
AUDIT REPORT



The Housing Authority of the City of New Haven, CT, Did Not Support Cost Reasonableness for More Than \$1.4 Million of Its Capital Fund Stimulus Recovery Act Grant

Audit Report Number 2011-BO-1003

Date of the Report December 17, 2010

Office of Audit, Region 1
New England



Issue Date December 17, 2010
Audit Report Number 2011-BO-1003

TO: Donna Ayala, Director, Office of Public Housing, Boston Hub, 1APH

FROM: John Dvorak, Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: The Housing Authority of the City of New Haven, CT, Did Not Support Cost Reasonableness for More Than \$1.4 Million or Properly Obligate \$60,000 of Its Capital Fund Stimulus Recovery Act Grant

HIGHLIGHTS

What We Audited and Why

We selected the Housing Authority of the City of New Haven (Authority), a Moving to Work agency, because it obligated a majority of its \$6 million in Public Housing Capital Fund Stimulus (formula) Recovery Act Funded grant (grant) received under the American Recovery and Reinvestment Act of 2009 (Recovery Act) just before the required obligation deadline. Our objectives were to determine whether the Authority (1) obligated its Recovery Act formula funds for eligible projects/activities, (2) properly supported obligations and expenditures, (3) had adequate controls over obligations and expenditures, and (4) procured contracts in accordance with Recovery Act requirements and U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

Overall, the Authority obligated its Recovery Act formula funds for eligible activities, supported its obligations, and had adequate controls over the obligation and expenditure process. However, it did not always procure contracts in accordance with Recovery Act and Federal requirements that involved more than \$1.4 million of its \$6 million in Recovery Act funds.

Specifically, the Authority could not show cost reasonableness for more than \$1.4 million in vacancy reduction contracts primarily because it did not complete an independent cost estimate before solicitation and failed to complete a formal cost or price analysis of the bids. In addition, the Authority did not obtain competitive bids for the renovations. This condition occurred because the Authority did not follow HUD's and its own procurement policies and procedures regarding the Recovery Act funds. As a result, Recovery Act funds may not have been used efficiently, and the maximum number of vacant housing units may not have been returned to service.

The Authority also did not properly obligate and execute its Recovery Act physical needs assessment contract. The contract was not properly obligated because it included a \$60,000 contingency for additional work that may have required expenditure; thus, the Authority was not obligated to spend Recovery Act funds. The contract was not properly executed because the Authority used the contingency for a study that was not included in the contract scope of work and, thus, was not an eligible contract cost. This condition occurred because the Authority did not ensure that costs identified for funding with the \$60,000 represented an eligible cost under the contract. If this situation is not corrected, \$60,000 may be spent for ineligible activities, and funds may be recaptured in accordance with the Recovery Act.

What We Recommend

We recommend that the Director of HUD's Boston Office of Public Housing require the Authority to support the cost reasonableness or repay any amounts it cannot support from the more than \$1.4 million in Recovery Act capital funds spent for vacancy reduction contracts. We also recommend that the Authority improve its procurement controls to include obtaining appropriate procurement training and fully implementing procurement requirements regarding cost estimates, cost analysis, and competitive bids. We recommend that HUD require the Authority to pay for the Section 8 conversion study, assigned under task order one, from non-Recovery Act funds. Lastly, we recommend that the Director of HUD's Boston Office of Public Housing ensure that the \$60,000 is expended according to the contract; however, if eligible costs cannot be identified, the \$60,000 should be recaptured in accordance with the Recovery Act. For each

recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Authority the report on December 3, 2010, and held an exit conference with the Authority on December 9, 2010. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. We did not include in the report the attachments provided with the Authority's response due to the volume of documents provided, however, it is available upon request. The Authority did not agree with finding 1 and the recommendations and did not comment on finding 2 in its response.

TABLE OF CONTENTS

Background and Objectives	6
Results of Audit	
Finding 1: Cost Reasonableness for More Than \$1.4 Million in Contracts Was Not Supported	7
Finding 2: The Authority Did Not Properly Obligate \$60,000	9
Scope and Methodology	11
Internal Controls	12
Appendixes	
A. Schedule of Questioned Costs	14
B. Auditee Comments and OIG's Evaluation	15

BACKGROUND AND OBJECTIVES

The Housing Authority of the City of New Haven, CT, (Authority) was incorporated under the laws of the State of Connecticut. The Authority operates under a five-member board of commissioners, appointed by the mayor, and an executive director to provide safe and decent housing to low- and moderate-income families and elderly individuals.

