he left a bathtub and toilet outside of the house for several weeks. The recipient had to remind the contractor several times to clean up. Although she was not entirely satisfied, she signed the Notice of Completion because she wanted to be done with the project. She did not file a complaint because she thought such an action would require that the project start all over again. She would still like Housing to help her correct the project defects.

The recipient also informed us that because the total cost of the project was \$2,715 less than her \$25,922 loan, her loan should be reduced to \$23,207. She is concerned that the loan documents, the deed of trust, assignment of

rents, and interest charges still reflect the original \$25,922 loan amount, not the \$23,207 she actually spent. When we informed Housing of the recipient's concern, Housing responded in a September 6, 1996, memorandum,

*The \$2,715 credit to (the recipient's) deferred loan account reflects the amount of unused contingency. It is not our practice to re-draw loan documents when unused contingency funds are credited to the loan . . . when unused contingency is credited to a loan account, interest is charged only on the net outstanding balance.*



**Project #H94029 -- The contractor did not secure the plate for the water heater pipe hole; the plate now hangs loose on the water heater pipe. According to the recipient, many bugs now come in through this hole.**



**Project #H94029 -- The contractor made a large rectangular hole in the bedroom closet when he worked on the bathroom plumbing. When the job was finished, the contractor did not close the hole.**

Project #P94438

The purpose of this \$940 grant was to paint the recipient's mobilehome. The recipient showed us the following defects in the project:

- The paint applied to her home was too thin. The recipient told us that the paint was supposed to be green, instead of the yellow which it had become. She felt that the paint had started to fade because the contractor applied too little paint to the home;
- The contractor did not paint the trim. The recipient wanted the aluminum trim painted, but the contractor told her she would have to pay extra for that; and
- The contractor did insufficient prep work. A large amount of unsightly orange foam has bubbled up and dried along the seam between the outer wall of the mobilehome and its base. If the orange foam existed before the paint job, the contractor should have scraped it off as part of the prep work. If the foam is the result of the paint job, the homeowner feels that the contractor should remove it. Also, the recipient said that the painter should have hammered in the studs which were sticking out of the sidewalls of the mobilehome before he started painting.

Except for the items described above, the recipient was satisfied with the Housing Rehabilitation paint program.



**Project #P94438 -- A large amount of unsightly orange foam has bubbled up and dried along the seam between the outer wall of the mobilehome and its base. The recipient said that the painter should have scraped off this material as part of the clean-up work.**

Projects #16011, #E94072, And #P93552

Project #16011 was a 1992 loan for \$23,148, for general rehabilitation of the recipient's home. Housing approved a \$900 emergency grant which it increased to \$2,070 (#E94072) in December 1994 to do left-over clean-up work from the previous project (#16011) and a major bathroom plumbing renovation. The clean-up work involved water damage to the floor and subfloor of the bathroom. The recipient also received a \$1,756 Paint Grant (#P93552) in 1994.

The recipient considered getting the paperwork completed as the worst aspect of the rehabilitation process. She said that somebody at Housing either left the Department or simply dropped the ball. She said that Housing took a very long time to complete the paperwork.

The recipient was also very concerned about the interest on her loan. Specifically, interest began accruing in September 1990 even though the actual work on her home and actual payments on the project did not begin until June 1991. Only after she called Housing repeatedly regarding this concern did Housing send her a letter acknowledging her complaint. However, she is still not certain whether Housing has credited her loan account for the interest between September 1990 and June 1991.

The recipient was dissatisfied with the work of the contractor for Project #16011. The contractor went out of business shortly after the project was finished, and was unable to do necessary clean-up work. The following are the project defects as of September 30, 1996:

- **Concrete driveway.** Although the contractor re-did the concrete for the driveway three times, it is still defective. There is a large depressed area near the middle of the driveway in which water collects. The recipient is afraid that somebody may slip and get hurt near the area where the water does not drain properly.
- **Vinyl flooring.** The contractor did not install the vinyl flooring securely causing the coved section of the vinyl flooring to peel away from the wall edging.
- **Kitchen countertop.** The contractor did not properly install the tiles used for the kitchen countertop which caused several cracks and dings to develop shortly after the project was completed. Also, the contractor left a hole in the wall behind the exhaust fan where grease and moisture now accumulate.

The recipient believes that Housing did not adequately screen the list of pre-selected contractors for reliability. The contractor that she had to use produced substandard work that had to be re-done. The recipient had to take the contractor to arbitration because he refused to correct his mistakes at no additional cost. The contractor eventually re-did the concrete, but as explained above it is still defective. The recipient said that the Housing Inspector helped her a lot during the arbitration process.



**Project #16011 -- The contractor did not install the vinyl flooring securely causing the covered section of the vinyl flooring to peel away from the wall edging.**

Project #P94493

The purpose of this \$1,950 grant was to paint the recipient's house. The recipient said that there were several things about the paint job which bothered her, but she did not want to complain because the paint job was free. She said that she cannot remember anyone from Housing coming out to her home. Her only dealings with Housing occurred over the phone.

She had the following problems with the project:

- A 14- or 15-year old boy did the preparation work on the windows and broke one of the windows in the process. The contractor did not replace the window;
- The contractor did only minimal preparation work, such as scraping of the old paint on the house;
- The contractor left lumpy paint at the bottom of the front wall;
- The contractor painted the hinges on the doors and windows making it difficult to open and close them;
- The contractor left paint drops on the middle of the front window pane and did not clean them up;
- The contractor let a large amount of paint globs dry on a pipe at the side of the house;
- The contractor did not paint certain sections at the base of the walls at all;
- The front and back door paint is stripped;
- The contractor left so much paint on the weather stripping on the back door it would not close. The recipient had to pull the weather stripping off the back door in order to close it; and

- The overall color of the house is lighter than the color she selected.

The recipient said that she did not sign any document that indicated that she was satisfied with the job. She would like Housing to repair the damage the contractor caused.



**Project #P94493 -- According to the recipient, a 14- or 15-year old boy did the preparation work on the windows and broke one of the windows in the process. The contractor did not replace the window.**



**Project #P94493 -- The recipient had to pull the weather stripping off the back door because the contractor left so much paint on the weather stripping the door would not close.**

Project #M93084

The purpose of this \$26,938 loan was to repair or replace the roof, furnace, swamp cooler, ceilings, master bath, exterior carpeting, flooring (vinyl and carpet), and plumbing. The project also included exterior painting, earthquake bracing, and leveling.

Overall, the recipient thinks that the Rehabilitation Program is good and the Housing Inspector was helpful. However, the recipient is dissatisfied with the quality of the contractor's workmanship and would like Housing to correct the defective work the contractor did on his mobilehome. During our site visit, the recipient showed us the following Rehabilitation project defects:

- **Leveling.** The contractor was not able to adequately level the coach. The coach is still slightly lopsided. (Using a carpenter's level, the recipient showed us this condition.)
- **Paint ceilings throughout the coach.** The painter did not spray paint evenly between some panels.
- **Prep and paint exterior.** The painter initially refused to paint certain required items. After arguing five or six times with the contractors, the recipient was able to get the contractors to paint the trim. Several areas of the painted surfaces already show unsightly spots.
- **Master bath.** Soon after the project was completed, the new shower valve started to leak and the new sink often backed up due to a slow drain. The contractor installed a second shower valve, but the leak continued. The owner was very pleased with the demeanor and quality of work of the subcontractor who worked on the plumbing, and he believes that the leaky valve may be a result of defective manufacturing of the product.

- **Flooring: kitchen and dining room.** The new linoleum is very soft and subject to gashes from minor things such as when a utensil is dropped. The linoleum is also warped around the refrigerator base. When they installed the linoleum, the contractors scratched the surface of the newly installed kitchen Formica countertop with their tools.
- **Flooring: new carpet and padding throughout front room and master bedroom.** The installers did not stretch the carpet sufficiently. There are already several areas in the carpet that show ripples, especially near the carpet seams.
- **Flooring: squeaky floors.** The floors in the kitchen and hallway was reinforced but still squeak. Also, when the contractors were working under the mobilehome, they tore off a large portion of insulation but failed to put it back after they were done. That piece of insulation is still hanging under the mobilehome, leaving some pipes exposed and allowing cold air to enter the mobilehome.

The recipient was not happy with the conduct of some of the people who worked on the project. For example, when the recipient was not at home, the painters watched a movie on the recipient's VCR without asking. Some of the workers seemed to have the attitude that the low quality of their work was "good enough for government work."

Finally, the recipient said that the prices for the project seemed inflated. He said that either there was no bidding process for the project or the bidding process was not effective. He felt that the loan amount for the project far exceeded the added value to his mobilehome.

Projects #H93104, #P93465, And #E95032

The \$9,475 combination loan and grant (#H93104) was to repair or replace the roof, garage door, and driveway; the \$1,550 grant (#P93465) was to paint the house exterior; and the \$1,775 grant (#E95032) was to fumigate the house against termites.

During our site visit, the recipient showed us the following Rehabilitation project defects on her property:

- **Cracks in concrete driveway.** A major crack near the center of the driveway extends along the entire length of the driveway. In addition, there are three or four other cracks. According to the recipient, the cracks appeared in the driveway one week after the contractor poured the concrete. She contacted Housing and spoke to a Rehabilitation Inspector regarding this problem. She said that the Rehabilitation Inspector referred her to another Housing employee who referred her to still another employee, who said that the problem was between the recipient and her contractor. The recipient then contacted the contractor who visited the project and said he would send someone out to fix the problems. That was several months ago. The recipient has tried to contact the contractor twice since then. The contractor promised the recipient that they would fix the problems during the summer, but as of November 1996, the recipient had not heard from him.
- **Paint peeling off the front wall of the house.** The recipient also showed us a section of paint that was peeling off the front wall of the house. She felt that the condition of the paint after only two years indicated a poor quality paint job.

Project #E95010

This \$5,000 grant was to install a new forced air heating system. Overall, the recipient was satisfied with the Housing Rehabilitation Program. However, as a former construction worker, he believed that the project was overpriced. The contractor Housing hired to work on his project charged \$5,000. Another contractor told him that the project could have been done for about \$3,000. He believed that more than one contractor should have come out to bid on the work. He was also suspicious of the final cost of \$5,000, given that the original estimate was \$4,500, with a \$500 contingency. He said that at the last minute the contractor and the Housing Inspector added several items to the workplan and rounded the cost up to \$5,000. According to Housing's project file, one of the added work items was to unclog the kitchen sink. However, the recipient said that the contractor told him he would not charge him to unclog the sink.

The recipient was not satisfied with the heating unit because it "*sounds like an atomic bomb*" every time he turns it on. He contacted the contractor regarding this situation, but received no response.

Project #E95038

The purpose of this \$540 grant was to install a new water heater at the recipient's mobilehome. The recipient was satisfied with Housing's services. However, he believed that the price which the City paid for the water heater was too high. He said that similar units were available for \$350 at most, labor included.

Project #H94098

The purpose of this \$3,190 grant was to correct electrical hazards in the recipient's home. The recipient was for the most part satisfied with the Housing Rehabilitation Program. However, she said that the \$3,190 grant did not cover the cost of a needed light fixture which was included in the original price estimate of the project. The recipient said that the worklist provided only a lump sum estimate rather than line-item cost estimates. As a result, too much money was spent on some fixtures, and not enough money was left over for the needed light fixture. She believed that a line-item cost estimate of the work list would have prevented such a problem.

Projects #17091 And E94041

The purpose of this \$11,653 loan (#17091) and \$1,500 grant (#E94041) was general rehabilitation on the recipient's home, including bathroom and sewer line repairs. The recipient was generally satisfied with the program and was extremely happy with his dealings with the Housing staff. The only defect that the recipient showed us was the insufficient caulking for the bathroom linoleum. As a result, the linoleum has started to warp and peel away from the shower enclosure.

Project #18074

The purpose of this \$6,800 loan was to replace the roof, carpet, oven, and water heater, repair the plumbing, and install earthquake bracing and leveling.

The recipient is unhappy with the project. She believes that the project resulted in structural damage to her mobilehome. She has heard loud

squeaking noises since the earthquake bracing was completed. She says the coach sometimes pops loudly even when no one is walking around inside. She says it also gets colder inside the coach.

According to the recipient, Housing paid the contractor before the work was completed. The oven that the contractor installed was not the type she wanted. She also said that the contractor threatened her to make her accept the carpet. She said she does not remember signing a completion certificate to indicate that she was satisfied with the project.

The recipient said she called Housing but they did not help her. She would like Housing to check the damage to her mobilehome. If the damage resulted from the contractor's improper work, she would like the contractor to fix it at no additional cost.

*Project # P94231*

The purpose of this \$2,560 grant was to paint the recipient's home. We received the following information from the recipient during our telephone survey.

The recipient was satisfied with the program overall. However, she said that the paint used for her project was meant for interior use and it faded after one and one-half years. At the time of the project, the contractor told her that he had used a "different" kind of paint on her house. He later took the paint to Kelly-Moore to see why the paint faded, whereupon he found out that the paint was intended for interior use only. The contractor offered to give the recipient a new paint job at cost to her. She felt that the contractor was doing her a favor. Unless the City could

give her a better offer, she planned to accept the contractor's offer. She liked the contractor and Housing -- she did not want anybody to get in trouble.

Project #18106

Housing approved this \$121,415 combination loan and grant on March 31, 1993. The purpose of the rehabilitation loan was to bring four units in a multi-family rental property up to code compliance and to a decent, safe, and sanitary condition. We received the following information from the recipient during our telephone survey.

The recipient reported that the program was inefficient in that it required that everything in the home be up to code, even when conditions posed no practical health or safety hazard. This requirement caused the scope of work to be greatly increased. He says the final value of the four-plex is not worth what was put into it.

His management statement provided with his application to the Rehabilitation Program showed that his property would have a negative cash flow if he was given the loan, but Housing told him it did not matter. He says he would not have given himself a loan with that cash flow statement.

The affordability restrictions do not bother him because they are relatively high. He has not been contacted regarding the affordability restrictions since the project was completed; nevertheless, he has not raised rents since then.

The recipient reported that the contractor did not finish the work within the agreed upon time (three months), and thus owed him money.

The recipient was forced to take the contractor to arbitration, where he was awarded \$1,800.

He suspected that the contractor who performed the work had an "inside track," considering that he used not only the contract amount, but also all of the contingency.

Project # P94313

Housing approved a \$2,396 Paint Grant to the recipient on September 15, 1994. The purpose of the grant was to pay for the painting of the recipient's home. We received the following information from the recipient during our site visit.

The recipient is satisfied with the services of Housing, but she feels that the paint used for her home is too thin. The paint on the trim of her home is cracking even though it is less than two years old. She says that in the past the paint would last much longer on the trim. The recipient also believes that some prep work -- such as scraping -- was not done.

She has not called Housing or the contractor because she does not know whether they can do anything about these problems. She says that had she paid for the paint job with her own money, she would have already called the contractor to come out and fix the problems.

Project #R93007

Housing approved the \$90,000 loan on January 4, 1993. The purpose of the rehabilitation loan was to demolish and totally reconstruct a rental unit and perform certain minor repairs on another unit on the property.

We received the following information from the recipient during our telephone survey.

The recipient reported that she and her husband were unhappy with the rehabilitation project. She said she had a terrible experience with the contractor. She had to go "*around and around*" with him. He neglected to do a lot of things that were in the contract. The experience was so terrible, she said that "*never again*" would she use the Rehabilitation Program.

According to the recipient, the Housing staff were very nice, but she was very dissatisfied with the contractor. However, the inspector did not come to the project site often enough during the process. Had he done so, the recipient felt that he would have helped in the situation. She said that the contractor took "*forever*" to finish the project, and that he was always leaving her project to move on to new jobs. She had to follow him around so much she felt like a pest.

The recipient report that she felt she "*got ripped off*" on the price of the project. She believed that the quality of the contractor's work did not merit his price. For example, the windows had gaps in them, the new furnace didn't work, the water heater had problems, a new slab was not put in properly, the new house was put in the wrong place, the landscape sod was not put in where it was supposed to be, and the shower doors were so

cheap that they kept falling off. She felt that she would have been better off hiring a contractor of her own choice.

The contractor went way over the time limit of the project. The recipient said that according to the contract, she was owed money because the contractor went over the agreed upon time limit. She asked the contractor about it but he did not respond. The Housing Inspector did not aid her in this matter and did not tell her about arbitration.

The recipient did not invite us to inspect the Rehabilitation Project. She said that none of the problems are visible anymore because her husband fixed them on his own. She signed the Notice of Completion (NOC) even though she was not satisfied with the work because they were fed up with the contractor and did not want to deal with him anymore.

Projects # H93137 And P94200

Housing approved the loan for \$10,207 on May 16, 1994 and a grant of \$1,139 on October 13, 1994. The purposes of the rehabilitation loan and grant, respectively, were to provide a new roof and exterior painting.

We received the following information from the recipient during our telephone survey.

The recipient was satisfied with the Rehabilitation Program overall, but thought that the paint price was too expensive. He would like to see other bidders enter the process so that prices could be lowered. He was wary of the pre-qualified list of painters Housing provided. The recipient thought it was suspicious that the pre-qualified bidders submitted bids which differed by no more than \$25.

Project # P94346

Housing approved the \$1,820 grant on September 28, 1994. The purpose of this grant was to paint the recipient's home.

We received the following information from the recipient during our telephone survey.

The recipient was satisfied with the Rehabilitation Program overall, but she thought that the price of the project was too expensive. She believed that more estimates from contractors would help to bring prices down.

Project # M94009

Housing approved a loan of \$5,145 and a grant of \$400 to the recipient on June 20, 1995. The purpose of the loan and grant was to perform various rehabilitation work items on her home.

We received the following information from the recipient during our telephone survey.

The recipient said that the Rehabilitation Program was good in that it helped people with low income. She also said that the loan officer from Housing was excellent. Her main criticism was that the contractors' prices were extremely high. She had to cut down on the rehabilitation work she wanted to do through the Program because the prices were "outrageous."

The worklist in the project file included the following items: install a new shower enclosure, replace double ovens and a counter top range, repair doors, install carpet, replace the water heater, install earthquake bracing; and paint the exterior. According to the recipient, she had to

delete numerous items from the original rehabilitation list because the prices for those items were too high. The following items were the actual work completed:

- Awning flashings;
- Counter top (the double ovens were not replaced);
- New water heater;
- Termite inspection;
- Roof;
- Window sill;
- Deck repair;
- Exterior painting; and
- New refrigerator.

The recipient had to delete from the worklist the earthquake bracing, the bathroom repairs, replacement of the double ovens, and the new carpeting because the contractor's prices for those items would have increased the cost of the project to about \$14,000. As an example of the high prices she was asked to pay, she cited the cost of the installation of the water heater. Without informing the recipient, the contractor called in a plumber to help install the water heater. As a result, the plumber's fees more than doubled the cost of installing the water heater. The recipient was upset and complained about this; the contractor agreed to adjust the price.

The recipient believes that the intent of the Housing Rehabilitation program is good, but more bidders should be allowed to participate in the

program. Because of the high prices she ended up doing much of her home rehabilitation work outside the Program.

**Housing's Response To Loan And Grant  
Comments Regarding Rehabilitation Projects**

According to Housing management, Housing should not be held accountable for the poor customer service for the rehabilitation projects we identified. Further, Housing management stated that it cannot correct problems about which it does not know.

