



The Fresno Housing Authority, Fresno, CA

Public Housing Capital and Operating Fund Programs



To: Jesse Wu, Acting Director, Office of Public Housing, San Francisco, 9APH

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: The Fresno Housing Authority's Procurement of Goods and Services Did Not Always Comply With HUD Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Fresno Housing Authority's public housing capital and operating funds.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



Audit Report Number: 2015-LA-1007

Date: September 11, 2015

The Fresno Housing Authority's Procurement of Goods and Services Did Not Always Comply With HUD Regulations

Highlights

What We Audited and Why

We audited the Fresno Housing Authority due to a complaint alleging that the Authority steered contracts, did not seek competition for all of its required procurements, and did not maintain adequate supporting documentation. The objective of the audit was to determine whether the Authority used its operating and capital funds in accordance with U.S. Department of Housing and Urban Development (HUD) requirements when procuring goods and services.

What We Found

We did not find evidence that the Authority steered its Public Housing Operating Fund and Capital Fund contracts. However, other aspects of the complaint had merit. The Authority did not maintain adequate documentation to support its procurement of security services, financial audit services, window retrofits, and heating and air conditioning upgrades. Additionally, it did not conduct all of its procurement transactions in a manner providing full and open competition. Specifically, the Authority did not seek competition for legal services. Also, it did not seek competition for a change order, which was outside the scope of a renovation project. These conditions occurred because the Authority misinterpreted HUD procurement regulations. Also, the Authority's informal procurement practices did not ensure that it maintained required documentation. As a result, the Authority was at risk of not being able to support that the capital and operating funds it spent on HUD contracts were fair and reasonable and of the best value to the program.

What We Recommend

We recommend that the Acting Director of HUD's San Francisco Office of Public Housing require the Authority to (1) develop written procedures to ensure that adequate documentation is maintained to support the significant history of each procurement and (2) develop written procedures to ensure that adequate competition is obtained for all of its required procurements.

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Background and Objective

The City and County of Fresno established housing authorities in 1940 and 1946, respectively. Each housing authority is governed by a seven person board, two of whom are residents of the housing authority's programs. In 1995, the two Boards of Commissioners signed a joint resolution agreeing to cooperate for the purposes of effectiveness and efficiency. The Authority is managed by the same executive director and staff, but each authority maintains its own financial records. In 2012, the Authority began consistently using the name "The Fresno Housing Authority" to refer to the joint entity for communications purposes, even though the two entities remain legally separate.

The U.S. Department of Housing and Urban Development (HUD) established the public housing program to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. HUD provides funds to local housing agencies that manage housing for low-income residents at rents they can afford. The Public Housing Operating Fund program was developed under section 9(e), and the Public Housing Capital Fund program was developed under section 9(d) of the Housing Act of 1937 as amended. Capital and operating funds are made available to housing authorities to carry out capital and management activities.

HUD authorized the Authority the following assistance for its Public Housing Operating and Capital Fund programs for calendar years 2013 and 2014:

| Calendar year | Operating Fund program | Capital Fund program |
|---------------|------------------------|----------------------|
| 2014 | \$6,023,823 | \$3,037,098 |
| 2013 | \$5,751,427 | \$3,206,494 |
| Total | \$11,775,250 | \$6,243,592 |

We received a complaint alleging that the Authority potentially awarded millions of dollars in contracts improperly. The complainant alleged that the Authority steered contracts through biased scoring, preselection of contractors, and improper relationships. The complainant also alleged that the Authority maintained inadequate supporting documentation for its procurements and did not always seek adequate competition.

The objective of the audit was to determine whether the Authority used its operating and capital funds in accordance with HUD requirements when procuring goods and services.

Results of Audit

Finding 1: The Authority Did Not Always Comply With HUD's Procurement Requirements

The Authority did not always follow HUD requirements or its own procurement policies. Specifically, it did not always maintain adequate documentation to support its procurements and did not always seek competition. These conditions occurred because the Authority misinterpreted HUD procurement regulations. Also, the Authority's informal decentralized procurement practice did not ensure that it maintained required documentation. As a result, the Authority was at risk of not being able to support that the capital and operating funds it spent on HUD contracts were fair and reasonable and of the best value to the program.

