



# The Housing Authority of the City of Annapolis, MD

## Public Housing Program



**To:** William D. Tamburrino, Director, Office of Public Housing, Baltimore Field Office, 3BPH  
*//signed//*

**From:** David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia Region, 3AGA

**Subject:** The Housing Authority of the City of Annapolis, MD, Did Not Always Follow Applicable Procurement Requirements

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 Housing Authority of the City of Annapolis' procurement activities.

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 215-430-6734.



**Audit Report Number: 2016-PH-1007**

**Date: September 27, 2016**

**The Housing Authority of the City of Annapolis, MD, Did Not Always Follow Applicable Procurement Requirements**

## Highlights

---

### What We Audited and Why

---

We audited the Housing Authority of the City of Annapolis' procurement activities due to a hotline complaint. The complaint alleged that the Authority failed to follow procurement requirements. This is the second of two audit reports on the Authority.<sup>1</sup> Our audit objective was to determine whether the Authority procured services and products using operating and capital funds in accordance with applicable requirements.

### What We Found

---

The Authority did not always follow applicable requirements when it procured services and products. The allegation in the complaint had merit. Specifically, it (1) did not document cost estimates before making purchases or selecting a developer, (2) did not make purchases competitively, (3) acquired services and products without having contracts in place, (4) paid vendors for services after their contracts had expired, (5) did not select a developer competitively, and (6) did not properly extend a contract. These conditions occurred because the Authority lacked controls to ensure that it complied with applicable requirements. As a result, the U.S. Department of Housing and Urban Development (HUD) had no assurance that the prices the Authority paid for services and products using \$3 million in Federal funds were fair and reasonable.

### What We Recommend

---

We recommend that HUD require the Authority to (1) provide documentation to show that prices paid for services and products totaling \$3 million were fair and reasonable or reimburse the applicable program from non-Federal funds for any amount that it cannot support, (2) develop and implement controls to ensure that it complies with all applicable procurement requirements, and (3) provide training to all employees involved in the procurement process.

---

<sup>1</sup> Audit Report 2016-PH-1006, The Housing Authority of the City of Annapolis, MD, Did Not Always Administer Its Resident Opportunities and Self-Sufficiency Program in Accordance With Applicable Requirements, issued August 31, 2016

# Table of Contents

---

|  |           |
|--|-----------|
| <b>Background and Objective.....</b>   | <b>3</b>  |
| <b>Results of Audit .....</b>  | <b>4</b>  |
| <b>Finding: The Authority Did Not Always Follow Applicable Procurement Requirements.....</b> | <b>4</b>  |
| <b>Scope and Methodology.....</b>  | <b>8</b>  |
| <b>Internal Controls.....</b>  | <b>10</b> |
| <b>Appendixes.....</b>   | <b>11</b> |
| <b>A. Schedule of Questioned Costs .....</b>   | <b>11</b> |
| <b>B. Auditee Comments and OIG’s Evaluation .....</b>  | <b>12</b> |
| <b>C. Payment Sample.....</b>  | <b>25</b> |
| <b>D. Schedule of Deficiencies and Unsupported Costs .....</b>                               | <b>26</b> |

# Background and Objective

---

The Housing Authority of the City of Annapolis was founded in 1937 to provide affordable housing in Annapolis, MD, for families who lacked the means to purchase or rent housing at market prices. The Authority's mission is to achieve excellence by providing housing and self-sufficiency opportunities and promoting customer satisfaction to enhance the quality of life for low-, very low-, and moderate-income residents. The Authority is an independent agency chartered by the State of Maryland, funded by the U.S. Department of Housing and Urban Development (HUD), under the direction of a board of commissioners appointed by the mayor of Annapolis. The board of commissioners consists of five members. An executive director, appointed by the board of commissioners, manages the daily operations of the Authority.

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. It provides operating funds annually to public housing agencies for the operation and management of public housing. It provides capital funds annually to public housing agencies for the development, financing, and modernization of public housing developments and for management improvements.

The Authority owns and manages 790 public housing units for 2,500 residents. During our audit period, HUD authorized the Authority the following assistance for its public housing program for fiscal years 2013 to 2015:

| Fiscal year   | Operating Fund program | Capital Fund program |
|---------------|------------------------|----------------------|
| 2015          | \$3,155,627            | \$1,535,627          |
| 2014          | 3,250,166              | 1,564,193            |
| 2013          | 3,020,219              | 1,516,324            |
| <b>Totals</b> | <b>9,426,012</b>       | <b>4,616,144</b>     |

Our audit objective was to determine whether the Authority procured services and products using operating and capital funds in accordance with applicable requirements.

# Results of Audit

---

## **Finding: The Authority Did Not Always Follow Applicable Procurement Requirements**

---

Contrary to HUD regulations and its procurement policy, the Authority improperly procured services and products from 11 of 12 vendors reviewed. Specifically, it (1) did not document cost estimates before making purchases or selecting a developer, (2) did not make purchases competitively, (3) acquired services and products without having contracts in place, (4) paid vendors for services after their contracts had expired, (5) did not select a developer competitively, and (6) did not properly extend a contract. These conditions occurred because the Authority lacked controls to ensure that it complied with applicable requirements. As a result, HUD had no assurance that the prices the Authority paid for services and products using \$3 million in Federal funds were fair and reasonable.

