AUDIT REPORT

SAN FRANCISCO HOUSING AUTHORITY

LOW-INCOME AND SECTION 8
HOUSING PROGRAMS

SAN FRANCISCO, CALIFORNIA

00-SF-201-1001

MARCH 31, 2000

OFFICE OF AUDIT, PACIFIC/HAWAII DISTRICT
SAN FRANCISCO, CALIFORNIA

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audit report
OFFICE OF INSPECTOR GENERAL

Issue Date
March 31, 2000
Audit Case Number
00-SF-201-1001

TO: Harold Lucas, Assistant Secretary for Public and Indian Housing, P

Roger E. Niesen

FROM: Roger E. Niesen, Acting District Inspector General for Audit, 9AGA

SUBJECT: San Francisco Housing Authority
Low-income and Section 8 Programs
San Francisco, California

We conducted an audit of the San Francisco Housing Authority's low-income and Section 8 housing programs. We determined the Authority complied with the rules and regulations governing the Public Housing Management Assessment Program and properly calculated its housing subsidy under the Performance Funding System. However, we also identified serious problems in the areas of contracting, administrative hiring and compensation, and Section 8 receivables. This report contains four findings and applicable recommendations to improve the effectiveness of the Authority's housing programs.

Our recommendation to take administrative action against the Authority's executive director and board of commissioners is similar to a recommendation contained in report number 00-CH-201-1002 issued March 31, 2000 by OIG's Chicago Office covering its audit of the Cuyahoga Metropolitan Housing Authority. That report recommends administrative action to be taken against the former chief operating officer, who is the current executive director at the San Francisco Housing Authority.

The Troubled Agency Recovery Center is currently responsible for monitoring the Authority's low-income housing program (a carry-over from when the Authority was considered troubled). The responsibility for the Section 8 program resides with the Office of Public Housing at HUD's California state office. Since the responsibilities at the Authority are split between entities, we addressed our report to the Assistant Secretary who is over both entities to ensure proper coordination.

Within 60 days, please furnish us a status report on the corrective action taken, the proposed

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corrective action and the date to be completed, or why action is not considered necessary, for each recommendation. Also, please furnish us with copies of any correspondence issued because of the audit.

If you or your staff have any questions, please contact Mark Pierce, Assistant District Inspector General for Audit, or myself at 415-436-8101.

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Executive Summary

We reviewed selected aspects of the San Francisco Housing Authority's low-income housing and Section 8 programs, generally covering the period March 1996 to September 30, 1999. The audit was initiated as part of our local audit plan to address concerns expressed by the Director of Public Housing at HUD's San Francisco office.

The objective of our review was to determine if the Authority could improve its effectiveness of operations and compliance with federal requirements. Specifically, we determined whether the Authority (1) complied with rules and regulations governing the Public Housing Management Assessment Program reporting for the fiscal year ended September 30, 1998, (2) used the appropriate number of housing-unit-months-available in determining HUD's operating subsidy to the Authority under the Performance Funding System, (3) followed proper contracting procedures in the solicitation, award, and monitoring processes, (4) used appropriate procedures when hiring and compensating higher level administrative personnel, and (5) correctly managed its Section 8 receivables. Review of the Public Housing Management Assessment Program and Performance Funding System disclosed no matters of significant concern. Nevertheless, we identified serious problems in the areas of contracting, administrative hiring and compensation, and Section 8 receivables that need immediate attention to set the proper tone and perspective for improvements.

The Authority Raised Its Public Housing Management Assessment Program Score

The Public Housing Management Assessment Program is used by HUD to appraise housing authority performance. HUD determined the San Francisco Housing Authority was a standard performer for the year ended September 1998. Previously, the Authority was considered a troubled performer. A standard performer is one that receives a score of less than 90 percent but no less than 60 percent based on grades from 21 components grouped into eight categories or indicators. In its self-certification, the Authority estimated it had a score in the high range for a standard performer; however, HUD's confirmatory review lowered the score to 83.93. Our review indicated a lower score than HUD's confirmatory review, but it was still within the range of a standard performer.

The Authority Properly Calculated Housing-Unit-Months-Available

Our tests of the Authority's calculation of housing-unit-months-available disclosed no material exceptions. Housing-unit-months-available is an important factor in determining the amount of subsidy the Authority will receive under HUD's Performance Funding System.

Requirements Were Disregarded When Contracting For Consulting Services

The Authority did not manage its contracting activities for consulting services according to federal requirements. Specifically, we noted repeated instances where: (1) contracts were unjustifiably awarded on a sole-source basis, (2) competition was unnecessarily limited and certain contractors were provided unfair competitive advantages giving the appearance of favoritism, (3) evaluations of contract proposals were faulty, (4) no independent cost estimates or inadequate cost analyses were performed, and (5) contractor billings and performance were not properly reviewed. In addition, certain critical contract provisions were omitted from the contracts. Further, the Authority had not fully centralized its procurement functions as directed by HUD. The principal reason for the problems noted was disregard of federal requirements.

As a result, the Authority's limited resources were wasted to pay for services not received or ineptly performed. In addition to the $121,300 paid for an invalid applicant waiting list as described in Finding 3, $146,535 was spent for ineligible or unnecessary costs. Also, costs of $655,188 remain unsupported, principally because there is inadequate evidence that services were received. Also, the Authority lacks assurance that it obtained the best available services at the most advantageous prices.

Sound Practices Were Not Followed In Recruiting And Compensating Staff

The Authority frequently did not follow sound management practices or its own policies and procedures when recruiting and compensating administrative staff. Of eight employees tested, seven were selected without considering other candidates, their qualifications were questionable, or they appeared to be overcompensated. In addition, the executive director received compensation in excess of his contract, and he was inappropriately treated as a contractor rather than an employee. Further, some of the reimbursements made to the Cuyahoga Metropolitan Housing Authority for compensating the acting executive director were unsupported, and San Francisco paid some costs for services the acting executive director performed for Cuyahoga. We identified $173,442 of ineligible or unreasonable costs and $622,523 of inadequately supported costs in connection with these conditions. This occurred primarily because management did not follow the Authority's policies, insufficient board involvement, and lack of a relocation

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policy. As a result of these conditions, the Authority wasted monies that could have been used to further its mission, the effectiveness of its operations was reduced, it created the appearance of favoritism, and it may have incurred a significant tax liability.

The Authority Used An Invalid Waiting List

The contractor chosen to create the Authority's waiting list used to select Section 8 program beneficiaries did not perform adequately. The list contained duplicate names, and names did not appear to be chosen randomly. Additionally, federal and local ranking preferences were not applied correctly. As a result, certain individuals were afforded unfair and unintended advantages to the detriment of others. This occurred because the Authority's deficient procurement practices resulted in the selection of a contractor with limited experience and the Authority did not adequately monitor the contractor's performance.

Overpayments Were Not Properly Managed

The Authority needs to improve its management of Section 8 overpayments. Specifically, it should do proper research in determining receivable balances, take more aggressive recovery actions, and abstain from inappropriately retaining part of the recoveries. Further, it should record the receivables in its general ledger. These actions were not taken because of omissions in Authority policies and procedures and misinterpretation of HUD requirements. As a result, an accurate picture of the extent of receivables was not available, the extent of recoveries was low, monies for Section 8 housing was inappropriately reduced by at least $128,553 because of improper withholding of recoveries, and complete and accurate data was not available in the financial statements.

The Authority Generally Disagreed With The Audit Conclusions And Recommendations

We provided the Authority with a draft audit report and obtained its written comments. We also discussed the audit results with the Authority's senior management on March 23, 2000. Due to the voluminous nature of the written response, only the Authority's summaries in Appendix B are included in this report. We provided a copy of the complete response to the Assistant Secretary for Public and Indian Housing.

In general, the Authority strongly disagreed with the report's conclusions and recommendations. It believed that many of the

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management decisions questioned in the report were justified by exigent circumstances. Further, it took exception with certain cited facts. It also considered some audit conclusions to be subjective and to have been made without adequately considering all relevant factors.

We considered the Authority's comments and made revisions to the report when appropriate. Nevertheless, our conclusions did not change significantly. The Authority did not provide sufficient substantive evidence to warrant changes to our recommendations. Each finding summarizes the Authority's comments and our evaluation.

Recommendations

The findings include recommendations to avoid the continuance of the above problems and to mitigate their effects. The more significant recommendations call for HUD to impose appropriate sanctions on the Authority's senior management, increase its monitoring of the Authority's contracting and personnel functions, require it to return ineligible, unnecessary and unsupported costs, create a new waiting list for selecting Section 8 applicants, and improve its efforts to recover overpayments of Section 8 funds to landlords.

