
AUDIT REPORT



HOUSING AUTHORITY OF THE CITY OF
PITTSBURGH
COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES
PITTSBURGH, PENNSYLVANIA

2001-PH-1005

MAY 3, 2001

OFFICE OF AUDIT, MID-ATLANTIC
PHILADELPHIA, PENNSYLVANIA



Issue Date	May 3, 2001
Audit Case Number	2001-PH-1005

TO: James D. Cassidy, Acting Director, Office of Public Housing, Pittsburgh Area Office, 3EPH

A handwritten signature in black ink that reads "Daniel G. Temme".

FROM: Daniel G. Temme, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Housing Authority of the City of Pittsburgh
Comprehensive Audit of Various Activities
Pittsburgh, Pennsylvania

We completed an audit of selected aspects of the operations of the Housing Authority of the City of Pittsburgh (Authority).

We found the Authority is not complying with key provisions of its Consolidated Annual Contributions Contract with HUD. Specifically, the Authority is not properly procuring goods and services according to Federal procurement requirements, nor is the Authority adequately accounting for HUD funds it draws down and disburses according to the applicable program requirements. This report contains three findings and applicable recommendations to improve the effectiveness of the Authority's operations.

Within 60 days, please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Allen Leftwich, Assistant District Inspector General for Audit, at (215) 656-3401, extension 3485.

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Executive Summary

We completed an audit of various aspects of the operations of the Housing Authority of the City of Pittsburgh (Authority). The purpose of the audit was to determine if the Authority properly procured goods and services with HUD funds and made disbursements using HUD funds according to the applicable program requirements. The audit generally covered the period January 1, 1998 through December 31, 1999, but was expanded when necessary to include other periods.

The Authority is not complying with key provisions of its Consolidated Annual Contributions Contract (ACC) with HUD. Specifically, we found the Authority is not properly procuring goods and services according to Federal procurement requirements, nor is the Authority adequately accounting for HUD funds it draws down and disburses according to the applicable program requirements. These conditions occurred because the Authority's management does not ensure staff perform and comply with all applicable provisions of its ACC and applicable statutes and regulations issued by HUD. As a result of these deficiencies, we identified \$8.1 million of questioned costs (\$1,382,874 of ineligible and \$6,758,294 unsupported) in our review. Immediate improvements are needed in the areas of procurement, drawing funds from Line of Credit Control System (LOCCS), and controls over cash disbursements. These areas are summarized below and detailed in the Finding section of this report.

Procurement Requirements Were Not Followed

We found the Authority is not properly procuring goods and services according to Federal procurement requirements nor its own procurement policy. We identified procurement deficiencies in all 15 procurement contracts, valued at \$8.4 million, that we reviewed. Specifically, contract files did not detail the history of procurements as required; contracts were awarded without independent cost estimates; and without evidence of competition; and a number of contracts had change order modifications with significant cost increases and additional work items not within the original contract. These deficiencies occurred because the Authority's management does not ensure staff perform and comply with all applicable provisions of its ACC and applicable statutes and regulations issued by HUD. Further, we found the Authority's procurement policies in place during our review did not have any procedures regarding the use of change orders or the award of single source procurements. As a result, the Authority spent \$4.5 million on contracts that, based on the documentation provided, could not be supported as eligible (Appendix B). Also, there are no assurances that the best available products and services were obtained at the most advantageous prices for the contracts we did not select for review.

The Authority Could Not Support LOCCS Draws

The Authority could not adequately support LOCCS draws made under its Comprehensive Grant Program (CGP) as required. We judgmentally selected six LOCCS draws (where vendors or contractors were not identified on the Authority's LOCCS draws) totaling \$13,307,783 and requested the Authority provide us with documentation that fully supported each draw. We generally found the Authority's book and records were unauditible. The Authority's financial management system and its personnel were not able to provide adequate documentation that fully supported each draw in a timely manner to permit a complete review of the records. For records that were provided, the Authority could not provide adequate supporting documentation for \$3,257,714.

The Authority Does Not Have Adequate Controls Over Cash Disbursements

The Authority's Finance Department did not have controls in place that were effective in controlling cash disbursements. We found a number of disbursements were not processed consistent with normal business practice. Specifically, the Authority:

- Could not account for all checks;
- Did not properly record disbursements in its books of account;
- Wrote a significant number of manual checks; and
- Could not provide adequate documentation to support disbursements.

These deficiencies occurred because the Authority did not develop and implement a comprehensive policies and procedures manual for the Finance Department as was repeatedly recommended by the Authority's Independent Public Accountant (IPA). As a result of the internal control weaknesses, the Authority is placing HUD funds at an unnecessary risk, as there is no assurance funds have been used as intended, including \$381,807 of unsupported expenditures we found and detailed in Finding 3 of this report.

During the course of the audit, the Authority took a number of actions designed to improve its operations. For example, the Authority adopted new procurement policies and has initiated procedures to improve its financial administration.

However, as detailed in the Finding section of this report, those actions will only be effective if they are followed.

Recommendations

We recommended the Authority repay, from non-Federal funds, the ineligible and unsupported costs cited unless the Authority provides documentation that can resolve some of the deficiencies. We also made recommendations designed to improve Authority operations. These include developing and implementing: (1) a contracting administration system to ensure the Authority can detail the significant history of its procurements, and its procurement rationale as required by Federal purchasing regulations; (2) controls to ensure it maintains source documentation for funds drawn through LOCCS; and (3) a comprehensive procedures manual for the Finance Department.

On March 20, 2001, we provided the Authority with a copy of the draft report and requested the Authority provide us with written comments by April 4, 2001. However, based on a request by the Authority's legal representative, we extended the date to April 18, 2001. We also discussed the draft findings with Authority personnel throughout the audit and at an exit conference at the Authority on April 25, 2001.

Auditee Comments

In its written response (Appendix D), the Authority generally acknowledged the procurement and financial administration deficiencies that are cited in the report. However, the Authority stated the report presentation was unfair as it contained some factual errors and did not recognize significant improvements that the Authority has recently implemented or is in the process of implementing. Additionally, the Authority commented that many of the deficiencies cited in the report have been or are being addressed by initiatives already put in motion by the Authority and; therefore, the report recommendations are unwarranted including the recommendation to repay \$8 million from non-Federal funds. The Authority also stated it was not satisfied with the tone of the report nor the four-week time period it was given to provide the OIG with written comments.

Evaluation of Auditee Comments

We are troubled the Authority has directed so much time and resources in trying to discredit or deflect the

substantive issues addressed in the report. For example, rather than directly responding to the key issues addressed in the report, the Authority elected to hire a prominent legal firm outside the Pittsburgh area to respond to the draft audit report. Further, at the exit conference, contrary to the tone of its written response (Appendix D), Authority representatives stated there was general agreement with the OIG report and the deficiencies cited. However, the Authority's legal representatives expressed concern over how the report would be perceived by the media and public. In regard to the length of time committed to the audit, which was often highlighted in the Authority's written response, it should be noted the length of the audit was clearly a function of the Authority not being able to provide records to permit a timely and effective audit as required by the ACC.

We do not agree with the Authority's assertion that the recommendations in the report are unwarranted. As evidenced by the findings in this report, the Authority has significant procedural deficiencies that need to be fully addressed and resolved. Although we acknowledge that the Authority has made some progress in developing and implementing new procedures to correct the identified deficiencies, we have no assurance that they will follow through on completing this process. HUD program staff will need to monitor the Authority's progress to ensure the new procedures are fully implemented. Also, regarding the \$8 million of ineligible and unsupported costs we cite in the report, the Authority has not yet provided us with adequate documentation to resolve the issues.

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Abbreviations

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
CFO	Chief Financial Officer
CGP	Comprehensive Grant Program
HACP	Housing Authority of the City of Pittsburgh
HOPE VI	Revitalization of Severely Distressed Public Housing
HUD	U.S. Department of Housing and Urban Development
LOCCS	Line of Credit Control System
OIG	Office of Inspector General
PHDEP	Public Housing Drug Elimination Program
PHMAP	Public Housing Management Assessment Program
PIH	Public and Indian Housing
RFP	Request for Proposal

Introduction

The Pittsburgh City Council created the Housing Authority of the City of Pittsburgh on August 26, 1937 to provide a better quality of living in low-rent housing for its residents. The Authority is governed by a six member Board of Directors who are appointed by the Mayor. The present Board Chairman is Dr. Morton Coleman. During the audit the Authority's Executive Director was Stanley A. Lowe. The Authority's Administrative Offices are located at 200 Ross Street, Pittsburgh, PA 15219.

The Authority administers public housing pursuant to its ACC with HUD. Financial assistance from HUD to the Authority for 1997 through 1999 include:

Program	1997	1998	1999	Total 1997-1999
Operating Subsidy	\$28,310,874	\$30,003,601	\$24,135,078	\$ 82,449,553
HOPE VI		\$ 3,432,000		\$ 3,432,000
PHDEP	\$ 2,346,760	\$ 1,958,320	\$ 1,780,198	\$ 6,085,278
CGP	\$21,825,922	\$22,893,497	\$25,778,198	\$ 70,497,617
TOP		\$ 140,000		\$ 140,000
Section 8 Certificates	\$12,152,907	\$10,754,417	\$ 7,002,854	\$ 29,910,178
Section 8 Vouchers	\$ 4,408,015	\$ 3,452,507	\$12,527,828	\$ 20,388,350
Section 8 Mod-Rehab	\$ 1,905,960	\$ 912,535	\$ 621,544	\$ 3,440,039
Totals	\$70,950,438	\$73,546,877	\$71,845,700	\$216,343,015

The following information was provided by the Authority for its low-rent housing program on the Statement of Operating Receipts and Expenditures (HUD-52599).

Fiscal Year	Operating Receipts Exclusive Of HUD Contributions	Total Operating Expenditures	Total HUD Contributions (Net Prior Year Adjustments)	Unexpended Balance/ (Deficit)	Operating Reserve
1997	\$19,116,200	\$42,753,905	\$28,310,874	\$ 4,673,168	\$13,160,032
1998	\$14,488,410	\$46,047,547	\$29,915,491	\$(1,643,646)	\$11,516,386
1999	\$13,513,979	\$41,211,747	\$24,135,078	\$(3,562,689)	\$ 7,953,697

As illustrated above, the Authority's Operating Reserve has decreased significantly over the last two years.

A recently completed audit of the Authority's Drug Elimination Program (Report No: 00-PH-201-1001) disclosed the Authority was having problems following the LOCCS automated

disbursements requirements. In particular, the Authority was not paying for costs as incurred. In some cases the Authority was drawing funds prior to incurring the cost and in other cases they were drawing funds months after costs had been incurred and paid for with funds from other programs. Because the same internal controls implemented by the Authority for the Drug Elimination Program funding also apply to funds received from HUD for other programs, this audit was developed to address disbursements made for costs incurred in those other HUD programs.

Audit Objectives

Our primary audit objective was to determine whether the Authority properly procured goods and services with HUD provided funds and drew down and disbursed HUD funds according to applicable program requirements. Another objective was to obtain information on overall Authority operations to determine how well the Authority was accomplishing the core objective of providing decent, safe and sanitary housing to its residents. This objective was to be accomplished by reviewing the Authority's Public Housing Management Assessment Program (PHMAP) score.

The objectives were revised during the audit as a result of several factors. Shifting priorities based on the results of work done in some areas (Procurement and LOCCS draws) caused us to not complete work in other areas (PHMAP). Also, reassessing staff priorities and assignments, and the time it took for the Authority to provide requested documentation caused other more minor shifts in audit objectives. This is pointed out in the Findings section of the report where applicable.

To accomplish completed objectives, we reviewed books and records considered necessary under the circumstances; reviewed applicable regulations, policies, and other directives; interviewed staff from both HUD and the Authority; reviewed construction work completed; and reviewed the audit reports prepared by the Authority's Independent Auditors. We reviewed, using judgmental samples, a total of 15 contracts totaling \$8,447,503 and disbursements from various programs.

The audit generally covered the period January 1, 1998 through December 31, 1999, but was expanded when necessary to include other periods. The audit work was conducted between December 1999 and December 2000.

We conducted the audit in accordance with generally accepted government auditing standards.

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The Authority Did Not Follow Its Own Procurement Policy Or Federal Purchasing Requirements

The Authority's procurement practices did not comply with Federal purchasing requirements nor its own procurement policy. We identified procurement deficiencies in all 15 procurement contracts, valued at \$8.4 million, that we reviewed. Specifically, contract files did not detail the history of procurements as required; contracts were awarded without independent cost estimates; and without evidence of competition; and a number of contracts had change order modifications with significant cost increases and additional work items not within the original contract. These deficiencies occurred because the Authority's management does not ensure staff perform and comply with all applicable provisions of its ACC and applicable statutes and regulations issued by HUD. Further, we found the Authority's procurement policies in place during our review did not have any procedures regarding the use of change orders or the award of single source procurements. As a result, the Authority spent \$4.5 million on contracts that, based on the documentation provided, could not be supported as eligible (Appendix B). Also, there are no assurances that the Authority obtained the best available products and services at the most advantageous prices for the contracts we did not select in our review.

Criteria

Federal procurement regulations must meet purchasing and contracting standards contained in 24 CFR 85.36. To aid in the procurement process the Authority adopted its own procurement policies.

Federal procurement regulations require the Authority to:

- Have and use its own procurement policies which reflect applicable State and local laws and regulations, provided the standards also conform to applicable Federal laws and standards [24 CFR 85.36(b)(1)];
- Maintain records sufficient to detail the significant history of procurement. These records must include the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price [24 CFR 85.36(b)(9)];
- Conduct all procurement transactions in a manner providing full and open competition [24 CFR 85.36(c)(1)]; and

Background

- Perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent cost estimates before receiving bids or proposals [24 CFR 85.36(f)(1)].

The Authority's procurement policies in effect during our audit period covered the purchase of materials/supplies and professional services. The procedures detailed the requirements that were to be followed. As expected, as the value of the procurement increased, the procurement requirements became more stringent. The Authority's procurement policy requires the Authority to:

- Determine requirements of the procurement,
- Identify the funding source and whether item is in the budget,
- Prepare specifications,
- Solicit for quote, bid, or Request For Proposal (RFP),
- Secure an independent cost estimate,
- Ensure an estimated cost is within budget,
- Compare quote, bid or RFP to cost estimate, and if acceptable,
- Issue Notice to Proceed and/or create purchase order and purchase item.

We judgmentally selected a sample of 20 contracts for review to determine if the Authority procured goods and services according to procurement requirements. Using computer assisted audit tools and techniques we obtained and analyzed the Authority's automated contract register to facilitate our selection process. Specifically, we selected a representative sample of small and large awards for both material and supplies and professional services. We also selected several contracts that appeared to have excessive change orders. We subsequently excluded five of these contracts as they were funded through the HOPE VI Program, which was excluded from this review.

For the remaining 15 contracts we compared the documentation provided with each procurement selected for review with the applicable procurement policy.

Sample Number	Authority Management Number	Work Performed	Contract Amount	Change Orders	Total Amount
1	3874	Concrete replacement	\$291,200	\$1,251,007	\$1,542,207
2	3406	Financial statement	44,800	161,300	206,100
3	4092	Site improvements	328,592	0	328,592
4	4090	Gas line relocation	70,870	0	70,870
5	4160	Landscaping/construction	632,150	3,070	635,220
6	4153	Replacement of furnaces	829,000	133,908	962,908
7	4342	Site improvements	1,589,000	(69,457)	1,519,543
8	4113	Hydronic boiler replacement	494,000	13,580	507,580
9	2541	Legal services	9,999	432,375	442,374
10	2516	Resident training	9,999	20,001	30,000
11	3485	Emergency site work	9,975	23,984	33,959
12	2551	Legal services	40,000	723,454	763,454
13	3928	Concrete repair	24,825	0	24,825
14	3875	Concrete replacement	178,190	189,050	367,240
15	3506	Site hazard reduction	553,000	459,631	1,012,631
		Total	\$5,105,600	\$3,341,903	\$8,447,503

We found the Authority's contract administration did not provide assurance that Federal purchasing requirements nor its own procurement policies were followed (Appendix C). Specifically, the Authority did not provide us documentation indicating it detailed the history of its procurements, which is a fundamental requirement of all procurement systems. Additionally the Authority:

- Awarded contracts without evidencing it performed independent cost estimates;
- Awarded contracts without evidence of competition;
- Improperly executed contract modifications; and
- Did not follow other applicable procurement procedures.

