



Audit Report

District Inspector General for Audit Great Plains District

Report: 98-KC-204-1001

Issued: March 10, 1998

TO: Kevin E. Marchman, Assistant Secretary for Public and Indian Housing, P
Andrew L. Boeddeker, Director, Office of Public Housing, 7APH

FROM: Jose R. Aguirre, District Inspector General for Audit, 7AGA

SUBJECT: Housing Authority of Kansas City
Job Order Contracting Program
Kansas City, Missouri

We have completed our audit of the Job Order Contracting (JOC) program at the Housing Authority of Kansas City, Missouri (HAKC). Our report details one finding regarding overall problems with the JOC program as implemented at the HAKC. We also performed a limited review of the HAKC's implementation of provisions required by Section 9 of Public Law 104-120, the "Housing Opportunity Program Extension Act of 1996;" and subsequent HUD notices that detail further instructions to housing authorities regarding the Act. Our report details the HAKC's insufficient implementation of provisions required by HUD Notice PIH 97-27. We have provided the HAKC with a copy of this report.

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

Should you have any questions, please contact me or Kim Randall of my staff at (913) 551-5870.

Executive Summary

In June 1996, we met with the Housing Authority of Kansas City, Missouri (HAKC) to begin an audit of several areas of operation. The HAKC staff and its Receiver expressed concerns regarding its Job Order Contracting (JOC) program and one general contractor. Based on this information, we focused our audit on the JOC program and this general contractor.

Our primary objectives were to: evaluate the HAKC's overall JOC system; evaluate the consultant's performance under its contract with the HAKC; and to determine whether a general contractor complied with its JOC contract. We also completed a limited review of the HAKC's compliance with Section 9 of Public Law 104-120, the "Housing Opportunity Program Extension Act of 1996."

Initiating its JOC program in December 1994, the HAKC began renovating units in April 1995 using the JOC system. Our audit covered nearly \$1 million of over \$4 million paid to this particular general contractor. This report contains one major finding relative to the JOC program and a finding on the HAKC's incomplete compliance with Section 9 of Public Law 104-120.

We concluded the JOC program was developed with internal control weaknesses, implemented with management deficiencies, and abused by a contractor. In addition, the JOC consultant, The Gordian Group (Gordian), did not fulfill all its responsibilities under its contract. As a result, the HAKC was not adequately prepared to administer its JOC program.

We inspected JOC work totaling \$976,000 and determined the contractor, F.H. Paschen Venture, Inc. (Paschen), overcharged the HAKC \$227,000 for work not performed, substitution of quality, and overstatement of materials and labor. Further, we estimate if other work assigned to Paschen (not inspected during our review) follows the same pattern, Paschen overcharged the HAKC an additional \$387,000.

The JOC program can be a useful system for accelerating the process of completion of rehabilitation work at Public Housing Authorities (PHAs). However, the JOC program (as implemented at HAKC) contained internal control weaknesses that contributed to abuses. Because the JOC program is used by other PHAs, we recommend the Assistant Secretary for Public and Indian Housing (PIH) require Gordian to amend its training program and instructional material to require that PHA inspectors use contractors' detailed proposals when conducting JOC work inspections; and ensure PHAs develop detailed Scopes of Work and independent estimates adequate for comparison to contractors' detailed proposals.

We also recommend the Assistant Secretary require Gordian, in consultation with a PHA, to ensure the PHA has sufficient, well-qualified staff to administer the JOC program in order to continue with implementation of the program.

In addition to problems with the HAKC's consultant and contractor, deficiencies in the HAKC's administration of the JOC program can be attributed largely to staffing problems, including inadequate staff resources and training. Accordingly, we recommend the Director of the Office of Public Housing require the HAKC, in consultation with Gordian, to determine the number of staff and necessary qualifications required to adequately administer the JOC program; and require the HAKC to staff the JOC department with the required number of well-qualified staff. We also recommend the Director require the HAKC to evaluate causes for frequent staff turnover and take steps to address those causes. In addition, we recommend the Director take administrative sanctions against Paschen.

Further, we concluded the HAKC has not fully met the provisions of Section 9 of Public Law 104-120. Neither the HAKC screening procedures nor its lease agreement contain all provisions required by Section 9 of the Act regarding tenant alcohol abuse and off premises drug-related criminal activity. Because the HAKC has not fully complied with Section 9 provisions, the HAKC may not be able to deny tenancy to applicants or evict current tenants for violations of these provisions. Therefore, we recommend the Director of the Office of Public Housing require the HAKC to amend its screening procedures and lease agreement to include the appropriate language regarding alcohol abuse and drug-related criminal activity on or off the premises. In response to our draft report, the HAKC provided an amended lease agreement which properly addressed the issue of drug-related criminal activity on or off the premises. However, it did not specifically address alcohol abuse. As a result, we modified our recommendation to address only the alcohol abuse provisions.

We discussed the report issues with the HAKC and the Director of the Office of Public Housing. We requested comments on our draft report from the Assistant Secretary for PIH, the Director of the Office of Public Housing, and the HAKC.

We received written comments from the Director of the Office of Public Housing that addressed all recommendations. The Director generally concurred with our finding. However, the Director suggested some modifications to our recommendations. We considered these comments in preparation of this final report.

We also received written comments from the HAKC. In general, the HAKC agreed with our report except for staffing issues in Finding 1 and noncompliance issues in Finding 2 regarding Section 9 of Public Law 104-120. The comments from the HAKC were considered in completing this report and are included in **Appendix 2**.

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Abbreviations:

HAKC	Housing Authority of Kansas City, Missouri
HUD	Department of Housing and Urban Development
JOC	Job Order Contracting
PHA	Public Housing Authority
PIH	Office of Public and Indian Housing
UPB	Unit Price Book

Introduction

In June 1996, we met with the HAKC to begin an audit of several areas of its operations. During initial meetings, the HAKC and its Receiver expressed concerns regarding the JOC program and one of its general contractors. Based on this information, we focused our audit on the JOC program and the general contractor.

A. Background

The HAKC was established by the State of Missouri in 1939 to provide safe and sanitary housing for the poor. The HAKC provides housing for low-income persons through two programs. First, it develops, owns and manages multi-family public housing developments as well as single-family houses. The HAKC is directly responsible for managing and maintaining these housing units. Second, the HAKC makes housing assistance payments, known as Section 8 payments, for low-income persons who rent housing from private property owners. For Section 8 housing, the HAKC inspects dwellings to ensure they meet applicable standards, but does not actively manage or maintain the properties.

Missouri law provides that a Board of Commissioners appointed by the Mayor will administer day-to-day operations of the Authority. However, a Federal Court placed the HAKC in Receivership in July 1993. In September 1994, the court appointed TAG Associates of Kansas City, Inc. (TAG) as Receiver. When TAG began managing the HAKC, approximately 40 percent of the housing units were vacant due to poor physical condition. TAG committed to the Court to aggressively renovate many of these units, and elected to use a construction procurement method known as JOC.

JOC is a contracting technique designed to reduce procurement lead times. The Department of Defense invented JOC in 1981 for use by the North Atlantic Treaty Organization. Since then, Defense has used JOC for installation maintenance, minor repair, and construction projects.

JOC is a competitively bid, indefinite quantity, fixed price, multi-task contract. The owner awards a base contract with pre-established tasks and prices, specifications and general contract conditions. Contractors bid a coefficient (bid factor) on the Unit Price Book (UPB), the pricing basis for the JOC work. The UPB consists of over 60,000 construction tasks and each task unit price is based on localized direct costs for material, equipment and labor. For each construction project, the contractor submits a cost proposal based on selection of individual tasks from the UPB, and applies its bid factor to UPB prices to arrive at a proposed price to

complete the project. The owner and the contractor negotiate a Scope of Work and total price to complete the project, then the owner issues a work order notifying the contractor to proceed.