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Introduction

The major HUD programs funding the San Francisco Housing Authority include Section 8 rental assistance, operating subsidy, modernization, HOPE VI, and drug elimination. Under Section 8, the housing authority subsidizes the cost of low-income families in privately-owned housing. Operating subsidies, based on a regulatory formula, are provided to help the housing authority offset operating deficits in the maintenance and operation of the low-income housing it owns. The modernization program pays for capital improvements and related management improvements at the public housing developments. HOPE VI grants provide funds for innovative mixed-income housing to remedy the problem of distressed developments. Drug elimination grants are for addressing drug-related crime and its associated problems in and around public housing developments.

The Authority Was Created In 1938

The San Francisco board of supervisors established the Housing Authority of the City and County of San Francisco, commonly known as the San Francisco Housing Authority, in 1938. The city mayor appoints the members to the Authority's governing body known as the board of commissioners.

In 1940, the Authority opened the city's first low-income housing development for 188 families. The Authority has grown to include about 40 developments with a total of nearly 6,000 housing units. Also, since the 1974 inception of the Section 8 program, the number of low-income families whose rents are subsidized for privately owned housing has risen to approximately 5,500.

For the fiscal year ended in 1997, the San Francisco Housing Authority expended $128 million. Its largest programs consisted of Section 8 ($51 million), low-income housing operations ($33 million), modernization ($24 million), HOPE VI new development ($16 million), and drug elimination ($2.8 million).

HUD Assumed Temporary Control Of The Authority In March 1996

The Authority was much criticized for its perceived lack of competent leadership, physical decay of its housing, poor performance in collecting rent, and the high level of crime existing at its housing developments. As a result, in March 1996 the city's newly-elected mayor announced the firing of the Authority's commissioners and executive director. The mayor invited HUD to temporarily run the Authority and reorganize it, recruit new management, and establish new policies and

procedures.

As a result, HUD sent a recovery team (consisting of HUD officials, consultants, and employees from other housing agencies) to assess the Authority's operations and develop strategies to deal with the problems. This phase was concluded in November 1996. HUD contracted to fill several key management positions to continue the recovery efforts.

The City Regained Control In September 1997

As part of the recovery effort, the acting HUD Assistant Secretary for Public and Indian Housing functioned as the board of commissioners. In July 1997 the mayor appointed new board members, and in September 1997, HUD turned control over to the newly formed board.

Ronnie Davis is the Authority's current executive director. Beginning in November 1996, he was loaned to the Authority by the Cuyahoga Metropolitan Housing Authority to serve as the acting executive director. The San Francisco Authority board of commissioners hired him on a permanent basis in November 1997.

Audit Objective And Scope

The audit was initiated as part of our local audit plan based on input from the Director of Public Housing at HUD's San Francisco office. The Director expressed concerns about sole source and non-competitive contracting, circumvention of waiting list policies, use of Section 8 reserves, and a request for a large release of Comprehensive Grant program money. She expressed specific concerns with consulting contracts. Considering the Director's concerns and the result of our survey work, our audit objective was to determine if the Authority effectively operated selected aspects of its low-income housing and Section 8 programs in compliance with federal requirements. Specifically we determined if:

- The Public Housing Management Assessment Program reporting for the fiscal year ended September 30, 1998 complied with existing rules and regulations,
- The appropriate number of housing-unit-months-available was used in determining HUD's operating subsidy to the Authority for fiscal years 1997 through 1999 under the

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Performance Funding System,

- Proper contracting procedures for consulting services were followed in the solicitation, award, and monitoring processes,
- Appropriate procedures were followed in the hiring and compensation of higher level administrative personnel, and
- The Authority correctly managed its Section 8 receivables.

We also planned to assess the appropriateness of expenditures under the Comprehensive Grant program; however, due to other workload requirements, this work was not completed in time to be included in this report. The results will be in a report to be issued later this year. Except as noted above, the audit covered the period March 1, 1996 to September 30, 1999.

The primary methodologies for the audit included:

✓ Consideration of the Authority's management control structure and the assessment of risk.
✓ Tests of selected financial activities and transactions.
✓ Interviews of various Authority employees and HUD officials acquainted with the Authority.
✓ Reviews of documentation relevant to the 1998 Public Housing Management Assessment Program scoring, including that contained in the Authority's self-certification, information retained by the HUD confirmatory review team, and related documents.
✓ Tests of the Performance Funding System budgets, including site visits to two of the larger housing developments, to determine whether vacant units were appropriately included or excluded in calculating the number of unit-months-available.
✓ Tests of selected contracts, including review of contract files and vendor payments. Some unresponsive and unsuccessful bidders were also interviewed.
✓ Reviews of personnel files of selected administrative personnel.
✓ Reviews of materials from the Section 8 waiting list contractor and interview of the contractor to determine if the waiting list selection methodologies conformed with the terms of the contract.
✓ Tracing a sample of Section 8 receivables from the subsidiary ledger to source documents to determine reasons

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for overpayments and whether receivables were valid, and appropriate collection actions were taken.

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

The Authority Did Not Follow Federal Requirements When Contracting for Consulting Services

The Authority did not manage its contracting activities for consulting services in accordance with federal requirements. Specifically, we noted repeated instances where: (1) contracts were unjustifiably awarded on a sole-source basis, (2) competition was otherwise unnecessarily limited and certain contractors were provided unfair competitive advantages giving the appearance of favoritism, (3) evaluations of contract proposals were faulty, (4) no independent cost estimates or inadequate cost analyses were performed, and (5) contractor billings and performance were not properly reviewed. In addition, certain critical contract provisions were omitted from the contracts. Further, the Authority had not fully centralized its procurement functions as directed by HUD. The principal reason for the problems noted was a disregard of federal requirements.

As a result, the Authority's limited resources were wasted to pay for services not received or ineptly performed. In addition to $121,300 paid for an invalid applicant waiting list as described in Finding 3, $146,535 was spent for ineligible or unnecessary costs. Also, costs of $655,188 remain unsupported there is a lack of evidence that services were received. The Authority has no assurance that it obtained the best available services at the most advantageous prices.

Various Regulations Govern Contracting Activities

The Annual Contributions Contract between HUD and the Authority requires compliance with regulations contained in Title 24 of the *Code of Federal Regulations* (24 CFR) pertaining to the development, modernization, and operation of public and Indian housing. *Administrative Requirements for Grants and Cooperative Agreements with State, Local and Federally Recognized Indian Tribal Governments* (24 CFR subpart 85.36) contains HUD's procurement requirements.

These regulations require the Authority to:

- Have and use their own procurement standards that reflect applicable state and local laws and regulations, provided the standards also conform to applicable federal laws and standards [24 CFR 85.36(b)(1)];
- Maintain records sufficient to detail the significant history of a procurement. These records must include the rationale for the method of procurement, selection of contract type,

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contractor selection or rejection, and the basis for the contract price. [24 CFR (85.36(b)(9)];

- Conduct all procurements in a method providing full and open competition. Grantees are prohibited from placing unreasonable qualification requirements on firms and are prohibited from taking any arbitrary action in the procurement process [24 CFR (85.36 (c)(1)];
- Perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent cost estimates before receiving bids or proposals [24 CFR (85.36(f)(1)];
- Solicit proposals from an adequate number of qualified sources [24 CFR (85.36(d)(3)];
- Make procurements non-competitively only when competitive procurement is not feasible and the item is available from only one source, a public exigency or emergency exists that will not permit a delay caused by a competitive solicitation, the awarding agency authorizes the procurement, or after a solicitation of a number of sources the grantee determines that competition is inadequate; [24 CFR (85.36(d)(4)(i)]; and
- Maintain a contract administration system that ensures contractors perform in accordance with the terms and condition of their contracts [24 CFR (85.36 (b)(2)].

There are additional requirements concerning contract costs and payments that must be followed.

- 24 CFR 85.36(f)(3) states that costs based on estimated costs for contracts will be allowable only to the extent that the costs are consistent with federal cost principles.
- 24 CFR 85.22 requires contracted costs with for-profit firms to conform with the cost principles found in the *Federal Acquisition Regulation* (FAR), 48 CFR part 31.
- 48 CFR 31.205-33(f) states, "Fees for services rendered shall be allowable only when supported by evidence of the nature and scope of the service furnished."
- 48 CFR 31.205-33(f)(2), requires that supporting invoices include sufficient detail as to the time expended and the nature of the actual services provided.