Required Cost Estimates
Were Not Performed

These deficiencies are detailed below.

The Authority did not perform the required cost or price analysis for 10 of 15 contracts selected for review. Title 24 CFR 85.36(f)(1) requires the Authority to perform a cost or price analysis in connection with every procurement action, including contract modifications. Without the required cost estimates, the Authority has no assurance it obtained the best available services at the most advantageous prices for its procurements. Initially, all 15 procurements selected for review did not have cost or price analysis documented in the procurement files. After repeated requests the Authority was eventually able to provide cost analysis for five of the selected procurements. It should be noted these cost estimates, which are required to be maintained in Authority files, were not provided until six months after our initial request. Authority officials indicated they provided us with all available procurement documentation and could not explain why cost estimates were not included, as many of the responsible employees no longer worked at the Authority.

Procurements Without
Evidence Of Competition

We found there was no evidence of competition for 5 of 15 procurement actions valued at \$1,294,612. As discussed above, and detailed in Appendix C, none of these five procurement actions had cost estimates prepared prior to the procurement of the goods and services. Specifically, we found the Authority did not receive the required number of quotes (Management #'s 2516, 2541, 2551, and 3485) and did not solicit bids as required (Management #3928). Several examples of these procurements follow and are detailed in Appendix C.

Authority Management #'s 2516, 2541, and 2551 – Legal Services

Until 1998 the Authority routinely awarded legal service contracts primarily to one law firm, by establishing a contract for \$9,999, just below the Authority's \$10,000 procurement threshold, without regard to the anticipated costs for the services. The Authority did not prepare

independent cost estimates and added costs to the awards through non-competitive modifications. For example, among the contracts listed above were two legal services contracts (#'s 2541 and 2516) awarded at \$9,999 each. The contracts were selected for review because they were initially executed for an amount under \$10,000 and/or they had large change orders. We also determined the Authority followed this same non-competitive practice for a \$40,000 award (#2551) selected for review. The three contracts selected, all awarded to the same law firm follow:

Management Number	Original Price	Changes	Revised Price
2541	\$ 9,999	\$432,375	\$442,374
2516	\$ 9,999	\$ 20,001	\$ 30,000
2551	\$40,000	\$723,454	\$763,454

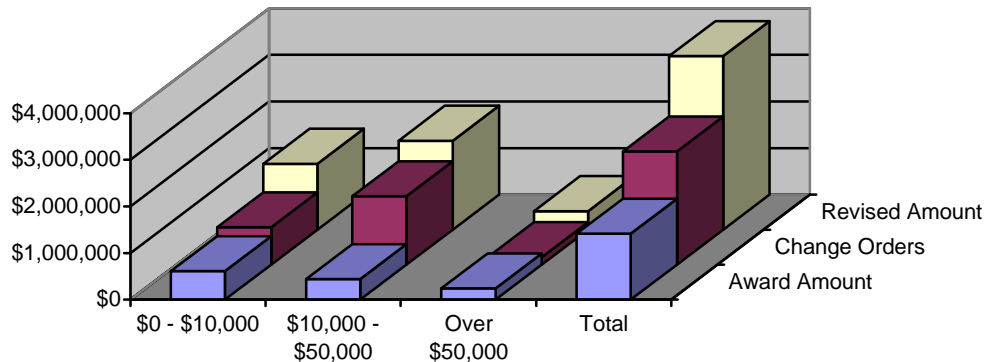
The Authority did not develop an independent cost estimate for these services. The Authority's interim legal counsel, who is employed by the law firm that received the awards above, agreed legal services were not procured properly in the past. The Authority's interim legal counsel stated the Authority was erroneously instructed that no purchasing requirement applied for awards under \$10,000 and professional services over \$10,000 only required three phone quotations. The interim legal counsel stated that the Authority took prompt action on this matter when it was brought to their attention during the delivery of 1996 financial statement audit in the first quarter of 1998. Specifically, he indicated the Authority procured its contract for legal services competitively. Although, Authority representatives agreed it was procuring legal services improperly in 1998, and it took prompt action, the Authority did not enter into its competitive legal services award until the first quarter of 1999. Ironically, the law firm that received the improper awards was awarded an \$8,500 award in January 1997 specifically for work relating to the Authority's procurement policies.

Due to the significant procurement issues we identified above for this legal firm, we analyzed the Authority's contract register from 1997 through 1999 for this firm to more accurately determine the magnitude of the problem. As the table and graph below illustrate, we found the Authority made 81 awards valued at more than \$3.7 million

Finding 1

to the firm with \$2.4 million being the result of change orders made to the initial contracts.

Award Amount	No. of Awards	Cumulative Amount as Awarded	Change Orders	Revised Award Amounts
\$0 - \$10,000	66	\$ 612,776	\$ 801,708	\$1,414,484
\$ 10,000 - \$50,000	12	440,000	1,469,277	1,909,277
Over \$50,000	3	240,000	160,000	400,000
Total	81	\$1,292,776	\$2,430,985	\$3,723,761



Contract Modifications Were Improperly Executed

As we illustrate below, 10 of the 15 contracts that were originally awarded at \$2,460,163 had \$3,408,290 in change orders that increased the value of the contracts to \$5,868,453 (138 percent).

Authority Management Number	Work Performed	Contract Amount	Change Orders	Total Amount
3874	Concrete replacement	\$ 291,200	\$1,251,007	\$1,542,207
3406	Financial statement	44,800	161,300	206,100
4153	Replacement of furnaces	829,000	133,908	962,908
4113	Hydronic boiler replacement	494,000	13,580	507,580
2541	Legal services	9,999	432,375	442,374

2516	Resident training	9,999	20,001	30,000
3485	Emergency site work	9,975	23,984	33,959
2551	Legal services	40,000	723,454	763,454
3875	Concrete replacement	178,190	189,050	367,240
3506	Site hazard reduction	553,000	459,631	1,012,631
	Total	\$2,460,163	\$3,408,290	\$5,868,453

The Authority's procurement policies did not provide any procedures regarding the use of change orders. Contrary to HUD guidelines we noted change orders were issued to increase the number of items purchased or for work clearly not within the original contract scope.

HUD Handbook 7460.8 Paragraph 6-10 C. provides specific guidance on the use of change orders. The changes' clause prescribes the specific circumstances in which a change order may be issued. Changes such as increasing the number of items being purchased or other types of new work are not considered within the scope of the contract or within the authority of the changes' clause.

Appendix C provides a summary of the Authority's procurement actions for the awards noted above. The following are more egregious examples of the Authority's improper use of change orders.

Authority Management #3874 - Concrete Replacement

The contract as awarded was valued at \$291,200 for concrete replacement. The Authority subsequently awarded 72 change orders valued at \$1,251,007. We asked Authority officials to explain how these change orders could be eligible. The Authority initially provided a legal opinion, dated January 2000 after the award and all change orders were completed, that opined because it entered into a fixed price contract with the lowest responsible bidder, and the contract specified unit prices; the Authority could award additional work based on the unit pricing submitted with the bid proposal. More recently in response to media inquiries and City Council hearings, the Authority's former Executive Director has acknowledged procurement regulations were not followed, indicating it was a mistake to award so many change orders. However, the former Executive Director said the Authority still received value for the work that was done.

We disagree with the Authority’s original position that the change orders were allowable and also with the former Executive Director’s recent statement that the Authority received value for the work that was completed. Specifically, as noted above, HUD guidelines preclude the use of change orders for quantity increases and for work items not within the scope of the contract. Further, a detailed analysis of all 72 change orders determined \$305,785 of the \$1,251,007 in change order work was for items not included in the unit pricing schedules and, therefore, not covered in the Authority’s legal opinion. Additionally, since the legal determination was not made until after the completion of the work, it is unclear how the Authority would have justified its position without the opinion.

We also determined that the Authority significantly overpaid for the remaining change order work valued at \$945,222. Although the change order work was for items within unit pricing provided by the contractor, the contractor’s unit prices were significantly higher than unit pricing provided by competing bidders. Specifically, our analysis showed the four responsive contractors would have performed the work items for as much as \$426,083 less than the selected contractor as illustrated below:

COMPETING CONTRACTORS				
Description	Contractor 1	Contractor 2	Contractor 3	Contractor 4
Change orders supported by unit pricing	\$885,311	\$574,237	\$519,139	\$788,965
Amount Authority Could Have Saved 1/	\$ 59,911	\$370,985	\$426,083	\$156,257
1/ Amount Authority Paid (\$945,222) less Competing Contractor Price				

Authority Management #3506 - Site Hazard Reductions

The contract as awarded was valued at \$553,000 for site hazard reductions. The Authority subsequently awarded change orders totaling another \$459,631 to increase the total value of the contract to \$1,012,631 (83 percent increase). Based on the Authority's own cost estimates for the site work, the contractor was significantly overpaid for grading and seeding change orders. Specifically, work items in the original contract indicated the contractor was paid to grade and seed a 40,000 square foot area. Additionally, the contractor was awarded change orders to grade and seed another 54,000 square feet at a cost of \$3.00 per square foot. As illustrated below, the Authority's own cost estimates valued the work at no more than \$1.85 per square foot, indicating the Authority overpaid \$62,100 for these work items.

<u>Description</u>	<u>Change Order</u>
Per Physical Estimates	\$3.00/ sq. ft.
Per Authority Cost Estimate	\$1.85/sq. ft.
Difference	\$1.15 /sq. ft.
Seeding Area	54,000 sq. ft.
Total Overpaid	\$62,100

We asked Authority personnel to provide us with the contractor's unit pricing for the contract award. The Authority's Modernization and Development Supervisor indicated the contractor was not required to provide unit pricing data for the contract. However, according to the Authority's policies the schedule was required. Further, the Authority's own cost estimates, which were eventually provided, indicate the work was significantly overpriced and that the Authority did not consider its own estimates.

Authority Management #3406 - Financial Statement Audit

On July 13, 1998, the Authority entered into a professional services contract with an independent accounting firm. The scope of services in the contract as well as the scope of services in the RFP that was initially prepared to solicit for the work was specifically for the audit of the financial statements. The RFP was for a financial statement audit for the fiscal year ending December 31, 1997 with an option to

audit the financial statements for the year ending December 31, 1998. The contract to audit the 1997 financial statements was awarded for \$44,800.

Without competition, the Authority awarded the independent accountant an additional \$131,867 of work items under the financial statement contract that was not part of preparing the financial statements. The scope of the additional work consisted of financial consulting work related to its HUD programs. The Authority also did not perform any independent cost estimates relating to the additional work items and paid the independent accountant based on unit pricing provided with the RFP for the financial audit award.

The Authority did not document any of its decisions regarding the contract modifications. When asked for an explanation, Authority officials and representatives provided a variety of reasons why the award was made. According to the Authority's interim legal counsel, management made the decision that the accounting firm was the "ideal party to assist the Authority since the contractor would be most familiar with their system because they were involved with auditing the financial records". The Authority also stated that the process of expanding the scope of work and performance of the additional work by the contractor would be efficient and less expensive. According to the current Chief Financial Officer (CFO), who was not employed at the Authority when the addendums were executed, the Authority believed that the work was eligible because due to staff turnover, particularly in the Finance Department, it was considered an emergency and, therefore, eligible.

We believe the above awards illustrate the problems in the Authority's contract administration. Executive management approved the additional work without any determination of what the work would cost and whether procurement regulations were followed. Its procurement decisions and rationale were not evident prior to the award.

In addition, although it was not part of the judgmental sample of 15 procurement actions selected for review, we analyzed the Authority's contract register and noted 86 awards for \$5.1 million had increased \$8.9 million to a total of \$14 million.

Other Procurement Issues

The Authority generally did not follow its own procurement procedures for many of the other required elements of procurement. The Authority's procurement policies clearly identify the procedures that are to be followed when making its purchasing decisions based on the type of contract and the anticipated costs. However, as we pointed out throughout this finding, the Authority generally did not evaluate the anticipated cost and, therefore, could not determine the appropriate procurement procedure to follow. Also, the Authority disregarded its own policies and procedures in the areas of: required number of quotations; timely notice to proceed; issuing a notice of intent to award to all bidders; provide evidence of solicitation and approval of minority and women business enterprises; evidence of Board of Director's review and approval; and evidencing identification of the funding source. The specific procurement deficiencies are listed in Appendix C for each contract we selected and reviewed. As the results in Appendix C clearly show, many of the procurement steps required by the procurement policy were simply not completed by the Authority, and as such, the Authority cannot provide assurance that it obtained the best available services at the most advantageous prices.

At the time of our review, the Authority's written procurement policies generally complied with Federal purchasing requirements.

The Authority's Director of Grant and Contract Compliance believes the Authority's recently adopted procurement procedures will correct many of the issues cited in this finding. We agree the Authority's revised procedures are a move in the right direction. However, it should be noted the revised procurement procedures will only be effective to the extent they are followed. The procurement deficiencies described throughout this finding were primarily due to the Authority's failure to follow its policies, and not because these policies weren't adequate.

* * * * *

In summary, the Authority's procurement practices did not comply with Federal purchasing requirements nor its own procurement policy. Specifically, contract files did not

detail the history of procurements as required. We also found contracts were awarded without independent cost estimates, and without evidence of competition. Because Authority officials did not ensure staff performed and complied with all applicable provisions of its ACC and applicable statutes and regulations issued by HUD, the Authority spent \$4.5 million on contracts that, based on the documentation provided, could not be supported as eligible. Also, there is no assurance the Authority obtained the best available products and services at the most advantageous prices for the contracts we did not select for review.

Auditee Comments

The Authority acknowledged it had fundamental deficiencies in its procurement of goods and services. Specifically, the Authority agreed that it either did not perform or misplaced independent cost estimates and it procured legal services improperly. Although, the Authority acknowledged there were some deficiencies in certain contracting activity, they disagreed with many of the cited deficiencies and stated the problems were not as severe as depicted in the draft report. For example, the Authority stated the OIG incorrectly considered a purchase for summer youth programs as a procurement instead of a sub grant to a non-profit as intended. Additionally, the Authority stated that it was evaluated on certain procurement policies that were not in effect at the time of our review and that certain contract modifications cited in the report were allowable since they were based on unit pricing established in competitive negotiations. The Authority also provided additional documentation to address some procurement deficiencies noted in Appendix C. Finally, the Authority stated the report did not fairly recognize corrective actions the Authority has implemented to include the adoption of new procurement policies.

**OIG Evaluation of
Auditee Comments**

We do not agree the Authority's procurement deficiencies were unfairly depicted in the report. Specifically, the Authority did not: (1) perform independent cost estimates; (2) properly award change orders; and (3) document the history of its procurements. These are fundamental purchasing requirements established in Federal procurement regulations, which the Authority agrees to comply with according to the terms and conditions of its ACC with HUD.

It should also be noted that the OIG's basis for calculating unsupported costs was the Authority's failure to perform independent cost estimates, which are not at issue. Further, contract modifications outside the scope of an award or for quantity increases are clearly ineligible pursuant to Federal regulations. Regarding the applicability of certain procurement policies, we evaluated the Authority's procurements pursuant to policies provided by the Authority, which they have indicated were effective for all contracts reviewed during our audit.

It should also be noted, where appropriate, we have cited areas of improvement to include the Authority's competitive procurement of legal services and its recently developed procurement policies. We have also made revisions to the draft report to account for additional documentation provided with the Authority's written response. Additionally, based on the Authority's written response and discussions with HUD program officials and OIG Counsel, we have modified the report and no longer consider the summer youth program award as a procurement. As a result, it was removed from the listing of contracts reviewed and the finding.