On December 19, 1994, the HAKC contracted with a JOC consultant, The Gordian Group (Gordian), to set up a JOC system at the HAKC. By mid-March 1995, the HAKC had contracted with two general contractors, F.H. Paschen Venture, Inc. (Paschen) and Brown and Root Services, Inc., to provide renovation work using the JOC process. From April 1995 through February 1997, JOC contractors renovated units and completed various maintenance and repair projects with contracts totaling \$10 million.

Although our report addresses only the HAKC JOC program, we understand similar JOC programs are used by at least nine other PHAs throughout the country.

B. Objectives, Scope And Methodology

Based on concerns expressed by the HAKC and its Receiver, we conducted our audit with two primary objectives:

- Evaluate the overall JOC system at the HAKC
- Determine whether Paschen complied with its JOC contract

To accomplish these objectives, we reviewed the HAKC's performance under the JOC system and Gordian's performance under its consultant contract. Further, we reviewed Paschen's performance by analyzing HAKC and Paschen project files and inspecting renovated properties related to 20 work orders valued at \$976,000.

As of August 15, 1996, the HAKC had paid Paschen \$2.7 million for completed JOC rehabilitation work, including both construction-type renovations and abatement of hazardous materials. Of the \$2.7 million, \$1.8 million related to renovations and the remaining \$900,000 related to abatement. Our review concentrated entirely on renovations; therefore, our universe consisted of \$1.8 million in renovation work orders. We inspected approximately one-half (\$976,000) of these construction renovations.

Although there were other work orders completed as of our universe date, the HAKC had not paid Paschen for these and still had the opportunity to review the rehabilitations and reduce the amount to be paid to Paschen, if necessary. The HAKC also had other work orders in progress, but these rehabilitation efforts were in various stages of completion and not selected for review. As of September 23, 1997, the HAKC had paid Paschen over \$4 million for JOC rehabilitations; and an additional \$600,000 remains unpaid and in dispute.

For JOC program background purposes, we reviewed studies of JOC completed by the Corps of Engineers and the U.S. Army Audit Agency. We also reviewed various HAKC internal and external reports related to its JOC system.

In addition, we performed a limited review of the HAKC compliance with Section 9 of Public Law 104-120, the “Housing Opportunity Program Extension Act of 1996.” Specifically, we reviewed the HAKC’s screening procedures and lease documentation to determine whether occupancy provisions of the Act were met.

We discussed our review with the U.S. Department of Housing and Urban Development (HUD) program staff and HAKC management. We performed audit work from June 1996 through December 1997, and conducted the audit in accordance with generally accepted governmental auditing standards.

Findings and Recommendations

Finding 1

The JOC Program Was Developed With Internal Control Weaknesses, Implemented With Management Deficiencies, And Abused By A Contractor

The JOC program developed by Gordian for the HAKC contained inherent internal control weaknesses. Further, Gordian did not fulfill all its responsibilities under the contract. As a result, the HAKC was not adequately prepared to administer a new concept of rehabilitating property in an accelerated manner. Additionally, the HAKC's administration of the JOC program was deficient. Inherent problems in the JOC program, coupled with the HAKC's management deficiencies, led to the construction contractor, Paschen, abusing the program and overcharging the HAKC.

We inspected contract work totaling \$976,000. Paschen overcharged the HAKC \$227,000 for work not performed, for substitution of quality, and overstatement of materials and labor. If other work assigned to Paschen (not inspected during this review) follows the same pattern, Paschen overcharged the HAKC an additional \$387,000.

A. Gordian's Role in the JOC Program

1. Internal Control Weaknesses in the JOC Program

Gordian received a HAKC contract to develop a JOC system that would accelerate rehabilitation of dwellings. In setting up the system, Gordian stressed:

- The Scope of Work was the governing document.
- The Work Order was based on a lump sum price.

- The HAKC should review the contractor's proposal on a "bottom line" basis.

Additionally, the HAKC and the contractor were to create Scopes of Work based on joint inspections of dwellings needing rehabilitation. However, Scopes of Work were generalized lists of needed repairs. Once the Scope of Work was finalized, the HAKC was to prepare an independent estimate of repair costs and the contractor was to prepare its detailed proposal. The contractor's detailed proposal included each repair task and the related costs, and formed the basis for establishing the price the HAKC would pay the contractor for its work.

Based on Gordian's training, the HAKC provided its inspectors only the generalized Scope of Work rather than the detailed proposal for inspecting work. The contractor's detailed proposal was the only document that contained specific work tasks, quantities and quality of materials. As a result, inspectors could not, and in fact did not, disclose when Paschen: did not complete the work; inflated quantities; or substituted materials.

2. Gordian's Training was Insufficient and Untimely, and Periodic Progress Reports Needed Improvement

Gordian's contract required Gordian to conduct as many training courses as necessary to ensure the HAKC was fully prepared to execute the JOC system. We concluded Gordian's training was insufficient and untimely because:

- The initial training was in March 1995; consisted of a three-day session; and at the time, the HAKC had only two full-time and two part-time JOC employees.
- The HAKC had continuous turnover in critical JOC positions. However, the next formal training was conducted in December 1996, after Paschen had completed most of its work.

Gordian's contract also called for periodic program reviews and written progress reports. In addition, Gordian was to provide on-site assistance for a minimum of four days a month and was paid \$5000 a month for the assistance. We concluded the HAKC did not get the level of support specified in the contract because:

- On site assistance, according to HAKC staff, consisted of 1 to 3 days a month.
- Telephone support was difficult to obtain.
- Gordian's first written program review (May 1995) informed the HAKC the JOC department was understaffed. The next written program review was not until March 1996 and the review found "...no

glaring deficiencies or concerns....” The report also contained suggestions for obtaining good independent cost estimates.

- At the request of the HAKC Executive Director, Gordian performed a June 1996 program review and in its written report Gordian included the following disclosures:
 - Under-staffing problems since the inception
 - Ill-qualified HAKC staff
 - HAKC staff allowed Paschen to write Scopes of Work
 - Paschen had submitted proposals that appeared to be exact duplicates for different job sites
 - JOC and other HAKC staff needed additional training on JOC
 - JOC staff did not properly inspect contractor proposals to identify bogus items
 - The HAKC had never been in control of the JOC contracts

Because Gordian did not disclose these problems to upper HAKC management timely, we concluded Gordian’s previous periodic program reviews and on-site assistance were deficient. We further concluded that the absence of more written reports to upper HAKC management contributed to the delays in taking corrective action.

HAKC Comments

In response to our draft report, the HAKC agreed with both audit issues regarding Gordian’s role in the JOC program. The HAKC also provided additional comments, with which we agree, as follows:

- The HAKC retained Gordian to help assure the JOC program operated efficiently and effectively. The HAKC was under the impression this was occurring. When the Receivership team expressed concerns, information regarding weaknesses in internal controls was not forthcoming from Gordian. As a result, the HAKC experienced overall management problems with the JOC program.
- The HAKC assumed its contract with Gordian would result in timely, fully comprehensive reports and training of its staff. The HAKC also believed it could rely on Gordian to alert the Receivership team to problems with JOC program administration and contractor performance. Based on findings by OIG and the HAKC Office of Internal Audit, the HAKC was unable to sufficiently rely on support by Gordian.

B. HAKC Management of the JOC Program was Deficient

The HAKC inadequately administered its \$10 million JOC program. As a result, the HAKC did not cease doing work with Paschen until a substantial amount of rehabilitation work had been performed. Specifically, the HAKC did not:

- Prepare adequate Scopes of Work.
- Prepare adequate independent cost estimates.
- Adequately review contractor cost proposals.
- Adequately staff its JOC program.