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Further, HUD Handbook 7460.8 REV-1, *Procurement Handbook for Public and Indian Housing Authorities* 4-23, A. contains additional requirements regarding contract cost analysis, proposal ratings, and contract clauses. The handbook requires proposal ratings to include a written evaluation plan defining scores and written justifications to support ratings given. The handbook also requires a new solicitation be issued if there is a substantial change in the request for proposals subsequent to the proposal due date.

OIG Focused On 17 Procurement Actions

We initially selected 33 procurement actions for review, including eight construction and 25 non-construction actions. These included 28 written contracts, one verbal agreement, and four written amendments awarded during the period August 1995 to May 1999. This review indicated there were significant problems with service contracts. Therefore, we selected 16 actions related to service contracts for additional scrutiny, and one action not in our sample (the action followed two others with the same contractor that were in our sample) where there was a problem with limited competition.

Of the 17 procurement actions:

- six actions used improper sole source selection;
- three vendors (eight procurement actions) had a prior relationship with the Authority's executive director;
- eight actions were procured through use of unnecessarily limited competition or where unfair advantage was given to one bidder;
- five actions were procured as a result of faulty evaluations of proposals and vendors; and
- thirteen actions lacked independent cost estimates.

The following table summarizes the review results by individual action.[1]

[1] In the table, "X" denotes a noted instance, and "N/A" means "not applicable." For instance, the review of the first McFarlin contract was limited to billings, and the review of the PSI contract did not include billings. Also, we did not double count improper sole source selection with limited competition. In the table, the term "limited competition" is when there was some but not sufficient competition or unfair advantage was given to a particular bidder.

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Elements of Solicitation	First Consulting Contract	Second Consulting Contract	Third Consulting Contract	First Deloitte Contract	Second Deloitte Contract	Second Deloitte Contract Amend	Third Deloitte Contract	Wil Davis Contract	First McFarlin Contract	Second McFarlin Contract	First Zirl Smith Contract	First Zirl Smith Contract Amend	Second Zirl Smith Contract	Second Zirl Smith Contract Amend	Third Zirl Smith Contract	Personnel Services Industries Cntr	Personnel Services Industries Amend
Improper Sole-Source Selection - 24 CFR 85.36(d)(4)(i)	X			X		X			N/A	X				X			X
Prior Relationship with AuthorityExecutive Director	X	X	X	X	X	X	X	X	N/A								
Limited Competition/ Unfair Advantage - 24 CFR 85.36(c)(1),(d)(3)	N/A	X	X	N/A	X	N/A	X	X	N/A	N/A		N/A	X	N/A	X	X	N/A
Faulty Evaluations - HUD Handbook 7460.8, 4-23, A.	N/A	X	X	N/A	X	N/A	N/A	N/A	N/A	N/A	X	N/A	N/A	N/A	N/A	X	N/A
No Independent Cost Estimates - 24 CFR 85.36(f)(1)	X	X	X	X	X	X	X	X	N/A	X	X	X	LATE	X	N/A		X
No/Inadequate Cost Analysis - 24 CFR 85.36(f)(1)	X	X	X	X	X	X	X	X	N/A	X	X	X	X	X	N/A	X	X
Faulty Review of Billings - 24 CFR 85.36(b)(2), 48 CFR 31	X	X	X	X	N/A	N/A	N/A	X	X	X	X	X	X	X	N/A	N/A	N/A

Detailed discussions of the individual procurements follow.

Creative Consulting Management Group

The Executive Director Had A Previous Relationship With The Contractor

The Authority obtained services from Creative Consulting Management Group for maintenance management consulting under three separate procurement actions. The executive director had a previous relationship with the firm. The procurements were made in ways that unnecessarily restricted competition, and unallowable payments were made.

While serving as the chief operating officer at the Cuyahoga Metropolitan Housing Authority, the Authority's executive director planned to form a consulting group with the Cuyahoga executive director and the principals of the Creative Consulting Management Group. The consulting group was to provide strategic planning services, including assessment of housing and maintenance operations, to the San Francisco Housing Authority.

The group was never formed, but the Authority's executive director, while serving in the capacity as acting executive

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director, secured the services of Creative Consulting Management Group to "evaluate the systemic nature of the maintenance service delivery problem for the purpose of developing short and long term corrective systems and procedures." There was no evidence of a formal process of procurement for these services and no indication that the Authority entered into a written agreement with the contractor prior to September 1997 when the Authority awarded the contractor a second contract. In July 1999 the Authority paid the contractor $56,264 for services and expenses for the period November 1996 through April 1997.

This initial procurement was made non-competitively. In an April 1997 letter to the acting HUD Assistant Secretary for Public and Indian Housing, the acting executive director attempted to justify his action. He explained that a non-competitive procurement was proper because there was an exigent need to correct critical maintenance hazard conditions. The executive director claimed the Authority did not have the staff capacity to bring these conditions under control. He cited the annual contributions contract with HUD and other federal regulations permitting sole-source procurements when there is a public exigency requiring immediate delivery. He also cited that a public exigency is a "sudden and unexpected happening; unforeseen occurrence or condition; perplexing contingency or complication of circumstances; or sudden or unexpected occasion for action."

We disagree with the executive director's justification. While we agree that proper maintenance of its housing stock had long been problematic, there was no need to bypass normal procedures in hiring the consultant. The Authority's maintenance operations were in the hands of a capable manager who was on hand when the consultant arrived at the Authority. Under the manager, a comprehensive maintenance plan had been developed and the number of outstanding work orders and length of vacant unit turnaround had been reduced.

Also, the Authority did not prepare an independent cost estimate of the services. Further, it did not obtain estimated costs from the vendor so that the costs could be analyzed.

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An Unfair Advantage Was Given To The Contractor

On July 16, 1997, the Authority issued a request for proposals for a contract, not to exceed $100,000, for maintenance management consultant services. The Authority's contracting files did not contain any documentation or cost estimate showing how the $100,000 contract amount was determined. The request for proposals instructed interested parties to submit a detailed description of the consultant's understanding of the scope of services and describe in detail how they would fulfill or solve 12 tasks/problems. The proposals were due in only 15 days, significantly limiting the time to prepare an adequate proposal and giving an unfair competitive advantage to Creative Consulting Management Group which had been already performing these services.

There Was No Cost Analysis Or Proper Evaluation Plan

The Authority received four proposals for evaluation by a panel of four Authority employees. Analysis of the proposals was compromised because the Authority did not perform the required independent cost estimate prior to proposal solicitation. Further, the objectivity of the proposal evaluation scoring is questionable because the panel members did not have written rating descriptions in the evaluation plan on which to base their scoring and they did not always provide written justifications for the scores given to the proposals. The highest overall score was given to the Creative Consulting Management Group proposal. The Authority's executive director approved contract 97060 on September 22, 1997.

Contract 97060 was for a two-year period ending September 21, 1999. The $100,000 contract limit included up to $15,000 of reimbursable travel and business expenses. By the end of January 1998 (approximately 4 months), the contractor had exceeded the expense limit and the contract had to be modified to increase the reimbursable expense limit to $25,000. At the end of March 1998, only six months into the two-year contract, the contractor's billings (including expense reimbursements and $8,320 paid on the contractor's behalf for a rental apartment) totaled $108,315. Although the contractor received payments in excess of the entire contract amount, it had not completed all of the contract requirements, including the delivery of six reports containing an overview of the Authority's maintenance operations and its recommendations on how to improve the operations. As a result, the Authority solicited proposals again.

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We noted that during this contract the contractor billed the Buffalo Municipal Housing Authority for consulting services. And similarly during the subsequent contract, billed Cuyahoga Metropolitan Housing Authority. Some of the dates billed were the same as those billed to the San Francisco Authority; however, it appears the contractor was performing services at the San Francisco Authority at the time.

The Follow-on Contract Had Similar Problems

On March 10, 1998, the Authority issued a new request for proposals for a new maintenance management consulting contract. Again, the Authority did not demonstrate that the required cost estimate was performed to determine the total cost of the procurement and to use as a basis to evaluate the proposals. The request for proposals stated that the Authority would enter into a two-year agreement and that the executive director would assign tasks on an as-needed basis. The request for proposals contained no dollar limitation and its scope of services contained eight specific tasks that included three tasks required by the previous contract with Creative Consulting Management Group: the implementation and monitoring of maintenance operating procedures; an analysis of staff for the purpose of implementing staff training and development programs; and the implementation of maintenance information systems.

As in the previous maintenance consulting contract, proposals were due in 15 days, giving an unfair advantage to the current contractor who had already been performing many of the solicited services. The current contractor was given a further advantage over other competitors as the Authority did not attach deliverables from the previous contract. Providing deliverables from a prior contract helps respondents know what is expected and provides information, otherwise, only the current contractor would know.