Specifically, in a January 29, 1997, memorandum to the City Auditor, the Director of Housing stated in part:

*Unless the allegations made by the clients you have interviewed can be verified by the other parties involved and supporting documentation, this section of the report should be deleted.*

*In addition to these overall comments, we offer the following specific observations:*

- 1. Many of the complaints made by these clients were not brought to our attention before your draft report was delivered to us. We do not believe it is reasonable for the Housing Department to be held in any way accountable for poor customer service in these situations. We cannot correct problems we do not know exist. (Emphasis added)*
- 3. In many cases, the client expresses complete satisfaction with the Housing Department staff while making complaints about their contractor. These clients need to address their concerns to the contractor, not us. When concerns of this kind are raised to our attention, however, we have advised clients of their arbitration rights and taken other actions to assist them. To respond to situation where there are multiple complaints or a pattern of complaints of poor workmanship, unprofessional conduct and the like, the City Council adopted a contractor debarment ordinance based on our recommendation. We debarred the first Rehabilitation Program contractor in 1996. To find that the Department's customer service needs improvement because of client-contractor disputes is an improper conclusion. (Emphasis added)*

4. In some cases, a client expresses complete satisfaction with the program but states a concern about the cost of repairs, even in cases where the work was performed under a grant from the City. It is not at all clear to us why such a client should be categorized as only "Partly Satisfied" when, in effect, the work on their property was provided at either no cost to them or in the form of a loan on extremely favorable terms. Additionally, the client's opinion regarding costs should not be given more weight than the opinion of our professional rehabilitation inspectors. Unless your staff can prove that the client's statements have merit, by way of independent research and in consideration of the particulars of each rehabilitation project, this statement of opinion should not be included in your report. (Emphasis added)

*For the reasons noted above, we recommend that you excise the comments from clients from your final report.*

### **Required Rehabilitation Inspector Activities**

In our opinion, had Rehabilitation Inspectors and other Housing staff performed required inspections and adequately documented the results of those inspections, Housing should have known about the rehabilitation project problems we identified. Specifically, the Rehabilitation Program Handbook requires Rehabilitation and other Housing Inspectors to do the following:

#### ***Inspection Log***

From initial inspection through completion of construction, the Inspector will maintain a log for the permanent file on each job which records the date and nature of all events relevant to the case for both in-progress monitoring as well as post-completion review, including but not limited to: each visit to the site; completion of deficiency list; completion and signing of Description of Work; complaints filed by the owner or contractor (verbal as well as written); disputes between owner and contractor; resolution of such disputes; referral of problems or disputes to Supervisor or higher levels of management; authorization for progress payments; and the like. (Emphasis added)

#### **For HELP Projects**

*Rehab staff performs the following functions during this (Construction/Rehabilitation) period:*

*Monitors construction at least twice a week . . .*

*. . . conducts an inspection and determines the percentage of work accomplished using the itemized bid submitted by the contractor as well as any addenda and change orders;*

*When contractor's work is complete, conducts a final inspection, verifies adequacy of work, obtains the owner's approval of work (including punchlist items, if any) in writing;*

*. . . Authorizes release of the retention amount upon written approval of the borrower, the Rehab Supervisor and the Rehab Inspector; . . .*

### **For HPP And MRLP Projects**

*The Rehab Staff performs several functions in the following sequence during this (Construction/Rehabilitation) period:*

*Monitors construction at least twice a week to ensure that work is progressing in accordance with the work write-up and construction contract . . .*

#### ***Appendix D-6 -- Unauthorized or Substandard Work During Construction.***

*If during any in-progress inspection of construction the Inspector finds work performed by the contractor which is either in addition to the scope of work spelled out in the Description of Work or substandard according to the Standard Specifications and/or the Description of Work with regard to the quality of materials or workmanship, the Inspector will immediately advise the owner and contractor orally and in writing that:*

- a. All work by the contractor on the project is to be suspended;*
- b. All unauthorized work is to be included in the contract pursuant to a Change Order or removed;*
- c. All substandard work is to be corrected; and*
- d. No further progress payments will be authorized by the Housing Department until such condition has been remedied.*

*. . . conducts an inspection and determines the percentage of work accomplished using the itemized cost break down agreed upon by the*

*contractor and Rehab Inspector as well as any addenda and change orders.*

*When the contractor's work is complete, conducts a final inspection, verifies adequacy of work, obtains the owner's approval of work (including punchlist items) in writing, . . .*

*Evaluates the contractor's performance.*

***Appendix D-6 -- Evaluation of Contractor Performance***

*Concurrently with the Rehabilitation Inspector's preparation of the 100% payment request, he/she will evaluate the contractor performance using the Contractor Evaluation Form. The Evaluation Form will be turned into the Rehabilitation Supervisor together with the 100% payment form and will be filed in the contractor's file."*<sup>6</sup>

**For PRP Projects**

*When contractor's work is complete, and upon receipt of a Notice of Completion (see Exhibit 15) signed by the owner, the Paint Program Coordinator conducts a final inspection to verify adequacy of work.*

**For RHR Projects**

*The Rehab Staff performs several functions in the following sequence during this (Construction/Rehabilitation) period.*

*Monitors construction at least twice a week to ensure that work is progressing in accordance with the work write-up and construction contract. (Appendix D-6 details procedures to follow when unauthorized or substandard work during construction is found);*

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<sup>6</sup> See Appendix H for a copy of Housing's Contractor Evaluation Form.

*Reviews progress payment requests submitted by the borrower and contractor, conducts an inspection and determines the percentage of work accomplished using the itemized bid cost breakdown agreed upon by the contractor and the Rehabilitation Inspector as well as any addenda and change orders. (See Appendix D-6 for procedures regarding progress payment disputes and progress payments for projects that require Planning and Building Department sign-off);*

*When contractor's work is complete, conducts a final inspection, verifies adequacy of work, obtains the owner's approval of work (including punchlist items) in writing,*

*Evaluates the contractor's performance (Appendix D-6 provides more details on Evaluation of Contractor Performance); . . .*

We tested the inspection documentation and contractor evaluation for the 23 rehabilitation projects where the loan or grant recipient was not satisfied or only partly satisfied and was willing to talk to us. Our test of these 23 rehabilitation projects revealed that Housing did not (1) document that required twice-a-week inspections were performed for any projects, (2) document that any inspections were performed for several projects, and (3) prepare contractor evaluations for most of the projects.

16 We recommend that Housing follow the Rehabilitation Program Handbook regarding inspection of rehabilitation projects and documenting the results of these inspections. (Priority 3)

**Housing Should Take Appropriate Action To Respond To Complaints Expressed In The Recipient Surveys**

Since 1995, Housing has required inspectors to hand deliver a Customer Satisfaction Survey to rehabilitation loan and grant recipients at the conclusion of a project. See Appendix F for a copy of this form.

Housing shared with us all of the survey responses loan and grant recipients have sent to the Department. The survey form inquires about the loan or grant recipient's level of satisfaction with Housing's Rehabilitation service and the rehabilitation contractor. The form also asks the loan or grant recipient to include any suggestions on how Housing can provide better service. Rehabilitation loan or grant recipients are not required to respond to the survey form or identify themselves in their survey response.

We reviewed the 163 completed rehabilitation project survey responses that Housing provided to us. Our review of the responses indicated that 161 (or 98.8 percent) of the completed Rehabilitation Project respondents stated that they were satisfied with the Rehabilitation program. However, of the 161 respondents who stated that they were satisfied with the program, 9 gave less than a satisfactory rating for the contractor or some other aspect of the program and 18 provided a negative comment or suggestion about the contractor or some other aspect of the program.

We also reviewed the 357 Paint Project survey responses that Housing provided to us. Our review of these responses indicated that 331 (or 92.7 percent) of the respondents stated that they were satisfied or very satisfied with the program. However, of the 331 respondents who stated that they were satisfied or very satisfied with the Paint program, 35 gave a less than satisfactory specific rating regarding the contractor and 54 provided a negative comment or suggestion about the contractor or some other aspect of the program.

Table VI classifies the types of negative comments and suggestions for improvements the survey respondents made. Appendix G lists some examples of these comments. It should be noted that the survey respondents' comments are similar to the comments of the project recipients we interviewed during our audit. Furthermore, like the project recipients we interviewed, many of the survey respondents who provided negative comments expressed overall satisfaction with the Rehabilitation Program in general.

**TABLE VI**  
**COMMENTS FROM SURVEY RESPONDENTS**

<b>Negative Comments And Suggestions For Improvement From Housing's Survey Respondents</b>	<b>Number of Survey Respondents Expressing These Views</b>
Sloppy, incomplete or incorrect work, poor quality of work, contractor was not able to provide necessary help, quality of work is less than satisfactory, inadequate prep work or clean-up, damaged homeowner's property, did not make needed corrections or repairs, and used wrong color.	50
Dissatisfied or very dissatisfied with the contractor.	28
Contractor was less than satisfactory in completing the work promptly and according to schedule provided, did not meet promised completion date, did not provide schedule, and did not come on promised dates.	28
Contractor was less than satisfactory in returning phone calls promptly.	22
Discourteous or unprofessional contractors.	22
Contractor(s) called from the City's list did not thoroughly inspect the property.	21
Contractor(s) called from the City's list did not provide bid promptly.	20
Project took too long, too much red tape.	17
Lacking or inadequate work write-up, contractor did not explain what work needs to be done.	16

**TABLE VI (Cont)**

<b>Negative Comments And Suggestions For Improvement From Housing's Survey Respondents</b>	<b>Number of Survey Respondents Expressing These Views</b>
Contractor did not adequately inform the homeowner of when work will begin and finish.	14
Unreliable or unresponsive contractors, did not satisfy homeowner's concerns.	9
Inadequate inspection or monitoring from the Rehabilitation staff.	8
Increase scope of work, need additional work, had to pay additional fee because related work was left out of bid.	7
Need more information about the Rehab program from the Housing staff, dissatisfied with clarity of response, keep in touch with the applicant or recipient, be more explicit in explaining program, and better initial follow-through.	6
Inadequate help in contractor selection, need more stringent screening of contractors.	2
Difficult to contact contractors.	1
The contractor wanted the papers signed before the work was done.	1
Did not receive written guarantee of work.	1
Contractor's price is too high.	1

Housing does not have a formal Customer Satisfaction Survey follow-up system. According to Housing, the Rehabilitation staff has followed up on complaints from project recipients; however, the follow-up actions have not been consistently documented. For the Paint projects, the Paint Grant Program Coordinator resolves the reported problems by phoning the contractors; however, on only two occasions did Housing document the Rehabilitation staff's follow-up actions. Specifically, Housing debarred one contractor from the Rehabilitation Program and sent the other contractor a written reminder to perform according to City standards.

In our opinion, the Rehabilitation Program Supervisor should review the survey responses. If the survey respondents report any project deficiencies, the Rehabilitation staff should take appropriate actions. Furthermore, copies of the survey responses should be filed in the project file as well as the contractor file.

17 We recommend that Housing add procedures to the Rehabilitation Program Handbook to require the Rehabilitation Program Supervisor to (1) review the Customer Satisfaction Survey responses, (2) take appropriate actions to resolve any reported project deficiency, and (3) file copies of the Customer Satisfaction Survey responses in the project file as well as the contractor file. (Priority 3)

**Housing Should Take Before And After Pictures Of Rehabilitation Projects**

Rehabilitation Inspectors document the items that need to be replaced or repaired on a recipient's property by describing the defects in a Deficiency List or simplified work write-up. The Rehabilitation Program Handbook does not require using photographs to document the work that needs to be done. However, during our review of Rehabilitation Project files, we discovered a few project files which contained photographs of the properties to be rehabilitated. In these instances, we were impressed by the portrayal of the need for rehabilitation in the property. According to Housing, the decision to use photographs for documentation is up to the individual inspectors. In our opinion, the photographs should be a part of the required documentation for the rehabilitation project. Pictures will help document the condition of the property when the Rehabilitation

Inspector approved the project and, upon completion of the rehabilitation, provide proof that the contractor has completed the work.

Before and after pictures would also be effective for emergency rehabilitation projects. Specifically, a photograph of the project showing the condition of the dwelling would be a quick and effective way to document the emergency nature of the defect and the eligibility of the project. Furthermore, with digital electronic photography, Housing can employ a fast and convenient method to obtain photographic documentation of rehabilitation projects. Housing already has a digital camera. Rehabilitation Inspectors could use this camera to reinforce their work write-ups. Finally, photographs taken at the end of a project will help document that the contractor satisfactorily fulfilled the work required in his or her agreement.

During our audit, we also identified three other cities that use before and after pictures for rehabilitation projects. Specifically, in our survey of other cities, the cities of Fresno, California; Phoenix, Arizona; and San Antonio, Texas responded that they use before and after photographs to document rehabilitation projects.

- **City of Fresno, CA.** Before and after photos are required. The Rehabilitation Program loan committee must see the photos in conjunction with a complete work write-up before a project is approved for funding.
- **City of Phoenix, AZ.** Before and after photos are required to be part of the project documentation at all times. According to City of Phoenix Housing staff, this practice is so successful that the Rehabilitation Program will be changing to a digital camera/electronic file system this year instead of their current Polaroid/35mm system.

- **City of San Antonio, TX.** In the City of San Antonio, the rental rehabilitation program has different photo requirements from the homeowner rehabilitation program. For the rental rehabilitation program, before and after photos are required in the documentation of the project for a variety of reasons: (1) to show "where the money is going" to supplement the inspector's description of work, (2) to remind the staff of the specifics and nature of each project, and (3) to monitor the progress of the work. Many pictures are taken at each project site; for example, one project site required 30 photos. The homeowner rehabilitation program only recommends the use of photographs. To ensure that the required work is being completed, the photographs are used in conjunction with a regular review of project invoices and the inspector's work description. Furthermore, the program coordinator conducts site visits to a random sample of 10 percent of the rehabilitation projects for a thorough, first-hand review of work progress.

In our opinion, Housing should use before and after photographs to (1) document the decision to fund the project and (2) show the successful outcome of the rehabilitation work. Had Housing taken before and after pictures of the rehabilitation projects we visited, Housing would have been alerted to the project deficiencies we observed.

18 We recommend that Housing add procedures to the Rehabilitation Program Handbook to require before and after photographs to document Housing Rehabilitation projects. (Priority 3)

**Beginning In 1993-94 Housing Experienced Severe Staffing Reductions Without Commensurate Reductions In Rehabilitation Project Workloads**

Starting in 1993-94, the Housing Rehabilitation Program experienced severe staffing cuts as a result of Housing budget reductions. The following table shows (1) the number of Building Rehabilitation Inspectors, (2) the number of dwelling units rehabilitated or replaced, and (3) the ratio of dwelling units rehabilitated or replaced to Building Rehabilitation Inspectors from 1991-92 through 1995-96.

**TABLE VII**

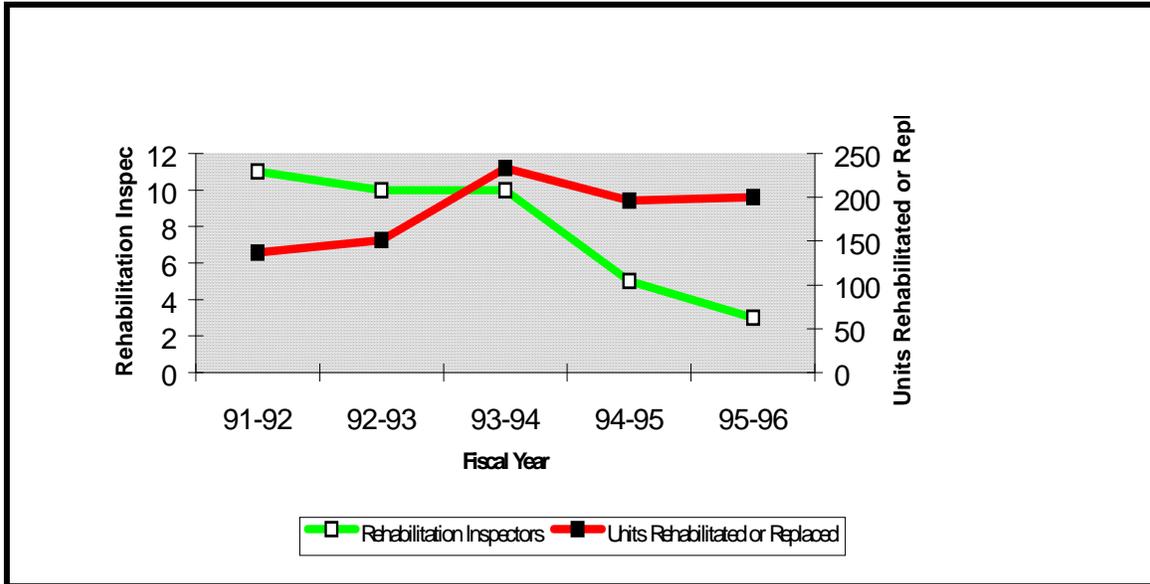
**RATIO OF DWELLING UNITS REHABILITATED OR REPLACED TO BUILDING REHABILITATION INSPECTORS**

	<b>1991-92</b>	<b>1992-93</b>	<b>1993-94</b>	<b>1994-95</b>	<b>1995-96</b>
Number of Building Rehabilitation Inspectors	11	10	10	5	3
Number of dwelling units rehabilitated or replaced	137	151	233	196	200
Ratio of dwelling units rehabilitated or replaced to Building Rehabilitation Inspectors	12:1	15:1	23:1	39:1	67:1

The following chart compares the number of Building Rehabilitation Inspectors to the number of units rehabilitated from 1991-92 through 1995-96.

#### CHART IV

#### NUMBER OF REHABILITATION INSPECTORS COMPARED TO NUMBER OF UNITS REHABILITATED OR REPLACED



It is clear from the trend shown in the above chart that the Housing Rehabilitation Program suffered drastic cut-backs in staff between 1991-92 and 1995-96 without commensurate reductions in the number of rehabilitation projects. According to Housing, "*The Department has seen substantial staff cuts, including many position reductions in the Rehabilitation Program.*"

Further, as a result of budget reductions, streamlining of Rehabilitation Program procedures and increased use of rehabilitation grants, administration costs per Rehabilitation project were lower in 1995-96 than in 1994-95. Notably, as administration costs decreased, the number of funded Rehabilitation projects increased. During 1995-96, there were 22 funded Rehabilitation projects per full-time equivalent (FTE) staff

position with an administration cost of \$3,022 per Rehabilitation project. In comparison, during 1994-95, there were 12 funded Rehabilitation projects per FTE staff position with an administration cost of \$5,204 per Rehabilitation project. Table VIII below summarizes the Rehabilitation Program project funding and administration costs during 1994-95 and 1995-96.

**TABLE VIII**  
**REHABILITATION PROGRAM PROJECT FUNDING**  
**AND ADMINISTRATION COSTS**  
**(EXCLUDING PAINT GRANTS)**

Description	1994-95	1995-96
Project Funding (Amount of Loans and Grants)	\$2,887,624	\$2,364,306
Number of Funded Rehabilitation Projects	169	223
Average Project Funding	\$17,087	\$10,602

Number of Funded Rehabilitation Projects	169	223
Number of FTE Staff Positions	14.15	10.15
Rehabilitation Projects per FTE staff position	12	22

Administration Cost (Cost of Staff Positions)	\$879,458	\$673,976
Number of Funded Rehabilitation Projects	169	223
Administration Cost per Rehabilitation Project	\$5,204	\$3,022

In the Paint Grant Program, while there was a small increase in administrative costs from 1994-95 to 1995-96, there was a significant increase in paint projects. As a result, the administration cost per paint job decreased from \$211 in 1994-95 to only \$116 in 1995-96 as shown in Table IX.

**TABLE IX**

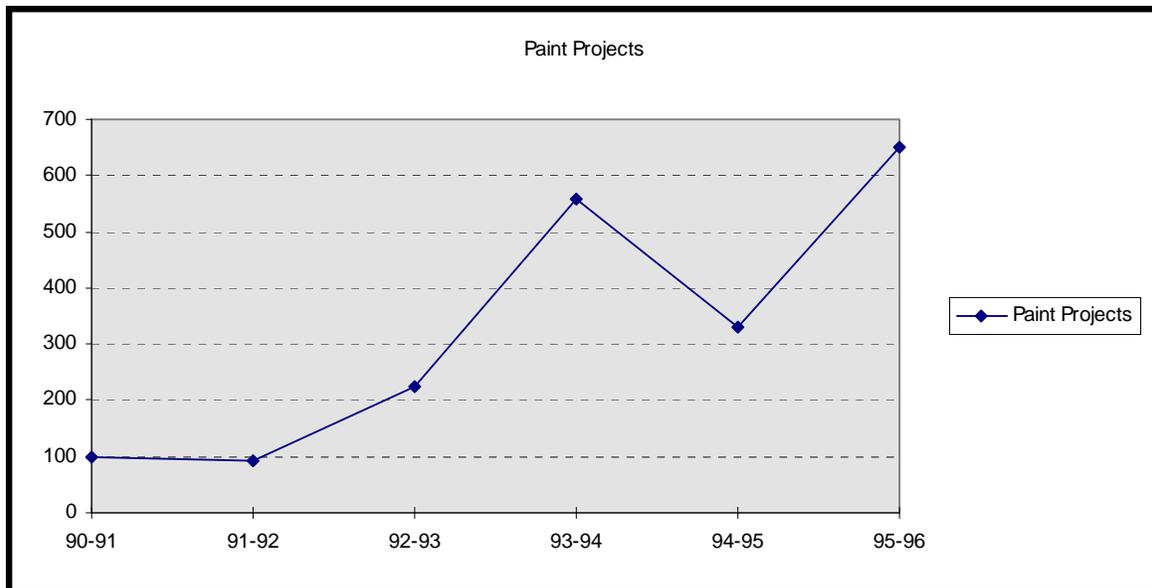
**PAIN T GRANT PROGRAM ADMINISTRATION COSTS**

<b>Description</b>	<b>1994-95</b>	<b>1995-96</b>
Administration Cost (Cost of Staff Position)	\$69,359	\$75,580
Number of Paint Projects	329	649
Administration Cost per Paint Project	\$211	\$116

Additionally, the Paint Grant Program experienced a significant increase in production without a commensurate increase in staff. Specifically, as shown in Chart V, while the number of approved paint grant projects were less than 100 in 1990-91, there were more than 600 paint grant projects in 1995-96. During the same period, only one employee handled the application processing, income and property ownership verification, contractor selection, and project inspection for the program.

**CHART V**

**NUMBER OF APPROVED PAINT PROJECTS 1990-91 TO 1995-96**



Finally, according to Housing, the reduction in Housing Rehabilitation staff was one of the reasons<sup>7</sup> that Housing increased the dollar limit on rehabilitation grants from \$3,000 to \$5,000 in 1994-95 and from \$5,000 to \$7,500 in 1995-96. This increase in rehabilitation grant dollar limits made grants more desirable to rehabilitation applicants, thus necessitating Housing to process more applications for grants relative to loans.

In our opinion, Housing needs additional staff to meet its Rehabilitation Program production goals, update its Rehabilitation Program Handbook, and comply with the Handbook's internal control standards.

19 We recommend that Housing submit a budget proposal to the City Council to provide the staff and resources necessary to implement recommendations 1 through 18. (Priority 3)

By so doing, Housing will improve compliance with its own policies and procedures, reduce the risk that rehabilitation work will be of poor quality or too costly, enhance the Housing Rehabilitation Program's effectiveness, and improve the condition of the City of San Jose's very low- to moderate-income housing stock.

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<sup>7</sup> Other reasons included reduced loan monitoring workload in the long term, reducing the number of loans for mobilehome repairs where security for loans is often problematic, and being able to respond quickly to cases where roofs need replacement.

## CONCLUSION

Our follow-up audit of Housing's Rehabilitation Program disclosed that Housing did not have any written procedures or other written instructions for 40 of the 112 rehabilitation projects in our sample. Specifically, Housing does not have written procedures or instructions for grant rehabilitation projects.