1. Inadequate Scopes of Work

The HAKC prepared vague Scopes of Work that in some instances consisted of a few general lines of instructions to renovate an entire scattered site unit. These vague Scopes of Work led to differing interpretations and expectations among the HAKC, Paschen, and subcontractors. Further, HAKC staff advised that one HAKC program manager allowed Paschen to write the Scopes of Work that should have been written in conjunction with HAKC staff. This imprudent practice relegated to Paschen the HAKC's control over the work to be performed.

2. Inadequate Independent Cost Estimates

The HAKC's independent cost estimates were inadequate for evaluating Paschen's proposals. We identified estimates with duplicate renovation tasks and overstated quantities or measurements. For example, one estimate included 1600 square feet of carpet. Our on-site inspection revealed only 850 square feet was necessary, overstating the HAKC's cost estimate by \$900. Another estimate for a five-unit townhouse row contained excessive quantities that overstated the HAKC's estimate by \$11,459. The deficient independent cost estimates negated the HAKC's ability to effectively evaluate Paschen's proposal price.

3. Inadequate Review of Contractor Cost Proposals

The HAKC did not adequately review, and therefore did not detect, inappropriate cost proposals; therefore allowing Paschen to abuse the JOC program. Our sample of 20 Paschen proposals disclosed numerous examples of improper tasks, duplicate tasks, variations of the same task, and obviously overstated quantities and measurements. As a result, HAKC payments to Paschen were inappropriate.

4. Inadequate Staffing

The HAKC did not adequately staff its JOC program. The JOC department was understaffed and the staff did not have all qualifications necessary to properly manage its JOC program.

To meet the demand for livable units, the HAKC decided to implement the JOC program. The HAKC hired Gordian to develop, implement and assist in executing a JOC system.¹ Gordian began system development in January 1995 and renovations started in April. In May, Gordian notified the HAKC the JOC department was understaffed. Gordian recommended a minimum of six employees as JOC renovations were getting underway. Gordian warned “anything short of that staffing will produce a less than satisfactory results. The JOC system will only be as effective as the people managing it.” Gordian recommended:

- 1 Program Manager
- 2 Project Managers
- 2 Inspectors
- 1 Clerk

As JOC renovations dramatically increased in volume during August 1995, Gordian recommended no less than eight persons administer the program:

- 1 Program Manager
- 3 Project Managers
- 1 Cost Estimator
- 3 Inspectors

The HAKC did not staff its JOC department as recommended, but began with only four employees (two full-time and two part-time). In March 1995, the HAKC determined it needed more assistance from Gordian. The HAKC contracted with Gordian to provide a Program Manager from March through June 1995. During May of this period, the HAKC promoted one of its inspectors to Program Manager to learn the position duties before Gordian’s contract ended in June. Even though Gordian recommended against the promotion because it believed the new Program Manager was not qualified, the HAKC promoted the inspector.

¹ The HAKC contracted with Gordian in December 1994 to develop and implement a JOC system. For this service, the HAKC agreed to pay Gordian \$135,000. The HAKC also agreed to pay Gordian \$5,000 per month for 24 months (\$120,000) for technical support. During the contract, the HAKC issued change orders for additional Gordian services, bringing the total paid to Gordian from December 1994 through April 1997 to nearly \$300,000.

During this same period, the Director of Construction and Development assigned a newly-hired Vacancy Reduction Manager to oversee the JOC program as well as other vacancy reduction duties. The HAKC also filled the vacant inspector position in June 1995. The JOC department remained at a level of three full-time and two part-time employees until July 1995. In July, the HAKC added another JOC inspector by transferring a Maintenance employee to the JOC department.

During August 1995, as renovations intensified, the HAKC replaced the recently promoted Program Manager by promoting another JOC inspector to that position, and hired a Cost Estimator. At this point, the HAKC had issued 46 work orders (totaling \$7.2 million) with only four JOC-dedicated staff members, even though Gordian had recommended eight individuals at that volume of renovations. The JOC program was so understaffed, the Program Manager was forced to fill the role of five JOC positions until the HAKC hired the Cost Estimator in August. For several months, the Program Manager acted as:

- JOC Program Manager (overall program administration)
- 3 Project Managers (monitor individual work orders)
- Cost Estimator (prepares independent cost proposal for comparison purposes)

The HAKC eventually added another inspector and a clerk in September, bringing JOC-dedicated employees to six. At this point, the HAKC reached its maximum JOC staff, but was still only three-fourths of the recommended level. The JOC department remained at six members until March 1996, when most of the planned renovations were complete.

In addition, not all JOC employees were fully qualified. For example, one Program Manager did not understand the contractors' bid factors or how the factors related to the Unit Price Book (UPB), two very important elements of a JOC system. In addition, JOC inspectors did not have adequate knowledge to inspect all aspects of renovation work. Two inspectors had significant experience in electrical work, but lacked sufficient knowledge in other areas of construction. Another inspector had no specialized field of expertise. All three told us they received no formal training to conduct inspections.

After JOC renovations were essentially complete in June 1996, Gordian evaluated the HAKC's JOC program and concluded it had operated understaffed and with ill-qualified employees since inception. A second consultant reported to the HAKC in August 1996 that "...due to understaffing and poor staff quality there has been mismanagement of the operation."

The HAKC also conducted an internal review of its JOC program in August 1996 and Gordian provided another evaluation of the program in September.

These reviews identified problems related to staffing and a lack of operational procedures. The HAKC subsequently attempted to remedy staffing problems by replacing the Director and Deputy Director of Construction and Development, replacing the Cost Estimator, adding two Project Managers, and promoting a Contracting Officer to the Program Manager position. In addition to staffing changes, in August 1997 the HAKC required Gordian to provide a daily operations manual addressing JOC operational procedures. To remedy contractor problems, the HAKC canceled Paschen's contract in October 1996 and hired Team Ace.

These changes, although positive, were short-lived because several recently hired JOC department staff no longer work for the HAKC or transferred out of the JOC department. The Director of Construction and Development left the HAKC in July 1997 and the Deputy left in September 1997. One Project Manager worked only two months before leaving in August 1997. Because the JOC program is somewhat labor-intensive, the JOC program will not function properly with minimal staff and high staff turnover.

* * *

Additionally, the HAKC did not: establish complete technical specifications before JOC renovations began; ensure verbal change orders were prohibited; enforce contract requirements; or prohibit work orders too complex to manage properly.

In summary, lack of properly trained, adequate staffing contributed to management deficiencies in the JOC program and ultimately led to inefficient use of renovation funds.

HAKC Comments

In its response to our draft report, the HAKC agreed with the three audit issues regarding inadequate Scopes of Work, independent cost estimates, and reviews of contractor cost proposals. However, the HAKC disagreed with the audit issue regarding inadequate staffing, stating::

- The HAKC has acknowledged the past management problems with the JOC program and taken corrective measures to improve its JOC operations. For example, the HAKC has restructured the Construction and Development Department, hired an experienced, well-trained cost estimator, increased performance requirements for its staff, revamped its use of the JOC program, and hired a new JOC contractor.
- The HAKC believes staffing issues were not raised and the staffing pattern for the Construction and Development Department was approved in its entirety. The HAKC does not know why Gordian or

any others involved recommended a JOC staffing plan other than that approved by the Construction and Development Department. It was understood that the staffing plan approved for the Construction and Development Department included the staffing and administrative components required to effectively administer the JOC program.

OIG Evaluation of HAKC Comments

We agree with the HAKC's efforts to improve its JOC operations. However, we disagree with the HAKC's response to the staffing issue.