The Authority received proposals from the current contractor and only one other firm. The two proposals were evaluated by a panel of three senior Authority staff, none of whom worked in the maintenance department. As in the previous maintenance consulting procurement, the Authority did not do a cost analysis. Further, the objectivity of the proposal evaluation scoring is questionable since the panel members did not have

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rating descriptions on which to base their scoring and did not always provide written justifications for the scores given to the proposals. The three evaluators scored the two proposals as follows:

	Current Contractor	Bidder # 2
Evaluator # 1	**91**	**87**
Evaluator # 2	**93**	**91**
Evaluator #3	**100**	**71**
TOTALS	**284**	**249**

The objectivity of the evaluation is questionable since evaluators all gave the current contractor high scores in spite of the fact that the firm did not complete the terms of its previous contract. Further, the scores given by evaluator #3 are controversial as he gave the current contractor 15 points for fee structure and gave bidder # 2 no points even though its billing rates were significantly less than the current contractor's. (More appropriately, the other evaluators gave the current contractor score of 10 and bidder #2 a score of 15 for fee structure.) Evaluator #3 told us that he could not recall why he scored the fee structure element the way he did.

Based on the above scoring, on May 2, 1998, the Creative Consulting Management Group was awarded a two-year, $312,500 contract.

Poor Monitoring Of Contractor Lead To Improper Payments

According to the Federal Acquisition Regulation, the documentation to support fees for services should have included invoices with sufficient detail about the time expended and nature of the actual services provided, and the current contractor's work products and related documents such as trip reports, collateral memoranda, and reports. Further, the second contract called for invoices to set forth the actual work completed, and the third contract required invoices itemizing the services performed.

From June 9, 1997 through November 12, 1998 the Authority paid Creative Consulting Management Group, or on its behalf, a total of $185,419 in fees and expense reimbursements. The Authority did not adequately review the invoices to ensure all

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charges were proper. For the billing of services, the contractor identified the employees working, days worked, and hours billed. However, the services were merely described as "maintenance management consulting services" but did not describe the specific work being done. As a result, we had to request from the consultant a breakdown of services performed that corresponded with the invoices. While these after-the-fact estimates of what services were performed generally supported the billings, we noted $27,687 of unallowable expenditures:

Date of Expense	Amount	Description
11/12/97 (contract 2) 6/19/98 (contract 3)	$10,000 15,000	Retainer fees which were not attributed to any expenses of or services provided by Creative Consulting Management Group.
5/14/98 (contract 2)	800	Invoice was billed at a higher hourly rate that was not yet in effect for the period billed, resulting in a $400 overcharge. Also, there was a math error in the invoice resulting in an additional $400 overcharge.
8/6/98 (contract 3)	1,300	Vendor charged $1,735 for round-trip airfare between San Francisco and Cleveland that normally costs $435.
11/12/98 (contract 3)	587	Vendor charged $1,022 for round-trip airfare between San Francisco and Cleveland that normally costs $435.
TOTAL	$27,687	

The Authority stated that Creative Consulting Management Group reconciles its retainer fees at the end of its contract period. As support, the Authority provided a schedule of hours covering the month of April 1998, prepared by the consultant, to reconcile the $10,000 retainer fee. However, this documentation shows no independent evidence, such as expense receipts, that the consultant was performing services at the Authority during the time period noted. Further, we noted that this documentation indicates that the consultant provided services including "management oversight and supervision" yet it had previously billed the Cuyahoga Authority for full-time consulting services in Cleveland for the entire month of April 1998. The San Francisco Authority has not provided any reconciliation of the $15,000 retainer fee.

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Payment of unallowable expenditures occurred because the Authority failed to monitor the contractor's billings for compliance with the Federal Acquisition Regulation. The contract monitor is the Authority's executive director. Invoices were approved by the executive director who said he relied on the Authority's finance department to determine if the expenditures were allowable and reasonable. However, we found that this was not always the case as some invoices were approved without finance department review.

Deloitte & Touche

Deloitte Was Selected Without Competing

The Authority entered into three contracts and one modification with the Cleveland office of Deloitte & Touche LLP while excluding or highly limiting competition. Also, no proper cost estimates or analyses were used to determine contract amounts, and the utility of one contract was questionable.

The Authority's acting executive director circumvented federal procurement requirements when initially hiring Deloitte. In January 1997 he signed an engagement letter with the Cleveland office of Deloitte to provide consulting support services for the Authority's Section 8 program. This is the same consulting firm that he previously worked with in his capacity as chief operating officer at the Cuyahoga Authority. The acting executive director entered into this contract with Deloitte without going through a formal process of solicitation and procurement as required by federal regulations. The engagement letter stated that Deloitte would, at the direction of the acting executive director, provide technical support in identifying improvements in business processes and management of the Authority's Section 8 program. The fees for these services included an hourly rate of from $55 to $275 for Deloitte staff plus expenses.

The Authority did not perform an independent cost estimate for these services, nor did it obtain a cost breakout from the vendor so that a cost analysis could be performed as required.

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Contract Work Proceeded Without HUD Approval

Deloitte began working on January 12, 1997; however, the acting executive director did not seek approval of the contract until April 19, 1997, by which time Deloitte had billings totaling $249,289. Conditional approval came in the form of a board resolution (the acting Assistant Secretary for Public and Indian Housing was the board at that time) authorizing the acting executive director to engage Deloitte, "…subject to receipt of any required HUD approvals."

In an April 25, 1997 letter to the board, the acting executive director explained that a non-competitive procurement was proper because there was an exigent need to bring in Deloitte to oversee the Section 8 department. He claimed that HUD staff managing Section 8 had walked off without notice. Again, we disagree with this justification as the need was not an unexpected event and does not fit the definition of a public exigency.

In a November 29, 1996 letter, the city mayor asked HUD to cancel its procurement action to contract out the Section 8 program because he believed it would be best if the Authority managed and administered the program. The letter stated that several options existed with the most preferable being to hire a full-time manager. Also, a December 8, 1996 memorandum from the HUD Deputy Assistant Secretary for Public and Assisted Housing Operations urged HUD's Secretary not to reverse the decision to outsource administration of the program. It states "…at HUD's request in the procurement, the firms have lined up management staff and subcontractors to be on-site starting January 1, 1997, if they are the successful firm, to begin the transition to private management." The Deputy Assistant Secretary said that HUD staff would leave the Authority if the Secretary agreed with the Authority's request unless requested to remain. Since plans had already been made by HUD for contracting out the Section 8 program, the city mayor did not wish to contract out the program, and HUD staff left as a result of the Authority's wishes, it was neither urgent nor necessary for the Authority to hire Deloitte in the manner it did. If any exigency existed, it was a result of decisions made by the Authority's management.

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In an April 30, 1997 memorandum, HUD's General Deputy Assistant Secretary noted that the Authority issued a stop work order for the Deloitte contracts, as directed by HUD, and stated HUD would evaluate Deloitte's work plan and deliverables to determine legitimate costs relating to the contract. The General Deputy Assistant Secretary also instructed that Deloitte was not to be paid without HUD's approval. On May 1, 1997, the Deputy Assistant Secretary asked for a copy of the Deloitte agreement and the scope of services provided along with a listing of all Deloitte personnel involved, the number of hours worked, their specific duties, and billing rates. He also informed the acting executive director that HUD had found that the work performed by Deloitte added little, if any, value to the administration of the Section 8 program.

Contrary To HUD's Instructions, Deloitte Was Paid $249,289

On May 21, 1997 the Authority provided materials prepared by Deloitte describing their accomplishments to date. On June 11, 1997 the General Deputy Assistant Secretary responded, stating that the materials did not provide the data requested, including information on the scope of services, staffing levels, dates of project participation, and pay rates. He also noted that the documents sent earlier were prepared by Deloitte subsequent to April 21, 1997 in violation of HUD's directive to issue a stop work order effective on that date. He reiterated that the Authority was not to make any payments to Deloitte unless they were approved by HUD. The Authority ignored this directive, and on June 13, 1997 paid Deloitte $249,289 for services covering the period January 12, 1997 to April 19, 1997.

We reviewed the supporting documentation for the June 13, 1997 check. The payment was only based on four invoices without other documentation. The invoices only showed the hours worked, hourly rates, and amounts for subsistence, transportation, and apartment rental. Contrary to federal requirements, the invoices were not supported by itemized documentation of tasks or services performed, and reimbursed travel and other expenses were not supported by receipts. Payment of these invoices without supporting documents indicates the Authority did not adequately monitor the contractor's performance or costs.