In 2001, the Authority was awarded Moving to Work (MTW) status as part of the Federal MTW Demonstration program. As an MTW grantee, the Authority is required to submit MTW annual plans to the U.S. Department of Housing and Urban Development (HUD) that articulate its policies, objectives, and strategies for administering its Federal housing programs. HUD approved a waiver requested by the Authority in 2006 to use an alternative procurement process through which it would use a request for qualifications process to obtain a prequalified list of construction contractors to work on various jobs at the Authority. When the Authority was ready to perform work on a project, it was required to solicit bids from the prequalified contractors. During our audit period, the Authority owned and managed 2,422 units under its MTW agreement.

President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act) on February 17, 2009. This legislation included a \$4 billion appropriation of capital funds with \$3 billion distributed as formula grants and \$1 billion distributed through a competitive grant process. On March 18, 2009, HUD awarded the Authority a \$6 million formula grant.¹

The Recovery Act imposed additional reporting requirements and more stringent obligation and expenditure requirements on the grant recipients beyond those applicable to the ongoing Public Housing Capital Fund program grants. Recovery Act funds were to be used to address deferred maintenance needs, including but not limited to (1) repair of vacant units, (2) work items related to code compliance including abatement of lead-based paint, and (3) rehabilitation and modernization activities that have been delayed or not undertaken because of insufficient funds.

The Authority allocated its noncompetitive Recovery Act funds primarily to repair building facades and roofs, prepare units for vacancy, and upgrade kitchens and bathrooms and for environmental testing and physical needs assessments.

Our objectives were to determine whether the Authority (1) obligated its noncompetitive Recovery Act funds for eligible projects/activities, (2) properly supported obligations and expenditures, (3) had adequate controls over obligations and expenditures, and (4) procured contracts in accordance with Recovery Act requirements and HUD rules and regulations.

¹ HUD also awarded the Authority \$22.2 million in Recovery Act competitive capital grants; however, we limited this review to formula grant funds.

RESULTS OF AUDIT

Finding 1: Cost Reasonableness for More Than \$1.4 Million in Contracts Was Not Supported

The Authority could not show cost reasonableness for more than \$1.4 million in vacancy reduction contracts primarily because it did not complete an independent cost estimate before solicitation and failed to complete a formal cost or price analysis of the bids. In addition, it did not obtain competitive bids for the renovations. This condition occurred because the Authority did not follow HUD's and its own procurement policies and procedures. As a result, these Recovery Act funds may not have been used efficiently, and the maximum number of vacant housing units may not have been returned to service.

The Authority Awarded \$1.4 Million in Contracts

The Authority awarded more than \$1.4 million in Recovery Act funds to four contractors to renovate 87 vacant housing units. The work included repairs and lead and asbestos remediation. A sample of renovated units reviewed showed the work to be of satisfactory quality.

The Authority Did Not Follow Requirements

The Authority did not follow HUD's and its own procurement policies and procedures, which require a detailed estimate of the contract costs before soliciting bids and a cost/price analysis when competition is lacking.² Completing cost estimates and performing a cost analysis were required to evaluate the reasonableness of proposed contract prices. In spite of these requirements, the Authority did not complete either the cost estimates or the analysis and, therefore, could not show that the renovation costs totaling more than \$1.4 million were reasonable for the 87 units renovated.

Bids Were Not Always Competitive and Comparable

Competitive bids are required for procurements³ and may be used in some

² 24 CFR (Code of Federal Regulations) 85.36(f)

³ Competitive bids are required by 24 CFR 85.36(c)(1); HUD Handbook 7460.8, REV-2, paragraph 5.3A; and HUD's waiver allowing alternative procurement procedures.

circumstances to establish price reasonableness.⁴ However, the Authority obtained competitive and comparable bids for only 10 percent of the renovated units.⁵ The bids were not competitive because the Authority requested only 1 bid for 59 of the 87 renovated units. A majority of other bids were not comparable because contractors based their bids on substantially different scopes of work. For example, one bidder failed to include thousands of dollars for asbestos abatement in his bids. The lack of competitive and comparable bids made it difficult to determine whether the contract costs were reasonable and increased the risk that the Authority may have overpaid for some renovations.