Gordian notified the HAKC in May 1995 that the JOC program was understaffed, however, the HAKC did not meet the recommended minimum of six JOC employees before beginning the program. In addition, the HAKC did not heed Gordian's concerns regarding promoting the inspector to Program Manager, nor did the HAKC ever reach Gordian's ultimate recommended levels of staff. Although the HAKC believes a staffing plan was approved, the number of staff used by the HAKC to administer the JOC program remained significantly below Gordian's recommended levels.

The HAKC needs to evaluate the causes of frequent turnover. Such turnover could indicate inadequate recruiting and promotion practices. As such, we maintain that insufficient staff and turnover led to various problems with the HAKC's JOC program.

C. Contractor Abuse of the JOC Program

On March 13, 1995, the HAKC entered into a Professional Services Agreement with Paschen to serve as a JOC contractor for a year with two option periods. Section 3, Services; Price, of the contract states that, pursuant to the terms of the contract, Paschen was to furnish all labor, materials, tools, equipment, and services, and perform and complete all work required for the contract as defined on the Bid Form, in strict accordance with the Invitation for Bid package incorporated by reference and made a part of the contract. Section 4, Contract Documents, incorporated several forms/documents into the contract, including JOC Supplemental General Conditions.

Section 1, Supplemental Definitions, of the JOC Supplemental General Conditions definitions follow:

“COMPLETION (FINAL COMPLETION), as used herein means that an individual Purchase Order issued under the Contract is fully executed and completed in accordance with the scope of work, plans and specifications.”

“PLANS, as used herein include scopes of work, task descriptions in Unit Price Book, drawings, specifications and other pertinent information.”

“PURCHASE ORDER, as used herein refers to the obligation document under a Job Order Contract.” “Each purchase order will include a detailed scope of work, a firm fixed price proposal from the Contractor, a time duration for the completion of the work and any special conditions that might apply to that specific Purchase Order, such as Liquidated damages.”

Section 2, Job Order Contracting - Overview, of the JOC Supplemental General Conditions describes the Job Order Contracting process as the following:

As Job Order Contract requirements are identified, the contractor will be issued a request for purchase order proposal and will be required to develop an estimate for the work required. The contractor will submit its proposal to HAKC. This proposal will be compared with an independent HAKC estimate. If the contractor’s proposal is found reasonable, a purchase order may be issued at the agreed upon price. The price is achieved by selecting various prepriced construction tasks from the Unit Price book and multiplying those pre-established prices by the appropriate quantities and then by the contractor’s adjustment factor. The sum of all included tasks will establish a firm fixed price for the purchase order.

Section 26, General Requirements, Paragraph E. of the JOC Supplemental General Conditions states, in part, that in response to the HAKC’s Request for Proposal (RFP), the Contractor shall prepare a detailed proposal based on the RFP. This proposal shall contain detailed costs, schedules, lists of proposed subcontractors and any other supporting documents requested in the RFP. The contractor shall be held responsible for performing all work as stated in the RFP. It is the contractor’s responsibility to include the necessary items in his cost proposal.

Section 29, Ordering Procedures, Paragraph D.(1) of the JOC Supplemental General Conditions states, in part, that the contractor’s proposal shall include support documentation to indicate that the work units proposed are reasonable for the tasks to be performed.

Paragraph D.(4) of the same supplement states, in part, that each purchase order shall state the agreed upon requirements and fixed price of performance; the schedule for the work, the item number, description, quantity, unit price and

extended price; applicable adjustment factors; and totaled to include the firm-fixed price for the order.

Paragraph D.(6) of the same supplement states, in part, that by submitting a signed proposal to the HAKC, the contractor is agreeing to accomplish the work outlined in the RFP for that particular purchase order. It is the contractor's responsibility to include the necessary scope items in the proposal prior to delivering it to the HAKC.

Section 31, Measurements to be Verified, of the JOC Supplemental General Conditions states, in part, that before doing any work, the contractor shall verify all measurements at the site of a specific purchase order, and shall be responsible for the correctness of same.

Section 42, Request for Payments, of the JOC Supplemental General Conditions states, in part, the contractor must certify when requesting full or partial payment that the amounts requested are only for performance in accordance with the specifications, terms and conditions of the subject purchase order.

We reviewed \$976,000 (20 work orders²) of the \$1.8 million in construction-related work orders completed by Paschen and paid by the HAKC as of August 15, 1996. Paschen **did not complete** proposed renovations valued at \$227,000 (average of 23 percent). We could not verify Paschen's completion of another \$250,000 (26 percent). If the same degree of noncompliance exists in the remaining \$1.7 million of Paschen's renovations, Paschen billed the HAKC an additional \$387,000 for renovations it did not complete.

Although the JOC program had internal control deficiencies and was inadequately managed by the HAKC, we concluded Paschen: violated its contract with the HAKC; abused the program; and was paid and/or billed the HAKC approximately \$614,000 more than justifiable.

We believe these estimates to be low because of our conservative methodology. We inspected renovated units and compared each line item of the Paschen proposal to actual work completed on each unit:

² To select our sample, we identified all Paschen work orders that were completed and paid, including two that the HAKC had not yet paid the retainage, as of August 15, 1996. From this group of work orders (totaling \$2.7 million), we identified our universe of \$1.8 million in work orders related only to construction renovations. We did not include work orders related to abatement of hazardous materials in our universe for review. From our universe of \$1.8 million in construction work orders, we reviewed 20 work orders valued at \$976,000. Although not statistically derived, the value of work orders reviewed represented about 50 percent of completed and paid construction renovation work as of the universe date. We analyzed HAKC and Paschen documentation, interviewed HAKC personnel, the JOC consultant personnel, and subcontractors; and conducted on-site inspections of completed work.

- If we could verify Paschen completed the line item and the quantity and/or measurement was correct, we gave Paschen full credit for completing the line item and included additional allowances when more than proposed was installed.
- If the item was completed, but the quantity or measurement was incorrect, we gave Paschen credit for the amount actually completed.
- If the item was not completed, we gave no credit to Paschen and considered the line item incomplete.
- If Paschen made substitutions, we adjusted the completed amount by using the UPB price relative to the substitution.
- If we could not determine whether Paschen completed the line item, such as plumbing sealed behind walls, we noted it as such.

The chart below presents our overall inspection results:

WORK ORDER NUMBER	WORK ORDER AMOUNT	COMPLETED	ADDITIONAL ALLOWANCES	NOT COMPLETED	SUBSTITUTIONS	COULD NOT DETERMINE
01-0001.01	\$ 3,331.62	\$ 3,027.85	\$ -	\$ 303.77	\$ -	\$ -
01-0003.01	29,950.48	13,466.80	1,039.68	8,636.90	216.84	6,590.29
01-0003.02	30,250.48	15,249.73	2,061.82	5,767.22	765.07	6,406.65
01-0004.01	29,000.60	13,548.05	709.41	7,925.25	614.25	6,203.64
01-0004.03	14,716.04	5,728.51	-	4,858.71	600.00	3,528.82
01-0004.04	113,659.24	78,929.62	532.53	13,416.43	-	20,780.66
01-0004.05	3,000.00	1,193.58	10.39	470.78	-	1,325.25
01-0012.02	144,509.19	43,510.86	9,298.29	27,446.23	10,749.73	53,504.08
01-0012.11	44,116.18	15,052.72	899.85	14,333.45	4,817.73	9,012.43
01-0014.01	174,952.22	104,609.27	-	40,707.20	-	29,635.75
01-0014.03	42,657.56	19,320.00	-	11,077.93	1,850.00	10,409.63
01-0014.04	13,785.91	12,414.32	127.20	1,214.13	-	30.26
01-0023.01	92,096.40	34,143.85	4,536.98	23,313.74	5,587.44	24,514.39
01-0023.21	43,523.29	14,621.79	736.72	18,950.85	452.35	8,761.58
01-0023.23	43,321.74	15,772.12	809.79	16,003.09	813.94	9,922.82
01-0028.01	5,973.26	4,181.17	1,081.30	702.48	-	8.30
01-0028.02	30,915.23	11,355.56	131.98	9,887.69	903.25	8,636.75
01-0029.01 & 01-0029.04	81,239.59	29,817.63	3,459.13	15,666.25	2,187.66	30,108.92
01-0029.07	35,000.00	5,699.75	892.62	6,127.63	1,398.12	20,881.88
TOTALS	\$975,999.03	\$ 441,643.18	\$ 26,327.69	\$ 226,809.73	\$ 30,956.38	\$ 250,262.10