Further, our audit revealed that from 1992-93 through 1995-96 Housing:

- Increased the maximum amount for a rehabilitation grant project from \$3,000 to \$7,500;
- Increased the number of rehabilitation grants per year from 2 to 180; and
- Increased the amount awarded for rehabilitation grant projects from \$57,362 to \$1,191,133.

As a result, Housing does not have any written procedures or written instructions for a significant segment of its Rehabilitation Program. Accordingly, Housing should incorporate into its Rehabilitation Program Handbook written procedures for reviewing and approving grant applications, for obtaining property owner approvals of proposed and completed rehabilitation work, and for competitively selecting contractors for grant rehabilitation projects. In addition, Housing should use recoverable home repair grants as a means to accommodate both the needs of lower-income property owners and the Rehabilitation Program's need to roll over Housing funds for future projects.

Further, our review of those projects for which written procedures do exist revealed that several loan rehabilitation projects and paint grant projects were not in compliance with certain requirements of the Rehabilitation Program Handbook.

In addition, we found that of the 67 projects that required final permits from the City of San Jose or the State of California, such permits were not on file for 15 projects. Further, we found that Housing did not complete annual recertifications of affordability restrictions for the two projects in our sample for which such certifications were required. We also found that Housing did not have complete documentation of required licenses or proofs of insurance for any of the 20 contractors we reviewed.

Further, we observed numerous instances of rehabilitation project contractors rendering poor quality and costly work resulting in dissatisfied Rehabilitation Program loan and grant recipients.

According to Housing management, Housing should not be held accountable for the poor customer service for the rehabilitation projects we identified. Further, Housing management contends that it cannot correct problems about which it does not know. However, in our opinion, had Rehabilitation Inspectors and other Housing staff performed required inspections and adequately documented the results of their inspections, Housing should have known about the rehabilitation project problems we identified.

Finally, Housing experienced significant budget and staff reductions beginning in 1993-94. Housing endured these budget and staff reductions without commensurate reductions in rehabilitation project workloads.

We recommend that Housing follow the written procedures in the Rehabilitation Program Handbook, add several new procedures to the Rehabilitation Handbooks and submit a budget proposal to the City Council to provide the staff and resources necessary to implement the recommendations in this Finding.

By so doing, Housing will improve compliance with its own policies and procedures, reduce the risk that rehabilitation work will be of poor quality or too costly, enhance the Housing Rehabilitation program's effectiveness, and improve the condition of the City of San Jose's very low- to moderate-income housing stock.

### **RECOMMENDATIONS**

We recommend that the Housing Department:

#### **Recommendation #1:**

Document its policies and procedures for rehabilitation grants.  
(Priority 2)

#### **Recommendation #2:**

Add procedures to the Rehabilitation Program Handbook to obtain property owner approval of proposed and completed grant rehabilitation projects. (Priority 3)

**Recommendation #3:**

Add procedures to the Rehabilitation Program Handbook regarding recipients' refusal to sign Notices of Completion (NOCs) and final payment certificates and staff documenting reasons for making final payments to the contractors when recipients refuse to sign NOCs and final payment certificates. (Priority 3)

**Recommendation #4:**

Add procedures to the Rehabilitation Program Handbook to require an open purchase order process for selecting contractors for grant rehabilitation projects. (Priority 3)

**Recommendation #5:**

Add procedures to the Rehabilitation Program Handbook to require the use of recoverable home repair grants. (Priority 2)

**Recommendation #6:**

Use the revised standard checklists to ensure that rehabilitation project files contain all required documents. (Priority 3)

**Recommendation #7:**

Use the revised project checklist to provide a cross-reference among related projects when using common documents. (Priority 3)

**Recommendation #8:**

Follow the Rehabilitation Program Handbook regarding Rehabilitation Program applicant income eligibility. (Priority 3)

**Recommendation #9:**

Follow the Rehabilitation Program Handbook regarding recipient-signed Notice of Completion. (Priority 3)

**Recommendation #10:**

Follow the Rehabilitation Program Handbook regarding work write-ups and cost estimates even for simple and specific projects. (Priority 3)

**Recommendation #11:**

Follow the Rehabilitation Program Handbook regarding contractor selection for loan rehabilitation projects, as amended in the City Council-approved procedures. (Priority 3)

**Recommendation #12:**

Follow the written procedures in the Rehabilitation Program Handbook regarding City of San Jose Building Division and State Department of HCD permits. (Priority 3)

**Recommendation #13:**

Add procedures to the Loan Management Handbook regarding annual recertifications of affordability restrictions. (Priority 3)

**Recommendation #14:**

Amend the Rehabilitation Program Handbook regarding licenses and proof of insurance for rehabilitation contractors. (Priority 3)

**Recommendation #15:**

Update the Rehabilitation Program Handbook to incorporate City Council approved procedural changes. (Priority 3)

**Recommendation #16:**

Follow the Rehabilitation Program Handbook regarding inspection of rehabilitation projects and documenting the results of these inspections. (Priority 3)

**Recommendation #17:**

Add procedures to the Rehabilitation Program Handbook to require the Rehabilitation Program Supervisor to (1) review the Customer Satisfaction Survey responses, (2) take appropriate actions to resolve any reported project deficiency, and (3) file copies of the Customer Satisfaction Survey responses in the project file as well as the contractor file. (Priority 3)

**Recommendation #18:**

Add procedures to the Rehabilitation Program Handbook to require before and after photographs to document Housing Rehabilitation projects. (Priority 3)

**Recommendation #19:**

Submit a budget proposal to the City Council to provide the staff and resources necessary to implement recommendations 1 through 18.

(Priority 3)

## FINDING II

### OPPORTUNITIES EXIST FOR HOUSING TO IMPROVE THE RELIABILITY AND USEFULNESS OF ITS REHABILITATION PROGRAM MANAGEMENT INFORMATION

The Housing Department (Housing) formally reports on the timeliness of rehabilitation projects in the City of San Jose's (City) annual operating budget. Our review of Housing's Rehabilitation Program management information revealed that Housing:

- Does not measure the timeliness of each type of rehabilitation project;
- Does not measure the timeliness of the entire rehabilitation process;
- Does not periodically review backlogged rehabilitation projects; and
- Has not documented its Rehabilitation Program database standards.

In our opinion, Housing should: (1) establish timeliness standards for all types of rehabilitation projects starting with the initial interview date, (2) periodically review rehabilitation projects delayed beyond established time objectives, and (3) document its standards and controls over the Rehabilitation Program database. By so doing, Housing will improve the reliability and usefulness of its Rehabilitation Program management information.

#### Housing's Formal Reporting On The Timeliness Of Rehabilitation Projects

Housing's formal reporting on the timeliness of rehabilitation projects is included in the annual operating budget. For 1995-96, the performance measure was "*Percentage of rehabilitation loan applications processed within 120 days*"

and the target was for 75 percent of rehabilitation loan<sup>8</sup> applications to be processed within 120 days. During 1995-96, the Rehabilitation Program achieved 85 percent of project applications processed within 120 days.

Our review of the Rehabilitation Program's performance indicated that Housing can improve its performance reporting by establishing timeliness performance measures for each type of rehabilitation project starting from the initial interview date.

*Housing Does Not Measure The Timeliness For Each Type Of Rehabilitation Project*

Housing's application approval timeliness performance measure does not distinguish among the various types of rehabilitation projects. Realistic time requirements vary depending on the type of project. Paint projects and emergency grants are relatively easy to process and require less time. On the other hand, HPP and MRLP projects, which typically involve loans, take much longer. During 1995-96, Housing processed 68 percent of rehabilitation loans within 120 days, while processing 92 percent and 90 percent of grant and paint projects, respectively, within 120 days. Table X shows our analysis of the processing times of the various types of rehabilitation projects. In our opinion, Housing should establish timeliness performance measures for processing each type of rehabilitation project.

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<sup>8</sup> The term "loans" actually means "Projects" since it refers to both Grants and Loans.

**TABLE X**

**PERCENTAGE OF PROJECTS PROCESSED WITHIN 120 DAYS**

	<b>1994-95</b>	<b>1995-96</b>
Grants	93%	92%
Paint Projects	84%	90%
Loans	49%	68%

*Housing Does Not Measure The Timeliness Of The Entire Rehabilitation Process*

Housing starts the time clock for project approval processing when the application is complete. According to Housing, it does not make sense to start tracking the processing performance before the date a rehabilitation application is completed. According to Housing,

*The amount of time that elapses between receipt of an incomplete and a complete application is not within the Housing Department's control. Processing of loan/grant applications is the determination of eligibility (applicant's/occupants' income, property, etc.) and, in the case of a loan, underwriting the loan (determination of lendable equity, credit history, current/projected housing ratio, etc.) We need a complete application to make an accurate determination of eligibility and/or underwrite a loan. With an incomplete application, it might be possible to perform some parts of either or both activities, but it could be wasted effort as the work may have to be repeated once the application is complete.*

However, the Rehabilitation Handbook designates the date of initial interview, which may occur before an application is completed, as DAY 1 of the 120 day process. According to the Handbook:

*To expedite processing of an HPP loan, the Loan Officer .... Conducts an initial interview to explain the HPP Program and the program's requirements to the applicant. This starts DAY 1 of the 120-day process. During this interview, the Loan Officer also receives and reviews the application package for completeness. If the application is incomplete, the Loan Officer immediately requests, in writing, the required information from the applicant. If necessary, Loan Staff provides the applicant with technical assistance on*

*how to provide the information and documents necessary to complete the application. (Emphasis added)*

Housing does not have total control over the time between initial interview and application completion. However, Housing can help expedite the process by promptly reviewing applications for completeness and informing applicants of any omissions. In fact, the Rehabilitation Program Handbook requires Housing to do just that. If the applicant does not provide the required information within a specified period, the Handbook allows the Rehabilitation staff to cancel the application. For HPP and MRLP programs, the Rehabilitation Program Handbook states,

*If the applicant fails to respond to requests for additional information within thirty days, . . . the Loan Officer cancels the project.*

Therefore, Housing should follow the Rehabilitation Program Handbook and track the application processing period from the initial interview date to the date the application is approved or canceled.

Further, our survey of other jurisdictions indicated that at least one other city, the City of Oakland, California, has established processing time goals for its rehabilitation projects beyond the loan approval process. Specifically, Oakland's Housing Rehabilitation Program tracks its rehabilitation projects not only up to loan approval but also through the construction period and the project's final acceptance and payment. Oakland's processing time goals are as follows:

From Loan Approved to Escrow Closed	1 week
From Escrow Closed to Construction Started	2 weeks
From Construction Started to Construction Completed	12 weeks
From Construction Completed to Final Acceptance and Payment	5 weeks

In our opinion, Housing should establish processing time performance targets for these periods also. Accordingly, Housing should establish and track timeliness performance measures for processing each type of rehabilitation project through the various milestones from the applicant's initial interview to the project's completion and payment.

20 We recommend that the Housing Department establish and track timeliness performance measures for processing each type of rehabilitation project through the various milestones from the applicant's initial interview to the project's completion and payment. (Priority 3)

*Housing Does Not Periodically Review Backlogged Rehabilitation Projects*

In conjunction with performance measures, Housing management should periodically review Rehabilitation Program performance against those processing time objectives. If the objectives are not being met, Housing management should ascertain the reasons for delays in rehabilitation projects and take appropriate actions.

During our audit, the Housing staff assisted us in analyzing the rehabilitation projects backlog. This analysis is shown in Table XI below.

**TABLE XI**

**ANALYSIS OF REHABILITATION PROJECTS BACKLOG**

<b>Construction Projects for which the application is not yet complete</b>				
<b>Reason for backlog</b>	<b>61-180 days</b>	<b>181-365 days</b>	<b>366+ days</b>	<b>Total</b>
Owner delays. For example, paperwork not submitted; uncertainty about proceeding with rehabilitation project.	5	2	4	11
No moderate money was available at the time of application-- Application was put on hold.		1	2	3
Difficult project. For example, needs structural analysis; involves relocation or toxics removal; replacement dwelling; illegal dwellings.	1	1		2
Database error. Cancellation was not entered in the database.		2	1	3
Other reason. Project was located in a County pocket.	1			1
<b>Total</b>	<b>7</b>	<b>6</b>	<b>7</b>	<b>20</b>

<b>Construction Projects with complete applications but which are awaiting approval</b>				
<b>Reason for backlog</b>	<b>61-180 days</b>	<b>181-365 days</b>	<b>366+ days</b>	<b>Total</b>
Owner delays. For example, owner is slow to pick contractor; the owner requested changes in the scope of work.	8	2		10
Difficult Project. For example, needs structural analysis; involves relocation or toxics removal; replacement dwelling; illegal dwellings.	1	2		3
Outside Party Delay. For example, insurance company claim needs to be settled first; legal issues.		1	1	2
Database error. Cancellation was not entered in the database.	1			1
<b>Total</b>	<b>10</b>	<b>5</b>	<b>1</b>	<b>16</b>

**TABLE XI (CONT)**

<b>Construction Projects that have been approved but not yet started</b>				
<b>Reason for backlog</b>	<b>61-180 days</b>	<b>181-365 days</b>	<b>366+ days</b>	<b>Total</b>
Owner delay (e.g., owner requested project be put on hold pending other project; self-help; owner changed mind about scope of work)	1	3	3	7
Legal Problems (e.g., title defects, trust removal, lawsuits)	1	3		4
Difficult Project (e.g., involves relocation, toxics abatement, replacement dwellings)	1		1	2
Loan portion awaiting grant work on the project	1			1
<b>Total</b>	<b>4</b>	<b>6</b>	<b>4</b>	<b>14</b>

An analysis similar to the one above would help Housing management to (1) ascertain why Rehabilitation projects are delayed beyond the processing time objectives for the various segments of the rehabilitation process and (2) take appropriate action. For example, our analysis indicated that "Owner delay" caused half of all processing backlogs. "Owner delay" was the reason for 11 of 20 construction projects for which the application is not yet complete; 10 of 16 construction projects with complete applications but which are awaiting approval; and 7 of 14 approved but not started construction projects. With this type of information, Housing will have the ability to identify problem areas in the rehabilitation process and take appropriate corrective action. For example, based upon the above analysis, it appears that Housing should ascertain why owners are causing half of the processing delays. Housing could then devise a plan of action to address any areas of difficulty for owners.

21 We recommend that Housing management periodically review Rehabilitation Program performance against established processing time objectives, ascertain reasons for any delays and take appropriate corrective action. (Priority 3)

### **Housing Should Document Its Rehabilitation Program Database Standards**

Housing maintains a database of records for its rehabilitation construction and paint projects. The information in the database is maintained for legal and managerial purposes and is used to produce reports for both internal and external reporting. In addition to completing the required documentation and filing it in the rehabilitation project files, the Housing Rehabilitation staff is responsible for inputting project information in the Rehabilitation Program database.

Our review of the Rehabilitation Program database indicated numerous omissions in the project information recorded prior to July 1992. According to Housing, (1) the Rehabilitation Program database was still under development at that time, (2) project information was entered during a short period of time, and (3) some data fields were left blank intentionally. According to Housing, identifying pre-July 1992 omissions, determining needed corrections, and inputting correct information at this time would not be cost-effective or useful.

Our review of the Rehabilitation Program database and rehabilitation project files revealed far fewer Rehabilitation Program database input errors after July 1, 1992. Table XII shows the few Rehabilitation Program database input errors we noted for July 1, 1992, or later projects. Housing has agreed to make the necessary corrections to the Rehabilitation Program database for these errors.

**TABLE XII**  
**REVIEW OF THE REHABILITATION PROGRAM DATABASE**  
**EXCEPTIONS NOTED**

<b>Audit Finding</b>	<b>Housing Response</b>	<b>Auditor Conclusion</b>
<p>Of the projects in our audit sample, one (Project No. H95029) was recorded in the rehabilitation database as "Completed". During our client survey of July 18, 1996, the owner confirmed that her project was canceled because there was a lien on her house. However, the database contradicts this information and shows a completion date of September 18, 1995, instead of a cancellation date, and a loan amount of \$9,688. The database also shows a Loan Approved date of August 16, 1995, and a Funded date of September 11, 1995.</p>	<p>This is a data entry error and will be corrected.</p>	<p>Housing has made the necessary correction.</p>
<p>In 2 of the 112 completed projects in our audit sample, the project completion date per project file does not agree with the completion date recorded in the database.</p>	<p>Of the 2 projects, one was an Emergency project for which the work had to be done before the application was completed and the other was a typographical error in inputting the data.</p>	<p>Housing has made the necessary corrections.</p>
<p>The contractor name was missing in the records of 12 projects completed after June 30, 1992.</p>	<p>The contractor names were inadvertently left out.</p>	<p>Housing has recorded the contractor names or indicated "self-help" where appropriate.</p>

According to the Rehabilitation Program database manager, Housing has already included input standards and controls in the Rehabilitation Program database to ensure complete, accurate, and timely inputting of project information in the Rehabilitation Program database. However, Housing has not adequately documented these standards and controls. This exposes Housing to the risk that

the Rehabilitation Program database standards and controls will not be followed consistently over time. Accordingly, Housing should document its Rehabilitation Program database standards and controls and assign staff to review Rehabilitation Program database activities for compliance with the standards and controls.

22 We recommend that the Housing Department document its Rehabilitation Program database input standards and controls and assign staff to review database activities for compliance with the standards. (Priority 3)

### CONCLUSION

Our review of Housing's Rehabilitation Program management information revealed that Housing: does not measure the timeliness of each type of rehabilitation project; does not measure the timeliness of the entire rehabilitation process; does not periodically review backlogged rehabilitation projects; and has not documented its Rehabilitation Program database standards. By establishing timeliness standards for all types of rehabilitation projects starting with the initial interview date, periodically reviewing rehabilitation projects delayed beyond established time objectives, and documenting its standards and controls over the Rehabilitation Program database, Housing will improve the reliability and usefulness of its Rehabilitation Program management information.

## **RECOMMENDATIONS**

We recommend that the Housing Department:

### **Recommendation #20:**

Establish and track timeliness performance measures for processing each type of rehabilitation project through the various milestones from the applicant's initial interview to the project's completion and payment. (Priority 3)

### **Recommendation #21:**

Management periodically review Rehabilitation Program performance against established processing time objectives, ascertain reasons for any delays and take appropriate corrective action. (Priority 3)

### **Recommendation #22:**

Document its Rehabilitation Program database input standards and controls and assign staff to review database activities for compliance with the standards. (Priority 3)

## FINDING III

### HOUSING NEEDS TO UPDATE AND IMPROVE ITS REHABILITATION PROGRAM APPLICATION PACKETS

The Housing Department (Housing) provides prospective rehabilitation grant or loan recipients with an application packet. Our review of the application packet revealed that it is out-of-date and printed only in English. In our opinion, Housing needs to update the information in the application packet and print the information in other languages common to San Jose.

#### **Housing Should Update The Rehabilitation Program Application Packet**

Housing provides an application packet to Rehabilitation Program applicants that includes a program description, application forms, and various notices. The program description flyer refers to Housing's emergency rehabilitation program as the Housing Emergency Loan Program (HELP) and specifies the maximum loan amount, loan terms, and loan security. The flyer gives the impression that the program is primarily a loan program and refers to grants only as a "possibility". The flyer states, "*Repairs costing less than \$7,500 may qualify for a grant, at the discretion of the Department of Housing.*" (Emphasis added).

However, our review of the Rehabilitation Program database indicated that grants actually comprised the majority of the emergency projects. Specifically, of the 160 emergency projects identified in the Rehabilitation Program database, 128 were grants only, while an additional 4 projects were a combination of grants and loans. In contrast, there were only 28 emergency projects that were strictly loans. These loans comprised less than 18 percent of the emergency projects identified in the Rehabilitation Program database.

In our opinion, Housing should specify in the program description the eligibility criteria for emergency rehabilitation grants in order to alert those prospective recipients who qualify for such grants.

Multilingual Information

Based on the number of ethnic groups comprising the City's population, many potential clients of the Housing Rehabilitation Program may find it helpful to receive information regarding the rehabilitation projects in their native language. However, the Rehabilitation Program description and application packet do not provide multilingual information and application procedures for the rehabilitation program.

In our opinion, Housing should update the rehabilitation program application packet to provide multilingual information and application procedures for the rehabilitation program.

Complaint Referral Address

Finally, the application packet contains a notice that provides information to the applicant who may wish to file a complaint or inquire about his or her rights. The notice states, "*If you have questions about your rights, or if you wish to file a complaint, contact ... the Office of Fair Lending . . .*" As part of our review, we attempted to contact the Office of Fair Lending. We found that the office no longer exists.

During our discussions, Housing confirmed that the Office of Fair Lending no longer exists. Consequently, Housing has updated its application packet to reflect the office which now deals with housing-related complaints and inquiries,

specifically, the U.S. Department of Housing and Urban Development, Fair Housing Enforcement Division.

23 We recommend that the Housing Department update the rehabilitation program application packet to provide eligibility criteria for emergency grants and multilingual information and application procedures for the rehabilitation program. (Priority 3)

### **CONCLUSION**

Our review of the application packet revealed that it is out-of-date and printed only in English. In our opinion, Housing needs to update the information in the application packet and print the information in other languages common to San Jose.

### **RECOMMENDATION**

We recommend that the Housing Department:

#### **Recommendation #23:**

Update the rehabilitation program application packet to provide eligibility criteria for emergency grants and multilingual information and application procedures for the rehabilitation program. (Priority 3)

## **OTHER PERTINENT INFORMATION**

### **COMPARISON OF THE REHABILITATION FUNDS PER UNIT FOR SINGLE-UNIT VERSUS MULTI-UNIT REHABILITATION AND HOUSING REHABILITATION PROJECTS WITH AFFORDABILITY RESTRICTIONS VERSUS THOSE WITHOUT RESTRICTIONS**

At a Councilmember's request, we compared the rehabilitation funds per unit for (1) single-unit rehabilitation versus multi-unit rehabilitation and (2) Housing Rehabilitation Projects with affordability restrictions versus those without. We based our review on the information in the Rehabilitation Program database.