### **The Authority Did Not Document Cost Estimates**

The Authority did not document independent cost estimates when making purchases from 10 vendors totaling more than \$1.6 million and before selecting and providing a developer \$700,000 using Federal funds. Regulations at 24 CFR (Code of Federal Regulations) 85.36(f) required the Authority to prepare an independent cost estimate before receiving bids or proposals. The Authority's procurement policy required it to prepare an independent cost estimate before soliciting for all purchases above its \$2,000 micropurchase limit. The independent cost estimate serves as a yardstick for evaluating the reasonableness of the contractor's proposed costs or prices. It also is used to determine the contracting method to be used. The Authority generally paid each of the 10 vendors more than \$25,000 annually during our audit period.<sup>2</sup> The Authority's procurement policy required it to use the sealed bid method of procurement for these services and products because the total value of the purchase exceeded \$25,000. The policy also stated that the sealed bid method was preferred for procuring these services when the costs were expected to exceed \$25,000. When selecting a development partner, HUD Handbook 7460.8, REV-2, required the Authority to complete a cost or price analysis before submitting proposals to determine an estimated value for the requested services. However, the Authority could not provide documentation to show that it complied with these requirements. As a result, payments totaling more than \$2.3 million were unsupported.

### **The Authority Did Not Make Purchases Competitively**

The Authority did not have documentation to show that it competitively made purchases from 10 vendors totaling more than \$1.6 million. Only 1 of the 10 vendor files had documentation suggesting that the Authority used a competitive process to procure services. In that instance,

---

<sup>2</sup> There were two instances where the Authority did not pay a vendor more than \$25,000 in a year. In one instance, it paid a vendor more than \$22,000 in 2013, and in the other instance it paid a vendor more than \$21,000 in 2015.

the file contained a copy of a request for proposal and a bid summary sheet showing that the Authority received five bids. However, there was no documentation to support the information on the bid summary, and the bid summary showed that one bidder submitted a bid with an annual cost that was \$28,231 less than the bid submitted by the vendor that the Authority paid for the service. Regulations at 24 CFR 85.36(b)(9) required the Authority to maintain records sufficient to detail the significant history of its procurements. These records would include but would not necessarily be limited to the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and basis for the contract price. Regulations at 24 CFR 85.36(c)(1) required the Authority to conduct all procurement transactions in a manner providing full and open competition. Since the Authority did not have documentation to show that it purchased services and products competitively, payments totaling more than \$1.6 million were unsupported.

### **The Authority Acquired Services and Products Without Having Contracts in Place**

The Authority paid seven vendors more than \$1.3 million with Federal funds without having contracts in place when it acquired plumbing services, heating repair services, unit repair services, pest control services, lawn care service, appliances, and maintenance supplies. For five of the seven vendors, the Authority had no contract to support the payments. For the other two vendors, the Authority provided copies of contracts but one contract was signed only by the Authority and it was not dated. The other contract was not signed and dated by the vendor and the Authority. Both contracts had designated places for the parties to sign and date them. A contract is not complete if it is not signed by all parties.

The Authority generally paid each of the seven vendors more than \$25,000 annually during our audit period.<sup>3</sup> The Authority's procurement policy required it to use the sealed bid method of procurement for purchases that exceeded \$25,000 and it also stated that the sealed bid method was preferred for procuring construction, supply, and noncomplex service contracts when the costs were expected to exceed \$25,000. Under the sealed bid method, the Authority awards a contract. Since the Authority did not follow its policy and have contracts in place as required, it could not demonstrate that payments it made were for the work requested. Since the Authority did not have contracts for these services and products, payments totaling more than \$1.3 million were unsupported.

### **The Authority Paid Vendors for Services After Contracts Expired**

The Authority paid three vendors \$951,504 with Federal funds for trash removal, unit rehabilitation and legal services after their contracts expired. Regulations at 24 CFR 85.36(b)(2) required the Authority to maintain a contract administration system to ensure that contractors performed in accordance with the terms, conditions, and specifications of their contracts. The Authority's procurement policy required it to use the sealed bid method of procurement for purchases that exceeded \$25,000 and it also stated that the sealed bid method was preferred for procuring certain services when the costs were expected to exceed \$25,000. Under the sealed bid method, the Authority awards a contract. Since the Authority paid for these services without having contracts in place because they expired, payments totaling \$951,504 were unsupported.

---

<sup>3</sup> In one instance, the Authority paid a vendor more than \$21,000 in 2015.

### **The Authority Did Not Select a Developer Competitively**

The Authority paid a developer \$700,000 with Federal funds for construction services for a mixed-finance project but did not have documentation to show that it competitively selected the developer. Regulations at 24 CFR 941.606(n)(1)(ii) required the Authority to use an open and competitive process to select a partner or owner entity in mixed-finance development of public housing units. In this case, the Authority paid the developer a total of \$700,000 in September and October 2015. However, it could not provide documentation to show that it complied with this requirement. Therefore, the Authority's payments totaling \$700,000 were unsupported.

### **The Authority Did Not Properly Extend a Contract**

The Authority did not properly extend a contract for payments that it made to a vendor totaling \$64,599 with Federal funds. The contract included a clause to extend the term of the contract for three 1-year renewal periods. According to the contract, the Authority had the right to extend the term of the contract upon providing the vendor 120 days prior written notice of its intent to renew before the end of each applicable term. The contract also required any notice to be sent in writing via facsimile, overnight delivery service, or certified mail. However, the Authority did not have documentation to show that it extended the contract. Regulations at 24 CFR 85.36(b)(2) required the Authority to maintain a contract administration system to ensure that contractors performed in accordance with the terms, conditions, and specifications of their contracts. Regulations at 24 CFR 85.36(b)(9) required the Authority to maintain records sufficient to detail the significant history of a procurement. Since the Authority did not have documentation to show that it properly extended the terms of the contract, payments for services totaling \$64,599 were unsupported.

