



U.S. Department of Housing and Urban Development  
District Office of the Inspector General  
Office of Audit  
Richard B. Russell Federal Building  
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Atlanta, GA 30303-3388  
(404) 331-3369

August 4, 2000

No. 00-AT-201-1803

MEMORANDUM FOR: Boyce Norris, Director, Office of Public Housing, 4APH

FROM: Nancy H. Cooper  
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Design and Construction Management Department  
Housing Authority of the City of Atlanta  
Atlanta, Georgia

We conducted a survey of certain activities of the Housing Authority of the City of Atlanta (HACA) Design and Construction Management Division. The primary objective of the survey was to determine the validity of an anonymous complaint referred to us by your office. We also determined if HACA had resolved certain procurement and cash management issues reported in our prior audit of HACA's operations.

#### METHODOLOGY AND SCOPE

To accomplish the objectives, we reviewed and analyzed records maintained by HUD's Atlanta State Office of Public and Indian Housing, HACA, and certain of its contractors. We inspected construction work at several capital project sites and interviewed HUD, HACA and certain HACA contractors. We also requested and obtained legal advice on certain issues to assist us in evaluating HACA's compliance with requirements. We limited the survey to the review of HACA's controls and procedures. We did not audit HACA's costs.

The survey generally covered the period July 1, 1997, through August 31, 1999. We adjusted the period, when appropriate, to ensure complete development of potential issues. We conducted the survey from August 1999 to December 1999 and revisited HACA in June 2000 to update the status of issues identified prior to issuing this memorandum. We conducted the survey in accordance with generally accepted government auditing standards.

## SUMMARY

An anonymous letter alleged that a consulting firm under contract with HACA was mismanaging the Design and Construction Management Department and was violating procurement regulations. The survey did not reveal any regulatory violations related to the issues cited in the complaint.

However, the survey disclosed a need for HACA to continue in its efforts to resolve procurement concerns reported in our prior audit (98-AT-206-1004) issued on March 31, 1998. Specifically, HACA had not established and implemented the controls needed to ensure that private management companies (PMCo) procured goods and services in compliance with requirements. HACA also needed to develop and implement controls to ensure that its staff identifies and reports changes in the scope of construction work and executes change orders when such contract modifications occur in HACA contracting activities. Details of these issues are in Attachment 1.

Our prior audit report also found deficiencies with cash management. When conducting this survey, we noted that HACA continued to have cash management difficulties involving its master account. HACA had not promptly reimbursed the master account for expenses paid on behalf of other programs. When the survey began, other programs owed the master account about \$15.6 million. As the survey progressed, HACA reduced this balance substantially to \$7.5 million by September 30, 1999. When we followed up in June 2000, HACA had reduced the balance owed to the master account from other programs to about \$3.2 million. It appears that HACA has made progress, has the matter under control, and no further action is required at this time. We may monitor the balance at some future point to ensure that corrective actions continue in this area. Therefore, we present no findings or recommendations on this matter.

We discussed these issues with HACA during the survey and during an exit conference on July 14, 2000. HACA provided its written response on August 2, 2000, which is included as Attachment 2.

Within 60 days, please provide, for each recommendation in Attachment 1, 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 this review. We provided a copy of this memorandum to the Authority.

If you have any questions, please contact Terry Cover, Assistant District Inspector General, or me at (404) 331-3369.

### Attachments:

- 1 - Finding and Recommendations
- 2 - Authority Comments
- 3 - Distribution

## RESULTS OF REVIEW

### **Finding 1 - Aspects of HACA's Procurement Operations Needed Improvement**

We noted that HACA had improved its procurement process since the date of our last audit. However, HACA needed to establish and implement controls to improve certain aspects of its procurement function. Specifically, when private management companies (PMCos) executed contracts on HACA's behalf, HACA needed to establish and implement further controls to ensure proper oversight of procurements made by PMCos for compliance with requirements. Also, on HACA executed contracts, it needed to ensure that its staff identify modifications in the scope of construction contracts and execute contract change orders for such modifications.

**Need to Improve Oversight of PMCos** - HACA was required to maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts (24 CFR 85.36 (b)(2)). HACA required PMCos to comply with procurement requirements stipulated in 24 CFR 85.36 coupled with a requirement for HACA to review PMCos compliance with requirements on at least a quarterly basis (HACA's procurement policy, Section IV, paragraphs 4-1 and 4-3).

HACA had not established and implemented effective controls over procurements made on its behalf by PMCos. For instance, while accompanied by HACA's Procurement Director in September 1999, we reviewed two procurements processed by a PMCo for compliance with requirements. In both instances, the PMCo files did not contain proper documentation for cost estimates and the bid process. HACA recognized the seriousness of the conditions and commendably began immediate efforts to address the deficiencies.