#### **Comparison Of Single-Unit And Multi-Unit Rehabilitation Projects**

As shown in Table XIII below, on the average, \$19,791 in rehabilitation funds were expended per single-unit rehabilitation project while \$11,648 in rehabilitation funds were expended per unit for multi-unit rehabilitation projects.

**TABLE XIII**

#### **COMPARISON OF SINGLE-UNIT AND MULTI-UNIT REHABILITATION PROJECTS FROM JULY 1, 1990 THROUGH JUNE 30, 1996**

	<b>Single-Unit Projects</b>	<b>Multi-Unit Projects</b>
Number of Projects	689	86
Number of Units	689	330
Total Funds (Loans and Grants)	\$13,635,854	\$3,843,797
Average Funds per unit	\$19,791	\$11,648

**Comparison Of Rehabilitation Projects  
With Affordability Restrictions Versus Rehabilitation  
Projects Without Affordability Restrictions**

As shown in Table XIV below, on the average, \$62,431 in rehabilitation funds were expended per unit for rehabilitation projects with affordability restrictions, while \$13,505 in rehabilitation funds were expended per unit for rehabilitation projects without affordability restrictions.

**TABLE XIV**

**COMPARISON OF REHABILITATION PROJECTS  
WITH AFFORDABILITY RESTRICTIONS  
VERSUS REHABILITATION PROJECTS  
WITHOUT AFFORDABILITY RESTRICTIONS  
FROM JULY 1, 1990 THROUGH JUNE 30, 1996**

	<b>Projects With Affordability Restrictions</b>	<b>Projects Without Affordability Restrictions</b>
Number of Projects	53	722
Number of Units	76	943
Total Funds (Loans and Grants)	\$4,744,762	\$12,734,889
Average Funds per unit	\$62,431	\$13,505

RECEIVED

APR 24 1997

CITY OF SAN JOSE -- MEMORANDUM

CITY AUDITOR

TO: Gerald A. Silva  
City Auditor

FROM: Alex Sanchez  
Director of Housing

SUBJECT: RESPONSE TO AUDIT OF THE  
HOUSING REHABILITATION  
PROGRAM

DATE: 23 April 1997

APPROVED: 

DATE: 4/23/97

Thank you for providing us with the opportunity to review your draft report, entitled "An Audit of the Housing Rehabilitation Program," which was forwarded to the Department on March 24, 1997. We are pleased to provide you with the Department's formal response to the 23 recommendations included in this Report.

Since the Auditor's Office began its review of the Housing Rehabilitation Program in 1992, the Department has made significant changes to Program operations to provide exceptional customer service, improve documentation, increase production, and implement needed revisions due to changing conditions. In an environment of continuous improvement, we fully expect that the Program will continue to evolve over time to respond to the changing environment and to ensure that the Program meets its goals and objectives while providing a quality product.

We are pleased that the draft Audit Report did not find any major concerns with the Department's administration of the Housing Rehabilitation Program. The Department has an experienced and dedicated staff that deserves recognition for the quality job that it does year in and year out. This staff has performed exceptionally well despite the disruption that occurred between 1993 and 1996 when staffing was reduced by more than 50% due to budget shortfalls. Even with reduced staffing, the Department not only met, but exceeded Program performance goals. Our Program accomplishments are detailed in a memo to the City Auditor, dated April 11, 1997, and included as a part of this Audit Report.

Listed below are the Department's responses to the Findings and Recommendations included in your report. These responses are also summarized in Attachment 1. While we are supportive of several of the process improvements that you have recommended, we believe that others are unnecessary or would not add value to the administration of the Program. We have detailed the reasons for our opposition to these suggestions in our response.

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**FINDING I: The Housing Department needs to implement procedures to improve internal control, document rehabilitation projects, and enhance program effectiveness.**

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**RESPONSE TO AUDIT OF THE HOUSING REHABILITATION PROGRAM**

April 23, 1997.

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**Recommendation #1: Document its policies and procedures for rehabilitation grants (Priority 2).**

**Response:** The Department concurs with the recommendation, although we believe that it should not be given a Priority 2 as the fact that our Rehabilitation Handbook has not been updated does not result in any "potential for incurring significant or equivalent non-fiscal losses."

It is important to point out that the Department has considerable documentation of its policies and procedures, including those relating to the administration of rehabilitation grants. In fact, the Department is one of only a handful of agencies nationwide that has developed a comprehensive handbook of this kind to document its program. In 1992, the Department completed its first Rehabilitation Handbook, which details the policies and procedures we use for each of the rehabilitation programs we administer. The Handbook was updated formally in 1994. Since that time, many revisions to the policies and procedures have been made. These revisions have, for the most part, been thoroughly documented in memos signed by the Director of Housing and incorporated into the Handbook by reference.

It is significant that the Audit Report, while finding that not all policies and procedures relating to the administration of the grant program were thoroughly documented, did not find that there were improperly awarded grants.

**Recommendation #2: Add procedures to the Rehabilitation Program Handbook to obtain property owner approval of proposed and completed grant rehabilitation projects. (Priority 3)**

**Response:** The Department concurs with the recommendation.

We will revise the Rehabilitation Handbook by July 31, 1997 to include procedures for property owners to sign at the beginning and end of a rehabilitation grant project indicating their acceptance of the scope of work and verification that the work was completed.

This process has always been in place for rehabilitation loans, where the homeowner, rather than the Department, is the party who hires the contractor. In the case of rehabilitation grants, the Department, not the homeowner, has the relationship with the contractor. As a result, we have not required that the homeowner sign forms relating to the grant, either at the beginning of the work or at the end (although most have signed these forms). We agree, however, that it would be a good process improvement to obtain the homeowner's signature prior to the initiation of the rehabilitation work, and to attempt to get the homeowner's signature once the work is completed. This process is similar to that used now by the Paint Grant Program.

The Audit Report concludes that the Department should secure the signature of grantees on both a Notice of Completion (NOC) and payment certificate as a means to indicate customer satisfaction with the rehabilitation work. It is important to clarify that a Notice of Completion (NOC) is a formal document

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**RESPONSE TO AUDIT OF THE HOUSING REHABILITATION PROGRAM**

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that protects the property owner from subcontractor claims. The NOC is not intended as a customer satisfaction verification. In fact, in nearly all of the rehabilitation cases cited in this report where the owner registered some level of dissatisfaction (beginning on page 50) the owner signed the NOC and/or Final Payment Certificate. Therefore, although we will implement a new process whereby the owner provides his/her signature at the beginning and end of the rehabilitation project, this cannot be viewed as an owner-satisfaction tool.

**Recommendation #3: Add procedures to the Rehabilitation Program Handbook regarding recipients' refusal to sign NOCs and final payment certificates and staff documenting reasons for making final payments to the contractors when recipients refuse to sign NOCs and final payment certificates (Priority 3)**

**Response:** The Department concurs with the recommendation.

There have been a few occasions when a homeowner refuses to sign forms at the end of a rehabilitation project due to a dispute with the contractor. With a loan project, when there is a dispute between the owner and the contractor over the work performed, the homeowner's contract allows for arbitration. While the Department is not a party to the arbitration, we will provide information to the homeowner about their rights in disputes with their contractors. (Note: While the Department will provide information, we do not provide legal advice.) The Department abides by the arbiter's decision, which may involve payment to the contractor without the homeowner's signature. When there is a dispute between the homeowner and the contractor over work funded by a grant, the Department is required to pay the contractor for work satisfactorily completed according to the contract even if the homeowner refuses to sign off.

We agree that it is a good process improvement to make a note in the file, or in the Department's computer database notes, to document the reasons why a homeowner has refused to sign the NOC (for loans) or another form (for grants).

**Recommendation #4: Add procedures to the Rehabilitation Program Handbook to require an open purchase order process for selecting contractors for grant rehabilitation projects. (Priority 3)**

**Response:** The Department does not concur with the recommendation.

The Department has significant concerns about using the open purchase order process for contractor selection for grant rehabilitation projects, and believes that this recommendation should not be implemented. These concerns are:

- (1) Timing-- The process developed for rehabilitation grants is intentionally simple to ensure that people are served as expeditiously as possible and at the lowest cost. Particularly in cases where

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there is a health and safety emergency, it is important to find a contractor who is available immediately to correct the problem. If we were to implement a system where we were required to use a short list of contractors approved through the purchasing process, we could not guarantee that they would be available on a moment's notice to assist an applicant.

- (2) Project Scope-- Contractors cannot bid on a project without knowing its scope. Sacramento, a city cited in the Audit Report, typically funds projects that are repetitive in nature. This is not true in San Jose; the rehabilitation projects we fund are unique and complex. Additionally, even simple jobs can cost a different amount dependent on the conditions present. As an example, the cost of a roof job varies based on a number of factors, including the size of the dwelling, the roof peak, the need to remove old roof layers, and the need to repair or replace gutters and/or downspouts. And, furnace replacement can be entirely different given different situations, particularly if other problems (wiring, plumbing, etc.) exist as well.
- (3) Contractor Specialty-- The City funds a variety of projects. It would not be feasible to find contractors who are able to handle all types of rehabilitation needs, from roof replacement, to fumigation, to plumbing repairs. Specialists are needed. As a result, we would need to have open purchase orders with far more than the three contractors Sacramento indicated it uses on a regular basis.
- (4) Complicated Process-- As described by Sacramento, "selection of contractors through the interview process is a complicated, time-consuming process." We believe that as a result of selection appeals and change orders required due to underbidding and the complexities of individual projects, we would end up spending an inordinate amount of staff time and expense to administer the Program.

It should be noted that Sacramento's program does not use an open purchase order process. We have been unable to locate a local government rehabilitation program that uses a similar process to the one suggested.

As a result of the concerns noted above, we do not agree with the Audit Report recommendation to revise the Department's Program to use an open purchase order process to select rehabilitation grant contractors.

**Recommendation #5: Add procedures to the Rehabilitation Program Handbook to require the use of recoverable home repair grants. (Priority 2)**

**Response:** The Department does not concur with the recommendation.

Even though the number of rehabilitation grants has increased over the past two years, nearly 90% of the Department's annual program budget has been committed to loans. While it is true that the City

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Council's policy relating to loans versus grants has been to favor loans since they revolve back to the program for reuse, this policy relates to all programs administered by the Department.

The Council has recognized that there are good reasons for grants. In 1993, the Council approved a policy that allowed the Department to make grants to projects receiving U.S. Department of Housing and Urban Development 202/811 Funds in accordance with the requirements of the federal government. Additionally, the Department has provided Paint Grants and emergency grants for years-- both very successful programs-- and at one time provided administrative grants to nonprofit housing developers.

We have serious concerns with the Auditor's recommendation to convert the City's successful grant program to a program that offers "recoverable" grants. No analysis has been provided to demonstrate the value of this method compared to our current practice of providing amortizing and deferred loans, and grants. Absent this analysis, we offer the following concerns:

- (1) Recoverable Grant is Really a Loan: A "recoverable" grant is a loan; if repayment is anticipated, it cannot be termed a grant. A "recoverable" grant, as described in the Audit Report, would require that the City perform the same due diligence that is required to make a loan. With a loan, the Department performs similar reviews as do other lending institutions to ensure that the loan has adequate security. Additionally, although payment is not anticipated immediately, we would still have to monitor the loan until it is repaid.
- (2) Program Production Would be Significantly Decreased: Program staff estimate that rehabilitation production would be decreased by more than half if "recoverable" grants are provided rather than grants. The proposed change in program terms would likely mean a major change to the Paint Program, which has as its main goal revitalizing neighborhoods. The Program is currently streamlined to the point where the Paint Program Coordinator approves an average of 3.5 grants a day. To prepare paperwork to make these small grants recoverable would drastically impact this production level. Additionally, Loan Management Unit staffing would be impacted, as it would be necessary to monitor these "recoverable" grants for eventual repayment.
- (4) Marketing: Marketing both the Rehabilitation Program and the Paint Program would be more difficult. Part of the appeal of grants is that owners, particularly senior citizens, are reluctant to incur additional debt against their properties.
- (5) There are Times When Loans Do Not Make Sense: When there is no security in a structure a grant makes the most sense. This is particularly true with mobilehomes, which make up more than 60% of the Rehabilitation portfolio. In the case of a mobilehome, the owner owns the structure but not the underlying land. As a result, there is no real property on which to record a lien to evidence the debt. While we are able to record a lien against the mobilehome coach, this is not typically adequate security. Unlike real estate, mobilehomes are considered personal property and depreciate in value over time. Additionally, in a situation where property is

substantially over-encumbered, a grant also makes more sense. In these cases, the Department has no security and is unlikely to be repaid.

- (6) Auditor's Recommendation Provides No Cost-Benefit: The Audit Report recommendation suggests that the Department provide "recoverable" grants for projects no matter the size. The Department provides grants from \$75 to \$7,500.<sup>1</sup> The cost to underwrite and monitor a small loan (or recoverable grant) would, in most cases, exceed the repayment the Department would realize. To provide an example, preparing paperwork for a \$675 water heater replacement project would take many hours of staff time; monitoring repayment of the "recoverable" grant would take more time, particularly in cases of probate or bankruptcy. Ten years from now if the grant were "recovered," the \$675 in 2007 dollars would not begin to cover the costs the Department incurred during the life of the "recoverable" grant.
- (7) City Already Offers Deferred Loan: The Rehabilitation Program offers a deferred loan, which in many cases is not due until the sale or transfer of the borrower's home. This concept is similar to the idea of a "recoverable" grant but is available only for larger projects and when there is sufficient security to make this a reasonable option.

In a brief conversation with San Diego Housing Rehabilitation staff, whose program was highlighted in the Audit Report, we discovered that their "recoverable" grant program was developed in August of 1996, and that they have not had sufficient experience with the program to indicate whether it will actually result in any repayments. The staff estimates that it will receive 50% of the funds back at some time in the future. It is worth noting that San Diego has more than twice the program staff (16, excluding clerical) than San Jose has (7), but assists a like number of units (400 compared to our estimate for this year of 375). Additionally, San Diego still administers grant programs. In fact, they approve more regular grants annually than they anticipate funding under the "recoverable" grant program. Finally, San Diego's program is for real property only; their mobilehome rehabilitation program is operated as a grant.

As a result of these concerns, we do not agree with the Auditor's recommendation to revise the Department's program to offer recoverable grants.

**Recommendation #6: Use the revised standard checklists to ensure that rehabilitation project files contain all required documents. (Priority 3)**

**Response:** The Department concurs with the recommendation.

---

<sup>1</sup> \$7,500 is the limit for rehabilitation grants; projects exceeding this amount are processed as loans. The limit was increased to \$7,500 based on a cost-benefit analysis that showed the cost of underwriting and monitoring a loan of less than this amount to exceed the value of any repayments we may receive.

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**RESPONSE TO AUDIT OF THE HOUSING REHABILITATION PROGRAM**

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The Department has already implemented this recommendation. Each paper file now contains the appropriate documentation checklist, which is a helpful file organization tool. This checklist can be used in conjunction with the program database, which includes detailed information about the processing of each loan/grant.

**Recommendation #7: Use the revised project checklist to provide a cross-reference among related projects when using common documents. (Priority 3)**

**Response:** The Department concurs with the recommendation.

The checklist we developed contains a place to reference other related files. It is important to note that this information is, and has been, available in the Department's database. However, we agree that this process improvement is a helpful file organization tool.

**Recommendation #8: Follow the Rehabilitation Program Handbook regarding rehabilitation program applicant income eligibility. (Priority 3)**

**Response:** The Department already follows its written procedures.

The Auditor's Office found that five (5) out of 73 cases (or 8%) had, in its view, incomplete income eligibility documentation. We concur that in four (4) out of the 73 (or 5%) not all documentation required according to the Department's policies could be found in the files. In the one disputed file, the appropriate income information was available in a related file; it was not missing. It should be pointed out that in the four cases, there was at least one form of documentation in the file. To increase our compliance rate beyond the current 95% rate, we will use the checklists that have been developed (see Recommendation #6) to ensure that all necessary documents are in the file.

**Recommendation #9: Follow the Rehabilitation Program Handbook regarding recipient signed Notice of Completion. (Priority 3)**

**Response:** The Department already follows its written procedures. Additionally, this recommendation overlaps Recommendations #2 and #3.

In the one case (out of 32 Paint Grant Projects) noted in the Audit Report, the homeowner did not return the Notice of Completion to the Department. At the time her house was painted, the owner complained that the colors weren't what she had expected; we were unaware of her other complaints. In this case, the Paint Grant Coordinator inspected the house, verified it had been painted with the colors she had chosen, and processed payment. There is no way that the Department can force an owner to return the form. Yet, the Department may be subject to legal action if we refused to pay contractors for work they had

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completed because the owner did not return the Notice of Completion. Furthermore, the Department needs to maintain a good working relationship with the paint contractors, particularly when they have performed a satisfactory job and need to be paid.

**Recommendation #10: Follow the Rehabilitation Program Handbook regarding work write-ups and cost estimates even for simple and specific projects. (Priority 3)**

**Response:** The Department does not concur with this recommendation. We intend to update the Rehabilitation Handbook to include changes made by the City Council in its approval of the new streamlined Rehabilitation Program, and to clarify that work write-ups and cost estimates are unnecessary for simple and specific projects.

Cost estimates and work write-ups are no longer prepared for loan projects in accordance with the Program revisions made by the City Council in 1995 (see Recommendation #15). Rather, the Department provides the owner with a deficiency list and the owner gets a bid (which includes a work write-up and an itemized cost estimate) from the contractor. This is a key component of the "Streamlined Sacramento Model" that was implemented a year ago. As stated below, these changes have been documented in a memo signed by the Director and made a part of the Handbook by reference.

As far as "simple and specific" projects are concerned, the Department maintains that Department-prepared cost estimates and work write-ups are a duplicative effort; these are already provided by the contractor. The six of 40 projects noted in the Audit Report as missing these items were simple projects that did not require complicated write-ups. To provide an example, a work write-up for a small project, such as home fumigation, is unnecessary. The contractor will write down the work to be completed on a work order. And, our new procedure (see Recommendation #2) will require that the owner sign off on the scope of work prior to the initiation of any rehabilitation work.

**Recommendation #11: Follow the Rehabilitation Handbook regarding contractor selection for loan rehabilitation projects, as amended in the Council-approved procedures. (Priority 3)**

**Response:** The Department already follows its written procedures.

As approved by the Council, rehabilitation loan recipients select their own contractors. The Department is not a party to the contract between the contractor and the homeowner. The homeowner may obtain as many bids as he/she wants before selecting the contractor of choice. This process is documented in memo form, signed by the Director and incorporated by reference in the Rehabilitation Handbook.

Nevertheless, with respect to historical adherence to contractor selection policies, the six cases noted in the Audit Report where the written process relating to contractor bidding was not followed were exceptions. Four of the six were mobilehome loans, where the Department's policy was to use the small

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pool of mobilehome contractors on a rotation basis. One was a situation where a borrower came in for an emergency roof repair, which was completed on an emergency basis; when the project expanded to include other repairs related to the roof leak, the same contractor completed the work. And, one was a neighborhood improvement roof replacement in a Project Crackdown neighborhood where one contractor was being used by all of the owners to complete roof work on identical four-plexes. In this case, competitive bids were completed for neighboring four-plexes; these bids were included in the project file. We agree that these exceptions were not sufficiently documented, but the use of one bid in these situations was appropriate.

**Recommendation #12: Follow the written procedures in the Rehabilitation Program Handbook regarding City of San Jose Building Division and State Department of HCD permits. (Priority 3)**

**Response:** The Department concurs with the recommendation.

The Audit Report finds that, in 15 cases, the Department paid contractors in full when final permits had not been issued by the Building Department, or in the case of mobilehomes, by the State of California Department of Housing and Community Development (HCD). We agree that, in 14 of the 15 cases this is accurate. However, these cases are all unique and deserve some explanation.

Contractors are required to obtain a building permit when the nature of the work they complete requires one. There are several situations where the Department was unaware that the work required a building permit when we made the final payment to the contractor; even the Building Department indicated that in certain circumstances there are gray areas. In one case, for example, none of the work included in the contract required a building permit. In the middle of the rehabilitation work, the owner requested that the contractor install a faucet that she had purchased on her own. A change order was processed, but the contractor did not get the \$83 plumbing permit for this change. We were unaware that one was needed and processed the 100% payment.

In another situation, we assisted a homeowner who had no hot water with replacement of a water heater. After inspecting the project, we determined that there were serious health and safety deficiencies that needed correction and that the Building Department would have required that more work be done. We paid the contractor what was owed for the emergency repair and processed a rehabilitation loan to correct the remaining problems. The proper building permit approvals will be obtained when the work is completed. Regardless of the requirements of the Rehabilitation Handbook, there will be situations where an exception is needed. This was clearly one of those situations. As noted clearly in the Rehabilitation Program Handbook, the Director of Housing has the ability to make exceptions to policy.

Nevertheless, we believe that there are a few process improvements that will assist in this area that we plan to implement.