Per the Paschen contract, for each assigned JOC project, Paschen was to prepare a detailed cost proposal, including all items necessary to complete the Scope of Work. In addition, Gordian’s training sessions stressed that contractors were to “...prepare realistic/defendable price proposals...” and include “appropriate” UPB items. Our analyses and inspections found:

- Renovation tasks not completed
- Inflated quantities
- Identical proposals for different housing units
- Inappropriate tasks for work proposed
- Improper substitutions for proposed products

1. Renovation Tasks Not Completed

Paschen did not complete renovation tasks identified in its accepted proposals. For example, masonry work at one unit (\$3,073) was not completed. Bricks were literally crumbling away from the house. Paschen's subcontractor told us brick work was not included in its Scope of Work.



Figure 1: 6733 Bellefontaine-Bricks are crumbling away from house around entry.



Figure 2: 6733 Bellefontaine-Bricks are crumbling away from house around windows.

2. Inflated Quantities

Paschen included inflated quantities in its detailed proposals. For example, Paschen's proposal to replace a gymnasium roof showed a need for 2,238 square feet of soffit and fascia siding. Our on-site inspection revealed only 960 square feet was needed, less than half of Paschen's proposed amount.

Paschen proposed installation of 900 square feet of carpet and padding; however, our inspection showed Paschen installed only 630 square feet, an overstatement of \$1,041. In four other proposals, Paschen consistently overstated light fixtures needed. Paschen proposed twelve light fixtures in each unit for a total of 48 fixtures at a cost of \$3,834. Our inspection indicated only 25 lights were replaced at a cost of \$1,997, an overstatement of \$1,837.

3. Identical Proposals for Different Housing Units

Two proposals had nearly identical renovation tasks, measurements, quantities, and total prices for different scattered-site units. Paschen divided each proposal into 13 UPB sections (i.e. concrete, mechanical, electrical). Nine of thirteen sections were identical. The remaining sections were nearly identical with only a \$202 price difference. Two ranch-style houses differed in configuration and size; therefore, renovation tasks should have differed substantially.

4. Inappropriate Tasks for the Proposed Work

Paschen's proposals included inappropriate renovation tasks. Paschen proposed masonry repairs valued at \$3,073; however, no brick or stone exists on the unit. At this same address, Paschen proposed two sets of stairs costing \$797; however, the single-story unit (no basement) required no stairs.



Figure 3: 8406 East 111th Street-House has no masonry or stairs in front.



Figure 4: 8406 East 111th Street-House has no masonry or stairs in back.

5. Improper Substitutions for Proposed Products

Paschen substituted lower grade materials for those listed in its proposals. For example, Paschen consistently proposed solid core interior doors, but often installed hollow core doors. Paschen's proposed price for each solid core door was \$102; hollow core doors actually installed were only \$51 (based on the UPB).

* * *

Based on the foregoing, we concluded Paschen: violated numerous provisions of its contract with the HAKC, and billed and/or was paid \$614,000 more than entitled.

HAKC Comments

In its response to our draft report, the HAKC agreed with all issues regarding contractor abuse of the JOC program. Additional HAKC comments, with which we agree, include:

- The HAKC believed there was evidence of contractor abuse in its JOC program. The Receivership team therefore initiated a review through the HAKC's Office of Internal Audit, and based on its preliminary internal findings notified OIG and the State Attorney of its concerns, requesting assistance to conduct a comprehensive review of the JOC program.
- The HAKC intends to pursue all available remedies to assure appropriate contractor compensation is made to the HAKC for deficient work. The HAKC will cooperate fully in any appropriate enforcement actions as they pertain to the conduct of the contractor.

Recommendations

Assistant Secretary for PIH

The JOC program can be a useful system for accelerating time periods a PHA needs for completing rehabilitation work. However, the JOC program (as implemented at the HAKC) contained internal control weaknesses that contributed to abuses. Because other PHAs use the JOC program, we recommend the Assistant Secretary for PIH require Gordian:

- 1A. As a condition for acceptance as a JOC consultant, to amend its training program and instructional material to require PHA inspectors to inspect work performed using the contractor's detailed proposal (which contains the specific tasks, quantities, and quality of materials for each work order).
- 1B. Ensure PHAs develop detailed Scopes of Work and detailed independent estimates to compare with the contractor's proposal as to tasks required, quantities/measurements, and quality of materials.
- 1C. To consult with PHAs and ensure PHAs have sufficient, well-qualified staff to administer the JOC program.

Director of the Office of Public Housing

Specific deficiencies in the HAKC management of the JOC program can largely be attributed to problems with staff resources and training. Accordingly, we recommend the Director of the Office of Public Housing:

- 1D. Require the HAKC, in consultation with Gordian, to determine the number of staff and necessary qualifications required to adequately administer the JOC program.
- 1E. Require the HAKC to staff the JOC department with well-qualified individuals as determined by recommendation 1D.
- 1F. Require the HAKC to evaluate the causes for frequent turnover of staff and to take steps to address those causes.
- 1G. Take administrative sanctions against Paschen.

Finding 2

The HAKC Did Not Fully Comply With The “Housing Opportunity Program Extension Act Of 1996”

The HAKC has not fully met provisions of Section 9 of Public Law 104-120, of the “Housing Opportunity Program Extension Act of 1996.” Neither the HAKC screening procedures nor its lease agreement contain all provisions required by Section 9 of the Act regarding tenant alcohol abuse and off premises drug-related criminal activity.

Screening and Eviction Procedures

Specifically, the Act requires PHAs to establish standards for occupancy in public housing units to include provisions that:

- Prohibit occupancy in any public housing unit by any person the PHA determines is illegally using a controlled substance; or the PHA determines it has reasonable cause to believe that such person’s illegal use (or pattern of illegal use) of a controlled substance or abuse (or pattern of abuse) of alcohol, may interfere with the health, safety, or right to peaceful enjoyment of the premises by other residents of the project.
- Allow the PHA to terminate tenancy in any public housing unit of any person the PHA determines is illegally using a controlled substance or whose illegal use of a controlled substance, or whose abuse of alcohol, is determined by the PHA to interfere with the health, safety, or right to peaceful enjoyment of the premises by other residents of the project.

Lease Provisions

The Act requires PHAs to use leases stating that any criminal activity that threatens the health, safety, or right to peaceful enjoyment of the premises by other tenants or any drug-related criminal activity on or off such premises, engaged in by a public housing tenant, any member of the tenant’s household, or any guest or other person under the tenant’s control, will be cause for termination of tenancy.

Because the HAKC has not amended its screening procedures and lease agreement to reflect occupancy provisions of the Act, it may not be able to deny tenancy to applicants or evict current tenants for violations of these provisions.