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Work Duplicated Earlier HUD Efforts

It took the Authority two months from the time of our request to provide documents produced by Deloitte and six months for receipts to support expenses shown on the Deloitte invoices. Our review of these documents confirmed the HUD General Deputy Assistant Secretary's opinion that the work performed by Deloitte added little, if any, value to the administration of the Section 8 program. We noted that some of the documents supporting the work performed were actually produced subsequent to the January to April 1997 period covered by the invoices. These documents included a copy of a presentation showing Deloitte's accomplishments which highlighted the hiring of the leased housing director on November 6, 1997 and the February 1998 hiring of a contractor to reopen the Section 8 waiting list. Further, much of what the Authority represented to the OIG as work performed by Deloitte was work that had already been done by the HUD recovery team, including: the creation of the Authority's Section 8 administrative plan; the identification of duplicate vendor numbers; researching portability disputes; and correcting Annual Contributions Contract tables.

Our review of the supporting receipts also found the following unallowable and unsupported expenses:

Amount	Description
$1,757	Excess per diem charges
161	Expenses for trips unrelated to work at Authority
1,373	Miscellaneous expenses not supported by receipts
1,587	Airfare not supported by ticket/receipt
$4,879	**TOTAL**

The unallowable and unsupported expenses totaling $249,289 charged by Deloitte were paid because the Authority disregarded HUD's instructions and did not obtain and review supporting documentation prior to approving payment.

Competition For Second Contract Was Limited Unnecessarily

On July 16, 1997, the Authority issued a request for proposals for another contract for business analysis and advisory consultant services not to exceed $100,000 for the leased housing program on a continual basis. The Authority's contracting files did not contain any documentation indicating that a cost estimate or analysis was accomplished. The request

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for proposals instructed interested parties to provide detailed profiles of the staff to be assigned to this project along with samples of previous related work they completed. It also required that responses include a detailed description of the applicant's understanding of all 11 items in the request for proposals' scope of services section and provide a detailed description on how the firm would approach the task, analyze and solve problems, and assure that its solutions would be effective. The request was sent to ten firms on July 21 and 22, 1997, with responses due on July 31, 1997. This significantly limited the time to prepare an adequate proposal, giving an unfair advantage to Deloitte who had already provided consulting services at the Authority's leased housing office. As a result, only Deloitte's Cleveland office and one other firm submitted proposals.

Evaluation Of Second Contract's Proposals Was Flawed

A panel of three Authority staff and a former HUD official evaluated the proposals. None of the three Authority staff worked in the Section 8 area, and two of them (evaluator #2 and #4) had been employed at the Authority for less than six months. The panel's evaluation of the proposals was compromised because the Authority did not perform the required independent cost estimate prior to proposal solicitation. The objectivity of the scoring is also questionable as the panel members did not have rating descriptions on which to base their scoring and did not always provide written justification for the scores given to the proposals. The four proposal evaluators scored the two proposals as follows:

	Deloitte	**Bidder # 2**
Evaluator # 1	**74**	**71**
Evaluator # 2	**67**	**62**
Evaluator # 3	**80**	**79**
Evaluator #4	**93**	**64**
TOTALS	**314**	**276**

The scoring of the two proposals by evaluators 1, 2, and 3 was close, however evaluator #4's scores had the greatest gap between the two proposals, but his scores were not supported by any written justifications on the evaluation score sheets.

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Based upon the above scoring, the Authority awarded Deloitte a two-year, $100,000 contract on September 26, 1997.

Work Added By An Amendment Was Not Open To Competition

On July 23, 1998, the Authority's board of commissioners approved an amendment to the Deloitte contract for an additional $75,000. The amendment expanded the scope of work "to provide a risk assessment of the organizational and business process infrastructure related to finance and accounting functions of the San Francisco Housing Authority." One commissioner questioned if this contract modification was in accordance with procurement regulations since the original contract was for work performed on the Section 8 program and the amendment was to expand the scope beyond that program. In response to this concern, the Authority's general counsel wrote an opinion stating that the resolution for the contract amendment "…pertains to the Conventional Public Housing Program, and the work done by D&T [Deloitte] for the Section 8 Program is substantially the same as the proposed services for the Conventional Program." The opinion further stated "It is our opinion that the contemplated change order is consistent with HUD requirements and the Changes Clause…"

We disagree with this opinion. The $75,000 amendment was to provide services related to the Authority's financial and accounting functions. The request for proposals and the original contract's scope of work contain a list of tasks that are specific to the management of the Section 8 program and are not directly related to general financial and accounting functions. Since the scope of the additional work in the contract amendment was substantially different from the original contract, the authority should have issued a new request for proposals and entered into a new contract for these additional services. We also noted that no cost estimate or analysis was done for this amendment.

Competition For Third Contract Was Also Unnecessarily Limited

On March 10, 1998, while the September 26, 1997 contract with Deloitte was still in effect, the Authority issued a request for proposals for monitoring of the newly reorganized leased housing office. The Authority's solicitation files only showed evidence that copies of the request for proposals were sent out to three prospective bidders, including the Cleveland Deloitte office. The request for proposals was sent on March 12, 1998

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with responses due on March 25, 1998, giving respondents less than 13 days to submit a complete proposal package. As a result, only the Cleveland Deloitte office responded, and it received the contract on April 7, 1998. Although Deloitte's proposal was in the amount of $60,000 to $75,000 for a six month period, it was awarded a two year $100,000 contract on April 7, 1998. There was no documentation explaining this, and there was no cost estimate or analysis.

Wil Davis Management Company

Wil Davis Had An Inside Track Before The Request For Proposal Was Issued

The Authority's procurement to create a Section 8 waiting list was managed by a consultant working out of the Cleveland, Ohio office of Deloitte & Touche LLP. This consultant had no prior experience in contracting for a Section 8 waiting list on behalf of a housing authority. The Deloitte consultant wrote the Authority's October 9, 1997 request for proposals for the development of its Section 8 waiting list. Key sections of the proposal were copied word for word from an April 15, 1997 description of services which the Deloitte consultant obtained from the Wil Davis Management Company, also of Cleveland, Ohio. The management company had previously prepared the Section 8 waiting list for the Cuyahoga Metropolitan Housing Authority when the San Francisco Authority's executive director was its chief operating officer.

Competition Was Unnecessarily Limited, And Proper Cost Estimate And Analysis Were Not Done

The request for proposals was advertised only in the October 19 and October 26, 1997 editions of two local newspapers. The proposal was also mailed to four potential bidders, including Wil Davis Management Company, that were recommended by the Deloitte consultant, but was not mailed until October 20, 1997 with a deadline for submission of October 31, 1997. This gave potential bidders less than 11 days to submit a proposal. The only vendor that submitted a proposal within this short period was the Wil Davis Company. There was no documentation to justify why the Authority only gave potential bidders less than 11 days to respond. Further, there was no evidence showing that the Authority performed the required independent cost estimate prior to issuing the request for proposals. Also, a proper cost analysis was not performed. Although the contractor provided a cost breakdown by task,

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there was no analysis of costs by element such as labor, overhead, and profit.

On November 25, 1997, the Deloitte consultant sent a memorandum to the Authority's purchasing department recommending awarding the contract to the Wil Davis Company. The consultant attempted to justify the award stating "This is a specialized type of service and there are not many companies that can provide such services…[and] we advertised for two weeks in the San Francisco Chronicle and specifically asked three management firms to bid, but Wil Davis was the only company that chose to bid." The consultant did not disclose that he wrote the request for proposals from information obtained from the Wil Davis Company, nor that the bidders were only given 11 days to submit a proposal. Based upon the recommendation, on December 17, 1997, the Authority awarded a $149,200 contract to the Wil Davis Management Company.

As a result, the Authority appears to have used favoritism in awarding the contract. Awarding the contract to the Wil Davis Company was essentially the same as awarding a contract to a hand-picked, sole-source provider because the consultant tailored the request for proposals specifically to the company's alleged capabilities, limited advertising of the proposal to two local newspapers, and did not provide enough time for other vendors to respond. During the contracting process there was no evidence of oversight or input from either the Authority's leased housing office, board of commissioners, or the executive director's office. We found similar problems and lack of oversight with other contracts when the Authority handled these responsibilities directly.

The Waiting List Prepared By The Contractor Was Invalid

Because of the improper award process, the ineptness of the contractor, and inadequate monitoring of the contractor's performance (the Authority had not reviewed the waiting list to determine if it met contract specifications), the Authority is using an invalid waiting list. Finding 3 discusses this in more detail.