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- (1) Changes to the Rehabilitation Handbook: We are revising the Rehabilitation Handbook to institute a new process for mobilehomes whereby the Department pays for 90% of the rehabilitation job at the completion of construction, with the remaining 10% held in contingency until HCD signs off on the permit. Due to limited staffing-- only one HCD inspector covering all of Northern California-- it can take up to three months to get a final permit from HCD. As a result, it is difficult for contractors to await payment from the Housing Department until permits are in hand. This change will enable the contractor to receive partial payment, with a retention held pending final approval from the State that the construction meets applicable codes.
- (2) Training: With respect to real property loans and grants, the Department will seek a new inspector to fill the position requested in the FY 1997-98 budget who has Building Department experience. Additionally, we will look into training for our current Rehabilitation Inspectors on building code issues so they can be on the look out for situations where building permits should have been pulled by the contractor but were not.
- (3) Exceptions: In cases where there are exceptions, Rehabilitation Staff will prepare a memo for the Director to sign to thoroughly document why payment should be made prior to final building permit issuance.

**Recommendation #13: Add procedures to the Loan Management Handbook regarding annual recertifications of affordability restrictions. (Priority 3)**

**Response:** The Department concurs with the recommendation.

The Department will update the Loan Management Handbook with this information. Additionally, staff is working with rental property owners whose loans have affordability restrictions to ensure that all necessary recertification paperwork is submitted. To improve the monitoring of our loan portfolio, the Department has requested approval through the FY 1997-98 budget process for a Development Specialist and a half of a clerical position. At the beginning of the calendar year we transferred one staff person from Project Development into the Loan Monitoring Unit to assist with staff shortages in that area. (Our budget request also includes a position to replace the one borrowed from the Project Development Unit.)

**Recommendation #14: Amend the Rehabilitation Program Handbook regarding licenses and proof of insurance for rehabilitation contractors. (Priority 3)**

**Response:** The Department concurs with the recommendation.

While the Department agrees that the Rehabilitation Program Handbook needs to be updated to address recent changes in policy, we want to clarify that nowhere in the policies or procedures included in the

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Handbook does it require that we maintain current hard copies of contractor licenses, only that we verify that the license is current. The Audit Report suggests that the Department, in the future, contact the State Contractor's Licensing Board by telephone to determine whether contractors have current licenses. This is, in fact, exactly what we have always done. The Audit Report did not disclose any violations of our procedures as outlined in the Handbook, nor was it found that any contractor involved with the Department was working with an expired license. This is because our current system of checks and balances protects against this possibility. Nevertheless, we agree to amend the Rehabilitation Handbook to require that inspectors note the time and date that the phone verification of license information was made in each project file.

With respect to contractor insurance, the process for ensuring contractors carry appropriate insurance has now changed. For loans, because the homeowner contracts directly with the contractor, it is incumbent upon them to determine the level of insurance that the contractor should carry. For grants, because the relationship is between the City and the contractor, the Finance Department's Risk Management Division will maintain contractor insurance files. We agree to amend the Rehabilitation Handbook to require that inspectors note the time and date that the phone verification of insurance coverage was made in each project file.

**Recommendation #15: Update the Rehabilitation Program Handbook to incorporate City Council approved procedural changes. (Priority 3)**

**Response:** The Department concurs with the recommendation.

The Department began implementing these procedural changes upon approval of the City Council, which were documented in the Five-Year Housing Investment Plan. In addition, the Director signed a memo incorporating these changes, which has been made a part of the Rehabilitation Handbook by reference. The changes will be inserted into the Handbook as we complete our formal revisions.

**Recommendation #16: Follow the Rehabilitation Program Handbook regarding inspection of rehabilitation projects and documenting the results of these inspections. (Priority 3)**

**Response:** The Department already follows its written procedures.

The Department made procedural changes to the inspection process upon approval of the City Council last year. The inspector now prepares a deficiency list, checks to see that the contractor the owner has selected has submitted an acceptable bid and that the contractor is qualified, and verifies that the work has been completed as claimed and that payment is warranted. The Director signed a memo incorporating these changes, which was made a part of the Rehabilitation Handbook by reference. The changes will be inserted into the Handbook as we complete our formal revisions. The old process described in the Audit Report is no longer in practice.

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With respect to the Department's past performance in inspecting our rehabilitation projects, it would have been difficult between June of 1994 and July of 1996 for the Department to follow its Rehabilitation Handbook procedures for twice-a-week visits to each site given the fact that staff reductions took place prior to the implementation of streamlining measures. In fact, when the Department's staffing was reduced, many impacted staff left earlier than anticipated to take other positions, leaving only a few staff available to monitor a large workload. The Handbook was designed for a full complement of staff, at a time when we had 10 inspectors in the Program; in FY 1996-97, we have three (3) inspectors. The remaining inspectors did a great job completing projects begun under the old system, and beginning new projects under the streamlined system.

With respect to the Dissatisfied or Partly Satisfied Clients described in the Audit Report, we have the following comments and observations:

- (1) Satisfied with Department and Program-- Of the 23 Program participants included in the Audit Report, 18 indicated that they were satisfied or completely satisfied with the Housing Department staff and the Rehabilitation Program. Their dissatisfaction was largely due to concerns with the work performed by the contractor or because they had concerns about the cost of the rehabilitation work.

The nature of construction is such that there are disputes between clients and contractors. Homeowners' lives are disrupted due to the rehabilitation work. Additionally, they sometimes have expectations of how their house will look (such as how paint color will look once it is painted on a large surface) that are not met. And, there are inevitable personality conflicts between owners and contractors.

To resolve disputes with loan projects, the contract between the owner and the contractor requires arbitration. While the Department will assist the owner by providing information about the arbitration process to the owner, we are not a party to the arbitration or the contract (see Department role below). For grants, the owner needs to work with the Housing Department to indicate dissatisfaction with the work. Housing Department inspectors consult with the owners about the rehabilitation work during the course of construction. As we state elsewhere in this response, if an owner does not use these occasions to let us know that they have concerns, we cannot rectify the situation.

To respond to situations where there are multiple complaints or a pattern of complaints of poor workmanship or unprofessional conduct, the City Council adopted a contractor debarment ordinance in 1995 based on a recommendation by the Department. We debarred the first Rehabilitation Program contractor in 1997.

- (2) Clarification of Department and Owner's Role-- In the case of loans, the Department, as a lender, provides funding to eligible homeowners for the rehabilitation of their property. The Department inspects the rehabilitation work to ensure that the work has been done according to contract and

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that we are satisfied that the contractor should be paid. The owner, on the other hand, is the responsible party who has contracted with the contractor for the work to be done. It is incumbent upon the homeowner to indicate dissatisfaction to the contractor if they are concerned about work quality or any other issue relating to the contractor. Owners have within one year of the completion of the work to request that a contractor return to address problems that have arisen with the work product.

The Department is more than willing to assist owners if they are experiencing problems with their contractors. However, as stated above, we cannot assist homeowners if they do not indicate that they are concerned about their project, either during the rehabilitation work, at the time the Notice of Completion is signed, or at a later date.

- (3) Incorrect Conclusions-- The Audit Report concludes that problems and deficiencies that exist now were detectable at the time of the final inspection by the Housing Department inspector. Actually, many of the items noted in the Audit Report fall into two categories: (a) problems identified sometime after the project was completed, and (b) maintenance problems. Many of these problems could not have been identified at the time of the final inspection. Problems such as warping linoleum on the kitchen floor and chipping Formica occurred sometime after the project was complete. Other problems, such as loose screws on the toilet, clogged ignition devices on the stove, and dried out caulking are maintenance items that are the responsibility of the homeowner and wouldn't have been apparent at the time of the final walk through. Other problems identified in the Audit Report are related to work that wasn't a part of the rehabilitation contract work, such as problems with a security door noted by one program participant.

Interestingly, in 21 of the 23 cases, the homeowner signed the Notice of Completion or 100% Payment Certificate. If the owner was dissatisfied at the time, he/she should have made it clear to the inspector and, in the case of loans, proceeded through the arbitration process.

- (4) Cost Concerns-- In some cases, Program participants express complete satisfaction with the Program but state a concern about the cost of repairs. Department inspectors have significant training and experience in cost estimating and have the professional knowledge to determine whether costs for various rehabilitation work are appropriate. The cost of rehabilitation work to a lay person often seems high, particularly because they do not understand that included in the price is not just materials, but labor, overhead and profit.
- (5) Responses to Complaints and Suggestions-- The Department is very responsive to homeowners when complaints are received. In several of the cases cited in the Audit Report, where the Department was alerted to the homeowner's concerns, the Department assisted the homeowner to correct deficiencies by working with the contractor or assisting the homeowner in getting a new contractor to finish the work. In addition, other suggestions, such as the one that owners be

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allowed to do their own shopping for materials, have been included in our new streamlined program.

Additionally, as mentioned elsewhere in this response, the Department has debarred one contractor for poor performance and has put several others on notice.

In summary, in 21 of 23 of the cases highlighted in the Audit Report, the owner expressed satisfaction with the Housing Department. And, as discussed below, the number of people satisfied with the Department's Rehabilitation Program is very high-- 99% of Rehabilitation Program participants expressed satisfaction with the program when responding to the Department's survey. We are very pleased with the work of our Rehabilitation staff, which has continued to provide excellent customer service while increasing production, even with reduced staffing levels.

**Recommendation #17: Add procedures to the Rehabilitation Program Handbook to require the Rehabilitation Program Supervisor to: (1) review the Customer Satisfaction Survey responses; (2) take appropriate actions to resolve any reported project deficiency; and (3) file copies of the survey responses in the project file as well as the contractor file. (Priority 3)**

**Response:** The Department concurs with the recommendation with minor revisions.

The results of the surveys tell a very positive story-- even though the survey is voluntary and dissatisfied people are more likely to fill out a survey with their complaints, 99% of Rehabilitation Program participants indicated that they were happy with their experience. Of Paint Grant Program participants, 93% were happy with their contractor, with an even higher percentage happy with the program as a whole.<sup>2</sup> It is important to note that the Rehabilitation Survey measures the borrower's satisfaction with the Program, while the Paint Grant survey is designed to evaluate the Paint Contractor.

Although we do not require that borrowers/grantees fill out the surveys, the information they provide is very helpful to us in determining whether program changes are needed or whether there are ongoing concerns about a particular contractor. These surveys have been instrumental in our ability to debar one paint contractor, and to put others on notice.

We agree that a more formal process needs to be developed to address concerns expressed in the surveys. For those who include the contractor name on the survey form, we will put the completed surveys in the Contractor's customer service file to monitor complaints that are received. Additionally, we have developed a database, which will keep track of concerns raised, enabling us to easily detect noticeable patterns.

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<sup>2</sup> It is important to note that the chart on Page 105 includes duplicate responses.

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Filing the satisfaction surveys in the project file, assuming that the filer has identified himself/herself would not serve a significant purpose, as the files are rarely accessed in the future. This is particularly true for the Paint Grant Program and other grants, where once the project is complete we do not have a reason to revisit the file.

**Recommendation #18: Add procedures to the Rehabilitation Program Handbook to require before and after photographs to document Housing Rehabilitation projects. (Priority 3)**

**Response:** The Department does not concur with the recommendation.

It is already the Department's practice to take pictures of rehabilitation projects (with a standard and digital camera) when there is a unique or unusual circumstance that should be photo documented. However, to take before and after pictures of the 750+ Paint Grant Projects and 300+ Rehabilitation projects we fund each year would require taking thousands of photos each year, and would not serve a useful purpose. For most grant projects we have no reason to open the file once the project is complete. For other projects, the nature of the work cannot be photo documented. Examples include malfunctioning furnaces, fumigation work, improper wiring, clogged sewer laterals, and water heater replacement. We do take pictures when we believe they illustrate the problems that exist, and when they serve to assist the Loan Committee in making a funding decision. The cost of requiring this in all cases, however, would exceed the benefit.

Additionally, we do not agree that, had the Department taken pictures of the rehabilitation work on the 23 cases detailed in the Audit Report, we would have been alerted to the rehabilitation problems. As stated earlier, the vast majority of problems cited in the Audit Report did not exist at the time of the final inspection.

**Recommendation #19: Submit a budget proposal to the City Council to provide the staff and resources necessary to implement recommendations 1 through 18. (Priority 3)**

**Response:** The Department concurs with the recommendation.

As stated earlier in this response, the Department has requested two positions to help us monitor our increasing loan portfolio (see Recommendation #13). In addition to these two positions, we have requested additional inspector and clerical help. We have found that, after making significant budget reductions between 1993 and 1996, we had cut too deeply into our inspection and clerical staff. This is especially true now that we are assisting even more households than before, resulting in workloads that are too high. The clerical help will assist us in ensuring that files are complete and in implementing many of the process improvements recommended in the Audit Report.

**FINDING II: Opportunities exist for Housing to improve the reliability and usefulness of its rehabilitation program management information.**

**Recommendation #20: Establish and track timeliness performance measures for processing each type of rehabilitation project through the various milestones from the applicant's initial interview to the project's completion and payment. (Priority 3)**

**Response:** The Department concurs in part with the recommendation.

The Department is very concerned with ensuring that management staff, the Administration and the City Council have adequate management information to determine whether there are trends or concerns with the administration of the Rehabilitation Program. Each quarter, we provide a report to the Administration and the City Council that shows: (1) current and historical production; (2) adherence to Council policies, such as the 85-15 Income Allocation Policy; and (3) performance measured against targets set forth in the annual budget, including processing times. Department management receives a report each week that shows the number of loans and grants at each stage of the process. Management staff responsible for the Rehabilitation Program, including the Director and Assistant Director, have access to the Rehabilitation Database at their work stations, which provides access to information about rehabilitation loan processing.

We continue to work to improve our management information to ensure that we have the best information possible. At present, we are working on a report that will show management information trends, enabling us to determine the impact of changes that are made to the program.

The Department concurs with the Audit Report recommendation to split out loans and grants when reporting Rehabilitation Program processing times to the City Council. The FY 1997-98 Budget will contain separate goals for loans and grants.

We are not supportive of the remaining recommendations, as the suggested data collection will not result in useful management information for Department management. Management information is useable if actions can be taken to address any deficiencies noted.

- (1) Application Submittal to Application Completion-- It is not useful for the Department to monitor the time between initial application submittal and application completion. The amount of time that elapses between the receipt of an incomplete and a complete application is not within the Department's control.

Our practice is to respond to all applicants in an expeditious manner. However, many applications we receive are missing key information that is needed to make a funding determination; we are unable to process a loan until all the necessary paperwork has been submitted. While we contact applicants to let them know that their application is incomplete, only the applicant can provide us with the missing information. It is incumbent upon them to ensure that their application is complete. As a customer service, the Department has not

routinely canceled applications within the 30 day target now included in the Rehabilitation Program Handbook when we know that there are valid reasons why the applicant has been unable to comply.

- (2) Other Processing Goals-- With respect to the City of Oakland's processing time goals, we are not familiar enough with the specific rehabilitation program cited in the Audit Report to know if it is similar to San Jose's. What we do know is that the scope of rehabilitation in San Jose's Program is too varied to fit within simple processing time goals such as those used by Oakland. It is not valuable to create an artificial goal for all projects when they vary from a roof replacement to major reconstruction. Additionally, there are many variables with rehabilitation projects that can impact the timing of various aspects of the job, such as weather, contractor workload, unforeseen construction complications, and borrower delays.

To review each case that exceeds an arbitrary timeline would not be a valuable use of senior management time. Rather, as we indicated previously, reviewing compliance with Council policies and trend information assists us in determining whether changes to the Program are necessary. It should be noted that the Rehabilitation Staff, including the Loan Officers, Rehabilitation Inspectors, and Rehabilitation Supervisor, are intimately familiar with each rehabilitation project and are in the best position to take corrective action if there are concerns or problems. The Rehabilitation Supervisor meets with staff on a regular basis to go over weekly reports from the database that show the progress of each project. The Supervisor will indicate to Department management whether there are any problems that need attention.

**Recommendation #21: Management periodically reviews Rehabilitation Program performance against established processing time objectives, ascertain reasons for any delays, and take appropriate corrective action. (Priority 3)**

**Response:** Department management already receives and reviews management information that describes the ongoing implementation of the Rehabilitation Program. As stated above, we currently provide management information to all levels of the organization. In an atmosphere of continuous improvement, we take corrective action when needed.

**Recommendation #22: Document its Rehabilitation Program database input standards and controls and assign staff to review database activities for compliance with the standards.**

**Response:** The Department concurs in part with this recommendation.

The Department has already documented its database controls. These controls are built into the database and protect against errors by, for example, making it impossible to state that the project was completed prior to issuance of a Notice to Proceed without conscious effort. However, the Department agrees that

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it can make improvements in this area, and is currently in the process of documenting its data entry procedures and the system operation procedures.

To assign staff to review database entries for compliance with the standards would be time consuming and unnecessary. During the Auditor's Office review, only 14 errors were discovered out of hundreds of thousands of entries (an approximate .000065 error rate). Twelve of these entry errors were in a contractor name field, though these names could be found elsewhere in the database file and clearly were available in the paper file if the information needed to be accessed. As a matter of practice, our database administrator prints out regular reports from the database; if anything looks incorrect, he is able to question Rehabilitation Program staff and make necessary corrections.

The consequence of error in this situation is minimal, particularly considering the significant amount of staff time that would be required to ensure that errors never occur.

**FINDING III: Housing needs to update and improve its Rehabilitation Program application packets.**

**Recommendation #23: Update the Rehabilitation Program application packet to provide eligibility criteria for emergency grants and multi-lingual information and application procedures for the Rehabilitation Program. (Priority 3)**

**Response:** The Department concurs with the recommendation.

We need to continuously update and improve our Program materials to inform our borrowers and market our Program. The Department will update the application packet by July 31, 1997.

In conclusion, the Department agrees with some of the process improvements included in the Audit Report. While we do not concur with all of the recommendations for the reasons listed above, we appreciate your efforts to assist us in ensuring that the City of San Jose's Rehabilitation Programs have sufficient documentation. We are extremely pleased that the Auditor's Office did not find any significant concerns during its time with the Housing Department.



Alex Sanchez  
Director of Housing

Attachment

## ATTACHMENT 1

### Summary of Housing Department Responses to Auditor Recommendations Included in the Draft Housing Rehabilitation Audit Dated March 24, 1997

	RECOMMENDATION	HOUSING RESPONSE
1	Document its policies and procedures for Rehabilitation Grants. (Priority 2)	Concur. Should not be a Priority 2. While the Department has significant documentation of its policies and procedures, we agree that the Rehabilitation Program Handbook needs updating.
2	Add procedures to the Rehabilitation Program Handbook to obtain property owner approval of proposed and completed grant rehabilitation projects. (Priority 3)	Concur. We will implement a new process for rehabilitation grants whereby the owner provides his/her signature at the beginning and end of the rehabilitation process.
3	Add procedures to the Rehabilitation Program Handbook regarding recipients' refusal to sign NOCs and final payment certificates and staff documenting reasons for making final payments to the contractors when recipients refuse to sign NOCs and final payment certificates. (Priority 3)	Concur. Department staff will make a note in the file, or in the Department's computer database notes, to document the reasons why a homeowner has refused to sign the Notice of Completion (for loans) or another form (for grants).
4	Add procedures to the Rehabilitation Handbook to require an open purchase order process for selecting contractors for grant rehabilitation projects. (Priority 3)	Do Not Concur. The Department has significant concerns about this recommendation, including concerns about: our ability to arrange for quick repairs in emergency situations, the need for rehabilitation specialists to address different rehabilitation needs, and the complexities and time-consuming nature of the proposed process.
5	Add procedures to the Rehabilitation Handbook to require the use of recoverable home repair grants. (Priority 3)	Do Not Concur. The Department has significant concerns about this recommendation, including: a recoverable grant is truly a loan, requiring significant staff time to process; program production would be significantly decreased; grants make sense in some circumstances; and there is no cost-benefit to this proposed process. Additionally, the City already offers a deferred loan, which is similar to the idea of a recoverable loan, though it is not offered for small projects.
6	Use the revised standard checklists to ensure that rehabilitation project files contain all required documents. (Priority 3)	Concur. The revised project checklist is now being used.
7	Use the revised project checklist to provide a cross reference among related projects when using common documents. (Priority 3)	Concur. The revised project checklist includes an entry to record file numbers of related loans and grants.

	<b>RECOMMENDATION</b>	<b>HOUSING RESPONSE</b>
8	Follow the Rehabilitation Program Handbook regarding rehabilitation program applicant income eligibility. (Priority 3)	The Department already follows its written procedures. The Department has complied with these procedures 95% of the time. Additional process improvements should increase this already good compliance record.
9	Follow the Rehabilitation Handbook regarding recipient signed Notice of Completion (Priority 3).	The Department already follows its written procedures. We are unable to force owners to sign the NOC. As discussed in our response to Recommendation #3 above, when an owner refuses to sign, we will make a note in the project file.
10	Follow the Rehabilitation Program Handbook regarding work write-ups and cost estimates even for simple and specific projects. (Priority 3)	Do not Concur. Work write-ups and cost-estimates are no longer completed for loan projects. For grants, they are prepared, except when a project is simple or specific (such as for fumigation). We will update the Rehabilitation Handbook to clarify current policy.
11	Follow the Rehabilitation Handbook regarding contractor selection for loan rehabilitation projects, as amended in the Council-approved procedures. (Priority 3)	The Department already follows its written procedures. The new process has been documented in written form, and will be incorporated into the Rehabilitation Handbook when it is revised.
12	Follow the written procedures in the Rehabilitation Program Handbook regarding City of San Jose Building Division and State Department of HCD permits. (Priority 3)	Concur. We agree that process improvements can be made to improve compliance. We will make procedural changes and document them in the Rehabilitation Handbook and we will provide training for our Inspection Staff.
13	Add procedures to the Loan Management Handbook regarding annual recertifications of affordability restrictions. (Priority 3)	Concur. The Department will update the Handbook with this information.
14	Amend the Rehabilitation Program Handbook regarding licenses and proof of insurance for rehabilitation contractors. (Priority 3)	Concur. The Department will amend the Rehabilitation Program Handbook to indicate our current policies and procedures.
15	Update the Rehabilitation Handbook to incorporate City Council approved procedural changes. (Priority 3)	Concur. These changes have been included in a memo, which was made a part of the Rehabilitation Program Handbook by reference. When the Handbook is revised, the changes will be incorporated.
16	Follow the Rehabilitation Program Handbook regarding inspection of rehabilitation projects and documenting the results of these inspections. (Priority 3)	The Department already follows its written procedures. Our inspectors visit the project site when draw requests are needed and at the time of final inspection.