HAKC Comments

The HAKC disagreed with our finding and stated it's belief that it is in compliance with the Act. The HAKC provided a lease amendment adopted subsequent to our review; and provided additional comments, including the following:

Screening and Eviction Procedures

- The HAKC screening procedures were amended in 1995 prior to the passage of the "Housing Opportunity Extension Act of 1996." These screening procedures:
 - State the HAKC may deny admission to any applicant with a history of involvement in criminal activity on the part of any applicant or family member which would adversely affect the health, safety and welfare of others.
 - State the HAKC will not admit a current user of illegal drugs.
 - Permit the HAKC to deny housing to any applicant based on a record of serious disturbances of neighbors, or any pattern of disruptive or dangerous behavior, which endangers the health, safety, welfare or peaceful enjoyment by others.

Lease Provisions

- The HAKC's current lease provides for the eviction of families or family members who are a threat to the well-being of residents, but it does not include specific reference to alcohol abuse. However, the lease permits the HAKC to terminate the tenancy of a resident due to any activity that interferes with the health, safety or peaceful enjoyment of the premises by other residents.
- The HAKC acknowledges the language included in the draft report relative to alcohol abuse is not included in its screening procedures or its lease, but believes it is not required for compliance with the Act.

OIG Evaluation of HAKC Comments

Based on our review of the recently implemented lease amendment, we agree the HAKC has now complied with the Act in regard to drug-related criminal activity on or off the premises. However, the HAKC acknowledged it has not included specific provisions regarding alcohol abuse in either its screening procedures or its lease. We recognize the Act itself does not specifically state PHAs are required to include references to alcohol abuse in screening procedures and leases; however, HUD Notices subsequent to the Act required PHAs to include specific provisions regarding alcohol abuse in leases.

HUD issued the initial Notice (PIH 96-14) to PHAs on April 1, 1996, and followed up with a more detailed Notice PIH 96-16. On May 13, 1997, HUD issued Notice PIH 97-27, currently in effect, describing the screening, lease, and eviction provisions PHAs must adopt as a result of the Act.

Notice (PIH 97-27) states:

- PHAs **must** establish standards (i.e. policies and procedures) that prohibit admission to public housing of any person the PHA determines is illegally using a controlled substance; or the PHA determines there is reasonable cause to believe the person's pattern of illegal use of a controlled substance may interfere with the health, safety, or right to peaceful enjoyment of the premises by other residents.
- PHAs **must** establish policies and procedures that prohibit admittance to any person to public housing in cases where the PHA determines there is reasonable cause to believe the person's abuse (or pattern of abuse) of alcohol may interfere with the health, safety, or right to peaceful enjoyment of the premises by other residents.
- PHAs **must** establish policies and procedures for tenancy termination of any person the PHA determines is illegally using a controlled substance.
- PHAs **may** terminate the tenancy of any person if the PHA determines the person's abuse of alcohol interferes with the health, safety, or right to peaceful enjoyment of the premises by other residents.
- PHAs **must** amend public housing lease forms to provide that alcohol abuse determined to interfere with the health, safety, or right to peaceful enjoyment of the premises by other residents is grounds for tenancy termination.

We concluded the HAKC's screening procedures need to include specific references to alcohol abuse, as required by HUD in Notice PIH 97-27. In addition, we disagree that the HAKC lease permits the HAKC to terminate the tenancy of a resident due to any activity that interferes with the health,

safety or peaceful enjoyment of the premises by other residents. The lease actually states the HAKC may terminate the tenancy of a resident due to any *criminal* activity that interferes with the health, safety or peaceful enjoyment of the premises by other residents. Accordingly, the lease agreement and the HAKC screening procedures should include appropriate language regarding alcohol abuse.

Recommendation

We recommend the Director of the Office of Public Housing:

- 2A. Require the HAKC to amend its screening procedures and lease agreement to include the appropriate language regarding alcohol abuse, as specifically required by Notice PIH 97-27.

Internal Controls

In planning and performing our audit, we considered internal controls used by the HAKC to administer its JOC program. Internal control is the process effected by an entity's management and other personnel designed to provide reasonable assurance regarding achievement of objectives in the following categories:

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

In these three categories of objectives, organizations will establish their own specific control objectives and control procedures aimed at achieving these broad objectives. If organizations are to meet these control objectives, five components of internal controls - control environment, risk assessment, control activities, information and communications, and monitoring - must be present. Control objectives in each category are inextricably linked with the five supporting components.

We determined program execution to be the primary internal control category relevant to our audit objectives. For assessment of program execution, we obtained an understanding of the design of relevant policies and procedures and whether they were placed in operation.

Our assessment disclosed significant control weaknesses. A significant weakness exists if an entity's controls do not give reasonable assurance that the entity's goals and objectives are met; resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our audit, we concluded significant weaknesses exist in execution of the HAKC JOC program and are detailed in Finding 1 of this report.

Appendices

Appendix 1

Schedule of Ineligible/Potentially Ineligible Costs

Finding	Description	Amount
1	Ineligible Costs for work not performed, substitution of quality, and overstatement of materials and labor.	\$227,000
1	Potentially Ineligible Costs for work not performed, substitution of quality, and overstatement of materials and labor (if the pattern continued in work assigned to Paschen but not inspected during our review).	\$387,000

Ineligible costs are those questioned because of an alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.

Appendix 2 Auditee Comments



**Housing Authority of
Kansas City, Missouri**

February 6, 1998

Jose R. Aguirre
District Inspector General for Audit
U.S Department of Housing and Urban Development
Gateway Tower II – 5th Floor
400 State Avenue
Kansas City, KS 66101-2406

Dear Mr. Aguirre:

The Housing Authority of Kansas City, Missouri has fully reviewed the draft audit report on the Job Order Contracting Program issued by your office on January 20, 1998. Pursuant to the discussion during the exit conference, enclosed are our recommended modifications to the draft report. We believe that these recommendations do not make material alterations to the report. Also enclosed are our responses to the findings noted in the report.

We appreciate the time, effort and overall assistance your Office has provided to the Housing Authority of Kansas City. We look forward to continued work with the Office of the Inspector General as we work towards the resolution of the issues cited in the report on the Job Order Contracting Program.

If you have any questions relative to the recommended modifications or the response, please feel free to contact me, or Charmaine Johnson-Davis of my staff. We look forward to the final issuance of the report on February 20, 1998.

Sincerely,

Dallas J. Parks
Executive Director

DJP:CEJD

Enclosures

Cc: Jeffrey K. Lines

712 Broadway
Kansas City, MO 64105

OFFICE
(816) 842-2440

TELETYPE-DEAF USERS
(816) 221-0052

FAX
(816) 842-4472

RESPONSE TO THE HUD INSPECTOR GENERAL DRAFT AUDIT REPORT ON THE HOUSING AUTHORITY OF KANSAS CITY, MISSOURI'S JOB ORDER CONTRACTING PROGRAM

Finding No. 1: The JOC program was developed with internal control weaknesses, management deficiencies and abused by a contractor.

Response: Agree. The Housing Authority of Kansas City, Missouri (HAKC) undertook the necessary steps to begin implementing a JOC program in December 1994 with a physical needs assessment of its scattered site properties. There was a substantial backlog of capital improvement issues that had to be addressed at that time. The selection of the JOC program as the means by which the scattered site capital improvements would be addressed was part of the overall recovery strategy of the HAKC Receivership to address all of the outstanding modernization issues. Along with implementing a JOC program, the Receivership undertook a full revitalization plan modification of its Hope VI Guinotte Manor program. The Receivership also proceeded with the major renovation of its Riverview Gardens development and the comprehensive modernization of the Theron B. Watkins housing development. The Receivership further, proceeded with plans for the mixed finance replacement of Pennway Plaza and initiated plans for the construction of required scattered site replacement housing.