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Dr. Emma McFarlin

Two Contracts Were Issued To Dr. Emma McFarlin

Two contracts were awarded to Dr. Emma McFarlin. In our opinion, the second contract was unjustifiably awarded non-competitively. Further, the contractor's billings for both contracts were not adequately supported and appeared to be in excess of services provided.

Acting in his capacity as the board for the Authority, the acting HUD Assistant Secretary for Public and Indian Housing signed a contract with Dr. Emma McFarlin. According to the contract, McFarlin would serve as the executive monitor to advise HUD on the implementation and development of the HUD recovery plan for the Authority, and perform the executive director's duties until a new executive director could be hired. The contract covered the six-month period from September 3, 1996 to March 2, 1997 and provided that Dr. McFarlin would be paid $50,000 ($8,333 per month) plus $38 per day subsistence expense. Dr. McFarlin would also be provided housing in San Francisco and be reimbursed for two round-trip airfares per month to her Los Angeles home base. On January 24, 1997, the contract was modified to eliminate her executive director duties which were assumed by the new acting executive director.

Although the contract expired on March 2, 1997, the Authority continued to pay Dr. McFarlin for March through May 1997 and, on May 28, 1997, retroactively extended the contract to May 31, 1997 to cover these payments. From June through August 1997, the Authority continued to pay rent for an apartment for Dr. McFarlin past the amended contract's expiration date. In November 1998, the executive director advised that Authority did not have a contract with Dr. McFarlin for this period; however, on December 3, 1998 the Authority provided us a copy of a June 1, 1997 contract addendum. The addendum provided for an increase in the compensation rate and implied an extension for an indefinite period. However, it was not until December 1998 that the executive director approved payment to reimburse Dr. McFarlin's claims for June and July 1997 travel. The authenticity of the amendment is questionable since an original of the document was not available.

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Award Of Second Contract Was Questionable

On February 26, 1998, the Authority's board of commissioners signed a new agreement with Dr. McFarlin. The one-year contract was made retroactive to September 1, 1997 and called for paying Dr. McFarlin $10,000 per month, a $38 per diem, housing in San Francisco, and four round-trip airfares to Los Angeles each month. The contract was modified to change the initial September 31, 1998 termination date to February 20, 1999 to allow Dr. McFarlin to take a leave of absence from July 1, 1998 to October 19, 1998.

The second contract was not awarded competitively. The Authority did not solicit proposals for the contracted services nor did it prepare a cost estimate or analysis to determine if the contract costs were reasonable.

Further, the continued need for Dr. McFarlin's services under the second contract was not apparent. HUD had turned over control of the Authority, a permanent and highly paid executive director had been appointed, and the services of other consultants had been obtained to assist the transition. Dr. McFarlin spent little time at the Authority and there was no evidence of services provided.

Costs Of The First McFarlin Contract Were Not Supported And Fees Were Excessive

The Authority paid the following costs associated with the first McFarlin contract:

Fees for services	**$75,000**
Travel expenses	13,160
Housing rent	6,988
Cell phone	892
Total of first contract	$96,040

We consider all of the above expenditures questionable since the Authority could not provide any documentation to support work actually performed. The Authority had no records, reports, or any other work products from the contractor.

Further, information indicated that Dr. McFarlin was not working full time, but was paid for full-time work. On May 22, 1997 the HUD Office of Troubled Agency Recovery reported on its site visit to the Authority. The report noted that the executive monitor's contract required that all invoices be

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supported by time records and that Dr. McFarlin advised that she did not maintain time sheets to support time worked under the contract. The report also stated that HUD's field office and Authority staff noted that the contractor was not at the Authority on a full-time basis. The report criticized the Authority for paying for full time work and suggested that the Authority require the contractor to refund payments that were in excess of work performed.

Since the contractor did not submit any time sheets, we reviewed other documents submitted by the contractor including vouchers, invoices, supporting receipts, and cell phone bills to determine when Dr. McFarlin was in San Francisco during the term of the first contract. We found that she was in San Francisco or in travel status on official Authority business for only 163 days (including weekends and travel days) of 259 days (not including weekends to give the contractor the benefit of the doubt), or 63 percent of the regular work days covered by the contract. The 37 percent of unaccounted for time represented $27,750 of her fees.

Thus, we consider $27,750 to be ineligible, and the $74,290 remainder of the first contract's payments to be unsupported.

The Authority paid for similar costs for the second contract.

Fees for services	$140,000
Travel expenses	10,529
Housing rent	17,193
Cell phone	3,707
Total of Second Contract	**$171,429**

Similar Problems With Costs Were Noted For The Second Contract

Even though Dr. McFarlin was paid $10,000 per month for her services, she spent little time at the Authority during the second contract period. Vouchers, invoices, supporting receipts, and cell phone bills submitted by Dr. McFarlin showed that she was in San Francisco or in travel status for only 163 days (including weekends and travel days) of 292 days (not including weekends to give the contractor the benefit of the doubt), or 56 percent of the regular work days covered by the contract and contract amendment. The 44 percent of unaccounted for time represented $61,600 of her fees.

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Further, there was no evidence to show that Dr. McFarlin actually performed any of the duties required by the contract. The contract called for the executive monitor to: advise and consult with the Authority concerning operations, policies, and procedures; assist in organizing and setting up departments; provide input for hiring permanent department heads; and train the board of commissioners. The Authority could not provide any substantial evidence to show that the contractor actually performed these functions.

We also identified $1,002 of unnecessary cell phone costs: $891 for the period of July 1 to October 19, 1998 during the contractor's leave of absence, and $111 for the period of March through June 1999 which was the contract expired.

Payment of unallowable expenditures occurred because the Authority failed to monitor Dr. McFarlin's billings for compliance with the Federal Acquisition Regulation. The contract monitor for the contracts was the Authority's executive director. Invoices were approved by the executive director who said he relied upon the Authority's finance department to determine if the expenditures were allowable and reasonable. We found that this was not always the case as some invoices were approved without finance department review.

Thus, we consider $61,600 for time away from the Authority to be ineligible, $1,002 in phone charges as unnecessary, and the remaining $108,827 of the second contract to be unsupported.

Zirl Smith & Associates, Inc.

The Authority contracted with Zirl Smith & Associates, Inc. under three separate procurement actions for (1) assistance to transfer the Authority from HUD to the city, contract 97062 awarded October 23, 1997 for an initial amount of $100,000; (2) training and consulting services, contract 98031 for an initial amount of $286,000 awarded May 21, 1998; and (3) HOPE VI organizational and financial advice, contract 99017 for $398,5000 awarded August 13, 1999. Although the HOPE VI contract was not in our sample of transactions tested, an issue came to our attention. We noted flaws in the procurement and

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monitoring of the HOPE IV contracts similar to those discussed on other contracts.

A Cost Estimate And Analysis Was Not Done For The Initial Contract

The Authority received three proposals in response to its solicitation for the first contract. However, the analysis of the proposals may have been compromised as there was no evidence that the Authority performed the required independent cost estimate prior to proposal solicitation or that there was a cost analysis of bids.

The contract was subsequently amended to expand the scope of services within the financial and time constraints originally stated in the contract. Four months later, in March 1998, the board of commissioners passed a resolution to increase the contract by $40,000 for the additional work called for in the amendment. However, no cost estimate and analysis was done to determine the reasonableness of the increase.

The Second Contract Had Similar Problems

Cost estimates were prepared for the second contract and its $150,000 amendment. Nevertheless, the estimate for the initial award was prepared after the proposal was received. Further, the cost analysis for the contract award and the analysis of the amendment were faulty. Neither the analysis nor the cost data addressed separate elements of labor overhead, general and administrative expenses, and profit which made up the billing rates.

Competition For Second Contract Was Restricted, And An Amendment Was Made Over HUD's Objection

The procurement for the second contract was made in such a way as to unnecessarily restrict competition. The Authority allowed only 13 days to respond to the request for proposals. These were complex consulting services and 13 days was not an adequate amount of time for potential bidders to prepare an adequate proposal. Two potential bidders told us that they would have responded if they were given adequate time to prepare.

As a result, only Zirl Smith & Associates responded to the request. Instead of reopening the request for proposals to obtain other bids, the Authority made a sole-source award.

The Authority requested approval from HUD to make an amendment in scope to the second contract, adding $150,000.

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HUD denied this request and directed the Authority to solicit another contract as the additional services were a major augmentation to the original work scope. Nevertheless, the board of commissioners, with knowledge that HUD had disapproved the amendment, passed a resolution authorizing the amendment. Since the amendment was made over HUD's objection, we take exception with its costs.