The Authority Did Not Always Maintain Adequate Documentation To Support Its Procurements

The allegation that the Authority did not maintain adequate records had merit. We reviewed a sample of 12 contracts with a total not to exceed amount of more than \$23 million. The Authority did not maintain all required documents for 4 of the 12 procurements reviewed. According to HUD regulations, the Authority must maintain records sufficient to detail the significant history of a procurement, which include the rationale for the method of procurement, the solicitation, the selection of contract pricing, contractor selection or rejection (including evaluation reports and price analysis), the basis for the contract price, and contract administration issues or actions.¹

- The Authority did not maintain supporting documentation for its intergovernmental agreement with the police department for security services totaling \$263,400 per year. It believed that it did not need to maintain supporting documentation because the police services were unique. However, the Authority must maintain records sufficient to detail the significant history of each procurement action. This documentation must include the rationale for the method of procurement and the basis for the contract price. HUD regulations recommend, as a best practice, that the Authority's procurement file contain a copy of the intergovernmental agreement and documentation showing that the cost and availability of the identified supplies or services on the open market were evaluated before the agreement was executed.² As a result of our audit inquiries, the Authority prepared an evaluation of cost and availability with supporting documentation during our audit fieldwork. Since that documentation was sufficient to meet program requirements, we did not question the associated costs; however, the Authority should have performed the required steps before entering into the intergovernmental agreement.

¹ HUD Handbook 7460.8, REV-2, paragraph 3.3(A)

² HUD Handbook 7460.8, REV-2, paragraphs 14.2(A)(1) and (A)(4)

- The Authority did not maintain all of the supporting documentation for its financial services contract totaling \$534,360. Specifically, it did not have an independent cost estimate, all documents used to make the contractor selection, and documents to support contract modifications in the procurement file. As a result of the audit, the Authority accessed the files of its former finance director to obtain a summary of evaluations to support the contract award decision. The summary worksheet provided during the audit contained sufficient details to support the Authority's award decision. However, the Authority was unable to provide the independent cost estimate, one of the evaluator's evaluation forms, and notes from the interviews.

Also, each year, the Authority modified the contract by exercising its option to extend the contract through engagement letters. Each year, the engagement letters included contract amounts higher than those agreed upon in the original contract. The engagement letters and letters to the boards of directors did not identify the additional services performed to support these higher amounts. HUD regulations recognize that it is occasionally necessary to modify a contract to reflect changes in the required efforts. These modifications are made by issuing change orders or in this case, engagement letters. These change orders should include a detailed description of the proposed change in work, a price for the change in contract work, and the contractor's itemized breakdown of the cost of materials and labor.³ During our audit, the Authority obtained detailed invoices from its contractor supporting the additional services performed. However, the engagement letters should identify the additional services and the cost of services that are above and beyond those initially contracted for.

- The Authority did not have the independent cost estimate, invitation for bids, or bid documents for its window retrofit and heating and air conditioning upgrade contracts. The total contract amount for both contracts was more than \$1.4 million. Since the Authority did not maintain the required information, we contacted the companies listed on the bid sheet to verify bid information. This outside documentation showed that the bid sheets were accurate so we did not question the costs; however, the Authority must ensure that it maintains documentation in accordance with HUD requirements.

The Authority stated that the lack of supporting documentation for these procurements was a result of its using a decentralized procurement method and a lack of formal written procedures. During this period, various persons handled procurement responsibilities, and each person maintained his or her own files, resulting in missing or misplaced documents. In June 2013, the Authority hired a procurement analyst. In September of 2014, it hired a second procurement specialist to assist in meeting its procurement needs and centralizing its procurement method. The Authority had begun maintaining all procurement documents electronically in one central location. However, it continued to lack written procedures. Written procedures ensure that documentation retained is consistent for each procurement even when the Authority experiences

³ HUD Handbook 7460.8, REV-2, paragraphs 11.4(A) and (B)(4)

staff turnover. The Authority needs to develop written procedures to ensure continuity in its retention of required documentation.