HACA's Procurement Director initiated an in-depth review of PMCo procurements. HACA's review confirmed that PMCos had not established and followed procurement procedures designed to comply with requirements of 24 CFR 85.36. PMCos conducted contracting in a decentralized, fragmented, and inconsistent manner. PMCos did not maintain complete, organized records necessary to support compliance with requirements. In certain instances, HACA could not determine whether PMCos awarded contracts competitively because records were incomplete.

HACA officials stated that these conditions had occurred, unbeknownst to HACA, because HACA had assigned staff to monitor PMCo procurements who were not contract specialists. Consequently, the oversight provided by HACA staff did not sufficiently focus on procurement administration. Although HACA officials confirmed that they had provided procurement training to HACA and PMCo staff, those trained did not adequately assimilate the contracting requirements. HACA agreed that further training and refocused oversight were necessary.

In a letter to OIG dated October 14, 1999, HACA officials committed to develop and implement controls necessary for HACA monitoring of PMCo procurements to ensure that PMCos comply with required procurement procedures. When we conducted follow-up work in June 2000, HACA had not fully implemented corrective action to address PMCo procurements. At that time, HACA's Procurement Director said HACA would implement significantly revised procurement procedures, training, and oversight of PMCos in July 2000.

**Need to Improve Controls over Change Orders** - A change order is issued by the Contracting Officer, after the award of the contract, to modify any of the contract terms, including specifications, descriptions of the work, etc., (Procurement Handbook for Public and Indian Housing, 7460.8 REV 1, Chapter 6, paragraph 6-10(B)(1)). If any change causes an increase or decrease in the Contractor's cost, the Contracting Officer shall make an equitable adjustment and modify the contract in writing (HUD Form 5370, General Conditions for Construction Contracts, Section 29 (d)). HACA was required to maintain a contract administration system designed to ensure that Contractors perform in accordance with their contracts ((24 CFR 85.36 (b)(2)).

The survey identified one HACA construction contract in which HACA did not properly identify and document changes in the scope of work by properly executed change orders. We used judgmental methods to select one construction contract executed by HACA to verify, on a test basis, the completion of specified work items. HACA's representatives accompanied us during the inspection. We noted several instances where the contractor did not complete work specified by the contract which HACA's inspector did not report as deviations from the contract. As a result, HACA had not amended the contract to reflect the reduced scope and price associated with the undocumented changes in scope.

The conditions occurred because the inspector and the contractor informally agreed among themselves to deductive changes in the work. As a result, HACA had not amended the contract to reflect the reduced scope and price associated with the undocumented changes in scope. HACA had not developed and implemented safeguards to detect and deter this type of deviation from the approved specifications.

We used judgmental methods to select two additional contracts for limited on-site verification of work items. The review disclosed no additional instances of unsupported deviations from the contract plans and specifications.

HACA agreed with our observations and corrected the noted violations while we were on site. HACA also implemented revisions to its procedures effective October 1999 to address the identified weakness. The revised procedures required site verification inspections to ensure that contractors comply with their contract specifications, drawings, and change orders. Because HACA recognized this condition, took commendable action to address the specific violations we noted, and then implemented improved oversight procedures during the survey, we make no recommendations in this area.

#### Housing Authority Comments (Summary)<sup>1</sup>

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<sup>1</sup>See Attachment 2 for HACA's Complete Response.

HACA accepts OIG's recommendations for corrective action. HACA stated that it remains committed to fully implementing procedures and controls necessary to ensure PMCos comply with procurement requirements no later than October 2000. The Authority provided a schedule of actions implemented and forthcoming actions designed to improve its oversight of PMCo procurement and contract administration. For example, HACA has implemented and scheduled the following actions in response to OIG's recommendations.

- July 2000 - PMCo Procurement Guidance Book developed and distributed
- July 2000 - Training conducted
- August 2000 - Additional training to be conducted
- September 2000 - Follow-up training and "spot checks" to be conducted
- October 2000 - Continuous quarterly monitoring will begin

#### OIG Evaluation of Response

We concur with HACA's actions taken to date and those actions scheduled for future implementation.

#### Recommendations

We commend HACA's prompt recognition of these conditions and its efforts to correct the issues cited in this finding. We recommend you ensure that HACA:

- 1A. Complete and fully implement effective procedures for monitoring and ensuring PMCo compliance with procurement requirements.
- 1B. Provide training to PMCo staff on the improved procurement policy and procedures they must follow.
- 1C. Provide its staff and consultants with the necessary training on procurement policy and procedures to ensure that their oversight of PMCo contracting is effectively performed to identify any compliance deficiencies.