Conclusion

Although work was completed on 87 vacant housing units, without independent cost estimates, cost analyses, and competitive bidding, we could not verify that the costs paid totaling more than \$1.4 million to renovate the units were reasonable. Thus, Recovery Act funds may not have been used efficiently, and the maximum number of vacant housing units may not have been returned to service.

Recommendations

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

- 1A. Support the cost reasonableness or repay any amounts it cannot support from the \$1,438,948 in Recovery Act capital funds spent for vacancy reduction contracts.
- 1B. Improve its procurement controls to include obtaining appropriate procurement training and fully implementing procurement requirements regarding cost estimates, cost analysis, and competitive bids.

⁴ HUD Handbook 7460.8, paragraph 10.3B

⁵ The Authority obtained 1 bid for 59 units plus 19 non-comparable bids = 78 units / 87 total units = 90%.

RESULTS OF AUDIT

Finding 2: The Authority Did Not Properly Obligate \$60,000

The Authority did not properly obligate and execute its Recovery Act physical needs assessment contract. The contract was not properly obligated because it included a \$60,000 contingency for additional work that may have required expenditure; thus, the Authority was not obligated to spend Recovery Act funds. The contract was not properly executed because the Authority used the contingency for a study that was not included in the contract scope of work and, thus, was not an eligible contract cost. This condition occurred because the Authority did not ensure that costs identified for funding with the \$60,000 represented an eligible cost under the contract. If this situation is not corrected, \$60,000 may be spent for ineligible activities, and funds may be recaptured in accordance with the Recovery Act.

A Task Order Was Not Properly Obligated and Outside the Contract Scope

The Authority entered into a physical needs assessment contract (contract) on May 8, 2009. The contract included a fixed price for specific projects/units plus \$60,000 for additional unspecified (contingency) services to be assigned by task order. The Authority added the contingency based on its experience that after completing an assessment, various questions arise that may require further investigation and work. The Authority then issued a \$60,000 task order on August 25, 2010, for the contractor to complete a study to assist the Authority in converting its public housing developments to Section 8 developments.

However the contract stipulated that additional services were not to be used for studies but were to be used for specific physical condition assessments as determined during site visits.⁶ Therefore, the Section 8 study was outside the scope of the contract and was not an eligible contract cost.

⁶ The PHA will be required to provide a physical need assessment (PNA), as specified by HUD, using funds from this Recovery Act grant or other Capital Funds. (Note: PHAs are not required to complete the PNA before commencing Modernization work using the Recovery grant funds).” Per Recovery Act Capital Fund Formula Grant Frequently Asked Questions #3, As of July 24, 2009, PHYSICAL NEEDS ASSESSMENT: If a PHA completes a PNA of its public housing portfolio it may obligate and expend Recovery Act Capital Funds on that PNA provided that it does so within the statutory timeframes.

A \$60,000 Contingency Is at Risk of Recapture

The Recovery Act requires HUD to recapture all funds not obligated by March 17, 2010. HUD defines an obligation as a legally binding agreement that will require an expenditure of funds. Since the contract allowed the Authority the option of not exercising this contingency and not incurring the \$60,000 in costs, an obligation may not have occurred and may require recapture.

Although the contract did not require an expenditure of funds, HUD determined that the Authority could use the \$60,000 in funds for task orders that were within the scope of the contract. The contractor started work on this task order during our audit; however, the Authority had not made any payments related to the task order.

Conclusion

The \$60,000 study assigned under the physical needs assessment contract was outside the Recovery Act contract's scope of work; therefore, non-Recovery Act funds must be used to pay the contractor. The Authority may use Recovery Act funds if it identifies work that is within the contract's scope of work. However, if the Authority cannot assign another task order in accordance with the contract, the \$60,000 must be recaptured in accordance with the Recovery Act.

Recommendations

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

- 2A. Pay for the Section 8 conversion study, assigned under task number one, from non-Recovery Act funds.
- 2B. Ensure that the \$60,000 is expended according to the contract; however, if eligible costs cannot be identified, the \$60,000 should be recaptured in accordance with the Recovery Act.