Recommendations

We recommend you:

- 1A. Require the Authority to repay HUD, from non-Federal funds, \$1,382,874 and \$3,118,773 of ineligible and unsupported costs, respectively, unless the Authority can provide additional documentation to resolve the cited deficiencies.
- 1B. Require the Authority to develop and implement a contracting administration system to ensure the Authority can detail the significant history of its procurements and procurement rationale as required by Federal purchasing regulations. At a minimum, this system should provide for the creation of a file checklist to be maintained in the procurement file that identifies the procurement type, and the required procurement procedures that need to be

followed. The checklist should be completed and identify the responsible party.

- 1C. Ensure, through appropriate monitoring, the Authority adheres to its established procurement policy.

The Authority Did Not Properly Support LOCCS Draws Under Its Comprehensive Grant Program

The Authority could not support LOCCS draws made under its CGP as required. We judgmentally selected six LOCCS draws totaling \$13,307,783 and requested the Authority to provide documentation to fully support each of the draws as was required by the regulations. However, we generally found the Authority's books and records were unauditable, as the Authority's financial management system and its personnel were not able to provide documentation that fully supported each draw, and in a timely manner to permit full review of the records. For records that were provided, the Authority could not provide adequate supporting documentation for \$3,257,714 as follows:

- Authority drew down \$872,772 which included contractor retention that was not paid;
- Authority drew down \$599,000, representing funds improperly allocated to the CGP; and
- Authority could not provide adequate source documentation for \$1,882,942. (Amount includes \$97,000 from the \$599,000 that was also not supported with adequate source documentation.)

The Authority's new CFO acknowledged the Authority did not maintain its books and records satisfactorily in the past. However, the CFO suggested it was unfair to draw conclusions regarding the adequacy of supporting documentation provided for specific LOCCS draws without reviewing all of the Authority's draw downs. The CFO stated that the LOCCS draws cited created a special problem because the draws included many "transferred transactions" among multiple CGP journal entries. Further, the CFO believed the documentation that was subsequently compiled by her staff adequately supported the draws reviewed. As we detail in the finding below, the CFO's position that individual draws cannot be reviewed is incorrect as the Authority is required to maintain accounting records and source documentation to support any individual draw. Further, documentation subsequently compiled and provided by the Authority did not adequately support the disbursements that were selected for review. Due to the Authority's lack of financial accountability over its LOCCS draws, there is no assurance \$3.2 million of HUD funds were used appropriately and/or in accordance with HUD Regulations and requirements.

Criteria

The ACC between the Authority and HUD part A Section 15(A) states the Authority must maintain complete and accurate books of account to permit timely and effective audit.

Federal regulations for grantee financial management systems require: accounting records that adequately identify

Background

the source and application of funds; effective internal controls and accountability over funds; source documentation that supports accounting records to include cancelled checks, paid bills, payrolls, time and attendance records, contract and award documents, etc. {24 CFR 85.20(b)}.

LOCCS is a computerized cash management and disbursement system for public housing agencies developed to assist HUD's Office of Finance and Accounting in planning, accounting, and evaluating HUD disbursements within specific program areas including the CGP. There is no minimum draw down requirement in LOCCS. An authority shall draw down the amount of funds necessary to meet its immediate cash needs -- no more, no less. LOCCS is HUD's primary vehicle for achieving cash management savings through the use of electronic wire transfer of payments to grant recipients of HUD program funds.

The original scope of our review was to determine if the sampled draws were made for eligible expenditures and paid timely. However, because we were unable to timely obtain supporting documentation, the scope was changed to determine if the documentation provided by the Authority was sufficient to permit a review of the records. For example, if the Authority provided payroll documentation, did the documentation include pay period, employee name, amounts for gross pay, taxes, insurance, etc. and other information that would enable the amounts to be audited? If the documentation was for invoices paid, was there a sufficient amount of documentation to enable an individual invoice to be identified so it could be potentially selected for review? Amounts that were not supported by source documentation as described were considered unauditible.

Since the LOCCS disbursement system is designed to provide an Authority with program funds quickly to facilitate its cash needs, journal entries should be minimal, and the Authority should be able to specifically identify the source and application of its program draws. This is detailed in the section on costs incurred that were not supported by adequate source documentation.

On June 9, 2000 we provided the Authority a request for documentation. The following LOCCS draws were judgmentally selected for review:

	Date	CGP Year / Draw No.	Amount	Unauditable Amount
1	01/02/98	1994 / 101	\$ 2,567,646	
2	01/02/98	1995 / 69	\$ 2,569,016	
3	11/16/98	1996 / 74	\$ 3,827,156	\$2,007,505
4	03/03/99	1996 / 93	\$ 2,091,849	\$ 436,135
5	05/24/99	1997 / 38	\$ 1,434,785	
6	11/29/99	1998 / 34	\$ 817,331	\$ 814,074
		Totals	\$13,307,783	\$3,257,714

The Authority provided support for draw numbers 1, 2, 5, and 6 in less than two months. The support for draws 1 and 2 amounted to only providing criteria that explained why those amounts did not have to be supported by source documentation. Specifically, the Omnibus Consolidated Rescissions and Appropriations Act of 1996 permitted the Authority to transfer up to 10 percent of its modernization funds in any fiscal year for any authorized operating subsidy purpose. Draws 1 and 2 above were draws for that reason and, as a result, did not have to be supported further. The Authority was also able to provide documentation to support draw 5 that consisted of mostly payroll.

The Authority did not provide any documentation for draws 3 and 4 until October 17, 2000, months after it was initially requested. Further, when the information was finally provided, it was not adequate. Much of the documentation provided by the Authority for draw 6 above was also not acceptable as the Authority erroneously drew down funds for contractor retention that was not paid to the contractors. As explained in the sections that follow, source documentation was either not provided or the entries did not support draw amounts.

The Authority Drew Down Contractor Retention That Was Not Paid

Contrary to Federal regulations, the Authority drew funds for contractor retention even though the funds were not paid to the contractors. Because the Authority's practice was to draw funds based on expenses posted to general ledger accounts, without ensuring there was an actual cash outlay associated with the expense, the Authority erroneously drew funds from LOCCS that were not paid to

the contractor. Authority personnel indicated that when they became aware of the error, they offset the amounts drawn in error with future expenditures. However, HUD guidelines clearly state that funds drawn over the immediate needs of the Authority should be promptly returned. Further, the Authority was unable to provide clear documentation evidencing how and when the offset against future expenses occurred. As a result, \$872,772 of HUD funds were used for unknown reasons and maintained by the Authority for an unknown period of time before they were disbursed.

According to 24 CFR 85.21(g)(3): “A Federal agency shall not make payment to grantees for amounts that are withheld by grantees or subgrantees from payment to contractors to assure satisfactory completion of work. Payments shall be made by the Federal agency when the grantees or subgrantees actually disburse the withheld funds to the contractors or to escrow accounts established to assure satisfactory completion of work.”

According to the LOCCS CGP request voucher, the preparer certifies that the funds requested are not in excess of immediate disbursement needs for the program and any funds provided that become more than necessary will be promptly returned.

HUD PIH Notice 96-90, Section 4, Paragraph 4-2.B. Expenditures states the housing authority shall requisition funds only when payment is due and after inspection and acceptance of the work, and shall distribute the funds within three working days of receipt of the funds.

The Authority provided documentation indicating funds were drawn for retainage for two of the six LOCCS draws we reviewed. When asked why funds were drawn for expenditures that were not paid, the Authority’s Manager of Accounting Operations explained the amounts were erroneously drawn from LOCCS. These draws took place on March 3, 1999 and November 29, 1999, indicating the problem went undetected for many months. Further, when supporting documentation was eventually provided for our review in October 2000, we would have expected the documentation to note the error and document the resolution.

The Authority drew down funds based on a reconciliation of its general ledger accounts, without carefully analyzing the detailed general ledger activity. The Authority termed this practice “Analysis of money draw downs”. These were LOCCS draws that were not made for a specific disbursement (invoice, contract, etc.) The draws were made to cover a specific period of time for selected general ledger account numbers and in many instances covered amounts after the invoice or contract was posted to the general ledger. The result of executing LOCCS draws this way was the draw was generally made so that the Authority could be reimbursed for expenses it had already paid.

In preparing the schedule for the reconciliation draws, the preparer was supposed to list the value of the general ledger account expended net of retention. In other words, the amount of the account on the draw analysis was to reflect the amount paid to the contractor after the retainage amount was withheld. When a former Authority accountant prepared the “Analysis of money draw downs” they put into the column titled “Expended net of retention” the amount of the periodic estimates before retention was deducted. As a result of this error, the Authority drew down \$872,772 more than what was paid to the various contractors.

The Manager of Accounting Operations stated that at year-end, the Authority offset all funds drawn in error and, therefore, had not drawn down more funds than was necessary. The CFO reiterated the Authority’s claims that it made subsequent adjustments to LOCCS draws that negated the effect of the excessive funds that were drawn, and acknowledged that although the Authority violated the three day rule (not disbursing funds within three working days of receipt) it did nothing else improper.

We disagree with the CFO’s statement that the Authority handled the transactions properly. Clearly, the Authority did not return funds to HUD as required. Also, the problem illustrated above is one example of the problems that occurred because of the Authority’s practice of preparing its LOCCS draws based on general ledger activity without implementing a review process or maintaining sufficient documentation. There were several breakdowns in the process used by the Authority to draw funds from LOCCS.

First, a lack of controls permitted the Authority to request funds for an amount more than was needed without being detected. Second, once the funds were drawn, it went unnoticed that they were not disbursed for the purpose for which they were drawn. Even though the Authority has indicated it has offset the funds drawn in error, it has not provided adequate documentation showing what expenses were ultimately paid with the funds. Finally, while the Authority acknowledges the three day rule was violated, it did not notify HUD of the violation, nor did it quantify the effect of improperly possessing HUD funds for as long as eight months.

The Authority Improperly Allocated Funds to CGP

The Authority did not properly allocate costs to its CGP. The costs were allocated based on a predetermined budget amount, and the allocation percentages were subsequently adjusted to match the budgeted amount. Further, based on our review of the allocated costs it appeared they were routine operating costs and, therefore, not eligible CGP expenses. Authority personnel indicated they could not explain the eligibility of the individual transactions. As a result, the Authority cannot provide any assurance \$599,000 of costs charged to the CGP are eligible.

According to 24 CFR 85.20(a): “A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to- ... (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

As illustrated below, the Authority provided us a spreadsheet showing how the costs were supposed to be charged to CGP.

Department	Amount of Cost	% to CGP	Amount Allocated
Engineer	\$530,000	70%	\$371,000
Pest control	\$ 35,000	60%	\$ 21,000
Lands	\$230,000	90%	\$207,000
Total			\$599,000

However, documentation provided for our review indicated the costs charged were not related to the budget shown above. The only similarity was the \$599,000 charged to CGP. Specifically, the Authority arbitrarily allocated 53 percent of 5,722 transactions as well as other miscellaneous entries totaling \$1,136,535 in its Miscellaneous Materials General Ledger Account Balance at August 31, 1998 without regard to the eligibility of the specific transactions posted to the account. Further, the \$599,000 was charged to a CGP account that is principally for staff costs.

We were told personnel responsible for the above calculations are no longer employed by the Authority, so the rationale for the actions could not be determined. As a result, in order for the \$599,000 to be considered eligible, the Authority will have to show that all of the costs charged were eligible for account #1408 management improvements activities as reported in its annual statement to HUD and were each 53 percent chargeable to the CGP.

Source Documentation
Not Adequate To Support
LOCCS Draws

The Authority did not provide adequate documentation to support \$1,882,942 funds drawn from LOCCS. As noted above, the Authority did not provide any documentation pertaining to LOCCS draws numbers 3 and 4 until October 17, 2000 more than four months after our initial request. The Authority believed information provided in October adequately supported costs claimed. However, source documentation was either not provided or the information provided was not auditable.

We also found the Authority did not maintain adequate documentation to identify what specific expenditures were reimbursed through LOCCS as required. The documentation was not adequate because it did not identify which costs were being claimed, and did not provide source documentation adequate to determine what invoice, contract, etc. made up the journal entry(s) provided.

Even though Authority personnel certified funds requested through LOCCS were correct, Authority personnel could not provide us with documentation to fully support the expenditures. For the most part, documentation provided was only accounting records (i.e. general ledger activity, journal entries), not the required source documentation (cancelled checks, paid bills). Also, the documentation that

was provided did not match draw down amounts as the documentation exceeded amounts drawn and did not identify what portion of the support was associated with the costs claimed. Specifically, funds drawn through LOCCS were generally only supported by aggregate changes to general ledger accounts, and did not include detailed transactions and required supporting documentation.

We identified these same problems in a recently completed audit of the Authority's Drug Elimination Program (Report No: 00-PH-201-1001). We discussed the concerns we had with the Authority's method of drawing funds through LOCCS based on general ledger activity without maintaining any specific identification of the source documentation associated with the expenditure. We were told this practice would stop and all future draws would be properly supported. However, one of the LOCCS draws reviewed was prepared after this assurance, yet as noted above the practice continues.

For example, one LOCCS draw included costs posted to a CGP account totaling \$56,132. However, the entry is nothing more than the net debit associated with three different Authority general ledger accounts. In order to evaluate the eligibility of that amount a total of \$2,184,079 in debits and \$2,127,947 in credits covering 76 different entries would have to be analyzed. Further, many of those 76 different entries include support that breaks out into additional layers of multiple entries. The result is the entire \$56,132 is questioned since the Authority is unable to provide documentation evidencing the specific costs charged.

Because the Authority did not provide source documentation for \$1,882,942 of the costs claimed for the sampled LOCCS draws, we were unable to conclude if the funds were used for authorized purposes. We provided the Authority with detailed schedules of questioned costs.

The Authority's CFO stated that many of the deficiencies cited in this finding were the result of looking at a sample of a few draws. She indicated the LOCCS draws cited created a special problem because the draws included many "transferred transactions" among multiple CGP journal entries.

The Authority's position that individual draws cannot be reviewed is incorrect. Because a LOCCS draw is made for a particular cash outlay, and the Authority is required to maintain adequate internal controls, accounting records, and source documentation, a LOCCS draw should stand on its own; and the Authority should be able to provide the source documentation to support any individual draw.

* * * * *

In summary, the Authority drew funds through LOCCS for expenditures that could not be supported as eligible. For the six sampled LOCCS draws that totaled \$13,307,783, where the draws were made without a specific vendor or contractor identified, the Authority received \$872,772 for funds drawn for retainage that was not paid, improperly allocated \$599,000 to the CGP, and did not provide documentation sufficient to facilitate an audit of an additional \$1,882,942. The CFO's belief that in order to conduct an audit, all LOCCS draws as opposed to a sample of LOCCS draws must be selected for review is incorrect. The Authority is required to provide documentation to support the LOCCS draw and evidence compliance with the Federal requirements that require the Authority to maintain records which adequately identify the source and application of funds provided for financially assisted activities; assure funds are used solely for authorized purposes; and support accounting records with source documentation.

Auditee Comments

The Authority acknowledged it drew funds for contract retention not paid and mistakenly allocated LOCCS draws meant for operating subsidy to the Comprehensive Grant Program. Additionally, the Authority acknowledged it could not provide source documentation to account for its LOCCS draws as required. The Authority stated these deficiencies were attributed to: (1) financial system conversions; (2) employee departures; (3) draws selected for review that contained many transferred transactions through journal entries; and (4) the Authority's former practice of drawing funds based on general ledger activity. The Authority, however, felt the OIG's conclusions were unwarranted and

premature given the documentation that was provided with the Authority's written response.

The Authority has also indicated it has stopped the practice of drawing funds based on general ledger activity and has implemented a system established by the Chief Financial Officer that details the source documentation related to the draw.