The Authority Did Not Seek Competition for Two of Its Procurements

The Authority did not comply with HUD regulations when it procured legal services. HUD requires that all procurement transactions be conducted in a manner providing full and open competition.⁴ Contracts must not exceed a period of 5 years, including options for renewal or extension. Contracts that exceed 5 years are restrictive of competition.⁵ The Authority exceeded the 5-year maximum contract requirement when it did not competitively award its legal contract between 1985 and 2014. This condition occurred because Authority management misinterpreted HUD procurement requirements for legal services. The Authority's general counsel advised it that it did not have to competitively procure the legal contract. The Authority reprocured its general counsel contract in fiscal year 2014 and complied with HUD regulations for this procurement. To determine whether the amounts the Authority's legal counsel charged were fair and reasonable, we compared the fees on recent purchase orders and engagement letters to the fees in the recently awarded legal contract and found them to be reasonable. As a result, there were no questioned costs associated with the Authority's noncompliance with HUD regulations.

The Authority also violated HUD's competition requirements when procuring construction services for the renovation of housing units totaling more than \$3.2 million. The original scope of the project was to renovate a total of 56 units. However, due to tight American Recovery and Reinvestment Act obligation deadlines, the Authority broke the renovation project into two procurement phases. It funded the renovation of 18 units in phase I with a Capital Fund Recovery Act competitive grant.

The Authority potentially limited competition in the first phase by requiring contractors to provide evidence of \$15 million (aggregate) bonding capacity on the \$1.5 million phase of the project. HUD regulations consider excessive bonding to be restrictive of competition.⁶ There were 12 companies that attended the mandatory site walk. One company stated that it was not possible to obtain such a high bond for a project of that size. The Authority received only two bids for the rehabilitation project. Neither of the bidders had the required bonding amount, and the Authority used this fact to support its determination that both bidders were nonresponsive. As a result, the Authority entered into a sole-source contract with a company that was present at the site walk but did not respond to the invitation for bid. Since Recovery Act requirements allowed the Authority to follow noncompetitive procedures,⁷ it did not violate HUD requirements by sole-source awarding in the first phase of the contract.

When the Authority finalized funding for phase II of the project, it issued a change order to add the additional 38 units to the original contract. The funding for this phase included capital funds but no Recovery Act funds. The contracting officer may issue a change order after the award of

⁴ 24 CFR (Code of Federal Regulations) 85.36(C)(1)

⁵ HUD Handbook 7460.8, REV-2, paragraphs 10.8(C)(1) and (2)

⁶ 24 CFR 85.36(C)(1)(ii)

⁷ Office of Public and Indian Housing Notice PIH-2010-34, section VI, paragraph 5, Noncompetitive Proposals

a contract as long as it is within the scope of the contract.⁸ In its board meeting minutes, the Authority noted that adding the additional 38 units fell outside the scope of the original contract. However, it believed that the funds saved by not going through the competitive process justified issuing the change order to the original contract. HUD policy permits noncompetitive procurements only when the item is available from only a single source; there is a public need that will not permit delay; the awarding agency authorizes it; or after soliciting a number of sources, the agency determines that competition is inadequate.⁹ Therefore, the Authority should have sought competition for phase II of the project. We compared the contractor's bid with the Authority's independent cost estimate and determined that the cost of the project appeared to be reasonable.

Conclusion

The complaint had some merit. We did not find that the Authority steered contracts, but it did not always maintain adequate documentation to support its procurements and did not always seek competition. This condition occurred because the Authority misinterpreted HUD procurement policies and did not maintain written procurement procedures. As a result, it was at risk of not being able to support that the capital and operating funds it spent on HUD contracts were fair and reasonable and of the best value to the program.

Recommendations

We recommend that the Acting Director of HUD's San Francisco Office of Public Housing require the Authority to

- 1A. Develop and implement written procedures to ensure that adequate documentation is maintained to support the significant history of each procurement.
- 1B. Develop and implement written procedures to ensure that adequate competition is obtained for all of its procurements.

⁸ HUD Handbook 7460.8, REV-2, paragraph 11.4(B)

⁹ 24 CFR 85.36(d)(4)

Scope and Methodology

We performed our audit work at the Authority's office in Fresno, CA, from January 20 to May 15, 2015. Our audit covered the period October 1, 2012, through September 30, 2014. To accomplish our objective, we performed the following:

- Reviewed the applicable rules and regulations pertaining to the use of operating and capital funds;
- Reviewed the Authority's 5-year Capital Fund plan to ensure that capital-funded projects were included in the plan;
- Reviewed the Authority's procurement and ethics policies and procedures;
- Interviewed Authority personnel and HUD Office of Public Housing staff;
- Reviewed the Authority's financial documentation, including its general ledger and disbursement journal;
- Reviewed the Authority's procurement log;
- Reviewed a sample of contract files;
- Reviewed purchase orders to ensure that the Authority obtained sufficient competition for small purchases; and
- Performed Accurint searches to determine whether potential conflicts of interests existed.