SCOPE AND METHODOLOGY

We conducted the audit from July to November 2010. Our fieldwork was conducted at the Authority's offices located at 360 Orange Street, New Haven, CT, and our office in Hartford, CT. Our audit covered the period March 18, 2009, through June 30, 2010, and was expanded as necessary to meet our audit objectives. To accomplish our audit objectives, we limited our tests to Recovery Act activities and

- Reviewed the Recovery Act and applicable HUD rules, regulations, and guidance
- Reviewed management controls over obligations, expenditures, and procurement
- Reviewed 100 percent of Recovery Act formula-funded projects⁶ totaling more than \$6 million for 13 activities to determine whether funds were obligated for eligible projects.
- Reviewed 93 percent of Recovery Act formula-funded projects to determine whether funds were obligated in a timely manner, adequately supported, and properly procured.⁷
- Reviewed 38 percent of expenditures⁸ to ensure that they were supported with an invoice, agreed with the contract, and matched HUD's reimbursement records.
- Interviewed the Authority's contractors, HUD staff, and Authority officials.
- Performed limited visits to planned and completed vacancy reduction worksites.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁷ Reviewed all obligations over \$100,000, which resulted in 12 Recovery Act contracts totaling more than \$5.3 million of the \$6.04 million in Recovery Act funds tested.

⁸ Reviewed a sample of 16 expenditures totaling \$1.08 million of the \$2.83 million expended as of June 30, 2010.

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 objectives:

- Controls over staff experience, training, and workload.
- Controls over selecting and approving eligible projects.
- Controls over the timely obligation of Recovery Act funds.
- Controls over the obligation and expenditure of funds to ensure that they are eligible, supported, necessary, and reasonable.
- Controls over the procurement of contracts.

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 had inadequate procurement controls for its Recovery Act formula-funded vacancy reduction contracts.
- The Authority did not ensure that all obligations were eligible in accordance with contract terms.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>
1A.		\$1,438,948
2B.	\$60,000	

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ 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

 KAREN DUBOIS-WALTON, Ph.D. <i>Executive Director</i>	HOUSING AUTHORITY OF THE CITY OF NEW HAVEN 360 Orange Street, P.O. Box 1912, New Haven, Connecticut 06509-1912 Telephone: (203) 498-8800 FAX: (203) 497-9259 TDD: (203) 497-8434
	<p>December 13, 2010</p> <p>Mr. John Dvorak Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of the Inspector General 10 Causeway Street, Room 370 Boston, MA 02222-1092</p> <p>Re: HUD OIG Audit Finding</p> <p>Dear Mr. Dvorak:</p> <p>This letter and the materials attached hereto are provided in response to the HUD OIG proposed audit finding (the "Finding") that costs paid by the Housing Authority of the City of New Haven ("HANH" or the "Authority") for reducing vacancies using American Recovery and Reinvestment Act of 2009 ("Recovery Act") Capital Funds were reasonable. Specifically, the Finding states that the Authority did not complete an independent cost estimate before the solicitation, and failed to complete a formal cost or price analysis of the bids. In addition, the Finding states that the Authority failed to obtain competitive bids for each unit to be renovated.</p> <p>It is the Authority's position that the finding is incorrect, and results from the belief that the work on the units should have been bid on a per work item, as opposed to a per unit basis. Specifically, the Auditors believe that work in each unit differs so drastically that the aggregation of units based on the extent of renovation required was inappropriate. Such an assumption is incorrect. Given the number of units owned by HANH, bidding vacancy repair work on a per work item as opposed to per unit basis is not only impractical, but not cost efficient. Indeed, based on its considerable vacancy reduction work over many years, the Authority determined that the scope of work required for vacancy reduction generally falls into three categories – minor, mid level, and substantial rehabilitation. The Authority put together a detailed scope of work for each category of repair required, and then allowed bidders to bid on that detailed scope of work. Based on the bids received and the responsibility determination conducted by the Authority, the Authority then awarded the work to the appropriate bidder. The submitted scope of work contains a detailed description of work items, including but not limited to asbestos abatement, new cabinetry, wall and ceiling repair, new flooring, painting, plumbing and heating for each unit type category.</p>
	{00349874.DOC Ver. 1 sbh edit