OIG Evaluation of Auditee Comments

We do not agree with the Authority's position that the OIG's conclusions regarding the draws selected for review are in any way premature or unwarranted. The Authority is required to maintain its books and records to permit a timely and effective audit. Clearly, that was not the case. Further, the OIG has continued to review and evaluate documentation provided by the Authority. In fact, the Authority was given another opportunity to provide the OIG with documentation sufficient to trace to supporting documentation. This additional documentation was still not adequate to address the deficiencies cited. While, we are encouraged by the Authority's development and implementation of a system to ensure LOCCS draws are properly supported, we cannot conclude whether or not the improvements are effective and are being followed as they were implemented after draws we selected for review. These improvements should be evident during routine program monitoring and future audit efforts.

Recommendations

We recommend you require the Authority to:

- 2A. Repay from non-Federal funds \$872,772 unless it can provide supporting documentation that shows how the contractor retention drawn in error was offset against other program expenses. Supporting documentation should include: a schedule listing when the Authority actually spent the \$872,772; what specific invoices or contracts were paid with the funds; and what the Authority did when it ultimately paid the contractors for the retainage that had been previously drawn.
- 2B. Repay from non-Federal funds \$599,000 and \$1,882,942 of miscellaneous materials expenses allocated to CGP, and amounts determined to be

unauditable, respectively, unless it can provide records to support eligibility.

We recommend you:

- 2C. Verify the Authority has stopped the practice of drawing funds from LOCCS based on general ledger activity, and ensure the Authority's recently developed systems are adequate and that the Authority maintains source documentation for funds drawn through LOCCS.

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The Authority Needs To Improve Its Controls Over Cash Disbursements

The Authority's Finance Department did not have adequate controls over cash disbursements. The Authority did not develop and implement a comprehensive policies and procedures manual for the Finance Department as repeatedly recommended by its Independent Public Accountants. We found a number of disbursements were not processed consistent with normal business practice. Specifically, the Authority:

- Could not account for all checks;
- Did not properly record disbursements in its books of account;
- Wrote a significant number of manual checks; and
- Could not provide adequate documentation to support disbursements.

Because of the internal control weaknesses listed above, the Authority is placing HUD funds at an unnecessary risk, as there is no assurance funds have been used as intended, including \$381,807 of expenditures detailed in this finding.

Background

Internal controls are a major part of managing any organization. An internal control system is made up of plans, methods, policies and procedures to meet an organization's mission, goals, and objectives. The organization's internal control system requirements change over time because business conditions change. The business environment changes because of changes in laws and regulations, societal concerns, technology, managerial philosophies, and leadership.

Prudent business practices prescribe policies and procedures should be communicated in writing. The documentation aspect is critical because oral communication of policies and procedures is unreliable; spoken words can be changed too easily, forgotten or never even heard. Further, it is important for organizations to have consolidated policies and procedures organized systematically. Fragmented or decentralized policies and procedures hinder the employees using them and do not ensure for their consistent application. Frequent turnover in any organization affects negatively the internal control environment and makes continual training even more

essential. A healthy internal control environment that includes sound policies and procedures, an effective training program and good supervision, can minimize the negative effects such turnover can cause.

Using computer assisted audit tools and techniques we determined 412 checks were not accounted for on Authority disbursement registers for 1998 and 1999. We followed up with Authority personnel to determine if they had adequate controls to safeguard checks and whether they could provide an explanation for the missing checks. We found the Authority did not have adequate controls, and 61 of the 412 checks were not properly accounted for as illustrated below:

- Authority manual records indicated 43 checks were voided; however, the Authority could not produce the voided checks;
- Authority could not provide any explanation for the disposition of four checks; and
- Fourteen checks dated during the audit period and negotiated were not recorded on Authority books and records provided for our review.

Because the Authority does not have adequate controls or safeguards over its bank checks, and also did not routinely reconcile its bank accounts, HUD funds are at risk since there is no assurance funds have been used as intended.

The Authority Did Not Properly Record Disbursements

The Authority wrote a \$19,200 check payable to cash, but recorded it in the general ledger as payable to Housing Auth City of Pgh. A former Authority Procurement Officer negotiated the check. We were told the check was made payable to cash to pay for entertainment at an Authority funded drug prevention program, and the reason it was recorded differently was the Authority's system would not allow a check to be entered as payable to cash. A review of four vendor contracts for which the cash payment was made did not specify a cash payment was required, in fact, the terms of three of the contracts clearly indicated that payment could be made by certified check, bank draft, or money order. Because the Authority has not established policies and procedures that need to be followed, Authority personnel circumvented built in system controls and,

therefore, increased the risk that HUD funds could be used improperly.

In our review of disbursements, we also found two other checks were not properly recorded as illustrated below:

<u>Check Number</u>	<u>Amount</u>	<u>Description</u>
113324	\$ 7,703	This check was not posted to the general ledger. Therefore, the expense was not recognized on Authority books of account.
103625	\$ 5,880	The Authority purchased \$6,000 worth of certificates for this \$5,880. The \$120 discount was not recorded on the Authority's books.

Check number 113324 was issued as a replacement for another check that had an incorrect payee. The check was a manual check processed outside the normal check run and the information was to have been processed with the next weekly run. That did not happen and the check was not posted to the general ledger. As a result, cash has been overstated and expenses understated.

Check number 103625 was used to purchase certificates from a local grocery chain. Certificates were purchased at discount and once sold at face value would realize a profit for the Authority. The Authority did not record the discount realized on the purchase that would be transferred as income once the certificates were resold. Also, the Authority offset the cash expenditure by reducing other income. Until the certificates were resold, the cost represents an expense to the Authority. As a result, the Authority understated both income and expenses.

Disbursements Were Not Processed Through The Authority's Normal Bill Paying Process

The Authority wrote a large number of manual checks. During our audit period the Authority wrote an average of 34 manual checks each month. Because manual checks do not get processed through the Authority's normal bill paying process there is an increased likelihood that disbursements will not be processed properly. For example, we noted manual checks were prepared to pay a provider for Authority employee health benefits. Although the payment was due on July 29, 1999, the vendor was not

paid until October 1, 1999, thereby placing employee health benefits coverage in jeopardy.

Additional examples of concerns raised as a result of issuing manual checks include the following:

Check number 102929 was a manual check written on December 18, 1997 to a HOPE VI limited partnership for \$556,834.93. Under the Authority's normal bill paying process, accounts payable checks at the Authority were generally signed by a signature stamp bearing the names of the former Executive Director and Director of Finance. The Authority's former Executive Director and Deputy Director signed this manually prepared check. We noted there was no mailing address on the check raising the question how the recipient received the check. Also, the check was not executed until February 4, 1998 or 47 days after it was prepared. Since manual checks are generally necessary to expedite the payment process, it is unclear why a manual check was necessary in this circumstance.

Check number 103886 was a manual check written on January 15, 1998 to a program recipient for \$13,300.89. In reviewing other checks for this program recipient, we noted all other checks, except the manual check noted above, were endorsed with a deposit stamp and deposited into the same bank account. The manual check in question was endorsed by an individual and processed by another bank.

During our review of the Authority's disbursement process, we noted concerns with the adequacy of supporting documentation for the following payments:

The Authority Did Not Adequately Support Disbursements

<u>Check Number</u>	<u>Amount</u>	<u>Description</u>
109072	\$ 27,385	The Authority was not able to provide documentation identifying the funding source for this payment. However, based on the documentation obtained, it appears this disbursement was funded through the CGP for consulting and cost of the initial inventory for a store in one of the Authority's communities, and according to program requirements may not be CGP eligible.
108860	\$225,000	This check settled an Authority legal matter. Documentation was not provided to detail the legal matter. Additionally, HUD's Mid-Atlantic Office of General Counsel was not made aware of the litigation as required by HUD guidelines.
120431	\$128,465	This disbursement to install digital cable wiring in several communities was not made timely. Further, HUD's Pittsburgh Office of Public Housing indicated work was not done according to Authority budget submissions.
115685	\$ 10,898	This disbursement was to reimburse the Authority's former Executive Director for miscellaneous expenditures in February 1999. According to documentation provided by the Authority, some of the reimbursements were for expenses incurred during 1998, more than a year earlier. Additionally, \$957 of the reimbursements may not have been appropriate and included miscellaneous entertainment, and an Authority police towing charge.

Authority personnel indicated the Authority no longer employs many of the employees responsible for the deficiencies noted throughout this finding. Specifically, the Finance Department has had at least five different individuals head the Department since July 1997.

We acknowledge the Authority has had frequent turnover in the Finance Department. However, frequent turnover is not an acceptable reason for the Authority's inability to develop

and implement policies and procedures as recommended in each of the last three financial statement audits done by the Authority's Independent Auditor. Clearly, sound policies and procedures that need to be followed are an important constant in an environment where employee turnover is so prevalent.

* * * * *

In summary, the Authority needs to significantly improve its internal controls over the disbursement process. Initially the Authority needs to develop and implement policies and procedures over its disbursement process and maintain adequate documentation to support decisions made. We believe these policies and procedures are essential in light of the Authority's frequent turnover. Without effective controls and procedures, the Authority will not be able to adequately function; and errors and omissions identified throughout this finding are likely to continue.

Auditee Comments

The Authority agreed that it had prior deficiencies with controls over disbursements. However, the Authority stated many of the deficiencies cited by the OIG have or are being addressed by corrective actions to include: (1) no longer writing checks payable to cash; (2) limiting the issuance of manual checks to emergency situations which must be approved by the CFO; and (3) regular reconciliation of accounts. Additionally, the Authority has indicated it is in the process of developing a Policy and Procedures Manual for the Finance Department.

The Authority took great exception to questionable expense reimbursement requests by the former Executive Director. During the exit conference, the former Executive Director reiterated he has always scrutinized his expense requests to ensure they are proper. The former Executive Director stated he does not even use an Authority credit card to mitigate any possibility of impropriety. The Authority stated the former Executive Director was not given the opportunity to address the OIG's concerns. Further, the Authority stated that according to its internal records, the \$957 of questionable expenditures was previously identified by the Finance Department and it recommended that the costs be transferred to a non-Federal fund account.

Regarding the remaining questioned costs, the Authority has stated it will provide further documentation to justify eligibility.

OIG Evaluation of Auditee Comments

We are encouraged by the Authority's commitment to improve its financial controls over cash disbursements. However, the Authority has made the same commitment to implement proposed corrective actions in its response to annual financial statement findings. Regarding the questionable expenditures incurred by the former Executive Director, we assured the Authority we would make necessary report adjustments as long as they provided documentation consistent with their response. However, this documentation was not provided.

Recommendations

We recommend the Authority:

- 3A. Develop and implement a procedures manual for the Finance Department to address internal control issues generally and the numerous issues cited in this finding including: stop the practice of writing checks payable to cash; restrict the process of writing manual checks; and identifying circumstances acceptable to generate manual checks.
- 3B. Produce the checks that have been noted as void or provide an explanation for each check as to why they could not be found. Produce the four checks which could not be found and that have not been noted as voided. Include in the procedures manual what should be done with/to a voided check.
- 3C. Provide documentation to support the eligibility of the \$381,807 of expenses paid with the following check numbers: 109072, 108860, 120431, and 115685. Documentation for check number 108860 is to be approved by the Regional Counsel Mid-Atlantic. In addition, identify all other litigation that was not properly approved and submit to Regional Counsel Mid-Atlantic for approval.

Repay, from non-Federal funds, those amounts not properly supported.

- 3D. Provide documentation to assure that the accounting entries involving check number 113324 were made. Specifically, include in the procedures manual steps to increase the assurance all checks written are posted to accounting records. Also, provide documentation to show that the accounting entries for check number 103625 have all been made.

Management Controls

In planning and performing our audit of the Authority, we considered the management controls to determine our auditing procedures and not to provide assurance on management control. The Authority's management is responsible for establishing effective management controls. Management control is the process effected by the Authority's Board, managers, and other personnel, designed to provide reasonable assurance for achieving objectives for program operations, validity and reliability of data, compliance with applicable laws and regulations, and safeguarding resources.

Management Controls Assessed

We determined that management controls over Cash Disbursements, LOCCS draws, and Procurement were relevant to our audit objectives. For each of those activities, we assessed the risk, control environment, control activities, and internal monitoring and reporting functions. We made our assessment and gained our understanding through a testing of transactions in each of the activities.

Significant Weaknesses Found

It is a significant weakness if management controls do not provide reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Our audit disclosed significant weaknesses with Procurement (Finding 1), LOCCS draws (Finding 2), and Cash Disbursements (Finding 3).

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Follow Up On Prior Audits

The HUD Office of Inspector General (OIG) previously audited the Authority's Drug Elimination Program. The audit report (Number 00-PH-201-1001) was issued October 20, 1999. The full report can be viewed from our website at <http://www.hud.gov/oig/states/pa.html>. The report had one finding with many of the same concerns expressed in this report. The recommendations are still open.

There are no other open recommendations from prior audits done at the Authority.

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Schedule of Questioned Costs

Finding Number	Ineligible 1/	Unsupported 2/
1	\$1,382,874	\$3,118,773
2		\$3,257,714
3		\$ 381,807
Total	\$1,382,874	\$6,758,294

- 1/ Ineligible amounts are not allowed by law, contract, HUD or local agency policies or regulations.
- 2/ Unsupported amounts are not clearly eligible or ineligible, but warrant being contested (i.e. lack of satisfactory documentation to support the eligibility of the costs).

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Summary of Ineligible and Unsupported Costs For Finding 1

<u>Management Number</u>	<u>Contract Amount</u>	<u>Changes</u>	<u>Total</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
3485	\$ 9,975	\$ 23,984	\$ 33,959		\$ 33,959
3928	24,825		24,825		24,825
3506	553,000	459,631	1,012,631		459,631
3874	291,200	1,251,007	1,542,207	\$1,251,007	291,200
3875	178,190	189,050	367,240		367,240
4090	70,870		70,870		70,870
4160	632,150	3,070	635,220		635,220
2516	9,999	20,001	30,000		30,000
2541	9,999	432,375	442,374		442,374
2551	40,000	723,454	763,454		763,454
3406	44,800	161,300	206,100	131,867	
Total	<u>\$1,865,008</u>	<u>\$3,263,872</u>	<u>\$5,128,880</u>	<u>\$1,382,874</u>	<u>\$3,118,773</u>

- 1/ Ineligible amounts are not allowed by law, contract, HUD or local agency policies or regulations. Contrary to Federal purchasing regulations, Management Numbers 3406 and 3874 included contract modifications to increase quantity and for work items outside the scope of the original contract.
- 2/ Unsupported amounts are not clearly eligible or ineligible but warrant being contested (i.e. lack of satisfactory documentation to support the eligibility of the costs). As detailed in Appendix C that follows, the Authority did not provide documentation to support the history of the above contract awards.

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Summary of Procurement Contracts Reviewed

<u>Contract Number</u>	<u>Contract Amount</u>	<u>Change Order</u>	<u>Total</u>	<u>Number of Procurement Steps Evaluated 1/</u>	<u>Number of Steps Followed</u>	<u>Number of Steps not Followed</u>	<u>Notes</u>
<u>Materials and Supplies Purchases from \$4,000 to \$10,000</u>							
3485	\$9,975	\$23,984	\$33,959	15	0	15	See pg. 48
<u>Materials and Supplies Purchases from \$10,000 to \$49,999</u>							
3928	\$24,825		\$24,825	23	7	16	See pg. 49
<u>Materials and Supplies Purchases over \$50,000 and greater</u>							
3506	\$ 553,000	\$459,631	\$1,012,631	24	13	11	See pg. 50
3874	291,200	1,251,007	1,542,207	24	9	15	See pg. 51
3875	178,190	189,050	367,240	24	13	11	See pg. 52
4090	70,870		70,870	24	13	11	See pg. 53
4092	328,592		328,592	24	17	7	See pg. 54
4113	494,000	13,580	507,580	24	18	6	See pg. 55
4153	829,000	133,908	962,908	24	16	8	See pg. 56
4160	632,150	3,070	635,220	24	13	11	See pg. 57
4342	1,589,000	(69,457)	1,519,543	24	16	8	See pg. 58
<u>Professional Services Purchases from \$4,000 to \$10,000</u>							
2516	\$9,999	\$20,001	\$30,000	12	2	10	See pg. 59
2541	9,999	432,375	442,374	12	2	10	See pg. 60
<u>Professional Services Purchases from \$10,000 to \$49,999</u>							
2551	\$40,000	\$723,454	\$763,454	15	2	13	See pg. 61
3406	44,800	161,300	206,100	15	7	8	See pg. 62
Total	<u>\$5,105,600</u>	<u>\$3,341,903</u>	<u>\$8,447,503</u>				

1/ All applicable procurement steps evaluated. The number of procurement steps required depended on the type and amount of purchase.