We selected a nonstatistical sample of 12 contracts to review, which the Authority paid for with operating and capital funds. We selected our sample based on (1) information provided by the complainant, (2) the dollar amount, and (3) the timing of the procurement. The Authority's contract log showed that it awarded a total not to exceed amount of more than \$58.3 million. Of the 12 contracts selected for review, 9 were from the contract log with a total not to exceed amount of more than \$23.4 million, which represented 40.2 percent of the total not to exceed amount. We selected an additional three contracts from the Authority's purchase order log.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Policies and procedures to ensure that the Authority used its public housing operating and capital funds in accordance with HUD requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies

- The Authority did not maintain adequate documentation to support its procurements (finding).
- The Authority did not seek competition for its legal and construction services (finding).

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



August 27, 2015

Tanya E. Schulze
Regional Inspector General for Audit
Office of the Inspector General
U.S. Department of Housing and Urban Development
Office of the Audit (Region 9)
611 W. Sixth Street, Suite 1160
Los Angeles, CA 90017

Dear Ms. Schulze,

Thank you for the opportunity to respond to the draft audit report we received on August 5, 2015 where you reviewed our public housing capital and operating funds. You will find our response attached. We are pleased that the Draft Audit questioned compliance in only a small number of the contracts procured utilizing these funds, and questioned none of the costs associated with those contracts. In addition, we agree with the recommendations that Fresno Housing continue to strengthen its procurement procedures.

Fresno Housing is committed to operating and developing programs that support the housing needs, self-sufficiency, educational and career advancement of our residents. We work diligently to act appropriately, effectively and efficiently to meet the broad needs of our community. We are committed to being good stewards of the public funds entrusted to us for the benefit of the residents of this community and appreciate the feedback offered in this report that will enable us to continue to improve our processes, procedures, and service to Fresno County.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

We also appreciate the professionalism and diligence of the audit team who worked with our staff during the audit period. We look forward to working with HUD to implement your recommendations.

Regards,




Preston Prince
Executive Director/CEO

cc: Stacy Sablan, Board Chair, Housing Authority of Fresno County
Craig Schartor, Board Chair, Housing Authority of the City of Fresno
Tracewell Hanrahan, Deputy Executive Director, Fresno Housing
Melina Whitehead, Division Director, Office of Public Housing, 9APH

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



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**Response of the Fresno Housing Authority
To HUD Office of Inspector General (“HUD OIG”)
Audit of the Fresno Housing Authority:
Public Housing Capital and Operating Fund Program**

Fresno Housing (FH) is pleased to respond to the above referenced draft audit dated August 5, 2015. (“Draft Audit”). During the audit period, FH expended over \$100 million on various contracting and procurement actions across the agencies, and is very pleased that the Draft Audit questioned its compliance in only a fraction of its overall contracting activities. Even in those few cases where HUD OIG disagreed with FH’s approach or recordkeeping practices, HUD OIG agreed that the costs on those limited contracts were reasonable; thus, did not see errors in FH’s contracting processes such as to warrant the reimbursement of Federal funds. While FH does not agree with all of the characterizations about its procurement practices as described in the Draft Audit, FH appreciates the HUD OIG’s willingness to work with FH to review and revise the Draft Audit before its final audit report. HUD OIG has recognized that FH has already taken significant steps to enhance its contracting and recordkeeping systems since the audit period, which was 2013-2014. FH is looking forward to continuing to work cooperatively with HUD to implement the suggested recommendations included in the Draft Audit.

Finding 1: The Draft Audit Found That FH Did, In Fact, Largely Comply with HUD’s Procurement Requirements.