The Receivership team selected the JOC program as the means by which capital improvements would be addressed in scattered sites due to the fact the JOC program was represented as a method that would minimize the procurement and related administration required of the HAKC. The JOC method was considered appropriate in that it could be undertaken with the oversight of an experienced consulting firm using third party contractors with work based on scopes of work and predefined pricing.

Upon implementation of the JOC program, the Receivership team noticed program implementation problems and posed questions regarding the quality, cost and timeliness of work performed under the program. The Receivership team relied on the Planning and Development staff and the consultant firm hired, to develop the JOC system and to provide pertinent information on the status and operations of the JOC program. Questions about staff training and questions relative to the overall JOC administrative process continued to be raised by the Receivership team, particularly as they related to scattered site renovations.

The Receivership team requested a monitoring report from the consulting firm hired to implement and monitor the JOC program. The report provided, included positive information and indicated no substantive cause for concern. Despite this report, HAKC initiated a review of the program by its Office of Internal Audit.

The HAKC Office of Internal Audit conducted an initial survey of the JOC program. The consulting firm under contract, worked with HAKC Planning and Development staff to respond to the survey. The survey results necessitated an audit be conducted of the HAKC JOC program. An internal audit was conducted. HAKC's Planning and Development staff worked with the construction contractor (referenced in this report) to provide a response to the report. At the request of the Receivership team, the consulting contractor also conducted a review of the JOC program. This second report, in many respects, contradicted the results of the previous report provided only several weeks earlier. The results of the internal audit and the inconsistent information provided by the consulting contractor, prompted the HAKC to request the HUD Office of Inspector initiate a thorough examination of the JOC program.

Throughout the OIG JOC program review, the HAKC Office of Internal Audit and other HAKC staff have provided support and assistance. The information obtained during the course of this review has resulted in the HAKC making many management and operational changes and adjustments required to restructure the HAKC JOC program. For example, the HAKC has restructured its Planning and Development Department into the Department of Construction and Development; revised the methods and the use of JOC program contractors; ceased working with two contractors (including the one covered in this audit report); and withheld significant amounts in payments. The HAKC created a new separate and distinct Office of

Procurement and Contracts to focus and enhance contract monitoring throughout the HAKC. Further HAKC has already contracted out the management of its scattered site properties and has proceeded with assigning the full construction management to its third party private manager in one case, and will likely proceed with the same approach with its other private management contractor. This approach has allowed HAKC to successfully proceed with its other major capital improvement programs and to address issues in proceeding with renovations to its scattered site properties. Relevant events of HAKC's JOC program are listed below:

1. Receivership team raised issues about the JOC program
2. HAKC Office of Internal Audit hired a Quality Assurance Officer
3. Internal audits conducted of quality of physical work under JOC program
4. JOC staff responded with assistance from Paschen
5. Good program report from the Gordian group
6. Office of Internal Audit conducted survey of JOC program administration
7. Director of Planning and Construction responded to survey with the assistance of the Gordian Group
8. Negative program report from the Gordian Group
9. Several JOC staff terminate employment at HAKC
10. Quality Assurance Officer temporarily assigned to oversee the JOC program
11. HAKC requested the assistance of the HUD Office of Inspector General and the U.S. Attorney
12. Payments to Paschen stopped
13. JOC contractor terminated
14. Scattered site *Recovery Plan* developed
15. Planning and Development Department re-organized; now Construction and Development
16. JOC program manager appointed under reorganization
17. Director and Deputy Director of Construction and Development hired
18. JOC program re-staffed
19. New JOC contractor solicited
20. Alternative management contract executed for scattered site housing
21. Director of Deputy Director of Construction and Development terminate employment with HAKC
22. Construction and Development Director and support staff hired
23. Construction management of scattered site negotiated
24. Office of Procurements and Contracts established
25. Office of the HUD Inspector General issues draft audit report on the JOC program

The HAKC fully intends to continue to withhold payments, audit areas not previously covered by the HUD Office of Inspector General and its Office of Internal Audit reviews, in order to fully assess all funds that can potentially be recovered. The HAKC is already collaborating with other enforcement efforts being initiated by HUD against contractors, and will consult with HUD regarding any other enforcement actions the HAKC may consider appropriate for it to undertake.

Overall as stated above, this JOC program review and investigation result from the initiatives taken by the Receivership team to assure that public funds and programs are protected from problems of management and abuse. Throughout the audit and investigation steps have been taken to address deficiencies identified and to assure that corrective actions are taken in a thorough and effective manner.

A. Gordian's role in the JOC program

1. Internal control weaknesses in the JOC program

Response: Agree. As indicated above, the HAKC retained the Gordian Group to help assure that the JOC program operated in an effective and efficient manner. The HAKC was clearly under the impression, in accordance with the contract for services, that this was occurring. When the Receivership team expressed concerns regarding the JOC program, information regarding weaknesses in internal controls was not readily forthcoming. Requests were made by the Executive Director which did not result in timely, or what appears to be accurate information on the controls in place; or what was required for the effective

administration of the JOC program. Due to these issues, the HAKC experienced overall management problems with the JOC program relating to inadequate scopes of work, inadequate cost estimates, inadequate review of cost proposals and inadequate staffing. Based on the HUD Inspector General and HAKC Office of Internal Audit reviews, these problems apparently resulted in Paschen's (the contractor's) ability to perform incomplete work, inflate quantities and/or substitute materials.

2. **Gordian's training was insufficient and untimely, and its periodic progress reports needed improvement**

Response: Agree. The HAKC assumed that its contract with Gordian would result in timely and fully comprehensive reports and training for its staff. Further, the Authority considered that it could rely on the Gordian Group to alert the Receivership team to problems with JOC program administration and contractor performance. As indicated above and based on the audit and investigation of the HUD OIG and Office of Internal Audit, the Housing Authority, was not able to sufficiently rely on the support of the Gordian Group. The contract with the Gordian Group has subsequently been renegotiated with other changes as noted made in the JOC program. Based on additional information resulting from this review further changes will be considered with respect to the Gordian Group's role and contract for the JOC program services.

B. **The HAKC experienced management performance problems with the JOC program**

1. **Inadequate Scopes of Work**
2. **Inadequate independent cost estimates**
3. **Inadequate review of contractor cost proposals**

Response: Agree. The HAKC has acknowledged the past management problems with the JOC program especially as cited in the report regarding inadequate scopes of work, independent cost estimates, inadequate review of contractor proposals and inadequate staffing. Considering the comments made above, the HAKC has clearly taken corrective measures that will improve JOC program operations. These improvements include the restructuring of the Construction and Development Department; hiring private management contractors for its scattered site properties; and hiring an experienced and well trained cost estimator. The Housing Authority also increased the performance requirements for staff, created a separate Office of Procurement and Contracts and revamped its use of the JOC program. The HAKC further hired a new JOC contractor, made changes in its construction and procurement procedures, hired a construction manager for a portion of its scattered site portfolio and is proceeding with the same approach for its remaining scattered site portfolio. HAKC continues to withhold funds from the JOC contractor cited in this report. All of the aforementioned actions were initiated prior to the issuance of this audit report. It is therefore reasonable to conclude that this Housing Authority not only identified problems with the JOC program, it requested assistance from the HUD OIG and took aggressive steps to ameliorate the administration of this program.

4. **Inadequate Staffing**

Response: Disagree. Issues regarding adequate staffing were not raised and in fact, the staffing pattern for the previous Department of Planning and Development was approved in its entirety. It is not known why the Gordian Group or any others involved recommended a JOC staffing plan other than that approved for the Department of Planning and Development. If the staffing requirements indicated in the report for the JOC program were needed it could have easily been presented for consideration and approved. It was understood that the staffing plan approved for the Department of Planning and Development included the staffing and administrative components required to effectively administer the JOC program.