During the procurement process for the HOPE VI consulting contract in March 1999, HUD's procurement and contracting team told the Authority that when one contract builds upon a previous contract, any deliverables provided to the Authority as a result of the earlier contract should be provided to all potential bidders for the more current contract.

Potential Bidders Were At A Disadvantage When Bidding On A Third Contract

However, 26 days after this meeting, one of the potential bidders for the HOPE VI contract requested clarification on the "Policy Brief 98-1" which was identified in the request for proposals. Only after this question was a copy of this brief made available to all potential bidders, just eight days before bids were due. Prior to this date, this information was held only by the Authority and Zirl Smith. Also, Authority staff said there were other deliverables that would have been of use to potential bidders but were never provided.

There Were Unsupported And Duplicate Payments

The Authority did not properly review Zirl Smith's billings. Two payments under the first contract totaling $39,750 (invoices dated December 1 and 8, 1997), and one payment under the second contract for $40,950 (invoice dated December 7, 1998) were made with no documentation to show what services were actually performed.

Further, the Authority accepted copies of expense receipts submitted by Zirl Smith under the second contract as documentation for two reimbursements in the amounts of $69,083 and $30,100 (check numbers 176521 and 178851). As a result, the Authority reimbursed Zirl Smith twice for $26,578 of expenses.

Professional Service Industries

The Authority contracted with Professional Service Industries to

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perform environmental reviews. We found that the award process unnecessarily restricted competition and did not properly evaluate contractor proposals. The contract was initially in the amount of $48,415, but was later amended with an increase of $24,000.

The Authority sent out a request for proposals to 25 vendors and advertised on August 2 and 9, 1998, but only one response was received. The Authority then extended the time for receipt of proposals to September 25 and mailed the proposal package to another ten vendors. This time the Authority received two proposals, including one from the original bidder.

Competition Was Unnecessarily Limited

Approximately a month later, however, the Authority dramatically reduced the level of services to be contracted, a 73 percent reduction in the number of developments. As a result, the bidders reduced their bids by 83 and 90 percent. The reduction in scope was so substantial that the Authority should have issued a new request to give other firms an opportunity. We contacted two firms who had not responded and asked whether they would have responded if the scope of work had been dramatically reduced. Both firms indicated that it was highly likely that they would have.

Further, the Authority did not give other firms an opportunity to bid for work included in an amendment to the contract.

The initial contract covered projects involving 1998 Comprehensive Grant program funding. The amendment was to include 1999 Comprehensive Grant project funding. This was done in an attempt to speed up funding. However, the Authority knew that as of April 1998, there was a new regulation that required these reviews to be performed prior to release of funds.

The Authority wanted to receive the funds in early October rather than the typical late November to February releases it had obtained in the past. Therefore, it selected September 3 as the date the reviews were needed. To justify modifying the existing contract rather than soliciting new proposals, the Authority considered that it was confronted with an emergency situation. At the August 26 board of commissioners meeting the

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executive director said he should have gotten the reviews done earlier. Before this meeting and the amendment, however, work had already begun on the 1999 Comprehensive Grant project reviews. Nevertheless, the review was not completed until the end of December and the Authority did not receive the funds early as planned.

We believe that the emergency was not justified since the Authority knew at the beginning the of solicitation process that the reviews would be required for future Comprehensive Grant funding.

The Contractor Selection Process Was Faulty

The evaluation plan used to evaluate the two bidders did not contain rating descriptions and panel members did not always document the basis for the scores given. As a result, one evaluator gave the winning bidder more points than allowed for one element. Also, another evaluator scored one vendor twice with different scores.

While the Authority obtained a cost estimate to evaluate bids for the original contract award, the one done for the amendment was made after receipt of proposals. Further, the Authority did not obtain cost data from the contractor for either the original award or the amendment, nor did it perform a cost analysis for the original award. The supposed "cost analysis" performed for the amendment appears to have been another version of the cost estimate as the total amount does not correlate to the bid price. Nor does it include analysis of the separate elements as required such as salary, overhead, and profit.

Required Clauses Were Omitted From All Contracts Tested

In addition to the problems described above for the procurements selected for detail review, we noted that the contract agreements omitted required clauses. We also noted that the Authority had not fully centralized its contracting functions as HUD had recommended.

As identified in the following schedule, all of the 12 contracts reviewed in detail were missing (as denoted by "X"s) one or more required clauses.[2] These clauses provide rights and remedies for the Authority and help ensure compliance with

[2] The listed requirements are not all necessarily applicable to all contracts. For example, the remedies clause was not required for the first Creative Consulting Management Group contract as it did not exceed $100,000.

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federal requirements.

	First CCMG Contract	Second CCMG Contract	Third CCMG Contract	First Deloitte Contract	Second Deloitte Contract	Third Deloitte Contract	Wil Davis Contract	First McFarlin Contract	Second McFarlin Contract	First Zirl Smith Contract	Second Zirl Smith Contract	PSI Contract
Clause:												
Remedies for Breach of Contract			X	X			X		X		X	
Termination for Cause and Convenience	X			X								
Copyrights	X	X	X	X	X	X	X	X	X	X	X	X
Access to Records	X	X		X	X	X			X		X	
Retention of Records	X	X		X	X	X			X		X	
Allowable Costs	X	X	X	X	X	X			X	X	X	
Limitation of Costs	X	X	X	X	X	X				X	X	

Table Legend
CCMG - Creative Consulting Management Group
PSI - Professional Service Industries

Contracting Functions Remain Decentralized

In its September 1996 report, HUD's contracting division recommended that the Authority centralize its contracting and procurement departments. Further, the July 22, 1998 OIG audit report on the Authority's drug elimination program also made this recommendation. A March 1999 HUD report indicated that the consolidation had been accomplished. Nevertheless, we were on-site and determined that the Authority still effectively has two contracting departments. All construction related contracts were handled out of the Egbert Avenue office and all non-construction related contracts out of the Turk Street office.

In an April 21, 1997 memorandum to Authority staff, the executive director said effective May 5, 1997, all contracting and procurement services would be performed by the contracting division. He further said these services would include but not be limited to issuing solicitations, receiving quotes, bids and offers, and recommending contract awards. However, Authority staff indicated that for construction related contracts, the housing development and modernization departments, located at the Egbert Avenue office, issue

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advertisements and requests for proposals, review proposals, and perform the bid tabulations. Once the contract is awarded, the bid tabulation is sent to the Turk Street office with a package and transfer sheet. However, the advertisements and the losing proposals are retained at the Egbert office.

As a result, when we originally requested to see documents in solicitation and contracting files, the Authority was unable to provide complete files for many of the procurement actions in a timely manner. Authority staff said portions of the files were at each of the offices. While we eventually received generally complete files for the construction procurement actions, the non-construction procurement files were often incomplete.

Senior Management's Departure From Requirements Caused The Problems

The principal reason for the problems noted was that the Authority's senior management did not follow federal and its own procurement procedures, as well as direct HUD instructions. There were several instances where this occurred with the appearance of favoritism. There was a pattern where certain contractors from Cleveland, Ohio were unjustifiably given sole source awards, and once they had inside knowledge, were awarded subsequent contracts using information that was not available to all bidders and; therefore, unnecessarily restricted competition. Also, evaluations of bids were not adequately documented and some scoring also gave the appearance of favoritism.

The Improper Practices Wasted Critical Resources

One effect of the improper contracting practices was that the Authority's limited resources were wasted to pay for services not received or ineptly performed, and for other unnecessary or ineligible costs. A three bedroom unit costs $619 a month for a low or moderate income family. The amount of funds questioned ($801,723) could have provided 108 three bedroom units for a one year ($801,723) divided by annual per unit costs of $619 times 12). Additionally, the Authority cannot provide assurance that it obtained the best available services at the most advantageous price for many of its contracts. Further, potential contractors refrained from bidding because the procurement process was perceived as unfair or was too restrictive.

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Auditee Comments

The Authority generally disagreed with the finding's conclusions for the following reasons:

- The finding failed to acknowledge that some of the sampled contracts were awarded under exigent conditions and further fails to include a cost/benefit analysis of the contributions the sampled contractors have made to the Authority and its recovery effort.

- The HUD IG failed to understand or acknowledge exigent conditions existing during the recovery effort or valid approvals received for contracts sole-sourced under exigent circumstances.

- The finding was not representative of contracting activities as the finding is based on an extremely small percentage of the Authority's contracting activities.