Emergency Site Work
Management Number 3485

Contract amount	\$ 9,975
Change order	<u>23,984</u>
Revised contract amount	<u>\$33,959</u>

**Standard Procurement Procedures For Housing Authority
Of Pittsburgh**

**Procurement Steps
Followed**

	<u>Yes</u>	<u>No</u>
1. Determine requirements.		X
2. Identify funding source/review for budget.		X
3. Prepare specifications.		X
4. Secure independent cost estimate.		X
5. Ensure estimated cost is within budget/funding source amount.		X
6. Enter requisition into computer system.		X
7. Approve requisition.		X
8. Review other government contracts for item availability.		X
9. If item is available under another government contract, go to #15, if not go to #10 below.		X
10. Obtain telephone, fax or written quotes from at least three vendors for requested item.		X
11. Document quotes that were received – item purchased, company name, contact person, date, time and amount of quote.		X
12. Compare lowest quote to cost estimate.		X
13. If lowest quote is comparable to cost estimate, go to #15.		X
14. If lowest quote is not comparable to cost estimate, go to #10 above.		X
15. Create purchase order and purchase item(s).		X
Totals		15

Concrete Work
Management Number 3928

Contract amount	\$24,825
Change order	
Revised contract amount	<u>\$24,825</u>

<u>Standard Procurement Procedures For Housing Authority Of Pittsburgh</u>	<u>Procurement steps Followed</u>	
	<u>Yes</u>	<u>No</u>
1. Determine requirements.		X
2. Identify funding source/review for budget.	X	
3. Prepare specifications.	X	
4. Secure independent cost estimate.		X
5. Ensure estimated cost is within budget/funding source amount.		X
6. Enter requisition into computer system.		X
7. Approve requisition.		X
8. Review other government contracts for item availability.		X
9. If item is available under another government contract, go to #23, if not go to #10.		X
10. Advertise and issue solicitation.		X
11. Hold pre-bid conference, if needed.		X
12. Receive bids.	X	
13. Conduct bid opening.		X
14. Review bids for responsiveness.		X
15. Compare lowest quote to cost estimate.		X
16. If low quote is comparable to cost estimate, go to #18.		X
17. If low quote is not comparable to cost estimate, return to #10.		X
18. Select lowest quote as successful bidder.	X	
19. Confirm successful bidder.	X	
20. Issue Notice of Intent to Award to all bidders.		X
21. Prepare contract.	X	
22. Execute contract.	X	
23. Create purchase order and purchase item(s).		X
Totals	7	16

**Site Hazard Reduction
Management Number 3506**

Contract amount	\$ 553,000
Change order	<u>459,631</u>
Revised contract amount	<u>\$1,012,631</u>

**Standard Procurement Procedures For Housing Authority
Of Pittsburgh**

**Procurement Steps
Followed**

	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.	X	
3. Prepare specifications.	X	
4. Secure independent cost estimate.	X	
5. Ensure estimated cost is within budget/funding source amount.		X
6. Obtain HACP Board of Director's approval.	X	
7. Enter requisition into computer system.		X
8. Approve requisition.		X
9. Review other government contracts for item availability.		X
10. If item is available under another government contract, go to #24, if not go #11.		X
11. Advertise and issue solicitation.		X
12. Hold pre-bid conference, if needed.	X	
13. Receive bids.	X	
14. Conduct bid opening.	X	
15. Review bids for responsiveness.	X	
16. Compare lowest quote to cost estimate.		X
17. If low quote is comparable to cost estimate, go to #19.		X
18. If low quote is not comparable to cost estimate, return to #11.		X
19. Select lowest quote as successful bidder.	X	
20. Confirm successful bidder.	X	
21. Issue Notice of Intent to Award to all bidders.		X
22. Prepare contract.	X	
23. Execute contract	X	
24. Create purchase order and purchase item(s).		X
Totals	13	11

Concrete Replacement Work
Management Number 3874

Contract amount	\$ 291,200
Change order	<u>1,251,007</u>
Revised contract amount	<u>\$1,542,207</u>

Standard Procurement Procedures For Housing Authority Of Pittsburgh

Procurement Steps
Followed

	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.		X
3. Prepare specifications.	X	
4. Secure independent cost estimate.		X
5. Ensure estimated cost is within budget/funding source amount.		X
6. Obtain HACP Board of Director's approval.		X
7. Enter requisition into computer system.		X
8. Approve requisition.		X
9. Review other government contracts for item availability.		X
10. If item is available under another government contract, go to #24, if not go #11.		X
11. Advertise and issue solicitation.	X	
12. Hold pre-bid conference, if needed.	X	
13. Receive bids.	X	
14. Conduct bid opening.	X	
15. Review bids for responsiveness.		X
16. Compare lowest quote to cost estimate.		X
17. If low quote is comparable to cost estimate, go to #19.		X
18. If low quote is not comparable to cost estimate, return to #11.		X
19. Select lowest quote as successful bidder.		X
20. Confirm successful bidder.	X	
21. Issue Notice of Intent to Award to all bidders.		X
22. Prepare contract.	X	
23. Execute contract.	X	
24. Create purchase order and purchase item(s).		X
Totals	9	15

Concrete Replacement and Repair Work
Management Number 3875

Contract amount	\$178,190
Change order	<u>189,050</u>
Revised contract amount	<u>\$367,240</u>

Standard Procurement Procedures For Housing Authority Of Pittsburgh

Procurement Steps Followed

	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.	X	
3. Prepare specifications.	X	
4. Secure independent cost estimate.		X
5. Ensure estimated cost is within budget/funding source amount.		X
6. Obtain HACP Board of Director's approval.	X	
7. Enter requisition into computer system.		X
8. Approve requisition.		X
9. Review other government contracts for item availability.		X
10. If item is available under another government contract, go to #24, if not go to #11.		X
11. Advertise and issue solicitation.	X	
12. Hold pre-bid conference, if needed.	X	
13. Receive bids.	X	
14. Conduct bid opening.	X	
15. Review bids for responsiveness.	X	
16. Compare lowest quote to cost estimate.		X
17. If low quote is comparable to cost estimate, go to #19.		X
18. If low quote is not comparable to cost estimate, return to #11.		X
19. Select lowest quote as successful bidder.	X	
20. Confirm successful bidder.	X	
21. Issue Notice of Intent to Award to all bidders.		X
22. Prepare contract.	X	
23. Execute contract.	X	
24. Create purchase order and purchase item(s).		X
Totals	13	11

Gasline Relocation
Management Number 4090

Contract amount	\$70,870
Change order	
Revised contract amount	<u>\$70,870</u>

Standard Procurement Procedures For Housing Authority Of Pittsburgh

Procurement Steps Followed

	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.	X	
3. Prepare specifications.	X	
4. Secure independent cost estimate.		X
5. Ensure estimated cost is within budget/funding source amount.		X
6. Obtain HACP Board of Director's approval.	X	
7. Enter requisition into computer system.		X
8. Approve requisition.		X
9. Review other government contracts for item availability.		X
10. If item is available under another government contract, go to #24, if not go #11.		X
11. Advertise and issue solicitation.	X	
12. Hold pre-bid conference, if needed.	X	
13. Receive bids.	X	
14. Conduct bid opening.	X	
15. Review bids for responsiveness.	X	
16. Compare lowest quote to cost estimate.		X
17. If low quote is comparable to cost estimate, go to #19.		X
18. If low quote is not comparable to cost estimate, return to #11.		X
19. Select lowest quote as successful bidder.	X	
20. Confirm successful bidder.	X	
21. Issue Notice of Intent to Award to all bidders.		X
22. Prepare contract.	X	
23. Execute contract.	X	
24. Create purchase order and purchase item(s).		X
Totals	13	11

**Site Improvements and Playground Installation
Management Number 4092**

Contract amount	\$328,592
Change order	
Revised contract amount	\$ <u>328,592</u>

**Standard Procurement Procedures For Housing Authority Of
Pittsburgh**

**Procurement Steps
Followed**

	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.	X	
3. Prepare specifications.	X	
4. Secure independent cost estimate.	X	
5. Ensure estimated cost is within budget/funding source amount.	X	
6. Obtain HACP Board of Director's approval.	X	
7. Enter requisition into computer system.		X
8. Approve requisition.		X
9. Review other government contracts for item availability.		X
10. If item is available under another government contract, go to #24, if not go to #11.		X
11. Advertise and issue solicitation.	X	
12. Hold pre-bid conference, if needed.	X	
13. Receive bids.	X	
14. Conduct bid opening.	X	
15. Review bids for responsiveness.	X	
16. Compare lowest quote to cost estimate.	X	
17. If low quote is comparable to cost estimate, go to #19.	X	
18. If low quote is not comparable to cost estimate, return to #11.		X
19. Select lowest quote as successful bidder.	X	
20. Confirm successful bidder.	X	
21. Issue Notice of Intent to Award to all bidders.		X
22. Prepare contract.	X	
23. Execute contract.	X	
24. Create purchase order and purchase item(s).		X
 Total	 17	 7

Hydronic Boiler Replacement
Management Number 4113

Contract amount	\$494,000
Change order	<u>13,580</u>
Revised contract amount	<u>\$507,580</u>

Standard Procurement Procedures For Housing Authority Of Pittsburgh

Procurement Steps

	<u>Followed</u>	
	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.	X	
3. Prepare specifications.	X	
4. Secure independent cost estimate.	X	
5. Ensure estimated cost is within budget/funding source amount.	X	
6. Obtain HACP Board of Director's approval.	X	
7. Enter requisition into computer system.		X
8. Approve requisition.		X
9. Review other government contracts for item availability.		X
10. If item is available under another government contract, go to #24, if not go to #11.		X
11. Advertise and issue solicitation.	X	
12. Hold pre-bid conference, if needed.	X	
13. Receive bids.	X	
14. Conduct bid opening.	X	
15. Review bids for responsiveness.	X	
16. Compare lowest quote to cost estimate.	X	
17. If low quote is comparable to cost estimate, go to #19.	X	
18. If low quote is not comparable to cost estimate, return to #11.	X	
19. Select lowest quote as successful bidder.	X	
20. Confirm successful bidder.	X	
21. Issue Notice of Intent to Award to all bidders.		X
22. Prepare contract.	X	
23. Execute contract.	X	
24. Create purchase order and purchase item(s).		X
Totals	18	6

Replacement of Furnace
Management Number 4153

Contract amount	\$829,000
Change order	<u>133,908</u>
Revised contract amount	<u>\$962,908</u>

Standard Procurement Procedures For Housing Authority Of Pittsburgh

Procurement Steps
Followed

	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.		X
3. Prepare specifications.	X	
4. Secure independent cost estimate.	X	
5. Ensure estimated cost is within budget/funding source amount.	X	
6. Obtain HACP Board of Director's approval.	X	
7. Enter requisition into computer system.		X
8. Approve requisition.		X
9. Review other government contracts for item availability.		X
10. If item is available under another government contract, go to #24, if not go to #11.		X
11. Advertise and issue solicitation.	X	
12. Hold pre-bid conference, if needed.	X	
13. Receive bids.	X	
14. Conduct bid opening.	X	
15. Review bids for responsiveness.	X	
16. Compare lowest quote to cost estimate.	X	
17. If low quote is comparable to cost estimate, go to #19.	X	
18. If low quote is not comparable to cost estimate, return to #11.		X
19. Select lowest quote as successful bidder.	X	
20. Confirm successful bidder.	X	
21. Issue Notice of Intent to Award to all bidders.		X
22. Prepare contract.	X	
23. Execute contract.	X	
24. Create purchase order and purchase item(s).		X
Totals	16	8

**General Landscaping
Management Number 4160**

Contract amount	\$632,150
Change order	<u>3,070</u>
Revised contract amount	<u>\$635,220</u>

**Standard Procurement Procedures For Housing Authority Of
Pittsburgh**

**Procurement Steps
Followed**

	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.	X	
3. Prepare specifications.	X	
4. Secure independent cost estimate.		X
5. Ensure estimated cost is within budget/funding source amount.		X
6. Obtain HACP Board of Director's approval.	X	
7. Enter requisition into computer system.		X
8. Approve requisition.		X
9. Review other government contracts for item availability.		X
10. If item is available under another government contract, go to #24, if no go to #11.		X
11. Advertise and issue solicitation.	X	
12. Hold pre-bid conference, if needed.	X	
13. Receive bids.	X	
14. Conduct bid opening.	X	
15. Review bids for responsiveness.	X	
16. Compare lowest quote to cost estimate.		X
17. If low quote is comparable to cost estimate, go to #19.		X
18. If low quote is not comparable to cost estimate, return to #11.		X
19. Select lowest quote as successful bidder.	X	
20. Confirm successful bidder.	X	
21. Issue Notice of Intent to Award to all bidders.		X
22. Prepare contract.	X	
23. Execute contract.	X	
24. Create purchase order and purchase item(s).		X
Totals	13	11

Site Improvements
Management Number 4342

Contract amount	\$1,589,000
Change order	<u>(69,457)</u>
Revised contract amount	<u>\$1,519,543</u>

Standard Procurement Procedures For Housing Authority Of Pittsburgh

Procurement Steps Followed

	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.	X	
3. Prepare specifications.	X	
4. Secure independent cost estimate.	X	
5. Ensure estimated cost is within budget/funding source amount.	X	
6. Obtain HACP Board of Director's approval.	X	
7. Enter requisition into computer system.		X
8. Approve requisition.		X
9. Review other government contracts for item availability.		X
10. If item is available under another government contract, go to #24, if not go to #11.		X
11. Advertise and issue solicitation.		X
12. Hold pre-bid conference, if needed.	X	
13. Receive bids.	X	
14. Conduct bid opening.	X	
15. Review bids for responsiveness.	X	
16. Compare lowest quote to cost estimate.	X	
17. If low quote is comparable to cost estimate, go to #19.	X	
18. If low quote is not comparable to cost estimate, return to #11.		X
19. Select lowest quote as successful bidder.	X	
20. Confirm successful bidder.	X	
21. Issue Notice of Intent to Award to all bidders.		X
22. Prepare contract.	X	
23. Execute contract.	X	
24. Create purchase order and purchase item(s).		X
Totals	16	8

Legal Service and Advice on Construction
Project/Resident Training
Management Number 2516

Contract amount	\$ 9,999
Change order	<u>20,001</u>
Revised contract amount	<u>\$30,000</u>

Standard Procurement Procedures For Housing Authority Of
Pittsburgh

Procurement Steps
Followed

	<u>Yes</u>	<u>No</u>
1. Determine requirements.		X
2. Identify funding source/review for budget.		X
3. Prepare specifications.		X
4. Secure independent cost estimate.		X
5. Ensure estimate cost is within budget/funding source.		X
6. Obtain quote from at least one vendor for requested service.		X
7. Compare quote to cost estimate.		X
8. If quote is comparable to cost estimate, go to #10 below.		X
9. If quote is not comparable to cost estimate, go to #6 above.		X
10. Prepare contract.	X	
11. Execute contract.	X	
12. Issue notice to proceed.		X
Totals	2	10