### **The Authority Lacked Controls**

The Authority lacked controls to ensure that it procured services and products according to applicable procurement requirements. According to the Authority, it did not provide adequate oversight of its procurement officer to ensure that it complied with applicable requirements. The Authority's procurement officer resigned on December 7, 2015, the date the Authority received our audit notification letter. During the audit, the Authority explained that it could not locate some of the documentation and files due to the sudden departure of the procurement officer. It also explained that it was not aware that contracts had expired and it could not locate historical documentation related to them. The Authority hired an accountant in February 2016 and assigned procurement duties to this employee in April 2016. This employee had limited procurement experience. In June 2016, the Authority hired a person with some procurement experience from a temporary employment company to assist the accountant assigned procurement duties.

### **Conclusion**

The Authority did not always follow applicable procurement requirements. Contrary to HUD regulations and its procurement policy, the Authority improperly procured services and products from 11 of 12 vendors reviewed. This condition occurred because the Authority lacked controls to ensure that it complied with applicable requirements. As a result, HUD had no assurance that



the prices the Authority paid for services and products totaling \$3 million<sup>4</sup> were fair and reasonable.

### **Recommendations**

We recommend that the Director of HUD's Baltimore Office of Public Housing require the Authority to

- 1A. Provide documentation to show that prices paid for services and products totaling \$3,028,666 were fair and reasonable or reimburse the applicable program from non-Federal funds for any amount that it cannot support.
- 1B. Develop and implement controls to ensure that it complies with all applicable procurement requirements.
- 1C. Provide training to all employees involved in the procurement process.

We also recommend that the Director of HUD's Baltimore Office of Public Housing

- 1D. Provide technical assistance to the Authority to ensure that it properly conducts its procurement activities.

---

<sup>4</sup> To avoid double-counting unsupported costs in our recommendations, we reported costs related to more than one deficiency only once (appendix D).

# Scope and Methodology

---

We conducted the audit from December 2015 through July 2016 at the Authority's office located at 1217 Madison Street, Annapolis, MD, and our offices located in Baltimore, MD, and Richmond, VA. The audit covered the period July 2013 to December 2015 but was expanded when necessary to include the Authority's payments using Federal funds for services and products from vendors without having contracts, properly executed contracts, and properly executed contract extensions.

To accomplish our objective, we reviewed

- Applicable laws and regulations, the Authority's annual plan, HUD's program requirements at 24 CFR Part 941 and 24 CFR 85.36, and other guidance.
- The Authority's program files, procurement files, annual audited financial statements for fiscal years 2013 and 2014, policies and procedures, board meeting minutes, and organizational chart.
- The Authority's payment register, general ledgers, cash receipts journal and other accounting documentation.

We also interviewed Authority employees and HUD staff.

To achieve our audit objective, we relied in part on the Authority's computer-processed data. We used a check register from the Authority's computer system for our audit period to select a sample of vendors and payments to review. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

During the audit period, the Authority disbursed \$9.4 million in operating funds and \$2.7 million in capital funds. The Authority did not maintain a contract register; therefore, we obtained and reviewed the Authority's automated check register for the audit period. The check register showed that the Authority made 5,320 disbursements totaling \$13 million. Using Audit Command Language software, we summarized the 5,320 disbursements by vendor, which indicated that the Authority paid the \$13 million to 480 vendors. Of the 480 vendors, the Authority paid 78 more than \$25,000 during the audit period. The Authority paid those 78 vendors \$11.7 million. We sorted the 78 vendors by total payment in descending dollar value order. The Authority paid the top 25 vendors \$9.1 million. We excluded 13 of the 25 vendors from our review because the payments were for operating subsidies, reserve deposits, utilities, fringe benefits, and insurance. Therefore, our sample included 12 vendors to which the Authority paid \$2.6 million during the audit period, of

which \$2.4 million was Federal funds<sup>5</sup> (appendix C provides details). Although this approach did not allow us to make a projection to the population, it was sufficient to meet the audit objective.

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.

---

<sup>5</sup> \$1.3 million in operating funds and \$1.1 million in capital funds equals \$2.4 million in Federal funds

# 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:

- Effectiveness and efficiency of program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program participants comply with program laws and regulations.

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 Deficiency**

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

- The Authority lacked controls to ensure that it complied with applicable procurement requirements.

# Appendixes

---

## Appendix A

---

**Schedule of Questioned Costs**

| Recommendation number | Unsupported 1/ |
|-----------------------|----------------|
| 1A                    | \$3,028,666    |


- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

## Appendix B

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments



**Housing Authority of the City of Annapolis**

---

Board of Commissioners

Interim Director  
Richard Walton

Sandra D. Chapman, Chair,  
Deborah A. Johnson, Vice-Chair  
Jacquelyn V. Wells, Treasurer  
Elizamae Robinson, Christopher Flynn  
Jeffrey Henderson, Martin Doordan

August 31, 2016

David E. Kasperowicz  
Regional Inspector General for Audit  
HUD-OIG Office of Audit, Philadelphia Region  
100 Penn Square East, Suite 10205  
Philadelphia, PA 19107

Subject: Office of Inspector General (OIG), U. S. Department of Housing and Urban Development (HUD), Audit of the City of Annapolis Housing Authority (HACA) Procurement Activities, Response to Discussion Draft Report – August 17, 2016

Dear Mr. Kasperowicz:

This letter is in response to the Department of Housing and Urban Development (HUD) Office of the Inspector General's (OIG) audit of Procurement Activities. The written comments are as follows:

---

**OIG Finding: "The Authority Did Not Always Follow Applicable Procurement Requirements"**

Below, HACA first addressed the OIG's "recommended corrective actions" from Audit Report page 7. Then, HACA addressed the OIG's Appendix 4, "Payment Sample" table, Audit Report page 14. HACA addressed the OIG's "Finding" that starts on Audit Report page 4.