C. **Contractor abuse of the JOC program**

1. **Renovation tasks not completed**
2. **Inflated quantities**
3. **Identical proposals for different housing units**

4. Inappropriate tasks for the proposed work
5. Improper substitutions for proposed products

Response: Agree. The HAKC believed there was evidence of contractor abuse within the JOC program. The Receivership team therefore initiated a review through the newly created Office of Internal Audit. Based on its preliminary internal findings the Receivership team notified the HUD Office of Inspector General and State Attorney of its concerns and requested assistance in conducting a comprehensive review of the JOC program. The HAKC appreciates the assistance it has received from the HUD OIG and believes that the audit is the result of a collaborative effort between the Authority's Receivership team and HUD. The Authority intends to proceed with the additional audit efforts recommended in this report and requests OIG assistance. If the OIG cannot provide further audit assistance, the Authority will proceed with retaining the supplemental services of an outside auditor to assist HAKC Office of Internal Audit staff. The Housing Authority requests OIG assistance in securing a qualified contractor (if necessary) and in developing an effective scope of work for the additional auditing services. The Authority also intends, with OIG assistance, and advice to pursue all remedies available with the contractor to assure appropriate compensation is made to the Authority for deficient work and will cooperate fully in any other appropriate enforcement actions as it pertains to the conduct of the contractor.

Finding No. 2. The HAKC did not comply with the "Housing Opportunity Program Extension Act of 1996"

Response: Disagree. The HAKC is in compliance with the *Housing Opportunity Program Extension Act of 1996*. Resolution # 970820(D) was passed on August 14, 1997. This resolution formally adopted the *One Strike and You're Out Policy*, stating:

The Receiver approves and adopts a policy of *One Strike and You're Out* for the HAKC. HAKC's Admissions and Continued Occupancy policy, screening procedures lease and such other policies and procedures shall be appropriately amended to comply with the *One Strike and You're Out* policy as set forth in the Code of Federal Regulations.

Subsequent to the passage of this resolution, a resolution was adopted that formally amended the lease to comply with *One Strike and You're Out*. Resolution number 971203(H) provides:

...that the Receiver of the Housing Authority of Kansas City, Missouri authorize the following action:

Authorize and approve revisions to the Residential Lease Agreement and Lease Amendment to incorporate certain provisions as required by the Code of Federal Regulations including the *One Strike and You're Out* policy.

A copy of the lease amendment is attached for your review.

The current lease does provide for the eviction of families or family members who are a threat to the well-being of residents; it does not however include a specific reference to alcohol abuse. However, the lease permits the HAKC to terminate the tenancy of a resident due to any activity that interferes with the health, safety or peaceful enjoyment of the premises by other residents.

The HAKC's screening procedures were amended in 1995 prior to the passage of the Housing Opportunity Extension Act. These screening procedures include the following criteria:

...HAKC may deny admission to an applicant based on, ... A history of involvement in criminal activity on the part of any applicant or family member which would adversely affect the health, safety and welfare of others. The applicant must demonstrate the ability to avoid criminal activity including, but not limited to, prostitution and/or drug-related crimes....

...HAKC will not admit a current user of illegal drugs because of the potential for attracting drug related crime. Further, HAKC is prohibited by the Missouri Housing Authorities Law (§ 99.103, RSMo.) from renting or leasing accommodations except as otherwise provided in paragraph 6b below.

¶ 6. If the evidence of a mitigating circumstance presented by the applicant relates to a change in medical condition or course of treatment, HAKC shall have the right to refer such information to persons qualified to evaluate the evidence and verify the mitigating circumstance.

HAKC shall also have the right to request further information reasonably needed to verify the mitigating circumstance, even if such information is of a medically confidential nature. Such inquiries will be limited to the information necessary to verify the mitigating circumstance. If the applicant refuses to provide further information, HAKC will give no further consideration to the mitigating circumstance.

The screening procedures further state:

Because criminal behavior affects the quality of life in the community, HAKC will treat any criminal activity that has lease compliance implications as having an impact on this screening criteria. Applicant must demonstrate that they can "...refrain from, and cause any authorized resident, guest, visitor, or other person under the resident's control to refrain from destroying, damaging, defacing, or removing any part of the dwelling unit, development or HAKC property."

HAKC screening procedures permit the HAKC to deny housing and/or housing assistance to any applicant based upon a record of serious disturbance of neighbors, or any disruptive dangerous behavior which consists of a pattern or which endangers the health, safety, welfare or peaceful enjoyment by others. While alcohol abuse is not specifically referenced, it certainly is included in this screening criteria.

As practiced at HAKC the above noted lease provisions and screening criteria *do* comply with the 1996 Housing Opportunity Extension Act. The Housing Authority does acknowledge that the language included in the audit report relative to alcohol abuse is not included; but it is *not* required for compliance with the Act.

Appendix 3

Distribution

Assistant Secretary for Public and Indian Housing, P
Director, Office of Public Housing, 7APH
President, TAG Associates of Kansas City, Inc.
Secretary's Representative, 7AS
Office of the Comptroller, 6AF
Director, Administrative Service Center, 8AA
Director, Field Accounting Division, 4AFA
Assistant to the Deputy Secretary for Field Management, SDF (Rm. 7106)
Audit Liaison Officer, PF (4) (Rm. 5156)
Acquisitions Librarian, Library, AS (Rm. 8141)
Chief Financial Officer, F (2) (Rm. 10164)
Deputy Chief Financial Officer for Finance, FF (2) (Rm. 10164)
Comptroller's Office, PF (Rm. P8202)
Director, Administration and Maintenance Division, PHMM (Rm. 4214)
Director, Office of Troubled Agency Recovery, PB (Rm. 4148)
Inspector General, G (Rm. 8256)
AIG, Office of Audit, GA (Rm. 8286)
Deputy AIG, Office of Audit, GA (Rm. 8286)
Director, Program Research and Planning Division, GAP (Rm. 8180)
Director, Financial Audits Division, GAF(Rm. 8286)
Central Records, GF (4) (Rm. 8266)
Semi-Annual Report Coordinator, GF (Rm. 8254)
Associate General Counsel, Office of Assisted Housing and Community
Development, CD (Rm. 8162)
Counsel to the IG, GC (Rm. 8260)
Deputy Secretary, SD (Rm. 10100)
Assistant Secretary for Congressional and Intergovernmental Relations, J
(Rm. 10120)
Deputy Assistant Secretary for Public Affairs, W (Rm. 10220)
Chief of Staff, S (Rm. 10000)
Counselor to the Secretary, S (Rm. 10234)
Senior Advisor to the Secretary for Communication Policy, S (Rm. 10222)
General Counsel, C (Rm. 10214)
Public Affairs Officer, G (Rm. 8256)
Assistant to the Secretary for Labor Relations (Rm. 7118)

Director, Housing and Community Development Issue Area
Attention: Judy England-Joseph
U. S. GAO; 441 G Street, NW - Room 2474; Washington, D. C. 20548

The Honorable John Glenn
Ranking Member, Committee on Governmental Affairs
United States Senate; Washington, D. C. 20515-4305

The Honorable Fred Thompson
Chairman, Committee on Governmental Affairs
United States Senate; Washington, D. C. 20515-4305

Mr. Pete Sessions
Government Reform and Oversight Committee
Congress of the United States; House of Representatives
Washington, D. C. 20510-6520

Ms. Cindy Sprunger
Subcommittee on General Oversight and Investigations
Room 212; O'Neill House Office Building; Washington, D. C. 20515

Honorable Dan Burton
Chairman; Committee on Government Reform and Oversight
House of Representatives; Washington, D. C. 20515-6143