Legal Advices and Services
Management Number 2541

Contract amount	\$ 9,999
Change order	<u>432,375</u>
Revised contract amount	\$ <u>442,374</u>

Standard Procurement Procedures For Housing Authority Of Pittsburgh

Procurement Steps Followed

	<u>Yes</u>	<u>No</u>
1. Determine requirements.		X
2. Identify funding source/review for budget.		X
3. Prepare specifications.		X
4. Secure independent cost estimate.		X
5. Ensure estimate cost is within budget/funding source.		X
6. Obtain quote from at least one vendor.		X
7. Compare successful quote to cost estimate.		X
8. If quote is comparable to cost estimate, go to #10 below.		X
9. If quote is not comparable to cost estimate, go to #6 above.		X
10. Prepare contract.	X	
11. Execute contract.	X	
12. Issue notice to proceed.		X
Totals	2	10

Legal advices and services
Management Number 2551

Contract amount	\$ 40,000
Change order	<u>723,454</u>
Revised contract amount	<u>\$763,454</u>

Standard Procurement Procedures For Housing Authority Of Pittsburgh

Procurement Steps Followed

	<u>Yes</u>	<u>No</u>
1. Determine requirements.		X
2. Identify funding source/review for budget.		X
3. Prepare specifications.		X
4. Secure independent cost estimate.		X
5. Ensure estimated cost is within budget/funding source.		X
6. Obtain telephone, fax or written quotes from at least three vendors for requested services.		X
7. Document quotes that were received – item being quoted, company name, contact person, date, time and amount of quote.		X
8. Compare successful vendor’s quote to cost estimate.		X
9. If successful vendor’s quote is comparable to cost estimate, go to #11 below.		X
10. If successful vendor’s quote is not comparable to cost estimate, go to #6 above.		X
11. Obtain City of Pittsburgh MBE/WBE Committee approval.		X
12. Issue Notice of Intent to Award to all bidders.		X
13. Prepare contract.	X	
14. Execute contract.	X	
15. Issue notice to proceed.		X
Totals	2	13

Financial Audit for 1997 and 1998
Management Number 3406

Contract amount	\$ 44,800
Change order	<u>161,300</u>
Revised contract amount	<u>\$206,100</u>

Standard Procurement Procedures For Housing Authority Of Pittsburgh

Procurement Steps Followed

	<u>Yes</u>	<u>No</u>
1. Determine requirements.	X	
2. Identify funding source/review for budget.	X	
3. Prepare specifications.	X	
4. Secure independent cost estimate.		X
5. Ensure estimated cost is within budget/funding source.		X
6. Obtain telephone, fax or written quotes from at least three vendors for requested services.	X	
7. Document quotes that were received – item being quoted, company name, contact person, date, time and amount of quote.	X	
8. Compare successful vendor's quote to cost estimate.		X
9. If successful vendor's quote is comparable to cost estimate, go to #11 below.		X
9. If successful vendor's quote is not comparable to cost estimate, go to #6 above.		X
10. Obtain City of Pittsburgh MBE/WBE Committee approval.		X
11. Issue Notice of Intent to Award all bidders.		X
12. Prepare contract.	X	
13. Execute contract.	X	
14. Issue notice to proceed.		X
Totals	7	8

Auditee Comments

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April 18, 2001

Daniel G. Temme
District Inspector General for Audit
U. S. Department of Housing and Urban Development
Wanamaker Building Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Dear Mr. Temme:

Enclosed please find the response of the Housing Authority of the City of Pittsburgh ("HACP") to the draft report of the "Comprehensive Audit of Various Activities," which you forwarded to HACP under cover letter dated March 20, 2001. As I previously indicated in my letter dated April 10, 2001, I am disappointed that you rejected my request for an extension until June 1, 2001 to allow HACP to conduct a thorough review and meaningfully respond to the 55-page draft audit, especially given the nearly fifteen months your office took to conduct the audit and compile the draft report. With the limited period of time that you allotted, HACP has attempted to respond to the best of its ability. Attachments to HACP's response will follow under separate cover.

As you know, your office has scheduled an exit interview for Wednesday, April 25, 2001, at 1:00 p.m. in Pittsburgh. Obviously, representatives of HACP will make themselves available at that time. I must say, however, that I am again disappointed that your office would schedule an exit interview before even receiving and reviewing HACP's response to your draft audit. I sincerely hope that this is not an indication that your mind is made up, and that you will review the enclosed fully and fairly.

Very truly yours,


James J. Eisenhower 

Enclosure

A LIMITED LIABILITY PARTNERSHIP FORMED IN PENNSYLVANIA

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH
RESPONSE AND COMMENTS TO

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES
(DRAFT REPORT)

APRIL 18, 2001

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HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

Executive Summary

The Housing Authority of the City of Pittsburgh (HACP) is submitting this response to the draft audit report prepared by the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (IG). A sample of HACP's expenditures of HUD funds was tested by the IG to determine if the expenditures were acceptable under the Consolidated Annual Contributions Contract (ACC) between HACP and HUD, and applicable statutes and regulations. The sample covered expenditures made for program funding years 1994-1999 and included:

1. Procurement of goods and services,
2. Draws from HUD's computerized cash management and disbursement system, i.e., Line of Credit Control System (LOCCS), and
3. Cash disbursements.

The IG took an entire year (from December 1999 through December 2000) to perform its audit and almost an additional three months to prepare the draft audit report. The IG forwarded its draft audit to HACP on March 21, 2001. The draft audit identified \$8.9 million in questioned expenditures.

Although the IG took almost fifteen months to prepare its report, it allotted HACP only a two-week period to respond to, and comment on, the 55-page draft audit by April 4, 2001. HACP requested an extension to June 1 to conduct a thorough review of the draft audit's findings and conclusions, to assemble the necessary support documentation for, or explain, the questioned expenditures from program funding years 1994-1999, and to report on the status of HACP policies and initiatives undertaken since 1999 that HACP believes fully address any procedural deficiencies claimed in the draft audit. The IG granted an extension of two weeks until April 18, 2001, less than a month after the draft audit was forwarded to HACP.

HACP's Response and Comments to the IG draft audit represents HACP's best efforts to review the draft audit, assemble support documentation for, or explain, questioned expenditures, and report on the status of HACP corrective initiatives within the short time allotted by the IG. The results of HACP's best efforts are summarized in Sections I through III, which respond to the findings of the draft audit, Section IV, which responds in greater detail to certain procurement issues raised in Appendix C of the draft audit, and with additional documentation properly labeled and submitted under separate cover. Notwithstanding the deadline for response and comments which the IG has set as April 18, 2001, HACP will continue its activities to address the IG draft audit's findings and conclusions beyond April 18, 2001, and will make the complete results of HACP's review available to the IG as expeditiously as possible.

HACP is particularly concerned about the findings and conclusions of the IG draft audit, and the recommendation that HACP repay \$8.9 million from non-federal funds to HUD, because the draft report contains several material, factual errors and mischaracterizations of which the IG auditors were made aware or which the IG auditors could have reasonably discovered before issuing the draft report. For instance, auditors never interviewed the Executive Director and Chairman of the Board.

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Additionally, the IG draft audit's criticism of the "Fund for Children's Programs," established with a HACP sub-grant and matching grants from the Pittsburgh Foundation public charity, could not be more inaccurate and misplaced. The fund represents a model partnership between a public agency and public charity that is permitted, indeed encouraged, under applicable regulations. Programs supported by this fund have been praised by the County Department of Human Services for effecting a significant decline in child abuse referrals.

Furthermore, the draft audit's recommendations are unwarranted and too harsh. Many, if not all, of the deficiencies claimed in the draft audit have been, or are being, addressed by initiatives already put in motion by the HACP. These actions by the HACP are the same, or substantially similar, to the policy and procedural recommendations in the draft audit. The auditors were aware of these initiatives, some of which had been established before the audit began, and others which were implemented while the auditors were still conducting the audit on-site. HACP's initiatives were conspicuously ignored in the draft audit. Accordingly, the policy and procedural recommendations in the draft report are duplicative and unwarranted. Finally, the recommendation that HACP repay HUD with non-federal funds is too harsh. There is no dispute that HACP received value for the questioned expenditures, or that the goods and services were provided to the residents of Pittsburgh public housing. Most, if not all, of these expenditures are further supported by documentation. There simply is no basis for the recommended repayment, which would only hurt residents of Pittsburgh public housing.

I. Response To Finding 1 - Procurement of Goods and Services

HACP disagrees with many of the findings and conclusions in the IG draft audit regarding its procurement activities. While it is acknowledged that there were some deficiencies in certain contracting activities during program funding years 1994-1999 covered by the audit, these deficiencies, as evidenced by the value received for public housing programs, were not as severe as depicted in the IG draft audit. Furthermore, most, if not all, of the deficiencies cited in the IG draft audit regarding past procurement had been addressed by HACP corrective actions before the IG audit began in December 1999 or were addressed by HACP corrective actions while the IG audit was conducted on-site during fiscal year 2000. Specifically:

- In 1998, HACP adopted a competitive procurement process for legal services contracts, which complied with all applicable regulations. Essentially all legal services contracts awarded since have been competitively procured, with rare, justifiable exception.
- In early 2000, HACP created the Department of Grants and Contract Compliance (DGACC) and the position of Director of Grants and Contract Compliance.
- In April 2000, HACP hired a new Chief Financial Officer (CFO). The new CFO established a new system of checks and balances, including:
 - the direct reporting of the DGACC to the CFO to focus a higher level of attention to the procurement process and compliance with applicable regulations.

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- the appointment of an attorney for the position of Contracting Officer, which was defined and is now the only person authorized to sign contracts, including contract modifications or change orders. Previously, department heads had been authorized to sign contracts. This prior lack of centralization contributed to some of the deficiencies cited in the IG draft audit.
- In July 2000, HACP adopted a comprehensive "Contract, Procurement and Disposition Policy." The policy lays out step-by-step procurement procedures, which comply with all applicable regulations. Since then, essentially all contracts awarded under this policy have been supported by independent cost estimates; if modified, they have complied with additional regulations governing issuance of change orders
- In November 2000, HACP adopted a checklist of procurement steps to be followed similar to the checklist used by the IG.
- HACP has contracted with an independent firm to assist in improving the procurement function and ensuring that all applicable regulations are followed.

These corrective actions should be included in the IG draft audit report to present a fair and accurate picture of the HACP's continuing commitment to evaluate how procurement may be improved to provide the best available goods and services at the best prices. Furthermore, recommendations made in the IG draft audit report should be modified, if not deleted, in recognition of their substantial similarity to corrective actions already implemented and undertaken by HACP.

A. Independent Cost Estimates

HACP acknowledges that cost estimates were not performed in some construction contracts in program funding years 1994-1999. These construction contracts were competitively procured, with HACP receiving several bids. HACP believes that the competitive process effectively assured the lowest responsible bids for each of the construction contracts cited in the IG draft audit. Nonetheless, HACP has contracted with a reputable firm to perform an analysis of the costs of the questioned construction contracts to fully explain the procurement of, and price paid for, the related goods and services. This independent analysis is not yet completed; HACP anticipates a report within the next sixty days and will forward it to the IG.

A significant portion of the issues raised by the IG covering the construction contracts are addressed in Section IV's response to Appendix C of the draft audit.

HACP notes that since it adopted a comprehensive "Contract, Procurement and Disposition Policy" in July 2000, essentially all contracts awarded have been supported by independent cost estimates in compliance with all applicable regulations.

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B. Evidence of Competition

1. Management #2745 – Summer Programs

HACP entered into a partnership with the Pittsburgh Foundation (“the Foundation”) to establish the “Fund for Children’s Programs” that is erroneously and unfairly criticized in the IG draft audit. The Foundation is a public charity, i.e., a 501(c)(3) organization, made up of distinct funds established by individuals and organizations. The Foundation acts as a receiver, manager and giver of monies related to its affiliated funds. With assets totaling more than \$500 million, the Foundation is the 9th largest community foundation in the United States out of more than 500 community foundations. More than 700 funds affiliated with the Foundation provided \$20.3 million in grants last year. The Foundation’s primary focus is the Pittsburgh region.

HACP made payments totaling \$850,000 to the “Fund for Children’s Programs,” which was matched by the Foundation’s grant of \$850,000. The resultant fund of \$1.7 million was entirely distributed to Resident Councils in public housing communities, which responded to a Request For Proposal (RFP) jointly developed by HACP and the Foundation and were selected by members of the community and HACP representatives. The County Department of Human Services studied the funded programs and concluded that these programs effected a significant decline in child abuse referrals.

In addition to the Foundation’s contribution of a matching grant to the “Fund for Children’s Programs,” the Foundation provided administrative services to HACP at no cost. The Foundation did not receive any public funds from HACP at any time for any services.

Contrary to the IG’s finding, this partnership between HACP and the Foundation did not involve a single source, or non-competitive, procurement that violated any applicable regulations or procedures. In fact, under the Comprehensive Grant Program and the informal practice of the HUD Field Office, the HACP contribution to the fund was a permissible sub-grant for the non-profit provision of social support services. HUD has recognized that partnerships with non-profit organizations, particularly with strong non-profit advisors like the Foundation, produce substantial, and unique, benefits not readily available, or found, in the marketplace. Accordingly, competitive procurement regulations do not apply to such sub-grants, and did not apply to the fund established by HACP and the Foundation. Moreover, competitive procurement regulations obviously do not apply to services provided at no cost, such as the administrative services that the Foundation provided to HACP.

The IG draft audit implies that the partnership between HACP and the Foundation was tainted by a conflict of interest; specifically, the IG draft audit implies that the former Chair of the HACP Board also served on the Foundation Board at the time HACP and the Foundation entered into the partnership and established the “Fund for Children’s Programs.” HACP informed the IG auditors that the former Chair of the HACP Board was not also on the Foundation Board when the partnership began, but rather had served on the Foundation Board sometime after the creation and funding of the “Fund for Children’s Programs.”¹ The former

¹ The HACP Chair served on the Foundation Board from March 1998 through March 1999. The HACP Board approved the agreements with the Foundation in April and September 1997.

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Chair of the HACP Board made himself available for interview by IG auditors, but IG auditors never interviewed him. Instead, the IG required that HACP produce documentation substantiating that the Chair had not served on both boards before, or at, the inception of the partnership and fund. Documentation regarding the Foundation Board is, of course, in the possession of the Foundation, and any request for production should have been addressed to the Foundation.

In sum, rather than a violation of procurement regulations, the partnership between HACP and the Foundation was a model of how government entities and charitable organizations can work together, within the rules, to achieve a public good.

2. Management #'s 2516, 2541, and 2551 – Legal Services

HACP acknowledges that procurement procedures were not properly followed when the legal services contracts cited in the IG draft audit were awarded in 1995. Prior to 1998, General Counsel for HACP had been of the honest, yet mistaken, opinion that contracts originating at less than \$10,000, such as these, did not require competitive procurement and could be modified as needed without prior approval. While these contracts were not awarded through a bid process, HACP did not overpay for the legal services; HACP believes that the hourly rates were at least competitive and perhaps below market.

In 1998, HACP received the Maher Duessel Independent Audit of HACP's 1996 financial statements and, in response, began procuring legal services competitively.² HACP prepared a proper Request For Proposal (RFP), which went out in the summer of 1998. Bids were received and interviews were conducted of almost twenty firms in thirteen separate practice areas. Final selections were made in early 1999, and contracts were awarded. Essentially all legal services contracts awarded since have been competitively procured.

Certain pre-1998, non-competitively awarded contracts involving ongoing and complex litigation were continued beyond 1998 because "changing horses in mid-stream" would not be strategically, logistically or financially prudent at an advanced stage of litigation. Nonetheless, in almost every case, counsel handling these matters successfully competed for contracts in 1998, suggesting that pre-1998 contracts were competitively priced if not competitively awarded.

In reviewing its detailed procurement of legal services both before and after 1998, HACP found the cost of services to be more than competitive and appropriate. Since 1998, services have been procured competitively in accordance with applicable regulations. This corrective action, which was taken almost three years ago and was known to the IG auditors, should have been included in the IG draft audit report.