---


**Recommended corrective actions** by HACA, Audit Report (page 7), "Recommendations. We recommend that the Director of HUD's (U.S. Department of Urban and Regional Development) Baltimore Office of Public Housing require the Authority to", as follows:

**OIG Recommendation:**

1A. "Provide documentation to show that price paid for service and products totaling \$3,028,666 million were fair and reasonable or reimburse the applicable program from non-Federal funds for any amount that it cannot support."

---

1217 Madison Street • Annapolis, MD 21403 • Phone: 410-267-8000 • Fax: 410-267-8290



## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 1

Page 2  
Memo to OIG, Procurement Activities Audit

**HACA Response:**

HACA's Procurement Section will endeavor to show that all subject prices paid were fair and reasonable. Methods will include but will not be limited to, as follows:

- a. Review past and current HACA solicitation responses.
- b. Review past and current HACA invoices.
- c. Review prices vendors paid or quoted to other agencies in our region, e.g. State of Maryland Dept. of General Services (via eMaryland Marketplace to which HACA subscribes); Anne Arundel County, Purchasing Division; City of Annapolis.
- d. Review industry estimating source data, e.g. R.S. Means Cost Estimating Data.

**OIG Recommendation:**

- 1B. "[HACA will] develop and implement controls to ensure that it complies with all applicable procurement requirements."

**HACA Response:**

HACA's Procurement Section will review HUD procurement requirements including those in, but not limited to, the following Federal documents, and in any updates ongoing:

- a. "Procurement Handbook for Public Housing Agency", HUD Handbook 7460.8 REV2, dated 2/2007.
- b. "Administrative Requirements for Grant and Cooperative Agreements to State, Local and Federally Recognized Tribal Governments", dated April 1, 2006, 24 CFR Part 85 (Code of Federal Regulations, Title 24).
- c. "Responsibility Determinations Under the Federal Acquisition Regulation: Legal Standards and Procedures", Manuel, Kate M., Legislative Attorney, January 4, 2013, Congressional Research Service (CRS), 7-5700, R40633, CRS Report for Congress.
- d. "Basically CDBG" (Community Development Block Grant Program), November 2007, HUD, Office of Block Grant Assistance, Chapter 14: Procurement.
- e. "Playing by the Rules, A Handbook for CDBG Subrecipients on Administrative Systems", Chapter 3.0: Procurement and Contracting.

Based on its review described above, HACA's Procurement Section will (1) develop and/or improve Procurement Section self-assessment and internal control protocols, and (2) make recommendations to the HACA Managers as to how they may perform periodic reviews of the Procurement Section.

**OIG Recommendation:**

- 1C. "Provide training to all employees involved in the procurement process."

**HACA Response:**

HACA's Directors will encourage, and, budget-permitting, fund professional training and certification for the Procurement Officer and others in the Procurement Section.

Comment 2

Comment 3



## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 3

Page 3  
Memo to OIG, Procurement Activities Audit

Example (1) the Procurement Officer is a member of the Next Level Purchasing Association (NLPA) and the National Association of Housing and Redevelopment Officials (NAHRO), both which offer training and certifications.

Example (2) the Universal Public Procurement Certification Council (UPPCC) offers Certified Public Procurement Officer (CPPO) and Certified Public Procurement Buyer (CPPB) program. UPPCC is associated with the National Institute of Government Purchasers (NIGP) to which the Procurement Section staff may be encouraged to join and/or update their memberships. The current Procurement Specialist is a NIGP member and has nearly completed the CPPB program.

Comment 3

HACA's Directors will encourage the Procurement Section's current and ongoing self-study of relevant procurement regulations including intra- and inter-department information sharing, discussions, and the recording and file-sharing of regulation summaries and HACA-specific examples and templates.

**OIG Recommendation:**

1D. "We recommend that the Director of HUD's Baltimore Office of Public Housing provide technical assistance to the Authority to ensure that if properly conducted is procurement activities."

Comment 4

**HACA Response:**

HACA's Directors will welcome this assistance, will develop an effective line of communication with the Baltimore Office Director, and will encourage the Procurement Section to identify general and specific issues that the Baltimore Office Director may address.

---

**Appendix C, "Payment Sample" table (Audit Report page 14).**

**HACA Response:**

**Vendor no. 1, Project development, \$700,000.**

Comment 5

HACA provided the OIG with the relevant Master Plan, Closing Documents and Management Agreement. The RFP, Proposals, ICE, Evaluation Panel Results, Price Analysis, etc. were the responsibility of staff no longer involved with HACA. HACA has searched for and will continue to search for evidence that it competitively selected the developer. We have improved our record-keeping, sharing hard and backed-up digital files among departments and key personnel.