	<b>RECOMMENDATION</b>	<b>HOUSING RESPONSE</b>
17	Add procedures to the Rehabilitation Program Handbook to require the Rehabilitation Program Supervisor to: (1) review the Customer Satisfaction Survey responses; (2) take appropriate actions to resolve any reported project deficiency; and (3) file copies of the survey responses in the project file as well as the contractor file. (Priority 3)	Concur, with minor revisions. The Department has implemented a new process to review the surveys, including establishment of a database to track complaints. While it is helpful to place the surveys in the contractor's customer service file, it is not useful to put them in project files as these are rarely accessed in the future.
18	Add procedures to the Rehabilitation Program Handbook to require before and after photographs to document Housing Rehabilitation Projects. (Priority 3)	Do not concur. The Department takes pictures of Rehabilitation projects when appropriate. The cost of taking thousands of pictures annually exceeds any benefit that might be realized.
19	Submit a budget proposal to the City Council to provide the staff and resources necessary to implement recommendations 1 through 18. (Priority 3)	Concur. The Department has requested several positions in the FY 1997-98 budget to ensure that the Rehabilitation Program is adequately staffed.
20	Establish and track timeliness performance measures for processing each type of rehabilitation project through the various milestones from the applicant's initial interview to the project's completion and payment. (Priority 3)	Concur in part. The Department now separates out loans and grants when reporting processing times. The other recommended changes do not result in any useful management information. The Department prepares many reports that provide good information to track performance and address problems or concerns.
21	Management periodically reviews Rehabilitation Program performance against established processing time objectives, ascertain reasons for any delays, and take appropriate corrective action. (Priority 3)	Department management already receives and reviews management information, as do other levels of the organization (Administration, City Council, program staff). In an atmosphere of continuous improvement, we take appropriate corrective action when necessary.
22	Document its Rehabilitation Program database input standards and controls and assign staff to review database activities for compliance with the standards. (Priority 3)	Concur in part. The Department has already documented its database controls and has a database administrator who oversees the database. As a result, we have an error rate of approximately .000065. We will continue to improve our data entry and system operation procedures.
23	Update the Rehabilitation Program application package to provide eligibility criteria for emergency grants and multi-lingual information and application procedures for the Rehabilitation Program. (Priority 3)	Concur. We need to continuously update and improve our Program materials to inform our borrowers and market our Program.

**OFFICE OF THE CITY AUDITOR  
COMMENTS ON THE RESPONSE OF THE CITY ADMINISTRATION  
TO AN AUDIT OF THE CITY OF SAN JOSE'S  
HOUSING REHABILITATION PROGRAM**

The following comments are presented to expand upon, clarify, and correct statements in the response of the City Administration to *An Audit Of The City Of San Jose's Housing Rehabilitation Program*.

**Administration's Response - Page 1, Paragraph 3**

*We are pleased that the draft Audit Report did not find any major concerns with the Department's administration of the Housing Rehabilitation Program.*

**Auditor's Comments**

The Audit Report did in fact identify major concerns with the Department's administration of the Housing Rehabilitation Program. The fact that written procedures and written instructions do not exist for a significant segment of the Rehabilitation Program is a major concern. With no clear delineation of policies and procedures, the Rehabilitation Program is exposed to the risks that clients are not served equitably, funds may go to those who do not qualify, projects are not completed to the satisfaction of clients, and contractors are selected on a non-competitive basis.

In addition to these serious issues, the Audit Report identifies that Housing did not follow the written procedures that did exist for several rehabilitation projects. Required City and State building permits were not obtained or finalized for several projects, and many project recipients expressed serious concerns regarding the quality of work they received through the Program. While the noncompliances with written procedures we identified appear to be few in number, it should be noted that they were found in a relatively small audit sample. There are potentially hundreds of exceptions to Housing's written procedures if our audit sample findings are extrapolated to the entire population of rehabilitation projects.

**Administration's Response - Page 2, Paragraph 2**

*The Department concurs with the recommendation, although we believe that it should not be given a Priority 2 as the fact that our Rehabilitation Handbook has not been updated does not result in any "potential for incurring significant or equivalent non-fiscal losses."*

**Auditor's Comments**

Since 1992-93, the number and amount of rehabilitation grants have significantly increased to the point that they now constitute a major portion of Housing's rehabilitation

projects. However, Housing has not documented its policies and procedures for Housing's rehabilitation grants. Without written policies and procedures, Rehabilitation Program staff lack definitive guidelines for performing their duties for a significant portion of their rehabilitation project workload. Such duties include ascertaining grant recipients' eligibility, selecting qualified contractors, determining the scope of work, and inspecting rehabilitation work for quality and completeness. Failure to carry out any of these duties creates a "potential for incurring significant or equivalent non-fiscal losses."

**Administration's Response - Page 3, Paragraph 9**

*The process developed for rehabilitation grants is intentionally simple to ensure that people are served as expeditiously as possible and at the lowest cost. Particularly in cases where there is a health and safety emergency, it is important to find a contractor who is available immediately to correct the problem. If we were to implement a system where we were required to use a short list of contractors approved through the purchasing process, we could not guarantee that they would be available on a moment's notice to assist an applicant.*

**Auditor's Comments**

The process for establishing open purchase orders for the Housing Rehabilitation Program contractors would include the requirement that the contractor respond within a specified period of time. Therefore, in order to stay on the open purchase order list, a contractor must be able to respond within a predetermined time to the Rehabilitation Program's needs.

**Administration's Response - Page 4, Paragraph 2**

*Contractors cannot bid on a project without knowing its scope.*

**Auditor's Comments**

According to the Purchasing Division, the City establishes open purchase orders with various vendors for the City's fleet maintenance program for various trades. For instance, there are six to ten open purchase orders with auto body repair shops. Each time a vehicle needs to be repaired, the City contacts two or three vendors and obtains costs based on the specific requirements. The open purchase order can be designed flexibly enough to accommodate Program needs. Purchasing does not anticipate that the lack of a specific scope would be a problem for a Rehabilitation Program open purchase order.

**Administration's Response - Page 4, Paragraph 3**

*It would not be feasible to find contractors who are able to handle all types of rehabilitation needs, from roof replacement, to fumigation, to plumbing repairs.*

### Auditor's Comments

The open purchase order process can be designed so that the various types of work specialties are represented within the list of open purchase order contractors.

### Administration's Response - Page 4, Paragraph 4

*We believe that as a result of selection appeals and change orders required due to underbidding and the complexities of individual projects, we would end up spending an inordinate amount of staff time and expense to administer the Program.*

### Auditor's Comments

The Purchasing Division, not Housing, would handle most of the administrative work involved in maintaining the open purchase order list of contractors for rehabilitation projects. The selection process is done at the time the open purchase order is established. Housing decides whether to use the vendors on a rotating basis or on a per job/cost basis. Vendors are notified up front what process will be followed. According to Purchasing, there is seldom, if ever, any underbidding. In fact, the process is streamlined rather than complex.

### Administration's Response - Page 4, Paragraph 5

*It should be noted that Sacramento's program does not use an open purchase order process.*

### Auditor's Comments

While the Sacramento Housing and Redevelopment Agency (Sacramento) does not call its contractor selection program an open purchase order process, it is essentially a competitive open purchase order process. Specifically, Sacramento's program is designed to competitively select the group of contractors that Sacramento will use during a two-year contract period to perform rehabilitation work in a manner which is overall most advantageous to Sacramento.

### Administration's Response - Page 5, Paragraph 4

*A "recoverable" grant, as described in the Audit Report, would require that the City perform the same due diligence that is required to make a loan. With a loan, the Department performs similar reviews as do other lending institutions to ensure that the loan has adequate security. Additionally, although payment is not anticipated immediately, we would still have to monitor the loan until it is repaid.*

**Administration's Response - Page 5, Paragraph 5**

*Program staff estimate that rehabilitation production would be decreased by more than half if "recoverable" grants are provided rather than grants.*

**Administration's Response - Page 6, Paragraph 2**

*The cost to underwrite and monitor a small loan (or recoverable grant) would, in most cases, exceed the repayment the Department would realize.*

**Auditor's Comments**

Recoverable grants will not require the same due diligence as required to make loans. With a recoverable grant, Housing will need to verify and document the applicant's ownership of the property. However, such verification and documentation is the same as required for straight grants. Further, recoverable grants would only require the addition of one more form: the Memorandum of Agreement which Housing would only need to send to the County Recorder's Office. The amount of time Housing would need to spend on the Memorandum of Agreement is relatively insignificant. According to the County Recorder's Office, the County will not charge a fee to the City or the recipient for recording the memorandum. With regard to loan monitoring, Housing will not have to do any monitoring since the recoverable grant does not bear any interest and the escrow process will automatically cause a title company to contact the City if a recipient sells, transfers, or refinances a lien property.

**Administration's Response - Page 5, Paragraph 6**

*Marketing both the Rehabilitation Program and the Paint Program would be more difficult.*

**Auditor's Comments**

Straight grants are more attractive to recipients because grants are "free" money. However, in marketing recoverable grants, Housing can emphasize that the City will not charge any interest on the grant amount and that the grant is to be repaid only if the owner sells, transfers title, or refinances the property. Further, recoverable grants will allow the City to assist many more needy homeowners than would be possible if Housing only awarded straight grants.

**Administration's Response - Page 5, Paragraph 7**

*When there is no security in a structure a grant makes the most sense.*

### **Auditor's Comments**

While there may be no security (equity) in a property today, Housing cannot predict the value of a piece of property years into the future. Although the repayment rate for recoverable grants may not be as great as that from secured loans, some Program repayment is better than none, which is exactly the case with straight grants.

### **Administration's Response - Page 6, Paragraph 3**

*The Rehabilitation Program offers a deferred loan, which in many cases is not due until the sale or transfer of the borrower's home. This concept is similar to the idea of a "recoverable" grant but is available only for larger projects and when there is sufficient security to make this a reasonable option.*

### **Auditor's Comments**

The fact remains that grant rehabilitation projects have become a significant portion of the rehabilitation Program. In 1995-96 grants constituted eighty-one percent of rehabilitation projects and half of the approved rehabilitation project funding. (See page 19). The recoverable grant is a way to roll over housing funds for future projects while maintaining affordability for low-income households. A recoverable grant differs from a deferred loan in that the processing and monitoring of the recoverable grant takes much less time than that required for a deferred loan. Further, a recoverable grant can be given to a recipient who might not qualify for a deferred loan.

### **Administration's Response - Page 8, Paragraph 3**

*The Department does not concur with this recommendation. We intend to update the Rehabilitation Handbook to include changes made by the City Council in its approval of the new streamlined Rehabilitation Program, and to clarify that work write-ups and cost estimates are unnecessary for simple and specific projects.*

### **Auditor's Comments**

For the six projects noted as noncompliances in the Audit Report, Housing did not comply with its own written work write-up procedures that existed at that time. Those written procedures did not exempt "simple" projects from the work write-up requirement. The Housing Inspector's work write-up and cost estimate limit the contractor's scope of work to only necessary items, and provide a reasonable bidding range for contractors. In our opinion, even for projects that are simple and specific, Housing should follow the Rehabilitation Program Handbook and provide the recipient with a written description of the scope and schedule of the rehabilitation work proposed on his or her property. The recipient should sign the work write-up and cost estimate to signify his or her consent. Having property owners sign work write-ups and cost estimates protects both the property owner and the City. Specifically, a signed work write-up evidences that the property owner understands the scope

of work proposed on his or her property. Further, it protects the City against a property owner subsequently alleging that the Rehabilitation Program contractor did not do all of the rehabilitation work promised.

**Administration's Response-Page 8, Paragraph 9**

*... with respect to historical adherence to contractor selection policies, the six cases noted in the Audit Report where the written process relating to contractor bidding was not followed were exceptions. Four of the six were mobilehome loans, where the Department's policy was to use the small pool of mobilehome contractors on a rotation basis.*

**Auditor's Comments**

Housing's "policy" of utilizing mobilehome contractors on a rotation basis has never been written down or documented, therefore, these projects were not in compliance with Housing's written policy. Further, Housing's so-called verbal policy does not allow for competitive bidding from contractors.

**Administration's Response- Page 9, Paragraph 1**

*One (exception to contractor selection policies) was a situation where a borrower came in for an emergency roof repair, which was completed on an emergency basis; when the project expanded to include other repairs related to the roof leak, the same contractor completed the work.*

**Auditor's Comments**

Housing's written policies did not and do not exempt emergency roof repairs from contractor bidding requirements.

**Administration's Response- Page 9, Paragraph 1**

*And, one (exception to contractor selection policies) was a neighborhood improvement roof replacement in a Project Crackdown neighborhood where one contractor was being used by all of the owners to complete roof work on identical four-plexes. In this case, competitive bids were completed for neighboring four-plexes; these bids were included in the project file. We agree that these exceptions were not sufficiently documented, but the use of one bid in these situations was appropriate.*

**Auditor's Comments**

If competitive bids were indeed completed for neighboring four-plexes, Housing's files contain no evidence showing that the owner of the project in question was part of that bidding

process or agreed to let his neighbors select the contractor for him. Further, Housing agrees that these exceptions to Housing's written procedures were not sufficiently documented.

**Administration's Response-Page 9, Paragraph 5**

*There are several situations where the Department was unaware that the work required a building permit when we made the final payment to the contractor; even the Building Department indicated that in certain circumstances there are gray areas. In one case, for example, none of the work included in the contract required a building permit. In the middle of the rehabilitation work, the owner requested that the contractor install a faucet that she had purchased on her own. A change order was processed, but the contractor did not get the \$83 plumbing permit for this change. We were unaware that one was needed and processed the 100% payment.*

**Auditor's Comments**

A change order requires the sign-off of both the Housing Inspector and the Housing Supervisor. Even though the object of this change order was not part of the original contract, Housing was not only aware that this work item became part of the project, they approved it.

**Administration's Response-Page 9, Paragraph 6**

*In another situation, we assisted a homeowner who had no hot water with replacement of a water heater. After inspecting the project, we determined that there were serious health and safety deficiencies that needed correction and that the Building Department would have required that more work be done. We paid the contractor what was owed for the emergency repair and processed a rehabilitation loan to correct the remaining problems. The proper building permit approvals will be obtained when the work is completed.*

**Auditor's Comments**

According to the Building Division, health and safety deficiencies that remain in one part of the home do not preclude a repaired section from receiving a final permit.

**Administration's Response-Page 9, Paragraph 6**

*Regardless of the requirements of the Rehabilitation Handbook, there will be situations where an exception is needed. This was clearly one of those situations. As noted clearly in the Rehabilitation Program Handbook, the Director of Housing has the ability to make exceptions to policy.*

### **Auditor's Comments**

Housing asserts that there will be situations where an exception is needed and that the Director of Housing has the ability to make exceptions to policy in such situations. However, these assertions do not apply to either of the projects Housing mentions. Housing could have obtained the necessary permits for these two projects if inspectors had simply followed procedures. Further, there is no documentation that the Director approved any policy exceptions for these projects.

### **Administration's Response-Page 11, Paragraph 8**

*The Department made procedural changes to the inspection process upon approval of the City Council last year. The old process described in the Audit Report is no longer in practice.*

### **Auditor's Comments**

The City Council did, in fact, approve less stringent inspection procedures. However, the 23 projects in the Audit Report which did not show compliance with Handbook inspection procedures predate the new, less stringent procedures. As a result, the new, less stringent procedures are irrelevant for the 23 projects in the audit report.

### **Administration's Response- Page 13, Paragraph 2**

*The Department is more than willing to assist owners if they are experiencing problems with their contractors. However, as stated above, we cannot assist homeowners if they do not indicate that they are concerned about their project, either during the rehabilitation work, at the time the Notice of Completion is signed, or at a later date.*

### **Auditor's Comments**

Had Housing inspectors followed Housing's written procedures, performed the required twice-a-week inspections, and adequately documented the results of those inspections, Housing should have known about the project problems we identified.

### **Administration's Response- Page 13, Paragraph 3**

*Other problems identified in the Audit Report are related to work that wasn't a part of the rehabilitation contract work, such as problems with a security door noted by one program participant.*

### **Auditor's Comments**

The screen door which Housing notes as not being part of the rehabilitation contract work is, in fact, listed on the contract.

**Administration's Response- Page 13, Paragraph 4**

*Interestingly, in 21 of the 23 cases, the homeowner signed the Notice of Completion or 100% Payment Certificate. If the owner was dissatisfied at the time, he/she should have made it clear to the inspector and, in the case of loans, proceeded through the arbitration process.*

**Auditor's Comments**

Simply because an owner signs an NOC does not absolve Housing of its responsibilities. Several clients reported to us that they felt pressured by the contractor or the Housing inspector (or both) to sign the NOC. Some clients said they signed the NOC because they feared a lien would be placed on their home. Moreover, Housing did not even give rehabilitation grant recipients an opportunity to sign an NOC, Payment Certificate, or other such project completion document.

**Administration's Response-Page 14, Paragraph 8**

*We agree that a more formal process needs to be developed to address concerns expressed in the surveys. ...we have developed a database, which will keep track of concerns raised, enabling us to easily detect noticeable patterns. Filing the satisfaction surveys in the project file, assuming that the filer has identified himself/herself would not serve a significant purpose, as the files are rarely accessed in the future.*

**Auditor's Comments**

We are pleased that Housing agrees that a more formal process needs to be developed to address concerns expressed in the customer satisfaction surveys, and that they have developed a database to keep track of these concerns. However, we still believe that Housing should file customer satisfaction surveys in the project file in order to complete the file. A complete file is essential in the event of disputes which may arise between the client and the contractor, or between the client and Housing.

**Administration's Response-Page 15, Paragraph 4**

*We do take pictures when we believe they illustrate the problems that exist, and when they serve to assist the Loan Committee in making a funding decision. The cost of requiring this in all cases, however, would exceed the benefit.*

**Auditor's Comments**

There is very little cost associated with Housing using its digital camera to document projects. Given that Housing already has the necessary equipment, it can store digital photographs in an existing computer workstation according to project number. Housing would

not have to purchase any film or pay any film processing fees. In fact, Housing need only print hard copies of the photos as needed, which according to Housing, is very infrequently. Even the cost of using Polaroid pictures would be relatively inexpensive when you consider the average cost of a rehabilitation project is nearly \$11,000.

**Administration's Response-Page 15, Paragraph 5**

*Additionally, we do not agree that, had the Department taken pictures of the rehabilitation work on the 23 cases detailed in the Audit Report, we would have been alerted to the rehabilitation problems. As stated earlier, the vast majority of problems cited in the Audit Report did not exist at the time of the final inspection.*

**Auditor's Comments**

Even though the Department believes that pictures would not have alerted them to rehabilitation problems in the 23 cases detailed in the Audit Report, pictures may protect them from similar accusations from clients in the future. Further, according to the clients we surveyed, many of the problems we observed did exist at the time of final inspection.

**Administration's Response-Page 16, Paragraph 8**

*It is not useful for the Department to monitor the time between initial application submittal and application completion. The amount of time that elapses between the receipt of an incomplete and a complete application is not within the Department's control.*

**Auditor's Comments**

We agree that Housing does not have complete control over when an applicant submits necessary documentation. However, if a trend of excessive time between "Application Submittal" to "Application Completion" becomes apparent, it may indicate an application process problem. For example, the application may be defective or applicants may not understand what is required of them. In an atmosphere of continuous improvement, Housing management can and should identify any application process problems and then take the necessary steps to solve the problems. Such steps might be to provide more information to applicants early in the process.

**Administration's Response-Page 17, Paragraph 2**

*With respect to the City of Oakland's processing time goals, we are not familiar enough with the specific rehabilitation program cited in the Audit Report to know if it is similar to San Jose's. What we do know is that the scope of rehabilitation in San Jose's Program is too varied to fit within simple processing time goals such as those used by Oakland. It is not valuable to create an artificial goal for all projects when they vary from a roof replacement to major reconstruction. Additionally, there are many*

*variables with rehabilitation projects that can impact the timing of various aspects of the job, such as weather, contractor workload, unforeseen construction complications, and borrower delays.*

**Auditor's Comments**

The City of Oakland's rehabilitation loan program is very similar to San Jose's Program in that it can be used for everything from correction of code deficiencies to health and safety violations to \$60,000 worth of major rehabilitation of single family dwellings. Even though San Jose's projects may "vary from a roof replacement to major reconstruction," the average processing time can be used as a standard of measurement to examine future trends, and for management to address major deviations from this standard. Variables such as weather, contractor workload, and construction complications can be accounted for when establishing the standard and comparing actual results to established time goals.

**Administration's Response-Page 17, Paragraph 3**

*The Rehabilitation Supervisor meets with staff on a regular basis to go over weekly reports from the database that show the progress of each project. The Supervisor will indicate to Department management whether there are any problems that need attention.*

**Auditor's Comments**

The Rehabilitation Supervisor already meets with Housing management to report any problems with the progress of rehabilitation projects. As such, a database printout identifying problem projects and progress standards would assist management in addressing systemic Program problems.