² The change to competitive procurement was initiated after the firm of Meyer, Darragh, Buckler, Bebenek & Eck ("Meyer Darragh") began providing general counsel services in December 1997. Ironically, it was Meyer Darragh that had been awarded the non-competitive, legal services contracts cited in the IG report.

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C. Contract Modifications

1. Management # 3874 – Concrete Replacement

HACP had established reasonable pricing through an earlier bid for the same work. HACP was able to award a contract to the lowest responsible bidder among the firms that participated in this solicitation. The competitive solicitation process ensured that HACP did not overpay for the scope of work solicited. At the time of the procurements, HACP did not know all of the quantities that would be required, and requested the unit pricing information with the intent of using these prices for any additional quantities required. Change orders issued for this contract were fully documented. Independent cost estimates were also performed, but HACP has been unable to locate the documentation. HACP is prepared to undertake an independent cost analysis of these procurements if desired to further support the appropriateness of the prices paid for these services.

In Appendix C of the draft audit, the IG lists certain other procurement procedures that the IG claims were not followed with respect to this contract. HACP has attached additional, more detailed, comments and explanations in Section IV's response to Appendix C.

2. Management # 3506 – Site Hazard Reductions

The IG draft audit erroneously concluded that HACP overpaid for grading and seeding at a contract unit price of \$1.35 per square foot. The IG mistakenly cites the estimated cost for seeding alone, \$.35 per square foot, as the combined cost for grading and seeding. In fact, the estimated cost for grading alone was \$1.50 per square foot. Thus, the contract unit price of \$1.35 per square foot was actually less than the combined estimate for grading and seeding, which was \$1.85 per square foot. (See copy of Estimate of Costs from Hanson Associates in the contract folder submitted under separate cover.)

HACP followed all of the applicable procurement procedures that were in effect at the time of this solicitation, including preparation of an independent cost estimate. HACP was able to award a contract to the lowest responsible bidder among the firms that participated in this solicitation. Change orders issued for this contract were fully documented.

In Appendix C of the draft audit, the IG lists certain other procurement procedures that the IG claims were not followed with respect to this contract. HACP has attached additional, more detailed, comments and explanations in Section IV's response to Appendix C.

3. Management # 3406 – Financial Statement Audit

HACP takes issue with the findings and conclusions in the IG draft audit regarding the contract for auditing services entered into in 1998, particularly because the modifications complained of were expressly provided for by an option for additional services included in the Request for Proposal (RFP) for Professional Auditing Services. The RFP reads, in pertinent part:

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“If it should become necessary for the HACP to request the auditor to render any additional services to either supplement the services requested or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the contract between the HACP and the firm. Any such additional work agreed to between the HACP and the firm shall be performed at the same rates set forth in the schedule of fees and expenses included in the sealed dollar cost bid.” Request for Proposals, issued Feb. 6, 1998, at 17.

HACP issued an addendum to the contract outlining the additional services using the rates provided in the competitive proposal as a basis for setting the prices. HACP negotiated a lump sum fixed amount rather than subject itself to the risk of uncapped hourly fees that are difficult to budget and potentially very costly. This method of setting prices for the recurrent provision of financial transaction analysis and reporting is common in both the private and public sectors and typically results in cost-savings. In fact, HACP did receive a savings by contracting for additional services in this manner.

The other amendment to the contract was for the preparation of the Fiscal Year 1998 audit for which it appears the IG has no objection since this was also provided for under the procurement.

II. Response to Finding 2 – Draws from the Line of Credit Control System (LOCCS)

HACP takes issue with many of the findings and conclusions in the IG draft audit regarding its draws from HUD’s computerized cash management and disbursement system, i.e., Line of Credit Control System (LOCCS). The IG draft audit’s conclusion that HACP maintained inadequate source documentation to support LOCCS draws is unwarranted. The IG audited LOCCS draws that had been made during a time period from January 1998 to November 1999 when HACP was converting its accounting infrastructure from numerous, unconnected systems into an integrated network. This conversion represented a significant modernization, providing network links to waiting lists, work orders, and operating budgets. At the same time, HACP was converting its payroll system. In and around this time, several experienced, long-time employees also resigned. In the midst of these conversions and employee departures, computerized accounts payable files were lost. Hard copies of supporting documentation for most LOCCS draws that were made during this period remain, but they are considerably more difficult to access. The IG auditors were fully informed about these circumstances. Indeed, it was HACP’s understanding that IG auditors would revisit the questioned LOCCS draws after providing HACP the opportunity to pull together hard copies of original source documentation and recreate accounting trails for questioned LOCCS draws. HACP, in fact, has identified and analyzed source documentation for all of the LOCCS draws in question, which explain the questioned cost of \$3,257,714. (Attachments for the LOCCS finding are submitted under separate cover) The IG draft audit’s conclusion was premature under the circumstances and is unwarranted given the source documentation now available for review.

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Furthermore, HACP has stopped the practice of drawing funds based on general ledger activity, which once resulted in the mistaken withdrawal of HUD funds for contractor retention that is cited in the draft audit. HACP notes that, upon discovering this mistaken withdrawal, HACP offset the excess amount by using other funding sources for subsequent LOCCS-eligible expenditures. HACP also acknowledges that it mistakenly allocated LOCCS draws for the low-income public housing program (LIPH) to the Comprehensive Grant Program (CGP). HACP will rectify its records by reversing this transaction back to LIPH.

LOCCS draws are now made under a system established by the Chief Financial Officer (CFO) when she was hired in April 2000; this system:

- requires each expenditure to be entered into a requisition system where it is checked for program eligibility and funding availability;
- requires the Senior Accountant to prepare each LOCCS draw by creating a subsidiary ledger for any payroll to be drawn, and detailing the source documents for any Accounts Payable invoices to be drawn;
- requires the LOCCS draw to be signed and forwarded to the Manager of Accounting Operations for review and signature. The Manager of Accounting Operations reviews the draw to ensure that the support is adequate and balances to the General Ledger; and
- requires the draw to be forwarded to the CFO for final approval. The CFO performs a final comprehensive review prior to accessing the LOCCS system.

Every LOCCS draw now details the source documentation related to that draw, including vouchers, check numbers, amount and payee/vendor. The system has been so successful that the local HUD Field Office no longer reviews all LOCCS draws pertaining to the previous Drug Elimination Grant (DEG) audit finding of the IG. This corrective action, which was implemented while the IG draft audit was still being conducted on-site in April 2000, should be included in the IG draft audit.

Furthermore, the IG draft audit should correct its misrepresentation of the CFO's position regarding the IG's method of reviewing LOCCS draws for supporting source documentation. The IG draft audit suggests that it is the CFO's position that individual draws cannot be adequately supported without reviewing all HACP draws. This statement is not accurate and is a misinterpretation. The position of the CFO, and HACP, is that each HACP LOCCS draw is, and should be, supported by detailed source documents, as evidenced by the LOCCS draws made during Fiscal Year 2000 under the system implemented by the CFO. The LOCCS draws cited in the IG draft audit present a special problem because the draws included many "transferred" transactions among multiple Comprehensive Grant Programs (CGP) via journal entries. In order to trace all source documents that might reference specific vendors and payment amounts, the CFO suggested that other LOCCS draws in the other CGP grants should be reviewed. This was for the valid purpose of tracing transactions, which is far different from the statements and contentions reported in the IG draft audit. This point should be clarified in the IG draft audit.

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III. Response to Finding 3 – Controls over Cash Disbursements

HACP acknowledges prior deficiencies with internal controls for cash disbursements. Most, if not all, of the deficiencies cited in the IG draft audit have been, or are being, addressed by HACP corrective actions. Specifically:

- HACP is in the process of developing a Policy and Procedures Manual for the Finance Department, which, e.g., will include procedures to ensure that all checks written are posted to accounting records and procedures detailing what should be done with/to voided checks. This manual should be completed by October 15, 2001
- In 2000, HACP stopped the practice of writing checks payable to cash.
- In 2000, HACP restricted the writing of manual checks by limiting the issuance of manual checks to emergency situations. The Chief Financial Officer (CFO) must approve the issuance of any manual check.
- Since April 2000, reconciliations of accounts have been performed regularly.

These corrective actions should be included in the IG draft audit report to present a fair and accurate picture of the HACP continuing commitment to full accountability for cash disbursements. Furthermore, recommendations made in the IG draft audit report should be modified, if not deleted, in recognition of their substantial similarity to corrective actions already implemented or being undertaken by HACP.

Regarding recommendations specific to individual, questioned checks, HACP responds

- HACP will locate four, voided checks (106000, 106340, 106349, and 107483) or provide an explanation for each check's record. It should be noted that, based on the bank reconciliation record, these four checks were never used.
- The IG auditor was previously provided the source documentation for check numbers 109072, 108860, 120431, and 115685. HACP will provide further documentation to justify the eligibility of the expenses paid with the above referenced checks.
- HACP will also submit the source documentation for check number 108860 to HUD's Mid-Atlantic Office of General Counsel for its approval.
- HACP will provide documentation to show the accounting entries for check numbers 103625 and 113324.

Finally, the IG draft audit implies that the Executive Director of HACP may have submitted questionable expense reimbursement requests. The Executive Director and HACP, deny this scurrilous and unfounded conjecture, which the Executive Director was not given the opportunity to address. The Executive Director made himself available for interview by IG auditors, but IG auditors never interviewed him. Furthermore, according to HACP's internal records, the questioned expense reimbursements, totaling \$957, were identified by the HACP's Finance Department before the IG audit began. HACP's Finance Department has recommended that these expense reimbursements be transferred to a non-federal fund account. HACP will follow up with the appropriate accounting entry for this correction.

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IV. Response to Appendix C

The following is a detailed response to certain procurement issues raised in the draft audit.

A. Management # 3485 - Site Improvements

Contractor: John Zottola Landscaping Inc.	Contract Amount	\$ 9,975
	Change Order	<u>23,984</u>
Contract Date: June 25, 1998	Revised contract amount	\$ 33,959

Summary: Due to the serious hazards to the residents of the HACP, this procurement process was performed without following every procedural step. However, HACP was able to have the hazards removed and, as confirmed by our independent engineering firm, the price that was paid for this work was reasonable. Three change orders were issued after the start of the contract. Because of the difficulty in clearly defining a comprehensive scope for this type of work and because of several hidden conditions. Each of these change orders was fully documented, including cost estimates. Following is a listing of the procurement procedures that the OIG stated were not followed and HACP's explanations for each.

**Standard Procurement
 Procedures for HACP**

Not Followed according to the OIG

Explanation

- | | |
|--|--|
| 1. Determine Requirements | HACP identified the emergency condition. |
| 2. Identify funding source/review for budget. | Funds were subsequently identified to resolve the emergency. |
| 3. Prepare specifications. | Due to the emergency, specifications were field prepared. |
| 4. Secure independent cost estimate. | HACP's engineer firm subsequently determined that the costs were reasonable. |
| 5. Ensure estimated cost is within budget/
funding source amount. | This was an emergency. Funds were subsequently identified to resolve the emergency. |
| 6. Enter requisition into the computer system. | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1998. |
| 7. Approve requisition | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1998. |

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Management # 3485 - Site Improvements (continued)

- | | |
|---|--|
| 8. Review other government contracts for item availability. | N/A – This item was not part of the HACP procurement procedures in 1998. |
| 9. If item is available under another gov't contract go to #15, if not go to #10 below. | N/A – This item was not part of the HACP procurement procedures in 1998. |
| 10. Obtain telephone, fax or written quotes from at least three vendors for requested item. | HACP's engineer firm subsequently determined that the costs were reasonable. |
| 11. Document quotes that were received. | N/A – There were no quotes. |
| 12. Compare lowest quote to cost estimate | N/A – There were no quotes |
| 13. If lowest quote is comparable, go to #15. | N/A – There were no quotes |
| 14. If lowest quote is not comparable, go to #10. | N/A – There were no quotes |
| 15. Create Purchase order and purchase item (s). | N/A – A contract was executed. |

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B. Management # 3928 – Concrete Work

Contractor: Baiano Construction	Contract Amount	\$ 24,825
	Change Order	<u>0</u>
Contract Date: May 1999	Revised contract amount	\$ 24,825

Summary: HACP followed all applicable procurement procedures in effect at the time of this procurement, including an independent cost estimate. Three quotes were received in accordance with the procurement policies, and HACP awarded the contract to the lowest responsible, responsive firm. Following is a listing of the procurement procedures that the OIG stated were not followed and HACP’s explanations for each.

**Standard Procurement
Procedures for HACP**

Not Followed according to the OIG

Explanation

- | | |
|---|---|
| 1. Determine Requirements | Requirements were determined and included in the resulting contract. (See attached). |
| 4. Secure independent cost estimate. | An independent cost estimate was included on the Procurement Summary Sheet for this procurement. (See attached) |
| 5. Ensure estimated cost is within budget/
funding source amount. | Funding source was identified on the Procurement Summary Sheet for this procurement. (See attached). |
| 6. Enter requisition into the computer system. | N/A – This procedure was not in effect until July, 2000. This procurement occurred in 1999. |
| 7. Approve requisition | N/A – This procedure was not in effect until July, 2000. This procurement occurred in 1998. |
| 8. Review other government contracts for item availability. | N/A – This item was not part of the HACP procurement procedures in 1999. |
| 9. If item is available under another gov’t contract go to #15, if not go to #10 below. | N/A – This item was not part of the HACP procurement procedures in 1999. |
| 10. Obtain telephone, fax or written quotes from at least three vendors for requested item. | HACP received three quotes from this procurement. The quotes and the Procurement Summary sheet are attached. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

Management # 3928 – Concrete Work (continued)

- | | |
|---|---|
| 11. Hold pre-bid conference, if needed | N/A – This was not needed for this procurement. |
| 12. Receive bids | Three quotes were received. (See Attached). |
| 13. Conduct bid opening. | N/A – under \$25,000 procurement procedures. |
| 14. Review bids for responsiveness. | HACP awarded the contract to the lowest responsible, responsive bidder. |
| 15. Compare lowest quote to cost estimate | Lowest quote was within 1% of the cost estimate. |
| 16. If low quote is comparable to cost estimate, Go to #18. | All bidders were notified. |
| 17. If low quote is not comparable to cost Estimate, return to #10. | N/A – low quote was comparable to cost Estimate. |
| 20. Issue Notice of Intent to Award to all bidders. | All bidders were notified. |
| 23. Create Purchase Order and purchase item(s). | N/A – A contract was issued for this procurement. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
 HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

C. Management # 3506 - Site Hazard Reduction

Contractor: Del-Con	Contract Amount	\$ 553,000
Contract number: 10197.35	Change Order	459,631
Contract Date: June 1998	Revised contract amount	\$1,012,631

Summary: HACP followed all of the applicable procurement procedures that were in effect at the time of this solicitation, including preparation of an independent cost estimate. HACP was able to award a contract to the lowest responsible bidder among the firms that participated in this solicitation. At the time of the procurement, HACP did not know all of the quantities that would be required, and requested as a part of the solicitation, unit pricing information with the clear intent of using these prices for any additional quantities required. Change orders issued for this contract were fully documented and included an independent cost estimate.

The OIG Audit report concluded that HACP overpaid for grading and seeding, since the contract price was \$1.35 per square foot and the HACP cost estimate was for \$.35 per square foot. The OIG erroneously used only the estimated cost of seeding (\$.35) without considering the separate line item in the estimate for grading (\$1.50). Therefore, the contract price was actually less than the combined estimate for this work of \$1.85 per square foot.

Following is a listing of the procurement procedures that the OIG stated were not followed and HACP's explanations for each.