Comment 1

Ref to OIG Evaluation

Auditee Comments

Comment 2

Comment 3

Comment 4

In addition, the Finding states that the Authority failed to conduct a cost estimate for the proposed work, and the auditors decided that the cost worksheets used by the Authority to test the reasonableness of the bid costs was simply a budget. However, the Authority submitted to the auditors cost estimate worksheets that included a description of specific work items, quantity, unit, individual cost and total costs for the same work that was performed on similarly situated units. Indeed, in this case the Authority had recently completed significant vacancy rehabilitation work on other similarly situated units, had prepared a detailed scope of work, a cost estimate, and bid out the work in full compliance with its own, state and federal procurement rules. Based on this recent prior work experience and costs, the Authority was able and did reasonably estimate the per unit costs for the proposed work, by unit type, and based on the scope of work. The Authority submitted to the auditors the attached cost estimate spreadsheet which identified past vacancy projects with the following documentation demonstrating the cost reasonableness:

1. Farnam Group 1
Cost Estimate prepared 4/23/2008 by Tri-Con Construction Managers Solicitation #DC-08-IFB-0017 Invitation for Bid issued May 13, 2008 Bid Opening Tabulation Form
2. Farnam Group 2
Cost Estimate prepared 5/28/2008 by Tri-Con Construction Managers Solicitation #DC-08-IFB-0018 Invitation for bid issued May 13, 2008 Bid Opening Tabulation Form
3. Westville 1 (Set Aside for Resident Owned Business)
Cost Estimate prepared 4/29/2008 by Tri-Con Construction Managers Solicitation #DC-08-S-0019 Invitation for Bid issued May 22, 2008 Bid Opening Tabulation Form
4. Westville 2
Cost Estimate prepared 4/29/2008 by Tri-Con Construction Managers Solicitation #DC-08-S-0020 Invitation for Bid issued May 22, 2008 Bid Opening Tabulation Form
5. Westville 3
Cost Estimate prepared 5/22/2008 by Tri-Con Construction Managers Solicitation #DC-08-S-0026 Invitation for Bid issued June 9, 2008 Bid Opening Tabulation Form
6. McConaughy 1
Cost Estimate prepared 6/5/2008 by Tri-Con Construction Managers Solicitation #DC-08-S-0026 Invitation for Bid issued June 30, 2008 Bid Opening Tabulation Form
7. McConaughy, Valley, Waverly (McConaughy Group 2)
Cost Estimate prepared 7/8/2008 by Tri-Con Construction Managers Solicitation #DC-08-S-0028 Invitation for Bid issued July 31, 2008 Bid Opening Tabulation Form
8. Scattered Sites Vacancy Rehabilitation
Cost Estimate prepared 7/22/08 by Tri-Con Construction Managers

Ref to OIG Evaluation

Auditee Comments

Solicitation #DC-08-S-0030 Invitation for Bid issued August 18, 2008
Bid Opening Tabulation Form

Comment 2

While it is true that most public housing authorities will use the cost estimate as a budget of sorts, to dismiss it as a valid cost estimate is to require form over substance. Nothing in the HUD Procurement Manual applicable to federally funded housing authorities requires the Independent Cost Estimate to be in any specific form.

Comment 1

It is the Authority's position that the audit findings are based on the premise that the Authority's bidding of the work on a per unit basis was inappropriate. Based in the actual experience of the Authority, bidding out this type of work on a per work item basis is inefficient, not cost effective, and there is nothing that demonstrates that the detailed scope of work by unit type used by the Authority was inappropriate. In addition, it is the Authority's position that the use of actual bids for similar work recently completed as a measure to verify cost reasonableness is sufficient to comply with the HUD Procurement Manual's requirement of an independent cost estimate. Finally, nothing in the Procurement manual requires that the independent cost estimate be in any specific form, but rather that it be used as a measure to test the reasonableness of the proposed bid costs. In this instance the Authority used its cost estimate to determine the reasonableness of the proposed bid costs.

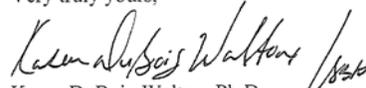
Comment 5

Comment 2

Comment 6

If you have any questions, comments or concerns about this matter, please do not hesitate to contact me.