**Administration's Response-Page 18, Paragraph 2**

*To assign staff to review database entries for compliance with the standards would be time consuming and unnecessary. As a matter of practice, our database administrator prints out regular reports from the database; if anything looks incorrect, he is able to question Rehabilitation Program staff and make necessary corrections.*

**Auditor's Comments**

Given Housing's assertion shown above, it should be quite simple for Housing to formally assign to the database administrator the duty of reviewing database activities for compliance with the updated input standards and controls.

## APPENDIX A

### DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Administration Manual (CAM) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class <sup>1</sup>	Description	Implementation Category	Implementation Action <sup>3</sup>
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. <sup>2</sup>	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. <sup>2</sup>	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

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<sup>1</sup> The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number. (CAM 196.4)

<sup>2</sup> For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens. (CAM 196.4)

<sup>3</sup> The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration. (CAM 196.4)

# HELP Grant Check Sheet

Client Name(s): \_\_\_\_\_

Property Address: \_\_\_\_\_ San Jose, CA \_\_\_\_\_

Phone: (H) \_\_\_\_\_ (W/Mr.) \_\_\_\_\_ (W/Ms.) \_\_\_\_\_

Project #: \_\_\_\_\_ Date App. Rec'd: \_\_\_\_\_ Date App. Compl.: \_\_\_\_\_

Previous or existing projects: Project #/type: \_\_\_\_\_

## Mobile Homes

## Real Property

Application Status	<input type="checkbox"/> Completed, signed, dated <input type="checkbox"/> Deficiency List <input type="checkbox"/> Park Approval <input type="checkbox"/> _____	<input type="checkbox"/> Completed, signed, dated <input type="checkbox"/> Deficiency list <input type="checkbox"/> _____
Property Info	<input type="checkbox"/> Copy of current registration <input type="checkbox"/> HCD Title Search <input type="checkbox"/> Property Tax Bill (If applicable) <input type="checkbox"/> Current mortgage balance stmt. <input type="checkbox"/> Copy of park space billing stmt.	<input type="checkbox"/> Property Tax Statement <input type="checkbox"/> Current mortgage balance stmt. <input type="checkbox"/> Property valuation (Damar) <input type="checkbox"/> _____
Asset Verification	<input type="checkbox"/> 2 mos. current bank statements <input type="checkbox"/> 2 mos. current investmt. statements <input type="checkbox"/> Other: _____	<input type="checkbox"/> 2 mos. current bank statements <input type="checkbox"/> 2 mos. current investment stmts. <input type="checkbox"/> Other asset verification _____
Income Verification	<input type="checkbox"/> Social Security Benefits Statement, &/or <input type="checkbox"/> Disability Income Statement, &/or <input type="checkbox"/> 2 current pay stubs, and <input type="checkbox"/> 2 yrs. current tax returns w/sched., or <input type="checkbox"/> Cert. of non-filing status (if applicable)	<input type="checkbox"/> Social Security Benefits Statement, &/or <input type="checkbox"/> Disability Income Statement, &/or <input type="checkbox"/> 2 current pay stubs, and <input type="checkbox"/> 2 yrs. current tax returns w/sched., or <input type="checkbox"/> Cert. of non-filing status (if applicable)
Loan Processor	Date to: Loan Officer: _____ Date: _____  Inspector: _____ Date: _____	Comments:   Comments:
initials		

Comments:

# Mobile Home Programs Check Sheet

Client Name(s): \_\_\_\_\_

Property Address: \_\_\_\_\_ San Jose, CA \_\_\_\_\_

Phone: (H) \_\_\_\_\_ (W/Mr.) \_\_\_\_\_ (W/Ms.) \_\_\_\_\_

Project #: \_\_\_\_\_ Date App. Rec'd: \_\_\_\_\_ Date App. Compl.: \_\_\_\_\_

Previous or existing client? Project #/type: \_\_\_\_\_

## Loan Program

## Grant Program

Application Status	<input type="checkbox"/> Completed, signed, dated <input type="checkbox"/> Fair Lending Notice <input type="checkbox"/> Credit Authorization/Report <input type="checkbox"/> Park Approval <input type="checkbox"/> Deficiency List	<input type="checkbox"/> Completed, signed, dated <input type="checkbox"/> Deficiency List <input type="checkbox"/> Park Approval
Property Info	<input type="checkbox"/> Current registration & Cert. of Title <input type="checkbox"/> HCD title search <input type="checkbox"/> Property Tax Bill (if applicable) <input type="checkbox"/> Current mortgage balance stmt. <input type="checkbox"/> Copy of park space billing stmt. <input type="checkbox"/> Hazard Insurance statement	<input type="checkbox"/> Copy of current Cert. of Registration <input type="checkbox"/> HCD Title Search <input type="checkbox"/> Property Tax Bill (if applicable) <input type="checkbox"/> Current mortgage balance stmt. <input type="checkbox"/> Copy of park space billing stmt.
Asset Verification	<input type="checkbox"/> 2 mos. current bank statements <input type="checkbox"/> 2 mos. current investmt. statements <input type="checkbox"/> Other asset verification: _____ _____	<input type="checkbox"/> 2 mos. current bank statements <input type="checkbox"/> 2 mos. current investment stmts. <input type="checkbox"/> Other asset verification _____ _____
Income Verification	<input type="checkbox"/> Social Security Benefits Statement, &/or <input type="checkbox"/> Disability Income Statement, &/or <input type="checkbox"/> 2 Current pay stubs, and <input type="checkbox"/> 2 yrs. current tax returns w/sched., or <input type="checkbox"/> Cert. of non-filing status (if applicable)	<input type="checkbox"/> Social Security Benefits Statement, &/or <input type="checkbox"/> Disability Income Statement, &/or <input type="checkbox"/> 2 Current pay stubs, and <input type="checkbox"/> 2 yrs. current tax returns w/sched., or <input type="checkbox"/> Cert. of non-filing status (if applicable)
Loan Processor	Date to Loan Officer: _____ Date: _____  Inspector: _____ Date: _____	Comments:   Comments:
initials		

Comments: \_\_\_\_\_

# Housing Preservation Programs Check Sheet

Client Name(s): \_\_\_\_\_

Property Address: \_\_\_\_\_ San Jose, CA \_\_\_\_\_

Phone: (H) \_\_\_\_\_ (W/Mr.) \_\_\_\_\_ (W/Ms.) \_\_\_\_\_

Project #: \_\_\_\_\_ Date App. Rec'd: \_\_\_\_\_ Date App. Compl.: \_\_\_\_\_

Previous or existing client? Project #/type: \_\_\_\_\_

## Loan Program

## Grant Program

Application Status	<input type="checkbox"/> Completed, signed, dated <input type="checkbox"/> Statement of Information <input type="checkbox"/> Fair Lending Notice <input type="checkbox"/> Credit Authorization/Report <input type="checkbox"/> Lead Base Paint Notice <input type="checkbox"/> Deficiency List	<input type="checkbox"/> Completed, signed, dated <input type="checkbox"/> Deficiency List _____
Property Info	<input type="checkbox"/> Title search (Prelim or Magic) <input type="checkbox"/> Promissory Note (s) and DOT (s) <input type="checkbox"/> Property Tax Statement <input type="checkbox"/> Current mortgage balance stmt. <input type="checkbox"/> Property valuation - Damar/Appraisal <input type="checkbox"/> Hazard/Flood Insurance statement	<input type="checkbox"/> Property Tax Statement <input type="checkbox"/> Current mortgage balance stmt. <input type="checkbox"/> Property valuation (Damar) _____
Asset Verification	<input type="checkbox"/> 2 mos. current bank statements <input type="checkbox"/> 2 mos. current investmt. statements <input type="checkbox"/> Other asset verification: _____ _____	<input type="checkbox"/> 2 mos. current bank statements <input type="checkbox"/> 2 mos. current investment stmts. <input type="checkbox"/> Other asset verification _____ _____
Income Verification	<input type="checkbox"/> Social Security Benefits Statement, &/or <input type="checkbox"/> Disability Income Statement, &/or <input type="checkbox"/> 2 Current pay stubs, and <input type="checkbox"/> 2 yrs. current tax returns w/sched., or <input type="checkbox"/> Cert. of non-filing status (if applicable)	<input type="checkbox"/> Social Security Benefits Statemt., &/or <input type="checkbox"/> Disability Income Statement, &/or <input type="checkbox"/> 2 Current pay stubs, and <input type="checkbox"/> 2 yrs. current tax returns w/sched., or <input type="checkbox"/> Cert. of non-filing status(if applicable)
Loan Processor  initials	Date to: Loan Officer: _____ Date: _____  Inspector: _____ Date: _____	Comments:  Comments:

Comments:

# Rental Housing Rehabilitation Check Sheet

Client Name(s): \_\_\_\_\_

Mailing Address: \_\_\_\_\_

Phone: (H) \_\_\_\_\_ (W/Mr.) \_\_\_\_\_ (W/Ms.) \_\_\_\_\_

Property Address: \_\_\_\_\_ San Jose, CA \_\_\_\_\_

Project #: \_\_\_\_\_ Date App. Rec'd: \_\_\_\_\_ Date App. Compl.: \_\_\_\_\_

Previous or existing client? Project #/type: \_\_\_\_\_

Application Status	<input type="checkbox"/> Completed, signed, dated <input type="checkbox"/> Statement of Information <input type="checkbox"/> Fair Lending Notice <input type="checkbox"/> Credit Authorization/Report <input type="checkbox"/> Completed Pre-Rehab Report	<input type="checkbox"/> Rental/Lease Agreements <input type="checkbox"/> Deficiency List <input type="checkbox"/> Lead Base Paint Notice <input type="checkbox"/> 10% Owner Contribution Stmt.
Property Info	<input type="checkbox"/> Title search (Prelim or Magic) <input type="checkbox"/> Promissory Note (s) <input type="checkbox"/> Deed of Trust or Grant Deed <input type="checkbox"/> Current mortgage balance stmt. <input type="checkbox"/> Property valuation - Damar/Appraisal <input type="checkbox"/> Hazard/Flood Insurance statement	<input type="checkbox"/> Property Tax Statement <input type="checkbox"/> Management Plan (if applicable) <input type="checkbox"/> Code Enforcement citation (if applicable)
Asset Verification	<input type="checkbox"/> 2 mos. current bank statements <input type="checkbox"/> 2 mos. current investmt. statements <input type="checkbox"/> Schedule of Other Real Estate owned	<input type="checkbox"/> Personal Residence mort. bal. stmt. _____ _____
Income Verification	<input type="checkbox"/> 2 yrs. Current tax returns w/sched., and <input type="checkbox"/> 2 yrs. Current W-2's, and <input type="checkbox"/> 2 Current pay stubs, and/or <input type="checkbox"/> Social Security Benefits Stmt., or <input type="checkbox"/> Cert. of non-filing status (if applicable)	<input type="checkbox"/> Disability Income Statement _____ _____
Loan Processor	Date to: _____ Loan Officer: _____ Date: _____  Inspector: _____ Date: _____	Comments:   Comments:
initials	Comments:	



**CITY OF SAN JOSÉ, CALIFORNIA**

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DEPARTMENT OF  
HOUSING

**CERTIFICATION OF NON-FILING STATUS**

I/we hereby certify that I/we did not file income tax returns with the United States Internal Revenue Service (IRS) for the two prior years because my/our income was below the required filing threshold. An alternative form of verification is being submitted to determine income eligibility.

\_\_\_\_\_  
Applicant

\_\_\_\_\_  
Date

\_\_\_\_\_  
Co-Applicant (if any)

\_\_\_\_\_  
Date



**APPENDIX D**

**PROJECTS FOR WHICH THE CITY'S BUILDING DIVISION  
DOES NOT HAVE A RECORD OF FINAL PERMITS**

<b>Project</b>	<b>Permit Status at the Building Division</b>	<b>Housing Response</b>	<b>Auditor Conclusion</b>
<p>E94030 Grant \$1,500. Emergency replacement of water heater and various plumbing and dry rot repairs.</p>	<p>No permits in 1995. Building and plumbing permits are required.</p>	<p>The work completed for this project was a stopgap measure. A loan application to complete work per Code is in process.</p>	<p>The City of San Jose Building Code lists the building and plumbing permit exemptions. There is no exemption listed for "stopgap measure". According to the Building Code, <i>"Except as specified in this Part, no building, structure or building service equipment regulated by this Title and the technical codes shall be erected, constructed, enlarged, altered, repaired, moved, improved, removed, converted or demolished unless a separate, appropriate permit for each building, structure or building service equipment has first been obtained from the Building Official."</i> The project was completed on 4/24/95. Housing should have required building permits for this project and should not have authorized the 100 percent completion payment without the final permits.</p>
<p>E94020 Grant \$1,400. Install new water heater and furnace. Install smoke detector and unclog the drains.</p>	<p>No mechanical permit in 1994. A mechanical permit for flue and duct is required.</p>	<p>The contractor raised the furnace to conform to code; he reinstalled it. He shortened the flue that was there. The Building Division did not require a permit for this work.</p>	<p>The Building Division confirmed that a mechanical permit was required because the flue was shortened.</p>

Project	Permit Status at the Building Division	Housing Response	Auditor Conclusion
<p>H93103 Loan \$36,937. Finishing sheetrock trim, flooring, framing, footings, doors, etc., inside and out, and smoke detectors to meet uniform building code.</p>	<p>No permit issued in 1994. A building permit is required for this project.</p>	<p>This was a self-help project. The owner began the work in 1989. The permits were issued in 1989 and were still valid.</p>	<p>The loan was approved on 3/8/94 and the project was completed on 11/22/94. The Handbook does not make an exception for self-help projects with regard to the building permit requirement. Furthermore, the Building Division files do not show evidence that the permits were renewed during the time of the project. According to the Building Division, the building permits expire after 180 days unless renewed. Housing should have ascertained that the owner complied with the City's building permit requirements for the period and scope of work covered by the project and should not have authorized the 100 percent completion payment without the final permits.</p>
<p>R95004 Loan \$9,758 Replace severely deteriorated roof.</p>	<p>Permit expired. According to the Building Division, a permit for re-roof is required.</p>	<p>On this 4-plex a permit for re-roof was taken but not finalized. This was because of an owner-contractor dispute regarding the carpents. The contractor said that the owner did not pay for the carpents; the building inspector noted that the carpents did not meet code. However, there were no problems with the work for which the City paid.</p>	<p>According to the Building Division, there <u>was</u> a problem with the work for which the City paid and the problem was noted in the inspection report. The final permit was not signed off because of the noted deficiency. Housing should have ensured that the deficiency was corrected and should not have authorized the 100% completion payment without the final permit. According to the Rehabilitation Program Handbook (Housing Rehabilitation Standards), "<i>All rehabilitation performed will conform to all applicable codes, statutes, and ordinances relating to use and occupancy.</i>" Without the final permit, Housing will not be able to document compliance with this standard.</p>

<b>Project</b>	<b>Permit Status at the Building Division</b>	<b>Housing Response</b>	<b>Auditor Conclusion</b>
E94072 Grant \$2,070. Major bathroom renovation, plumbing-related.	No permit issued in 1995.	No permit required because the product installed was pre-approved. Work involved particle board replacement. The board sat on top of the subfloor. The trap under the tub was leaking onto the floor; no structural work was done.	According to the Building Division, a building permit is required if the subfloor, shower pan, water piping, etc., were changed, added or repaired. Also, a 4/20/95 change order indicated that a new faucet was installed. According to Building, this faucet installation also required a plumbing permit.
H95035 Grant \$3,300 Window and door repair, electrical receptacles, roof leaks. The contractor's proposal included a work item to <i>"re-wire failing receptacles to code."</i>	No permits issued in 1995. According to the Building Division, an electrical permit is required for rewiring.	No permit required. Loose receptacles were not connected properly. Work involved using the same wire and reconnecting the existing wire.	According to the Building Division, installation of GFI receptacles requires an electrical permit and inspection.

## APPENDIX E

### **MOBILEHOME PROJECTS FOR WHICH THE STATE HCD DOES NOT HAVE A RECORD OF FINAL PERMITS**

Project	Permit Status per HCD	Housing Response	Auditor Conclusion
M93084 \$26,938 loan. Roof, furnace service, leveling, swamp cooler, ceilings, exterior painting, earthquake bracing, master bath, plumbing, exterior carpeting, flooring (vinyl and carpet).	Permits required for roof and earthquake bracing. Roof permit #4N232-01 on file, but the permit is still open; there has been no request for inspection. No earthquake bracing permit on file.	Yes, a permit was required for both work items. This was an oversight on the part of the contractor. He is in the process of applying for an earthquake permit right now. Fortunately, HCD has no time limitation on permits. The project is closed as far as Housing is concerned.	Housing should not have authorized the 100 percent completion payment without the final permits. According to the Rehabilitation Program Handbook, . . . <i>"Neither the Inspector nor the Supervisor will authorize the 100 percent completion payment . . . until all Building Permit sign-offs have been made."</i>
18074 \$6,800 loan. Roof replacement, new carpet, plumbing, oven, water heater, earthquake bracing.	No permits on file. Permits required for roof replacement and earthquake bracing.	The contractor did not obtain the final permits because he received only 80 percent payment. A new owner took over and could not locate the record of permits.	The Rehabilitation Program database shows this project as completed on 11/20/95. Housing should not have considered the project as completed without the final permits.
M95020 \$6,034 loan. Replace deteriorated roof, water heater, exterior carpet, stairs, and column.	No permits on file. Permit required for mobilehome alteration.	The contractor has now provided Housing the document showing that HCD approved the work.	The permits were not on file at the time of our review. Housing should not have authorized the 100 percent completion payment without the final permits.
M94019 \$15,000 loan; E94023 \$989 grant. Roof, swamp cooler, repair carport, new skirting, quake bracing, new carpet, ceiling repair, new shower doors, faucet replacement.	Permit required for roof. Roof permit #4N271-11 on file, but the permit is still open.	The contractor has now provided Housing the document showing that HCD approved the work.	The permits were not on file at the time of our review. Housing should not have authorized the 100 percent completion payment without the final permits.
M94029 \$3,700 grant. Roof and furnace replacement.	Permit required for roof. Roof permit #5N061-26 on file, but the permit is still open.	The contractor has now provided Housing the document showing that HCD approved the work.	The permits were not on file at the time of our review. Housing should not have authorized the 100 percent completion payment without the final permits.

<b>Project</b>	<b>Permit Status at the Building Division</b>	<b>Housing Response</b>	<b>Auditor Conclusion</b>
E94040 \$3,000 grant. Water re-pipe, repair front stairs.	No permits on file. Permit required for water re-pipe.	No permit required because the contractor did not " <i>expand the envelope.</i> " Any replacement within the building shell does not require a permit. The plumbing work involved redoing what was already there, so no permit was required.	Upon review of the contractor work list, State HCD confirmed that a permit is required for the re-piping work.
E95010 \$5,000 grant. Install new forced air heating system.	No permits on file. Permit required for new forced air heating system.	No permit required. Any replacement within the building shell does not require a permit.	Upon review of the contractor work list, State HCD confirmed that a permit is required for the new forced air heating system.
M94043 \$4,950 grant. Smoke detectors, copper piping, replace oven, water heater, dishwasher, kitchen ceiling light, glass sliding door.	No permits on file. Permit required for new copper piping.	No permit required. Work consisted of no alterations or additions requiring permits.	Upon review of the contractor work list, State HCD confirmed that a permit is required for the new copper piping installed.
M95015 \$6,066 grant. New roof, replace exterior carpeting, replace water heater, service furnace, replace kitchen faucet, shutter repairs, exterior paint.	No permits on file. Permit required for roof.	No permit required. Work consisted of an in-kind replacement of a composition roof.	Upon review of the contractor work list, State HCD confirmed that a permit is required for the new roof installed.



3. For the following, rate the Rehab Program staff compared to your expectations:

	Much better than I expected	Better than I expected	About what I expected	Worse than I expected	Much worse than I expected	Can not assess
• Ability to do what was necessary to help you	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Courteous/sympathetic/understanding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Asked right questions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Advised you when someone would be there	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Verified information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. Overall, how satisfied were you with the contractor?

Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied	No Opinion
<input type="checkbox"/>				

5. For the following, rate the contractor compared to your expectations:

	Much better than I expected	Better than I expected	About what I expected	Worse than I expected	Much worse than I expected	Can not assess
• Ability to do what was necessary to help you	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Courteous/sympathetic/understanding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Went beyond call of duty to help you	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Quality of work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Advised you when someone would be there	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. What did you like most about the City's Housing Rehab program?

7. What, if anything, could we have done to provide better service?

8. How did you hear about the Housing program?

9. Would you recommend this program to family and friends?

10. I am the homeowner resident: Yes  No

or  
I am the landlord *not residing* at the property: Yes  No

OPTIONAL

Name: \_\_\_\_\_

Address: \_\_\_\_\_

City/Zip: \_\_\_\_\_ Phone: (\_\_\_\_) \_\_\_\_\_

Completed Application

# Department of Housing

The City of San Jose's Department of Housing is committed to providing quality service to its citizens. For this to occur, we must know that the painting contractors who participate in our program are providing quality service to you. This evaluation of your painting contractor's work quality and professionalism is most important to us. Please take a few minutes to answer these questions and return this survey in the envelope provided.

## SECTION I - BIDDING CONTRACTORS

Did the contractors that you called from the City's list

1. Respond to your request for a bid promptly?      yes \_\_\_ no \_\_\_
2. Thoroughly inspect your home and explain work to be performed?      yes \_\_\_ no \_\_\_

## SECTION II - YOUR CONTRACTOR

1. Overall, how satisfied were you with the painting contractor?

Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied	No Opinion
-------------------	-----------	--------------	----------------------	---------------

2. Please rate the contractor in the following areas: (1=Best; 3=Average; 5=Worst) Circle one number that most closely reflects your opinion
  - A. Informed you of when work will begin and finish: 1 2 3 4 5
  - B. Contractor and workers were courteous and professional: 1 2 3 4 5
  - C. Explained what work was to be done and answered any questions you may have had:  
1 2 3 4 5
  - D. Quality of work performed: 1 2 3 4 5
  - E. Returned phone call promptly (within 24 hours): 1 2 3 4 5
  - F. Completed work promptly and according to schedule given to you: 1 2 3 4 5
3. Would you hire this contractor in the future? Yes \_\_\_ No \_\_\_

**PLEASE COMPLETE REVERSE SIDE OF SURVEY**

4. Please use the space below for any other comments, concerns, or recommendations you may have regarding the contractor.