A. FH Has Documentation To Support Its Procurements and Is in the Process of Consolidating the Information in Electronic Files

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3



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HUD OIG found that FHA did not always have “adequate” records to support its procurements; however, FH was able to provide necessary and requested documentation in virtually all cases. As described in more detail below, in one case, FH and HUD OIG disagreed about the type of contracting action; thus, the type of documentation needed. In other situations, FH did have the requested information; however, FH did not keep it in one central file. Prior to the OIG HUD audit, the FH had already changed its record keeping procedures to implement a centralized database and is currently in the process of implementing and finalizing a central electronic filing system for contracting and procurement to make it easier to track audit documentation. However, the lack of a central file during the audit period does not, by itself, mean that documentation was not adequate.

1. Police Services Contract

HUD OIG’s determination that there was not adequate documentation for its police services contract was based on its incorrect conclusion that FH should have selected a security services provider (either law enforcement or a private security company) based on a standard competitive procurement. The services FH contracted for were so specialized that they could not have been provided by security firms or even by other local agencies. Additionally, cost savings were realized because the use of Fresno Police Department (FPD) services was part of an overall community policing initiative. Both the cost effectiveness of the services and the uniqueness of the approach are discussed further in the attached letter from the Fresno Chief of Police Dyer. (See Exhibit.)

The HUD procurement handbook notes that routine intergovernmental agreements require an analysis by a housing authority to determine if such services are economical and efficient. FH strongly asserts that FPD’s services are so unique that it was reasonable for its Boards and

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 4



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staff to conclude that the only source for these services was FPD and that no further analysis would be necessary. The following is a list of some of the unique services provided by FPD that cannot be provided by private security companies:

- Only FPD is authorized by the State of California to access certain personal information or to conduct in-depth criminal investigations which lead to arrests and incarceration.
- FPD officers have immediate access to criminal records, police reports, driver's license information, and criminal history on individuals and locations.
- FPD officers have proprietary access to law enforcement information and tools needed to reduce crime. This would include crime statistics, crime bulletins, arrest records, Canine Units, the Homeless Task Force, as well as the use of special tactics and equipment needed in emergency situations.
- FPD officers have the capacity to serve arrest warrants authorized by issuing judges.
- FPD officers have the capacity to serve emergency restraining orders in response to domestic violence.
- FPD officers may provide expert testimony in court.
- FPD officers are able to conduct parole and probation compliance checks at residences
- FPD officers can immediately arrest, transport, process and book individuals engaged in criminal activity on FH properties.
- FPD officers can conduct investigations that lead to the service of search warrants.
- FPD provides immediate handling of calls for police services made from FH developments.
- FPD officers have access to the CLETS system (California Law Enforcement Telecommunications System), a mobile database

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 4

Comment 5



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with access to Californian, National and Canadian law enforcement records.

HUD Handbook 7460.8 REV-2 (the "Handbook") provides recommendations for actions that can be taken when entering into an intergovernmental agreement. It provides several examples of intergovernmental agreements, which include "paying a City for the cost of additional police patrols (i.e., for special "community policing" efforts) so long as those patrols are above and beyond those that the police department would provide under the PHA's Cooperation Agreement with the City." While HUD clearly contemplates that simple security services to be sufficiently routine enough to be covered by an intergovernmental agreement, the FH Boards and staff viewed FPD's services to be unique, and over and above the norm. As indicated in Chief Dyer's letter, these services are effective and also efficient; thus, the additional analysis was not needed. Regardless, as HUD OIG points out, FH prepared a cost evaluation and analysis which documents that the FPD agreement was executed with consideration of cost reasonableness, and also took into account the unique additional services being provided by the FPD. We appreciate HUD OIG's acceptance of this additional support.

2. Financial Audit Services Contract

Contrary to HUD OIG's assertion, the FH had documentation to support the increases to its financial audit services contract. As FH explained to HUD OIG, the increases in the contract amounts were in response to a request by HUD for FH to provide two separate audits for the jointly-operating Agency and other audit information, which could only be provided effectively and efficiently by the same provider. HUD OIG points out that HUD regulations clearly recognize the need to modify contracts to reflect changes in required effort; thus, there is no dispute

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 6



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that the contract modifications were permissible. The documentation to support the changes were not kept in the FH procurement file, as the need arose after the procurement was completed. Such documentation was in the FH finance department, which had possession of the detailed invoices which supported the additional work. FH appreciates HUD OIG's recognition that the documentation did exist and will continue to work with HUD OIG and HUD on additional procedures related to how the information is maintained.