**Vendor no. 2, Trash removal, \$372,685.**

Comment 6

HACA ordered these services as if the competitively solicited contract had been formally renewed annually. The contract had four one-year renewal options that HACA should have requested formally. HACA re-solicited these services and will contract them in September 2016. HACA will





## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 6

Page 4  
Memo to OIG, Procurement Activities Audit

document vendor performance, and, if warranted, will formally renew the contract annually through the ultimate date, five the ultimate expiration date, five years after the start date. Vendor performance will be documented with an enhanced contract administration system that involves requesting feedback from all users (or user representatives).

**Vendor no. 3, Legal Services, \$193,127.**

Comment 7

HACA ordered these services as if the competitively solicited contract had been formally renewed. The contract was for two years with three one-year renewal options that HACA should have requested formally. HACA did formerly modify the contract once, extending it for six months past the ultimate expiration date, through 3/31/16. HACA re-solicited these services and will contract them in September 2016. HACA will document vendor performance, and, if warranted, will formally renew the contract as required.

Comment 8

**Vendor no. 4, Appliances, \$179,296.**

These commodity products apparently were procured using a cooperative purchasing model, most likely through U.S. Communities Government Purchasing Alliance. HACA will confirm our membership in U.S. Communities and in other Cooperatives and document that these serve as sealed bid contracts through Participating Addenda or other piggy-backing contracting mechanisms. HACA will try to show that we are getting "best" government terms including pricing, direct from the manufacturer. HACA's low pricing contention is supported by periodic and recent spot price comparisons by the Facilities Specialist.

Comment 9

**Vendor no. 5, Unit Rehabilitation, \$179,975.**

This was a reimbursable cost from an insurance company.

Comment 10

**Vendor no. 6, Lawn care, \$158,240.**

HACA ordered these services as if the competitively solicited contract had been formally renewed annually. These services were under a 2008 non-competitive contract approved by HUD (there was a single offeror that HACA showed had fair and reasonable pricing). HACA apparently did not renew the contract formally for optional renewal years, and did not re-solicit and award a new (competitive) contract until July 2016.

Comment 11

**Vendor no. 7, Plumbing, \$156,821.**

There apparently was no contract for plumbing services; HACA concedes there should have been one. Incidental small procurements were allowed to add up without a formal solicitation or contract. HACA has since started doing many plumbing jobs in-house, e.g. we acquired our own drain clearer equipment and trained our Technicians. HACA is considering soliciting a "small trades" contract to include plumbing, painting, general labor, etc. HACA will exert better internal controls including



## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 12

Page 5  
Memo to OIG, Procurement Activities Audit

estimating and tracking actual maintenance purchases. Then, we will be more apt to quickly identify services for which we need a sealed bid contract.

**Vendor no. 8, Pest Control, \$149,003.**

HACA ordered these services as if the competitively solicited contract had been formally renewed annually. The contract had four one-year renewal options that HACA should have requested formally. Neither HACA nor the Contractor has found the fully executed contract yet though invoices show a regular service history at contracted and fixed rates. HACA re-solicited these services and contracted them with another Contractor in August 2016.

Comment 13

**Vendor no. 9, Credit card charges, \$148,816.**

This was used for miscellaneous, mainly micro-procurement, products and services, e.g. training, travel, accommodations, and subscriptions. Credit card use was minimal and for nominal values.

Comment 14

**Vendor no. 10, Heating system repairs, \$136,552.**

HACA ordered these services as if a presumably competitively solicited contract had been formally renewed annually. The contract should have had four one-year renewal options that HACA should have requested formally. HACA has not found this contract yet but re-solicited these services and will contract them in September 2016.

Comment 15

**Vendor no. 11, Maintenance supplies, \$137,179.**

These commodity products apparently were procured using a cooperative purchasing model, most likely through U.S. Communities Government Purchasing Alliance. HACA will confirm our membership in U.S. Communities and in other Cooperatives and document that these serve as sealed bid contracts through Participating Addenda or other piggy-backing contracting mechanisms. HACA will try to show that we are getting "best" government terms including pricing as supported by periodic and recent spot price comparisons by the Facilities Specialist.

Comment 16

**Vendor no. 12, Unit repairs, \$117,252.**

HACA ordered these services as if a non-renewable competitively solicited contract was a renewable multi-year contract. HACA re-solicited these services and contracted them in August 2016. HACA will document vendor performance, and, if warranted, will formally renew the contract annually through an ultimate expiration date, five years after the start date. Vendor performance will be documented with an enhanced contract administration system that involves requesting feedback from all users (or user representatives). The new contract prices support HACA's contention that the prices paid prior were fair and reasonable.



## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 17

Comment 18

Comment 19

Page 6  
Memo to OIG, Procurement Activities Audit

**"Results of the Audit"** (Audit Report page 4)

---

**OIG Introductory Statement:**

**"Finding: The Authority Did Not Always Follow Applicable Procurement Requirements"**

**OIG Statement, "The Authority Did Not Prepare Cost Estimates":**

**HACA Response:**

HACA's Procurement Section did make all or most of the cited cost estimates but they failed to document them or to properly save the documentation. The Procurement Section staff will document any past undocumented cost estimates if current HACA staff can confirm the value and the methodology. Cost Estimates for future solicitations will be documented by Memoranda to the HACA Director of Finance and/or Executive Director; the Memoranda are being digitally saved in the solicitation files, the vendor files, and/or the cost estimates file.