5. Please use the space below for any other comments, concerns, or recommendations you may have regarding the City's Paint Grant Program.

Contractor Name \_\_\_\_\_ (All Information in this survey is confidential)

**OPTIONAL**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

City/Zip: \_\_\_\_\_ Phone: \_\_\_\_\_

## APPENDIX G

### **EXAMPLES OF NEGATIVE SURVEY COMMENTS FROM HOUSING'S CUSTOMER SATISFACTION SURVEYS**

#### **Inadequate inspection or monitoring from the Rehabilitation staff**

- (The contractor's workers) came out 1st day and said they were going to power clean, they did but they also started painting the same day. Painted in rain. Charged me \$250 to paint my eaves (same color because they said they were spraying on House paint or eaves would need to be covered, but they had to protect roof tiles anyway. I was very unhappy with having to pay them out of my own pocket because I didn't really have the money. They should have included the cost in their bid to you. They also needed to do clean up on splattered paint on house and also one section on side not done, but they said for me to wait for the city inspector to come out and they will call them to finish up. Very unconcerned with any follow-up or concerns I had.

*(Regarding the City's Paint Grant Program)* I would suggest that you have the contractor submit bid in full to you and not partial just to get the job. I still have had no one from the City's Program come and inspect job, nor return any of my tel. calls. Is anyone going to be out here to inspect job?? I would also like a tel. call in regards to me having to pay \$250 for eaves painted same color as original.

- (The contractor) didn't start or finish the house when he said. He did not use the color I chose for the trimming. I had to buy what little paint he had left over and take it to Kelly-Moore paint store, buy a gallon of paint and have it mixed to match the color he used and paint over the 5 different colors he used for the trimming. If possible (Housing should) check or observe the work while in progress periodically. Talk to the homeowners to see if there are problems going on with the contractor work and this could be done by phone call. I still think it's a good program and I hope it will be continued.
- *(Overall, how satisfied were you with the contractor?)* Dissatisfied

*(What, if anything, could we have done to provide better service?)* Other than to monitor the contractor, nothing.

*(Would you recommend this program to family and friends?)* Yes. But I would very much caution them to be careful about the contractor they use.

- It appeared that (the contractor) only wanted the money, seemed like it was the focus point. He contacted me for the job on time but the work was kind of sloppy, unprofessional. He was rude and loud and tacky. The paint on the windows starts to peel off. And the paint was so thick that it is hard for me to close and lock or unlock the windows. I do not

recommend this contractor with any other resident. I also hope the City will keep close monitor on this and drop this contractor from the list.

- (*Overall, how satisfied were you with the contractor?*) Dissatisfied

(*What, if anything, could we have done to provide better service?*) Check better on the contractor and their people who do the work.

- Due to monetary cut-backs, (the rehabilitation inspector) was overloaded with responsibility.

### **Unreliable or unresponsive contractors**

- (The contractor) always told me "If anything goes wrong -- you always know where to find me!" He cheerfully responded when he had to come back and redo porchdoors, etc., but even though he told me the same thing re the '94 work -- he's become very testy to (the) point I'm just living with the problems from toilet, and sink he installed rather than call him again -- sure it's been more than a year since he did the work but they were defective from day one. I have letters to him dated August 26, 1994, October 17, 1995, and February 21, 1996, regarding plumbing problems and door. I have one letter to (the rehabilitation inspector) re 11-94 some of these problems. If the bedroom window had been repaired right at the time I wouldn't be dealing with a leaky one now.
- Had to wait two months for painters. They claimed they were overbooked with jobs. Because he had underbid, he didn't want to paint the trim; the contract said "Spot prime", he primed nothing; he missed many areas; and I had to repaint all the doors because of poor workmanship. Our contractor gave a very low bid to get the job. Then came out to our home to do the kind of job he bid for -- quick, thin, sloppy and unprofessional. He had the idea that since we only had to pay 20 percent we shouldn't be picky with the quality of work. We had a friend who got his house painted also. He had the same problem. The contractor even said, "What do you expect for free." I was under the impression that the City paid them the full contract price.
- (The contractor) would tell me he would be out to wash my home then wouldn't show up. The last call I got from him he stated his crew would be out on Tuesday to wash my home. It was very hot that week -- I have two dogs -- I ask him for sure he would be there; he said yes... Well, no one showed up. They came Wed. Then four days went by. I had called to tell him his crew did a terrible job of washing. He stated he would be out to wash on Mon. They showed up Thursday. I had to call Wed night to let him know his crew still hadn't gotten dirt off home and two sheds. Well, they painted Thursday over dirt and needles on the sheds. Didn't get oil off back of the top of home. Oil bled through the paint. I am certainly glad you are now sending out surveys to your consumers because I hope no one has to go through the frustration that I have had go through. Almost gave me ulcers.
- They basically did a good paint job and the crew was nice. However, phone calls were not returned. They made appointments and did not show up or even call and explain why they

weren't showing up. Very, very bad business practice. Even if they did happen to return a call, they would usually blame things on somebody else.

- At first, (the contractor) seemed helpful but once he started painting it was his way or no way. When we pointed out spots that had been missed, he seemed perturbed, kind of acted like he was doing us a favor.

*(Regarding the City's Paint Grant Program)* Very helpful program. Ilse was efficient and helpful. Thank you for making this available!

- My contractor misled me. He led me to believe that the preparation work would be supervised by him and yet I had to call him several times because it hadn't been properly done. For instance, they painted a primer coat while it was raining! They weren't even scheduled to come that day but I think he had a crew who couldn't work at a full fee place that day. Also (the contractor) said he would paint my gutters and on the day he painted told me he wasn't!

*(Regarding the City's Paint Grant Program)* The program overall is excellent. A great service for residents of San Jose. I wish I had been more careful with a contractor.

### **Lacking or inadequate work write-up**

- None of the contractors ever discussed the details of their bids. I have a 2-story house with a deck over the garage in the front of the house. There are wood shingles on the wall over the garage. There are 4 other houses on my block exactly like this. Three of them have the shingles painted and I wanted the shingles on my house painted. (The contractor) did not paint the shingles and asked for \$100 to paint them. Eventually, we settled for \$50. Had we discussed the scope of the work to be done, this could have been avoided.

The door knob and light fixture on my second story balcony were painted rather than left in their previously finished state.

The walls on the second story balcony were not properly prepared prior to being painted and as a result look sloppy.

There is paint overspray on several windows that still needs to be removed.

It still appears as though there is an area on the second story that is unpainted.

- (The) homeowner should receive a copy of contractor's fully-itemized bid before allowing contract to be signed and finalized.

### **Sloppy or incomplete work**

- Painters need to be more thorough during prep work (filling holes in stucco, cleaning wall before painting).
- He rushed through this job. He didn't properly prep all the areas on my house, his workers were sloppy--not only with the paint, but they broke a sprinkler and decorative border in my yard. He also started to paint the trim the wrong color.

*(Regarding the City's Paint Grant Program)* I think that this is a wonderful program. If it were publicized more, I believe a lot more people would take advantage of this great program the City offers.

- The contractor did not perform all the duties that he had listed on his bid. He did not power wash the house and only primed 1/2 the house. When confronted on why he didn't wash and prime the entire house as stated on his bid, he replied by saying it did not need it.

*(Regarding the City's Paint Grant Program)* I think the Paint Grant Program is an excellent program to have.

- What could have been completed in 2 weeks maximum took over 1 month to complete. Very unprofessional. I was informed after work started that the contractor had no insurance. Very unprofessional. Overspray on my 2-years old oak deck has still not been resolved. I still have my notice of completion that I have not signed or sent in until my deck issue is resolved.

*(Regarding the City's Paint Grant Program)* The program is wonderful. Perhaps a more detailed screening of the contractors available would be necessary. I am very fortunate to be able to qualify and utilize this program in my home town of 52 years. Thanks for your help.

- The work was OK. However, I think a better job of preparation of the surfaces could have been done (sanding, etc.)
- The contractor did not inform me on any repairs or replacement of any part of the exterior of my home. There is obviously repairs that should have been taken care of prior to painting. A primer was never applied and there was no sanding or scraping of the house done. He was very much in a hurry and obviously needed to get the job done pronto.
- When something is being paid for by someone else you have to take what you get. I don't feel that the paint job will last for a year.

### **Discourteous contractors**

- Need to educate and (be) more selective about the contractor to understand the homeowner's feeling and to be more courteous.
- They dented my mobile home, they did not apologize, they did not fix.

*(Regarding the City's Paint Grant Program)* Bad workers, not courteous.

- This contractor is unprofessional and downright rude. I own my own business so I know how to deal w/ customers. This person doesn't. He didn't start when promised, didn't do good work and then wanted to argue when asked to make it right.

*(Regarding the City's Paint Grant Program)* Excellent program.

- The two guys that came to do the work were using foul language around my 3 years old son. He wanted to watch from the window and they had no discretion about what they said around me (Mother) or my son. Didn't do back stairs or wrought iron rail. No Prime coat applied to house. Found a few areas not fully covered by paint. Tried to talk to the owner/manager about a broken brick fence and he was very rude. One of the guys leaned up against it (Neighbor saw) and it cracked.

*(Regarding the City's Paint Grant Program)* I was very pleased to hear of a program to help family's like mine to upgrade our house.

### **Contractor selection**

- Divide the work in several kinds: roofing, carpeting, painting, etc. -- and give the job to different professionals instead of one contractor does everything -- This could be faster and the cost will be lower.

### **Project took too long**

- It took us about a year for the whole process. It would have been nicer to have been done within a shorter time.
- Streamline application so it is not 10 steps that take months then another and more months. This should all be done at same time, give realistic time for waiting, provide insurance.
- Shorten the time of wait, until work starts.
- Improve timeliness, (be) more informative.

### **Difficult to contact contractors**

- It was difficult to contact contractors -- Could the Department do it for us?

### **Need more information**

- Improve timeliness, (be) more informative.
- A little more info and letting us know about status of loan.
- Keep in touch with the person that applies for the loan.
- Be more explicit in explaining Rehab Program and its financing. Seems almost too good to be true.

### **The contractor wanted the papers signed before the work was done**

- (The contractor) wanted me to sign paper before work was done. After completion I asked about the trim. I wanted to check the guidelines. He got mad at me and left -- without a good-bye. Was rude.

*(Regarding the City's Paint Grant Program)* I want to thank you for Ms. Gross. She was wonderful. She took the time to help me. I have learning problems and she was helpful so I could fill out the form.

**HOUSING DEPARTMENT STAFF  
CONTRACTOR EVALUATION FORM**

CONTRACTOR: \_\_\_\_\_ DATE: \_\_\_\_\_  
PROJECT #: \_\_\_\_\_  
OWNER: \_\_\_\_\_ PROJECT COST: \_\_\_\_\_  
COMPLETION DATE: \_\_\_\_\_

Score the contractor on each of the five categories on a scale of one to five. One for very poor performance, five for excellent. Use the information on the reverse side as an aid in using this form.

Enter total score in the space below (1-8=unsat. 9-17=avg. 18-25=excl.). An "unsatisfactory" score must be accompanied by an explanation in the comments section.

- 1. CUSTOMER SERVICE / RELATIONS \_\_\_\_\_
  - 2. SCHEDULING AND TIMETABLE PERFORMANCE \_\_\_\_\_
  - 3. MATERIALS AND WORKMANSHIP \_\_\_\_\_
  - 4. FINANCIAL RESPONSIBILITY & PERFORMANCE \_\_\_\_\_
  - 5. CONTRACTOR / INSPECTOR RELATIONS \_\_\_\_\_
- TOTAL SCORE \_\_\_\_\_

COMMENTS  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

INSPECTOR ACTION: \_\_\_ Evaluation to contractor and job files  
OR  
INSPECTOR RECOMMENDATION TO TRC:  
\_\_\_ Extend Probation \_\_\_ Warning Letter \_\_\_ Debarment

Inspector \_\_\_\_\_ Date \_\_\_\_\_

### 1. CUSTOMER SERVICE/RELATIONS

Did the contractor work well with the owner/tenant? Did the contractor tend to create or solve problems? Did you have to get involved in a lot of mediation? Were punch lists and call backs handled quickly? Was the home owner kept well informed on materials selections, work schedules, project timetables, finish product quality, etc.? If the owner was difficult to work with, consider that in your scoring.

### 2. SCHEDULING AND TIMETABLE PERFORMANCE

Were plans submitted and permits pulled in a timely manner? Did work commence and proceed at an acceptable pace? Were subcontractors and labor scheduled effectively and efficiently? Did the contractor's relationship with the Building Department contribute to or detract from the expedient completion of the project? Were relocation time tables and procedures honored? Consider any factors that were beyond the contractors control.

### 3. MATERIALS AND WORKMANSHIP

Were the appropriate or specified materials used? What was the level of craftsmanship? Was the work done to the bare minimum requirements or to some higher standard? Was the owner satisfied? Were you satisfied?

### 4. FINANCIAL RESPONSIBILITY & PERFORMANCE

Were subcontractors, materials suppliers, and laborers paid on time? Were there any money disputes during the project? Did the contractor budget the project well? Did the contractor maintain required insurance coverage? Did contractor follow contractual agreements? Was she or he cooperative in the ongoing project documentation process.

### 5. CONTRACTOR / INSPECTOR RELATIONS

Were you able to work out problems with the contractor in a constructive way? Was the contractor creating problems for you or the department as a result of his interaction with the home owner? Did he make your job easier or more difficult? Did you trust the contractor to work consistently at an acceptable performance level without excessive intervention on your part? If you were difficult to work with consider that in your scoring.

#### INSTRUCTIONS FOR USING AND FILING CONTRACTOR EVALUATION:

If contractor performed at an acceptable level the inspector will place a completed copy of this form in the job and contractor files. It may be desirable to keep a personal file as well (optional).

If performance was "unsatisfactory" the inspector will take the form to TRC (Technical Review Committee) and make his/her recommendation for further action.

TRC will consider the case and decide whether or not disciplinary action is in order and what action to take. File case as explained above and submit copy to supervisor with Notice of Completion.

APPENDIX I

CITY OF SAN JOSE - MEMORANDUM

TO Gerald Silva  
City Auditor

FROM Alex Sanchez  
Director of Housing

SUBJECT HOUSING REHABILITATION  
PROGRAM ACCOMPLISHMENTS

DATE April 11, 1997

APPROVED \_\_\_\_\_ DATE \_\_\_\_\_

The Department of Housing's rehabilitation programs have served City of San Jose residents for more than 21 years, providing grants and low-interest loans to assist lower- and moderate-income homeowners and mobilehome owners and owners of rental property occupied by lower-income households make repairs needed to ensure the health and safety of all residents.

Recognizing that the need for housing rehabilitation services in San Jose is great, the Department has implemented a number of improvements to these programs since 1991 to increase the level of service provided to City residents and meet the goals and objectives set forth in the Annual Operating Budget, the Five-Year Housing Investment Plan (and its predecessor document, the Report of the Mayor's Task Force on Housing) and the Consolidated Plan (and its predecessor, the Comprehensive Housing Affordability Strategy). These improvements, which have received the full support of the City Council and the City Manager, have been designed to accomplish a number of goals: increase production; reduce per-unit costs; reduce processing times; and improve service to our customers.

The success of these improvements is reflected in the program performance data for the last several years:

<u>Fiscal Year</u>	<u>Units in Rehabilitation Loans/Grants</u>	<u>Average Amount of Rehab Loans/ Grants</u>	<u>Units in Paint Grants</u>	<u>% of Rehab Applications Approved/Cancelled Within 120 Days</u>	<u>Number of Rehab Staff</u>
1990-91	146	\$ 23,658	99	19%	20
1991-92	179	\$ 25,099	92	24%	19
1992-93	267	\$ 25,467	233	64%	19
1993-94*	261	\$ 19,038	559	72%	16
1994-95*	193	\$ 14,962	352	65%	13
1995-96*	233	\$ 10,147	770	87%	9
1996-97**	375	\$ 12,250	850	85%	10

\* Staffing cuts sustained in these fiscal years.

\*\* Estimates for current fiscal year based on performance in first three quarters.

As indicated in the statistics cited above, the accomplishments achieved by the Rehabilitation Program since FY 1990-91 include:

- More than doubling the number of dwelling units receiving rehabilitation work, from 146 in FY 1990-91 to an estimated 375 this fiscal year.
- Increasing the number of units being painted under the Paint Grant Program by more than eight times, from a low of 92 in FY 1991-92 to an estimated 850 this fiscal year.
- More than quadrupling the percentage of rehabilitation applications processed within 120 days, from 19% in FY 1990-91 to 87% in FY 1995-96.

These accomplishments have been achieved in an era of declining resources, which resulted in the size of the staff assigned to the Program being reduced by half. The Department has been able to achieve these results through an ongoing process of continuous improvement. Using this process, the Department has been able to substantially streamline its operations without sacrificing adherence to sound lending practices and the requirements of Federal and State regulations governing the use of affordable housing funds.

The first comprehensive handbook of Rehabilitation Program policies and procedures was adopted in 1992. A revised handbook was issued in 1994. Since 1994, the Department has continued to document changes to policies and procedures through memoranda to staff signed by the Director.

Some of the changes made by the Department in the Housing Rehabilitation Program since the original adoption of the Program Handbook in September 1992 are:

- **Streamlined rehabilitation process.** In 1996, the Department implemented the "Sacramento model" for processing rehabilitation applications. Under this process, the Department's inspection responsibilities have been substantially reduced to preparing a deficiency list, reviewing the scope of work and cost estimates prepared by the owner and contractor, and making site visits during construction for draw requests. This process empowers the Program clients to take a much more active role in the repairs to their property. It has been implemented for both rehabilitation loans as well as for mobilehome repair grants.
- **Paint Grant Program improvements.** In FY 1992-93, the Department assigned a dedicated staff person to this Program. Additionally, by producing clearer and more complete instructions to Paint Grant applicants, the staff work has been substantially streamlined. As a result, clients are better able to complete the application, provide the necessary verifications and conduct the bidding process without needing to ask questions of staff. In addition, increased competition in the Paint Grant bidding process has lowered the average grant (from \$2,410 in 1992-93 to \$1,635 in 1995-96).

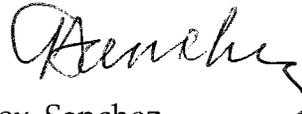
Finally, the Department has recently instituted a procedure whereby the loan officers pre-qualify rehabilitation loan/grant recipients for a paint grant, eliminating the need for a second application which needs to be reviewed by the Paint Grant Coordinator.

- **Contractor Debarment Ordinance.** In 1994, the Department secured City Council adoption of a Contractor Debarment Ordinance for the Rehabilitation Program. Under this ordinance, the Director of Housing can prohibit contractors from performing work funded by the Program for a period of up to three years based on poor quality work, bad customer relations, financial instability and a number of other bases. To date, the Director one contractor has been debarred and another problem contractor is under consideration for debarment.
- **Customer satisfaction surveys.** The Department instituted customer satisfaction surveys for rehabilitation clients in 1995 and for Paint Grant clients in 1996. The results of these surveys allow us to track customer reaction to Departmental staff, contractors and the Program in general. Additionally, they are used to identify patterns of poor performance by individual contractors.
- **Increased emphasis on neighborhood revitalization.** In 1996, the Department established the Focus on Upgrading Neighborhoods (FUN) Program, implementing the City Council's direction for a fixer-upper loan program for homebuyers in the greater Downtown area. Recipients of FUN loans are required to install front-yard landscaping and accept a paint grant, as needed. We are working with the San Jose Real Estate Board to advertise this program to realtors.
- **Elimination of State historic review.** In cooperation with the Department of Planning, Building and Code Enforcement, the Housing Department negotiated and executed a programmatic agreement with the State Historic Preservation Officer (SHPO) that eliminates the need for SHPO review of federally-funded rehabilitation projects on structures in excess of 50 years old. The agreement specifies the procedures to be followed in rehabilitating such structures, such as a requiring like-for-like replacement of siding, roof and window materials and styles.
- **Pre-application improvements.** The Department has improved the clarity and completeness of Program fliers and pre-application counseling, resulting in a substantial reduction in the number of disapproved rehabilitation loan/grant applications (from a high of 138 rejections in FY 1992-93 to an estimated 40 in the current fiscal year).
- **Streamlined loan monitoring.** Deferred-payment loans to fixed-income borrowers -- particularly seniors -- are now deferred for a period of five years rather than three since there is little likelihood that these borrowers will experience the increase in income to support amortization payments. This not only reduces the workload per loan in the

loan monitoring unit, but also makes the periodic recertification of income less intrusive for these borrowers.

- **Efficiency through specialization.** The Department has assigned staff members to specific assignments of responsibilities to take advantage of the efficiencies of specialization. Examples include: assigning document preparation and loan closings to one loan officer even though both loan officers underwrite loans; and assigning mobilehome inspections to one inspector and real property inspections to other inspectors.

In summary, the Housing Department has made significant strides over the past four and a half years to improve the effectiveness and efficiency of the Housing Rehabilitation Program, successfully implementing a host of measures to increase production, reduce per-unit costs, reduce processing times, and improve service to our customers.



Alex Sanchez  
Director of Housing