3. Window Retrofit, Heating and Air Conditioning Upgrade

During the audit period, FH did not maintain centralized contracting and procurement files. As mentioned above, FH is already in the process of implementing new processes and procedures to centralize its documentation. FH appreciates HUD OIG's willingness to seek outside information to support this procurement and will continue to work with HUD OIG and HUD on implementing the recommendations contained in the Draft Audit.

B. FH Does, In Fact, Conduct Its Procurements Using Open and Fair Competition In Accordance with Applicable Requirements.

1. General Counsel Legal Services

As noted in the Draft Audit, FH acted upon advice of prior counsel when it did not procure legal services every five years. FH has since corrected this matter and properly procured its current general counsel contract. Further, the HUD OIG confirmed that costs paid for prior counsel were reasonable.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 7



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2. American Recovery and Reinvestment Act (Recovery Act) Development Project

HUD OIG's draft finding that FH did not always seek competition is based on a misunderstanding of the facts in this case. The project in question, Pacific Gardens, was contemplated as one complete project and FH asserts that the procurement process was appropriate and competitive, and is well-documented in FH's files. FH maintains that the performance bond originally contemplated for the project was reasonable given the circumstances of the project. HUD OIG's determination that there was not sufficient competition is based on the faulty premise that the project was, in fact, two separate projects that should have been bid separately. Since funding was initially not available to support the total desired scope of work, the project was, for a period of time - and only on paper - broken up into parts so that Capital Fund Recovery Competition (CFRC) funding available to the project could be utilized. Before any construction was initiated, the FH was able to secure the needed funding for the entire project, and the actual project was completed as one phase, and therefore, only one procurement process was necessary.

By way of background, Pacific Gardens is a 56-unit development funded with CFRC Grant funds and was subject to various American Reinvestment and Recovery Act (ARRA) program requirements, including strict obligation deadlines and procurement policies. The rehabilitation of all 56 units and new construction of the community building were initially contemplated, as suggested in the initial Invitation for Bids. The project financing plan anticipated low-income housing tax credits (LIHTC), but the award was uncertain at the time leading up to the CFRC obligation deadline. Since adequate funding for the full project was not committed at that time the strict CFRC

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 8



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obligation deadlines were approaching, FH proceeded with procurement of contractors for improvements relating to 18 of the 56 units, so that the funds could be obligated and potentially used for this work. During this time, FH remained hopeful that the balance of the financing plan would come to fruition as the authority awaited the results of the tax credit application.

Once an award of tax credits was made, the original larger project was able to move forward, which included the balance of the 38 project units and a new ADA-compliant 1,500 square foot community building. In the end, there was one single project, one financing package and construction work completed all at once with one Notice to Proceed. The full scope of the project was reported to HUD as being completed with CFRC funds, not just the first 18 units, which is further evidence that FH treated this development as one project.

The Draft Audit recognizes that FH did not violate HUD procurement requirements with respect to the first 18 units, and also recognizes that change orders are permissible. FH simply disagrees with HUD OIG's assertion that Pacific Gardens was ultimately two phases. The project was actually executed as one phase and all sources were used for the complete project. As such, FH followed the specific procurement procedures applicable for the CFRC grant, and thus, the project as a whole. We appreciate HUD OIG's determination that, despite our differences of opinion regarding actions taken, the cost of the project was reasonable.

FH thanks HUD OIG for its review and looks forward to continuing to work cooperatively with HUD OIG and HUD to implement the suggested recommendations included in the Draft Audit.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

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July 8, 2015

Preston Prince
Executive Director/CEO
Fresno Housing Authority
1331 Fulton Mall
Fresno, California 93721

Dear Mr. Prince:


Reference: City of Fresno Police Department Services

This letter is regarding the long-standing Inter-governmental Agreements (IA's) that the Fresno Police Department (FPD) has had with the Fresno Housing Authority (FHA). FPD officers have supplied services to FHA that cannot be provided by private security forces or other jurisdictions. FPD enforces laws within our jurisdiction in accordance with California statutes and FPD policies. We provide patrol services, conduct arrests, enforce warrants, access criminal background databases, and exercise other police powers that, in many instances, no other entity would be authorized to use within the city limits under California law. In this capacity, we have provided, pursuant to the IA's, the full-time services of two (2) sworn police officers in two targeted areas of the city: southeast and southwest Fresno. These areas contain some of FHA's largest public housing sites and, unfortunately, have historically been neighborhoods with some of the highest crime rates in the city.