**OIG Statement, "The Authority Did Not Make Purchases Competitively":**

**HACA Response:**

HACA is searching for evidence that at least some of the purchases cited were made competitively. HACA's Procurement Section staff will use sealed bids for procurements over \$25,000 annually. For many or most of the cited procurements, HACA did use sealed bids but did not use the HUD-mandated method to renew (extend) the contracts. Many or most of the cited contracts were apparently bid as one-year contracts with four one-year renewal options. The contract parties, HACA and the vendor, continued using the contract terms, including the prices, past the first one-year term contract without a formal HACA contract extension notice, hence the work was conducted per a sealed bid, just not under an extended contract.

**OIG Statement, "The Authority Acquired Services and Products Without Having Contracts in Place.":**

**HACA Response:**

HACA is searching for evidence that at least some of these vendors had contracts in place. HACA's failure to formally renew contracts or to properly document formal renewals contributed to the lack of contracts in place.



## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 20

Page 7  
Memo to OIG, Procurement Activities Audit

**OIG Statement, "The Authority Paid Vendors for Services After Contracts Expired"**

**HACA Response:**

HACA ordered goods and/or services as if the cited contracts had been formally renewed. The trash and legal services contracts had one-year renewal options that HACA should have requested formally. The unit rehabilitation contract was not multi-year and should have been re-solicited as a multi-year contract. All of these services have been resolicited with the sealed bid method.

**OIG Statement, "The Authority Did Not Select a Developer Competitively"**

**HACA Response:**

Please see also our response above, Vendor no. 1, Project development. HACA is searching for evidence that it did competitively select the developer. The staff responsible for this procurement are no longer involved with HACA.

**OIG Statement, "The Authority Did Not Properly Extend a Contract"**

**HACA Comment:**

HACA could not identify the vendor cited; we could not find a \$64,599 total of unsupported payments specific to any vendor.

**HACA Response:**

HACA ordered goods and/or services as if various contracts had been formally renewed. HACA will document vendor performances, and, if warranted, will formally renew the contracts annually through the ultimate expiration date, five years after the start date. Vendor performance will be documented through an enhanced contract administration system that involves requesting feedback from all users (or all user representatives) of the services.

**OIG Statement, "The Authority Lacked Controls"**

**HACA Response:**

HACA's Procurement Section will (1) improve Procurement Section self-assessment and internal control protocols, and (2) make recommendations to the HACA Managers for periodic reviews. Both the Procurement Section and its individual employees' performance will be graded at least annually. HACA Managers will exert better internal control of contract administrations including review of the estimating and tracking of actual maintenance purchases; and the review of vendor performance documentation through an enhanced contract administration system that involves requesting feedback from all users (or all user representatives) of the services. HACA's Procurement Section has already found a comprehensive active-contract tracking spreadsheet is updating it.

Comment 5

Comment 21

Comment 22

Comment 23



## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Page 8  
Memo to OIG, Procurement Activities Audit

Again, we thank the Office of the Inspector General's office for working with us. Should you have any additional questions, please feel free to contact me at 443.482.3027.

Sincerely,



Richard Walton  
Interim Executive Director



## OIG Evaluation of Auditee Comments

- Comment 1 The Authority stated that it will attempt to show that the prices questioned in the audit report were fair and reasonable. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy the recommendation.
- Comment 2 The Authority stated that it will review HUD procurement requirements and develop or improve controls over procurement. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy the recommendation.
- Comment 3 The Authority stated that it will encourage and fund, if its budget permits, professional training and certification for its procurement officer and other staff involved with procurement. It will also encourage ongoing self-study of relevant procurement regulations. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy the recommendation.
- Comment 4 The Authority stated that it welcomes HUD's assistance and will develop an effective line of communication with the Director of HUD's Baltimore Office of Public Housing. As part of the audit resolution process, this recommendation will be satisfied when HUD has completed the necessary actions to ensure that the Authority is properly conducting its procurement activities.
- Comment 5 The Authority agreed that it did not have documentation to show that it competitively selected the developer for a \$700,000 project. It also stated that it will continue to search for evidence to show that it competitively selected the developer. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy recommendation 1A.
- Comment 6 The Authority asserted that it competitively solicited bids for trash removal services and awarded a contract with four 1-year renewal options. It agreed that it did not formally renew the option years. It stated that it resolicited for these services and would award a contract in September 2016. It also stated that it will document vendor performance in an enhanced contract administration system that involves requesting feedback for all users. We did not find documentation to show that the contract included four 1-year options. As discussed on page 4 of the audit report, the Authority did not provide documentation to show that it purchased services and products competitively from 10 vendors, including the trash removal services. As discussed on page 5 of the audit report, the Authority paid three vendors for services after contracts expired, including these services. As part of the audit resolution process, the Authority can provide documentation to HUD to address the questioned costs reported in recommendation 1A.