Very truly yours,



Karen DuBois-Walton, Ph.D.

Attachments

OIG Evaluation of Auditee Comments

Comment 1 The finding did not state that the units should have been bid on a per unit or work item basis. Although the authority put together a detailed scope of work, there was no cost estimate associated with each unit based on the detailed scope of work. Furthermore, the Authority did not use a sealed bid/competitive process, but instead requested bids from contractors for specific units.

Comment 2 The Authority is correct that regulations do not specify the specific form of a cost estimate to be prepared. However, we do not agree the budget document provided by the Authority during the audit was a cost estimate. Furthermore, the estimates provided were conflicting and budgetary amounts.

Comment 3 In response to the finding outlines and draft report, the Authority provided OIG detailed cost estimates by unit and work item for several units in the same developments that were rehabbed previously, yet it did not develop detailed cost estimates for the Recovery Act units. Further, the detailed cost estimates provided for these other units did not include more than \$170,000 in abatement costs, which was a material cost in the Recovery Act units. Therefore, the cost estimates provided in the Auditees response could not be used to establish the cost reasonableness of the Recovery Act units.

The Authority stated in its response that it used these worksheets to determine reasonableness of costs, yet discussions with the project manager who received and evaluated the bids showed that he did not have cost estimates nor did he use any to evaluate the bids prior to awarding the contracts.

Furthermore, the Authority did not use a sealed bid procurement method and did not obtain bids for the same units from more than one qualified contractor for the majority of units. Therefore, the procurement method used was considered a sole source procurement, thus, requiring the Authority to perform cost analyses of the bids to determine reasonableness of costs. However, the Authority did not develop cost analyses prior to awarding the contracts. For two contractors, the Authority was not provided nor did it request a cost breakout of the bids for each unit.

The Authority did not support that the costs paid were reasonable, therefore, no changes were made to the finding.

Comment 4 The detailed cost estimates provided by the Authority in response to our finding outlines and draft report for similar units rehabbed, showed that the Authority prepared a cost estimate for each unit and showed the quantity and standard unit prices per work item that the Authority expected to pay. For example, it showed \$275 to replace a toilet, \$35 to replace a toilet seat, \$8 per square foot to patch holes in sheetrock, \$15 per foot to repair/remount baseboard hearers, etc. The cost estimates also showed that the quantity and type of work items completed in

each unit was different and thus, the total cost estimated to repair each unit was different. Therefore, the Authority should have completed similar cost estimates for the ARRA funded units given the difference in repairs for each unit.

Our review of the cost estimates provided by the Authority for similar units showed it may have overpaid for work items for its ARRA funded units. Specifically the Authority's estimate showed it would cost \$275 to replace a toilet, yet it paid \$356 and \$375 per toilet to one contractor and \$600 per toilet to another contractor. In another example, the Authority's estimate showed \$85 to replace a range hood, yet paid one contractor \$122.50 per range hood and paid \$240 to another contractor. In another example, the Authority paid \$13.50 per light bulb to one contractor, totaling more than \$4,000.

Therefore, it is not clear that the costs paid for the Recovery Act rehabbed units were reasonable. Further, without competitive bids, it would have been prudent for the Authority to negotiate prices down to its cost estimate for those work items. However, we found little to no price negotiations.

Comment 5 The Authority's methodology to use prior costs to support cost reasonableness is lacking in several respects. First, by using historical costs, if the Authority overpaid for goods and services in the past, it will continue to overpay for goods and services in the future. In, addition this methodology does not account for economic changes and opportunities to obtain more favorable prices. For example during economic down-turns, the primary reason for the Recovery Act, more contractors are available to bid on projects and contractors will bid lower to ensure a steady stream of work.

Furthermore, the Authority's methodology does not address the federal requirements to obtain formal competitive bids for projects that exceed \$100,000. Nor does it address the requirement to complete a formal cost analysis for sole source contracts and procurements when competition is lacking; both of which pertain to this procurement.

Comment 6 The Authority's statement that "In this instance the Authority used its cost estimate to determine the reasonableness of the proposed bid costs" is factually incorrect. Discussions with the Project Manager who received and evaluated the bids showed that he did not have cost estimates nor did he use any to evaluate the bids prior to awarding the contracts.