The additional officers provided under our IA's with FHA are part of an overall strategy to reverse these crime rates and implement a unique, cost-effective community policing approach that emphasizes partnerships and problem-solving instead of mass arrests. As the *Washington Post* very recently noted in a feature story on our efforts, our work has been credited with a significant decrease in gang-related violence, particularly in southwest Fresno. This proactive approach to policing saves time and money by reducing the number of police calls at public housing sites in the targeted neighborhoods. By preventing crimes before they happen and by being proactive when relatively minor crimes occur, not only are the public housing communities safer, but we prevent the costly destruction of property that often is caused by more significant criminal activity.

The FPD is the only entity within this jurisdiction to provide these services in the city, use of the FPD through an Inter-governmental Agreement is the most efficient and most economical way for FHA to prevent crime in and around FHA developments. No other entity in the city can provide the services that FPD provides, including having access to criminal records that assist with our community policing efforts. Absent the IA's, we

Police Department
Jerry P. Dyer
Chief of Police



Professional, Effective, Timely

Auditee Comments and OIG's Evaluation

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would not be able to work seamlessly with FHA on this proactive and successful strategy.

I hope the above is helpful. Please, do not hesitate to contact me at 559-621-2222 should you have any questions.

Sincerely,



Jerry P. Dyer
Chief of Police

c: Ashley Swearengin, Mayor
Ms. Ophelia B. Basgal, Regional Administrator, Region IX, HUD

OIG Evaluation of Auditee Comments

- Comment 1 Although the Authority was able to provide some documentation, it did not maintain this documentation in its contracting file as required. In the report we identified the supporting documentation the Authority provided, however, it was unable to provide all supporting documentation required by HUD regulations.
- Comment 2 HUD Handbook 7460.8, paragraph 3.3(A), states that supporting documentation **shall** be placed in the procurement file. The lack of documentation in a procurement file is a violation of HUD requirements.
- Comment 3 We did not state that the Authority should have used a competitive process. We understand that by using an intergovernmental agreement that Authority is allowed to bypass competitive procedures. However, the Authority is still required to maintain documentation to support its procurement. The Authority's procurement file contained the contract only. There was no documentation in the file to support the Authority's decision to use the intergovernmental agreement, the basis for the contract price and contract administration actions.
- Comment 4 We disagree with the Authority that additional analysis is not needed. As stated in Comment 3 the Authority must document its decision to use the intergovernmental agreement. This may be as simple as using the letter from the chief of police attached to its response. Also, the Authority must analyze the contract price and provide documentation to support the contract price. However, when the Authority provided the contract file it did not include documentation to support the contract. As a result of our audit, the Authority obtained a letter from the chief of police, compiled recent crime statistics, and prepared a cost analysis. In the future the Authority should include this supporting documentation in the contract file to comply with HUD regulations.
- Comment 5 We understand that HUD required the Authority to provide two separate audits. We did not question the dollar increase for this new requirement. However, the Authority increased the contract amount on three additional occasions. On these occasions the Authority did not have adequate supporting documentation to support the increases in the contract amount.
- Comment 6 We disagree that the Authority maintained the supporting documentation in its finance department. The Authority provided invoices to support the payments made to its contractor. However, the invoices did not identify the additional services provided which resulted in the higher contract amount.

During the audit we requested documentation to support the additional services provided. The Authority contacted its contractor and the contractor was able to provide invoices which identified the additional services provided and the number of hours charged. As a result, we did not question the increases in contract amount. However, the change orders or engagement letters in the contract file

should identify the additional services and cost of the services that are above and beyond those initially contracted.

Comment 7 We disagree with the Authority that the Pacific Gardens project was done in one phase. We understand that the Authority's intention was to perform the rehabilitation of all 56 units under one contract. However, the Authority broke the project into two different procurement phases when it had to award a contract for 18 units to ensure it did not lose its Capital Fund Recovery Competition funds. As a result, the Authority should have followed competitive procedures for the second phase of the project.

Comment 8 The report states that a change order may be used after the award of a contract, as long as, it is within the scope of the contract. The additional 38 units the Authority added by a change order were not within the scope of the original contract. As a result, the Authority should have used competitive procedures to procure rehabilitation services for the 38 units.