Standard Procurement Procedures for HACP

<u>Not Followed according to the OIG</u>	<u>Explanation</u>
5. Ensure estimated cost is within budget /funding source amount.	Funds were identified. All expenditures have been within available budgets and periodically reported to HUD.
6. Obtain HACP Board of Director's approval.	HACP's Board of Directors approved Resolution Number 7 of 1998. (See Attached)
7. Enter requisition into computer system	N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1998.
8. Approve requisition	N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1998.
9. Review other government contracts for item availability.	N/A – Not part of the 1998 Procurement Procedures Also, this was a competitive bid procurement.
10. If item is available under another gov't contract, go to #24, if not go to #11.	N/A – See response to #9

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

Management # 3506 - Site Hazard Reduction (continued)

- | | |
|---|--|
| 11. Advertise and issue solicitation. | Bid advertised and solicitation was issued (see attached). |
| 16. Compare lowest quote to cost estimate. | HACP awarded this contract to the lowest responsive, responsible bidder. |
| 17. If low quote is comparable to cost estimate, go to #19. | HACP awarded this contract to the lowest responsive, responsible bidder. |
| 18. If low quote is not comparable to cost estimate, return to #11. | HACP awarded this contract to the lowest responsive, responsible bidder. |
| 21. Issue Notice of Intent to Award to all bidders. | N/A – This item was not in the procurement procedures in 1998 and did not impact the cost of the work. |
| 24. Create purchase order and purchase item(s). | N/A – Since a contract was issued for this procurement. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
 HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

D. Management # 3874 – Concrete Replacement Work

Contractor: Baiano Construction	Contract Amount	\$ 291,200
Contract number: 10198.15	Change Order	1,251,007
Contract Date: May 1999	Revised contract amount	\$1,542,207

Summary: The only significant Procurement Procedure that HACP was not able to provide documentation for was the independent cost estimate. However, reasonable pricing had previously been established through an earlier bid for the same work. HACP was able to award a contract to the lowest responsible bidder among the firms that participated in this solicitation. The competitive solicitation process ensured that the HACP did not over pay for the scope of work solicited. At the time of the procurement, HACP did not know all of the quantities that would be required, and requested the unit pricing information with the clear intent of using these prices for any additional quantities required. Change orders issued for this contract were fully documented and included an independent cost estimate. Following is a listing of procurement procedures that the OIG stated were not followed and HACP’s explanations for each.

Standard Procurement Procedures for HACP

Not Followed according to the OIG

Explanation

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| 2. Identify funding source/review for budget. | The funds were in the budget. HACP recorded all expenditures and they have been reflected in subsequent budget reporting submitted to HUD. |
| 4. Secure independent cost estimate. | The independent cost estimate that was performed is missing. This solicitation was a re-bid of an earlier solicitation that did establish market prices for this work. HACP was able to evaluate eight competitive bids and made award to the lowest responsible bidder. This process ensured HACP received the lowest reasonable price for the work. |
| 5. Ensure estimated cost is within budget/funding source amount. | The awarded amount was within HACP’s budget and was included in all subsequent budget reports submitted to HUD. |
| 6. Obtain HACP Board of Director’s App. | Approval was received. (See Attached). |
| 7. Enter requisition into computer system | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |
| 8. Approve requisition | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

Management # 3874 – Concrete Replacement Work (continued)

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| 9. Review other government contracts for item availability. | N/A – Not part of the 1999 Procurement Procedures Also, this was a competitive bid procurement. |
| 10. If item is available under another gov't contract, go to #24, if not go to #11. | N/A – See response to #9 |
| 15. Review bids for responsiveness. | Review was done. Lowest bid was determined non-responsible.. |
| 16. Compare lowest quote to cost estimate. | Bid was comparable with previously cancelled bid |
| 17. If low quote is comparable, go to #19. | Bid was comparable with previously cancelled bid. |
| 18. If low quote is not comparable to cost estimate, return to #11. | N/A – Since the low quote was comparable to the cost estimate. |
| 19. Select lowest quote as successful bidder. | HACP awarded this contract to the lowest responsive, responsible bidder. |
| 21. Issue Notice of Intent to Award to all bidders. | N/A – This item was not in the procurement procedures in 1998 and did not impact the cost of the work. |
| 24. Create purchase order and purchase item(s). | N/A – Since a contract was issued for this procurement. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
 HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

E. Management # 3875 – Concrete Replacement and Repair Work

Contractor: A. Merante Contracting, Inc.	Contract Amount	\$178,190
Contract number: 10198.19	Change Order	189,050
Contract Date: April 15, 1999	Revised contract amount	\$367,240

Summary: The most significant procurement procedure that was not performed by HACP was the independent cost estimate. However, the competitive solicitation process ensured that the HACP did not over pay for the scope of work solicited. HACP was able to award a contract to the lowest responsible bidder among the three firms that participated in this solicitation. Following is a listing of the procurement procedures that the OIG stated were not followed and HACP’s explanations for each.

**Standard Procurement
 Procedures for HACP**

<u>Not Followed according to the OIG</u>	<u>Explanation</u>
4. Secure independent cost estimate.	HACP did not perform an independent cost estimate prior to the bid opening. However, this was a competitive solicitation process and HACP was able to evaluate three independent bids and made award to the lowest responsible bidder. This competitive process ensured that HACP received the lowest responsible bid.
5. Ensure estimated cost is within budget/ funding source amount.	The awarded amount was within HACP’s budget and was included in all subsequent budget reports submitted to HUD.
7. Enter requisition into computer system	N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999.
8. Approve requisition	N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999.
9. Review other government contracts for item availability.	N/A – Not part of the 1999 Procurement Procedures. Also, this was a competitive bid procurement.
10. If item is available under another gov’t contract, go to #24, if not go to #11.	N/A – See response to #9
16. Compare lowest quote to cost estimate.	See response to procedure #4.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

Management # 3875 – Concrete Replacement and Repair Work (continued)

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| 17. If low quote is comparable to cost estimate, go to # 19. | See response to procedure #4. |
| 18. If low quote is not comparable to cost estimate, return to #11. | See response to procedure #4. |
| 21. Issue Notice of Intent to Award to all bidders. | N/A – This item was not in the procurement procedures in 1999. |
| 24. Create purchase order and purchase item(s). | N/A – Since a contract was issued for this procurement. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
 HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

F. Management # 4090 – Gasline Relocation

Contractor: Newman Plumbing	Contract Amount	\$70,870
Contract number: 10199.10	Change Order	0
Contract Date: August 26, 1999	Revised contract amount	\$70,870

Summary: The most significant procurement procedure that was not performed by HACP was the independent cost estimate. However, the competitive solicitation process ensured that the HACP did not over pay for the scope of work solicited. HACP was able to award a contract to the lowest responsible bidder among three firms that participated in this solicitation. Following is a listing of the procurement procedures that the OIG stated were not followed and HACP’s explanations for each.

Standard Procurement Procedures for HACP

Not Followed according to the OIG

Explanation

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|---|--|
| 4. Secure independent cost estimate. | HACP did not perform an independent cost estimate prior to the bid opening. However, This was a competitive solicitation process and HACP was able to evaluate three competitive bids and made award to the lowest responsible bidder. The competitive solicitation process ensured that HACP received the lowest price for this work. |
| 5. Ensure estimated cost is within budget/ funding source amount. | The awarded amount was within HACP’s budget and was included in all subsequent budget reports submitted to HUD. |
| 7. Enter requisition into computer system | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |
| 8. Approve requisition | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |
| 9. Review other government contracts for item availability. | N/A – Not part of the 1999 Procurement Procedures Also, this was a competitive bid procurement. |
| 10. If item is available under another gov’t contract, go to #24, if not go to #11. | N/A – See response to #9 |
| 16. Compare lowest quote to cost estimate. | See response to procedure #4. |
| 17. If low quote is comparable to cost estimate, go to # 19. | See response to procedure #4. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

Management # 4090 – Gasline Relocation (continued)

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|---|--|
| 18. If low quote is not comparable to cost estimate, return to #11. | See response to procedure #4. |
| 21. Issue Notice of Intent to Award to all bidders. | N/A – This item was not in the procurement procedures in 1999. |
| 24. Create purchase order and purchase item(s). | N/A – Since a contract was issued for this procurement. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
 HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

G. Management # 4092 - Site Improvements

Contractor: A. Merante Contracting, Inc.	Contract Amount	\$328,592
Contract Number: 10198.12	Change Order	<u>0</u>
Contract Date: July 22, 1999	Revised contract amount	\$328,592

Summary: HACP followed all of the applicable procurement procedures that were in effect in 1999 including preparation of an independent cost estimate. HACP was able to award a contract to the lowest responsible bidder among the five firms that participated in this solicitation. There were no change orders issued for this contract. Following is a listing of the procurement procedures that the OIG stated were not followed and HACP's explanations for each.

**Standard Procurement
 Procedures for HACP**

Not Followed according to the OIG

Explanation

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|---|--|
| 7. Enter requisition into computer system | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |
| 8. Approve requisition | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |
| 9. Review other government contracts for item availability. | N/A – Not part of the 1999 Procurement Procedures Also, this was a competitive bid procurement. |
| 10. If item is available under another gov't contract, go to #24, if not go to #11. | N/A – See response to #9 |
| 18. If low quote is not comparable to cost estimate, return to #11. | N/A – Since the low quote was comparable to the cost estimate. |
| 21. Issue Notice of Intent to Award to all bidders. | N/A – This item was not in the procurement procedures in 1999 and did not impact the cost of the work. |
| 24. Create purchase order and purchase item(s). | N/A – Since a contract was issued for this procurement. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

H. Management # 4113 – Hydronic Boiler Replacement

Contractor: Elk Air Conditioning, Inc.	Contract Amount	\$494,000
Contract number: 10199.07	Change Order	<u>13,580</u>
Contract Date: October 1, 1999	Revised contract amount	\$507,580

Summary: HACP followed all of the applicable procurement procedures that were in effect in 1999 including preparation of an independent cost estimate. HACP was able to award a contract to the lowest responsible bidder among the firms that participated in this solicitation. Following is a listing of the procurement procedures that the OIG stated were not followed and HACP's explanations for each.

**Standard Procurement
Procedures for HACP**

Not Followed according to the OIG

Explanation

- | | |
|---|--|
| 7. Enter requisition into computer system | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |
| 8. Approve requisition | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |
| 9. Review other government contracts for item availability. | N/A – Not part of the 1999 Procurement Procedures. Also, this was a competitive bid procurement. |
| 10. If item is available under another gov't contract, go to #24, if not go to #11. | N/A – See response to #9 |
| 21. Issue Notice of Intent to Award to all bidders. | N/A – This item was not in the procurement procedures in 1999 and did not impact the cost of the work. |
| 24. Create purchase order and purchase item(s). | N/A – Since a contract was issued for this procurement. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

I. Management # 4153 – Replacement of Furnace

Contractor: Woodsmech, Inc.	Contract Amount	\$829,000
Contract number: 10199.03	Change Order	133,908
Contract Date: August 26, 1999	Revised contract amount	\$962,908

Summary: HACP followed all of the applicable procurement procedures that were in effect in 1999 including preparation of an independent cost estimate. HACP was able to award a contract to the lowest responsible bidder among the firms that participated in this solicitation. Change orders issued for this contract were fully documented and included an independent cost estimate. Following is a listing of the procurement procedures that the OIG stated were not followed and HACP's explanations for each.

Standard Procurement Procedures for HACP

Not Followed according to the OIG

Explanation

2. Identify funding source/review for budget.	Funds were identified. All expenditures have been within available budgets and have been included in HACP's subsequent reports to HUD.
7. Enter requisition into computer system	N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999.
8. Approve requisition	N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999.
9. Review other government contracts for item availability.	N/A – Not part of the 1999 Procurement Procedures. Also, this was a competitive bid procurement.
10. If item is available under another gov't contract, go to #24, if not go to #11.	N/A – See response to #9
18. If low quote is not comparable to cost estimate, return to #11.	N/A – Since the low quote was comparable to the cost estimate.
21. Issue Notice of Intent to Award to all bidders.	N/A – This item was not in the procurement procedures in 1999 and did not impact the cost of the work.
24. Create purchase order and purchase item(s).	N/A – Since a contract was issued for this procurement.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

J. Management # 4160 - Site Improvements

Contractor: John Zottola Landscaping	Contract Amount	\$632,150
Contract number: 10199.21	Change Order	<u>3,070</u>
Contract Date: August 30, 1999	Revised contract amount	\$635,220

Summary: The most significant procurement procedure that was not performed by HACP was the independent cost estimate. However, the competitive solicitation process ensured that the HACP did not over pay for the scope of work solicited. HACP was able to award a contract to the lowest responsible bidder among three firms that participated in this solicitation. This competitive solicitation process ensured that HACP received the lowest possible price for the work solicited. In addition, HACP’s engineering consulting firm has subsequently reviewed the cost of this work and confirmed that HACP did not overpay for this work. Following is a listing of the procurement procedures that the OIG stated were not followed and HACP’s explanations for each.

Standard Procurement Procedures for HACP

Not Followed according to the OIG

Explanation

- | | |
|---|---|
| 4. Secure independent cost estimate. | HACP did not perform an independent cost estimate prior to the bid opening. However, this was a competitive solicitation process and HACP was able to evaluate three competitive bids and made award to the lowest responsible bidder. This competitive solicitation process ensured that HACP received the lowest possible price for the work solicited. |
| 5. Ensure estimated cost is within budget/ funding source amount. | The awarded amount was within HACP’s budget and was included in all subsequent budget reports submitted to HUD. |
| 7. Enter requisition into computer system | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |
| 8. Approve requisition | N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999. |
| 9. Review other government contracts for item availability. | N/A – Not part of the 1999 Procurement Procedures. Also, this was a competitive bid procurement. |
| 10. If item is available under another gov’t contract, go to #24, if not go to #11. | N/A – See response to #9 |
| 16. Compare lowest quote to cost estimate. | See response to procedure #4. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

Management # 4160 - Site Improvements (continued)

- | | |
|---|---|
| 17. If low quote is comparable to cost estimate, go to # 19. | See response to procedure #4. |
| 18. If low quote is not comparable to cost estimate, return to #11. | See response to procedure #4. |
| 21. Issue Notice of Intent to Award to all bidders | N/A – This item was not in the procurement procedures in 1999 and did not affect pricing. |
| 24. Create purchase order and purchase item(s). | N/A – Since a contract was issued for this procurement. |

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

K. Management # 4342 - Site Improvements

Contractor: Baiano Construction	Contract Amount	\$1,589,000
Contract Date: September 1999	Change Order	<u>(69,457)</u>
	Revised contract amount	\$1,519,543

Summary: All significant procurement procedures, including the independent cost estimate and the cost/price analysis, were performed by HACP. Several bidders responded to this solicitation and HACP awarded to the lowest responsible bidder and the work was satisfactorily performed. All change orders are within the scope of the contract and are fully documented. Following is a listing of the procurement procedures that the OIG stated were not followed and HACP's explanations for each.

**Standard Procurement
Procedures for HACP**

Not Followed according to the OIG

Explanation

7. Enter requisition into computer system	N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999.
8. Approve requisition	N/A – This procedure was not in effect until July, 2000. This procurement was initiated in 1999.
9. Review other government contracts for item availability.	N/A – Not part of the 1999 Procurement Procedures. Also, this was a competitive bid procurement.
10. If item is available under another gov't contract, go to #24, if not go to #11.	N/A – See response to #9
11. Advertise and issue solicitation.	This solicitation was advertised and a solicitation was issued. (See Attached)
18. If low quote is not comparable to cost estimate, return to #11.	N/A – Since #17 stated that the low quote was comparable to the cost estimate.
21. Issue Notice of Intent to Award to all bidders.	N/A – This item was not in the procurement procedures in 1999.
24. Create purchase order and purchase item(s)	N/A – Since a contract was issued for this procurement.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH RESPONSE AND COMMENTS TO
HUD-OIG COMPREHENSIVE AUDIT OF VARIOUS ACTIVITIES (DRAFT REPORT)

Conclusion

For the foregoing reasons, HACP believes that the IG draft audit should be substantially revised.

Distribution

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