- Comment 7 The Authority asserted that it awarded the initial contract for legal services competitively but agreed that it did not formally renew the three option years. It also stated that it formally modified the contract one time, extending it for 6 months, through March 31, 2016. It also stated that it has resolicited for these services and would award a contract in September 2016. We do not agree that the Authority awarded the initial contract competitively because, as discussed on page 4 of the audit report, it did not provide documentation to show that it purchased services and products competitively from 10 vendors, including the legal services. Also, the “extension” that the Authority executed in September 2015 was not appropriate because the term of the initial contract and the three option years ended in February 2015. If in September 2015 the Authority determined that it needed the services of outside legal counsel, it should have obtained these services through a competitive procurement process. As part of the audit resolution process, the Authority can provide documentation to HUD to address the questioned costs reported in recommendation 1A.
- Comment 8 The Authority stated that it will provide documentation to show that it used sealed bid procedures or piggy-back contracting mechanisms as evidence that it got the best government terms, including pricing, direct from the manufacturer. It also asserted that periodic and recent spot price comparisons by its facilities specialist will support its contention that it paid low prices for appliances. As discussed on page 4 of the audit report, the Authority did not provide documentation to show that it purchased services and products competitively from 10 vendors, including the appliances. As discussed on page 5 of the audit report, the Authority paid seven vendors without having contracts in place, including for appliances. As part of the audit resolution process, the Authority can provide documentation to HUD to address the questioned costs reported in recommendation 1A.
- Comment 9 The Authority stated that the cost was reimbursable from an insurance company. As shown in appendix C, the Authority used public housing funds to pay the vendor. As discussed on page 4 of the audit report, the Authority did not provide documentation to show that it purchased services and products competitively from 10 vendors, including the unit rehabilitation services. As discussed on page 5 of the audit report, the Authority paid three vendors for services after contracts expired, including these services. As part of the audit resolution process, the Authority can provide documentation to HUD to address the questioned costs reported in recommendation 1A.
- Comment 10 The Authority asserted that it solicited bids for lawn care services and awarded a non-competitive contract in 2008 that was approved by HUD because there was a single offeror and the vendor’s pricing was fair and reasonable. It also agreed that it did not formally renew the optional renewal years. It also stated that it resolicited and competitively awarded a new contract in July 2016. We do not know whether the Authority solicited bids for these services before awarding the contract in 2008 because it did not provide any documentation related to it. It

provided a copy of a contract from 2010 that was for an initial 1-year period plus an option for four 1-year renewal periods. As discussed on page 4 of the audit report, the Authority did not provide documentation to show that it purchased services and products competitively from 10 vendors, including the lawn care services. Moreover, as discussed on page 5 of the audit report, the Authority had a copy of a contract but it was signed only by the Authority and it was not dated. The contract had designated places for the parties to sign and date the contract. A contract is not complete if it is not signed by all parties. As part of the audit resolution process, the Authority can provide documentation to HUD to address the questioned costs reported in recommendation 1A.

- Comment 11 The Authority stated that it will exert better internal controls including estimating and tracking actual maintenance purchases to facilitate identification of services that need to be procured using a sealed bid contract. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy recommendation 1B.
- Comment 12 The Authority asserted that it competitively solicited bids for pest control services and awarded a contract with four 1-year renewal options. It agreed that it did not formally renew the option years and that it has not located the fully executed contract. It also stated that it resolicited for these services and awarded a contract to another vendor in August 2016. As discussed on page 4 of the audit report, the Authority did not provide documentation to show that it purchased services and products competitively from 10 vendors, including the pest control services. As discussed on page 5 of the audit report, the Authority had a copy of a contract but it was not signed and dated by the vendor and the Authority. The contract had designated places for the parties to sign and date the contract. A contract is not complete if it is not signed by all parties. As part of the audit resolution process, the Authority can provide documentation to HUD to address the questioned costs reported in recommendation 1A.
- Comment 13 The Authority stated that it used the credit card for miscellaneous, mainly micro-procurement charges for products and services, and that it used the credit card minimally for purchases of nominal values. Of the \$148,816, we reviewed two payments totaling \$7,338 for expenses such as first aid kits, conference-related airfare, renewal of a computer software license, and a state vehicle emissions inspection fee for one of the Authority's vehicles. We found the purchases were generally below the Authority's \$2,000 micropurchase limit. Since our initial review did not disclose any significant problems, we did not review additional credit card charges.
- Comment 14 The Authority stated that it presumed it competitively solicited and awarded a contract for heating system repairs and that it formally renewed the contract annually. It asserted that the contract should have had four 1-year renewal options that it should have renewed formally. The Authority stated that it has not



located the contract and that it resolicited for these services and would award a contract in September 2016. As discussed on page 4 of the audit report, the Authority did not provide documentation to show that it purchased services and products competitively from 10 vendors, including the heating system repair services. As discussed on page 5 of the audit report, the Authority paid seven vendors without having contracts in place, including for these services. As part of the audit resolution process, the Authority can provide documentation to HUD to address the questioned costs reported in recommendation 1A.

- Comment 15 The Authority stated that it will provide documentation to show that it used sealed bid procedures or piggy-back contracting mechanisms as evidence that it got the best government terms, including pricing, supported by periodic and recent spot price comparisons by its facilities specialist. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy recommendation 1A.
- Comment 16 The Authority stated that it competitively awarded a contract for unit repairs and that the contract did not include renewals for option years. It also stated that it resolicited for these services and contracted for them in August 2016 and that the new contract prices support its contention that the prices questioned in the audit report were fair and reasonable. As discussed on page 4 of the audit report, the Authority did not provide documentation to show that it purchased services and products competitively from 10 vendors, including unit repairs. As discussed on page 5 of the audit report, the Authority paid seven vendors without having contracts in place, including for unit repairs. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy recommendation 1A.
- Comment 17 The Authority contended it performed all or most of the cost estimates related to the purchases that were questioned in the audit report but it did not document them or maintain the documentation. It also stated that it will create the missing cost estimates if it can confirm the value and the methodology. In the future, the Authority will document cost estimates by internal memoranda and digitally save them in its files. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy recommendations 1A and 1B. We adjusted the wording in the report to show that the Authority did not document cost estimates rather than not prepare cost estimates.
- Comment 18 The Authority asserted that it used sealed bids for many or most of the purchases addressed in the audit report. As stated in the audit report, the Authority did not provide documentation to show that it purchased services and products competitively. As part of the audit resolution process, the Authority will have an opportunity to provide documentation to show that the prices it paid for services and products were fair and reasonable and HUD will evaluate the Authority's corrective actions to ensure that they satisfy recommendation 1A.