August 2, 2000

Ms. Nancy Cooper  
District Inspector General  
For Audit Southeast/Carribbean  
U.S. Department of Housing and Urban Development  
District Office of the Inspector General  
Office of Audit, Box 42  
Richard B. Russell Federal Building  
75 Spring Street, S.W., Room 330  
Atlanta, Georgia 30303-3388

Re: Audit Survey of The Housing Authority of the City of Atlanta, Georgia (AHA)

Dear Ms. Cooper:

Thank you very much for providing AHA with an opportunity to review the draft memorandum report prepared by your office in connection with an audit survey of AHA conducted during 1999 and 2000. We also appreciated the opportunity to discuss the draft memorandum report at an exit conference on July 13, 2000 with Terry Cover, Keith Huffman and Rob Burgess of your office and Boyce Norris, Sherry Ware, Bob Caravello and Beverly Amburn of the Georgia Office of Public Housing. The meeting was very productive, and in large part, AHA and your office were in agreement on the findings and the steps to be taken by AHA to improve the management of its programs. We were particularly pleased that your office noted for the record the substantial improvements AHA has made in procurement and contract administration since your March 1, 1998 audit report.

AHA participants at the exit conference included Renee Lewis Glover, Executive Director; Carol Naughton, General Counsel; Andrea Hartt, Chief Financial Officer; Bob Mascaro, Asset Director; and Bruce Collins, Director of Contracts and Procurement. AHA staff noted that AHA remains on track to continue to develop and implement procedures and controls to ensure that private management companies (PMCOs) managing AHA properties comply with required procurement regulations and their respective policies and procedures, including effective AHA monitoring of PMCO procurements and contract administration. AHA remains committed to fully implementing these procedures and controls no later than October 2000, as represented in our letter to you dated October 15, 1999.

Since the need to improve its oversight of PMCO procurement and contract administration activities was first identified by your office in October 1999, AHA has taken substantial steps to thoughtfully design and implement effective procedures and controls, including developing a PMCO Procurement Guidance Book which has now

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been distributed to the PMCOs. In fact, last week AHA held additional training for PMCO staff on procurement and contract administration requirements which was well attended and enthusiastically received. Additional training for PMCOs and AHA staff is planned over the next several months, as well as on-going training and quarterly monitoring. Attached is a chart outlining the steps AHA has taken over the past nine months to improve its oversight of PMCO procurement and contract administration activities, as well as on-going training and monitoring activities that we believe will improve both the PMCOs' procurement and contract administration skills and AHA's ability to effectively monitor those activities. We remain committed to continually improving as an asset manager and recognize that effective oversight of this function is critical to achieving that goal.

We accept the recommendations proposed in the audit report and look forward to providing the Georgia Office of Public Housing with documentation that will evidence that we have fully implemented a comprehensive program designed to improve the procurement and contract administration capacity of the PMCOs and AHA's ability to effectively monitor those activities.

Thank you very much for your excellence and professionalism.

Sincerely,

Renee Lewis Glover  
Executive Director

Cc: Terry A. Cover  
Robert Burgess  
Boyce Norris  
Carol Naughton  
Andrea Hartt  
Lynn Cassell  
Bob Mascaro  
Bruce Collins

**The Housing Authority of the City of Atlanta, Georgia**  
**Improvements to Oversight of PMCO Procurement and Contract Administration**

<b>ACTIONS TAKEN TO DATE</b>
1) October 1999 –AHA revised PMCO Procurement & Contract Administration checklist (hereinafter referred to as “the PMCO Checklist”) and circulated the same to all of the PMCOs.
2) October 1999 – AHA held internal meetings to develop one year timeline for full implementation of action plan.
3) November 1999 – AHA’s C&PD conducts “spot checks” of PMCO’s procurement files to use as the foundation for providing technical assistance.
4) December 1999 – AHA further improved PMCO Checklist and circulated the same to all PMCOs.
5) December 1999 - C&PD and Team PMCO continue meetings to address overall course of action and protocols
6) December 1999 – C&PD improved “spot check” checklist for PMCO Procurement process
7) December 1999 – May 1999 - C&PD and Team PMCO developed PMCO Procurement Guidance Book
8) May 2000 – First draft of PMCO Procurement Guidance Books circulated within AHA for review
9) May 2000 – C&PD performed technical assistance procurement sessions with each PMCO
10) July 2000 – AHA issued PMCO Procurement Guidance Books to PMCOs and initiated procurement and contract administration training to PMCO and DCM/Team PMCO staff.
<b>FORTHCOMING ACTIONS</b>
1) August 2000 – AHA will initiate procurement and contract administration training to PMCOs site managers and site based staff.
2) August 2000 - AHA will facilitate “one-on-one” technical procurement sessions with the PMCOs Regional Managers and procurement staff.
3) September 2000 - AHA will conduct technical assistance follow-up and pre-spot check review with PMCOs and DCM/Team PMCO.
4) October 2000 – AHA will conduct quarterly “spot checks” of PMCO’s and DCM/Team PMCO procurement and contract administration files.
5) January 2001 - AHA will conduct quarterly “spot checks” of PMCO’s and DCM/Team PMCO’s files.
6) January 2001/ongoing – AHA will provide technical assistance to PMCOs and DCM/Team PMCO.



DISTRIBUTION

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 Special Assistant to the Deputy Secretary for Project Management, SD (Room 10100)  
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