- Comment 19 The Authority stated that it is searching for evidence that it had contracts in place for some of the vendors. As part of the audit resolution process, the Authority can provide documentation to HUD to address the questioned costs reported in recommendation 1A.
- Comment 20 The Authority agreed that it paid for trash removal, legal, and unit rehabilitation services after the contracts expired. It also stated that it has resolicited for these services using the sealed bid method of procurement. We agree that the unit rehabilitation contract was not a multi-year contract. However, the contract for legal services included a clause to extend the term of the contract for three 1-year renewal periods and we could not find any renewal options in the contract documentation for trash removal services. The \$951,504 of questioned costs related to this issue does not include the option years for the legal services because we addressed them separately in the audit report on page 6.
- Comment 21 The Authority stated that it could not identify the vendor related to the \$64,599 of unsupported costs that we associated with a contract that the Authority did not properly extend. Appendix D provides a schedule of deficiencies and unsupported costs and it shows that the contract the Authority did not properly extend was related to the payments for legal services that we reviewed. During the audit, we informed the Authority of our results, including this issue, although the dollar amount associated with this issue was less at that time. As part of the audit resolution process we will provide a spreadsheet detailing the unsupported payments to HUD and the Authority to facilitate resolution of the unsupported payments addressed in recommendation 1A.
- Comment 22 The Authority stated that it will document vendor performance in an enhanced contract administration system that involves requesting feedback for all users. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy recommendation 1B.
- Comment 23 The Authority stated that it will improve controls over its procurement process. As part of the audit resolution process, HUD will evaluate the Authority's corrective actions to ensure that they satisfy recommendation 1B.

## Appendix C

---

### Payment Sample

| Vendor no.    | Service or product     | Amount paid      | Operating funds  | Capital funds    | Other funds <sup>6</sup> |
|---------------|------------------------|------------------|------------------|------------------|--------------------------|
| 1             | Project development    | \$700,000        |                  | \$700,000        |                          |
| 2             | Trash removal          | 376,944          | \$372,685        |                  | \$4,260                  |
| 3             | Legal services         | 193,127          | 88,584           |                  | 104,542                  |
| 4             | Appliances             | 179,296          | 3,602            | 175,283          | 411                      |
| 5             | Unit rehabilitation    | 178,975          | 4,100            | 174,875          |                          |
| 6             | Lawn care              | 158,240          | 134,435          | 23,505           | 300                      |
| 7             | Plumbing               | 156,821          | 156,821          |                  |                          |
| 8             | Pest control           | 149,003          | 128,343          |                  | 20,660                   |
| 9             | Credit card charges    | 148,816          | 63,338           | 28,838           | 56,640                   |
| 10            | Heating system repairs | 136,552          | 109,808          |                  | 26,744                   |
| 11            | Maintenance supplies   | 136,179          | 131,552          |                  | 4,627                    |
| 12            | Unit repairs           | 117,252          | 95,002           | 22,250           |                          |
| <b>Totals</b> |                        | <b>2,631,205</b> | <b>1,288,270</b> | <b>1,124,751</b> | <b>218,184</b>           |

---

<sup>6</sup> Non-Federal, central office cost center funds. We did not include these funds in any questioned costs reported in the finding.

## Appendix D

### Schedule of Deficiencies and Unsupported Costs

| #             | Service or product     | Violations noted* |           |          |          |          | Total unsupported costs <sup>7</sup> |
|---------------|------------------------|-------------------|-----------|----------|----------|----------|--------------------------------------|
|               |                        | <u>1</u>          | <u>2</u>  | <u>3</u> | <u>4</u> | <u>5</u> |                                      |
| 1             | Project development    | X                 | X         |          |          |          | \$700,000                            |
| 2             | Trash removal          | X                 | X         |          | X        |          | 629,564 <sup>7</sup>                 |
| 3             | Lawn care              | X                 | X         | X        |          |          | 348,701 <sup>7</sup>                 |
| 4             | Pest control           | X                 | X         | X        |          |          | 269,544 <sup>7</sup>                 |
| 5             | Unit rehabilitation    | X                 | X         |          | X        |          | 239,155 <sup>7</sup>                 |
| 6             | Appliances             | X                 | X         | X        |          |          | 178,885                              |
| 7             | Plumbing               | X                 | X         | X        |          |          | 156,821                              |
| 8             | Legal services         | X                 | X         |          | X        | X        | 147,384 <sup>7</sup>                 |
| 9             | Maintenance supplies   | X                 | X         | X        |          |          | 131,552                              |
| 10            | Unit repairs           | X                 | X         | X        |          |          | 117,252                              |
| 11            | Heating system repairs | X                 | X         | X        |          |          | 109,808                              |
| <b>Totals</b> |                        | <b>11</b>         | <b>11</b> | <b>7</b> | <b>3</b> | <b>1</b> | <b>3,028,666</b>                     |

\* Violations noted during review

1. No cost estimate
2. No competition
3. No contracts
4. Contract expired
5. Contract not properly extended

<sup>7</sup> Includes \$707,821 in unsupported payments using Federal funds that occurred outside the audit period for services and products from vendors without contracts and a contract that was not properly extended