- The finding failed to acknowledge corrective actions since the beginning of the recovery effort. The Authority further stated that prior OIG audits of its contracting indicated, that as late as August 1, 1997, it was using an open and competitive selection processes. It quoted audit memorandum 97-SF-201-1803 as stating: "…Also, the housing authority's present selection process appears to be open and competitive (emphasis added)."

The Authority disagreed with the recommendation to impose appropriate sanctions on it and its executive director. It stated that the recommendation represents a response to actions which indicate, at worse, excessive zeal in the cause of public housing recovery. It further stated that actions taken were well within management's discretion and authority, and that in all cases, these were the actions that would have been taken by a reasonable and prudent person to protect the health, safety and welfare of the residents, employees, and property. The Authority contended that all its contracting actions were within the spirit and intent, if not the letter, of applicable laws and regulations.

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The Authority also disagreed with the recommendation to intensify HUD's monitoring of the Authority's contracting activities. The Authority contended that the contracts it entered into were appropriate and substantially complied with applicable laws and regulations. Thus, the extraordinary level of scrutiny is not warranted. It claimed that most of the finding covered contracts that were entered into several years ago, and that the urgent and extraordinary conditions giving rise to the questioned contracts no longer exist, since significant action has been taken to improve contracting policies and processes.

The Authority further asserted that amounts questioned are overstated and are based upon the OIG's subjective opinions. It believed that the amount should only be $31,341 and said that it has billed the contractor and Cuyahoga Authority appropriately.

OIG Evaluation Of Auditee Comments

We reviewed the Authority's detailed responses and supporting exhibits and have made modifications to the audit report where appropriate. However, these changes did not significantly change our conclusions or recommendations.

We did not include a cost/benefit analysis of Authority achievements as this was not an objective of the audit. Benefits are expected from any expenditure, so whether some benefits were obtained had no bearing on the conclusion that management did not always follow its policies and procedures or federal requirement, which resulted in wasted resources.

A recurring assertion in the Authority's response was that it was in a state of exigency and emergency during the period reviewed. The purported state of emergency was presented in the responses as the overall and primary reason for disregarding federal requirements. The executive director cited several primary sources that he believed gave him and the commissioners the management discretion to dispense with regulations, policies and established procedures. We reviewed several of the citations regarding emergencies and exigent conditions and found no relevance to the types of procurements questioned in this report. For example:

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- 5 USC, n6, Part II, Section B, Section 12 regarding "discretion to dispense with advertising, if exigency or public service requires immediate delivery or performance" is the citation from a court case (not a statute), United States vs. Speed, from the year 1869 regarding a military officer procuring supplies or services.

- Government Accounting Office December 20, 1999 decision in the matter of Paramatic Filter Corporation dated 12-20-99 concerned a protest by a vendor against the U.S. Army wherein the decision's digest reads, in part, the "…Contracting officer reasonably determined that modification of ongoing contract was necessary to meet urgent requirements for a limited number of filters to protect against nuclear, biological and chemical threats…"

In our opinion, the Authority's practices of hiring select consultants without regard for federal requirements is not equivalent to the U.S. military making decisions to procure immediately needed supplies or urgent requirements for filters to protect against chemical threats.

Similarly, the response included a claim that an internal audit memorandum dated August 1, 1997 from the District Inspector for Audit to the Director of the Office of Public Housing seems contrary to the findings in the current audit report for contracts for the same period. That memorandum was the result of a highly limited review of only one procurement action: the selection of the developer of a single HOPE VI project, Hayes Valley. The Authority took the quote out of context, giving the false impression that the entire procurement process for selecting contractors was satisfactory. The following quotation from the memorandum correctly reflects the review results which showed that the developer selection process was deficient.

> "In our opinion, the selection of the developer was made without competition, contrary to requirements. This resulted in the lost opportunity to consider proposals from other potential developers and imparted the appearance of possible favoritism. Consequently, there is no assurance the best selection was made.

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> However, it does not appear practical or prudent to stop the progress made-to-date on Hayes Valley to reopen the selection process for a developer. We also noted that developer selection for subsequent HOPE VI developments is competitive."

The competitive process referred to above related only to the subsequent, on-going HOPE VI developments, not to the Authority's procurement process at large.

While the number of contracting actions sampled was small, the named contracts discussed in the finding represented over $2 million, or 16 percent of that spent on architectural and engineering, consultant, and service contracts. (As mentioned in the Introduction section, we are separately reviewing the Authority's modernization activities costing $70 million.) Regardless, the negative impact on the Authority resulting from the noted abusive practices is significant. In our opinion, the mission of housing low-income and homeless residents was not best served by the type practices identified in the report. We recognize that providing housing is often a difficult task. However, the executive director and commissioners appear to have lost sight of the fact that compliance with federal requirements and sound management practices is necessary to make the most of what is allotted to provide affordable housing.

The president of the board of commissioners informed us there were 13,000 to 14,000 names on the Authority's housing waiting list. With this large, unfilled need for housing, it is imperative that the Authority pay no more for services than necessary. We believe that administrative action against the Authority's senior management should be pursued to send a clear message that actions will not be tolerated that are not in the best interest of the low and moderate income persons served by HUD.

Recommendations

As described in the Prior Audits section of this report, a previous OIG audit raised similar concerns with the Authority's contracting practices. Four recommendations from that audit remain open because HUD does not yet have assurance that

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the Authority has successfully implemented them. While the full implementation of those recommendations will partly address the problems described in the current report, additional actions are necessary.

We recommend the Assistant Secretary for Public and Indian Housing:

1A. Impose appropriate sanctions on the San Francisco Housing Authority's senior management, including the executive director and the board of commissioners.

1B. Intensify HUD's monitoring of the Authority's contracting activities. This should include on-site visits by experts to scrutinize contract procurement and monitoring functions.

1C. Require the Authority to get HUD's advance approval for personal service contracts over $50,000.

1D. Require the Authority to reimburse the appropriate HUD program for the ineligible, unsupported, and unnecessary/unreasonable costs identified Appendix A of this report for Finding 1.

Administrative Employees Were Hired and Compensated Without Following Sound Management Practices

The San Francisco Housing Authority frequently did not follow sound management practices or its own policies and procedures for recruiting and compensating administrative staff. Of eight employees tested, seven were selected without considering other candidates, their qualifications were questionable, or they appeared to be overcompensated. In addition, the executive director received compensation in excess of his contract, and he was inappropriately treated as a contractor rather than an employee. Further, some of the reimbursements made to the Cuyahoga Metropolitan Housing Authority for compensating the acting executive director were unsupported, and San Francisco paid some costs for services the acting director performed for Cuyahoga. We identified $173,442 of ineligible or unreasonable costs and $622,523 of inadequately supported costs in connection with these conditions. The problems occurred because management did not follow Authority policies, there was insufficient board involvement, and there was no relocation policy. As a result, the Authority wasted funds that could have been used to further its mission, the effectiveness of its operations was reduced, it has created an appearance of favoritism, and it may have incurred a significant tax liability.

Regulations And Policies Require Sound Management Practices

Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, says governmental units are responsible for the efficient and effective administration of federal awards through the application of sound management practices. Consistent with that requirement, the Authority established policies for the recruitment and selection of employees. Specifically, policy I-002 requires a variety of outreach efforts to be made and all recruitment information regarding vacancies be accessible to staff, tenants, the community at-large and the greater Bay Area.

Policy I-003 on employee selection says the Authority will conduct a selection process for potential employees that will ensure a fair and consistent manner for evaluating the qualification of each applicant. The policy also provides for the following procedures: (1) the human resources department is to receive all applications and forward them to the appropriate manager; (2) applicants meeting requirements are to be interviewed and ranked in order of their interview results; and (3) once a top candidate has been identified, reference checks

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to verify the credentials and past work performance of the top applicant are to be conducted and documented.

Proper Hiring Procedures Were Not Followed

We reviewed the Authority's hiring procedures by selecting and reviewing a judgmental sample of eight out of twenty seven administrative staff. We chose staff hired since March 1996 and with salaries of $62,000 or more. We determined the Authority did not follow its personnel rules and hiring procedures for five of them. The executive assistant and the director of leased housing were hired even though they were not among those who had submitted applications in response to the job announcements. The manager of family sweep was hired without any job announcement being issued. Job announcements were prepared for the financial advisor, and inter-governmental affairs specialist positions, but the positions were filled prior to the announcements.

Executive Assistant. The Authority received resumes from at least 20 applicants responding to an August 22, 1997 job announcement. Eight met the minimum required qualifications. However, there was no evidence that any of the applicants were interviewed and ranked. Instead of selecting from these applicants, the executive director hired an individual in January 1998 who had not applied for the position. The executive assistant had previously worked with the executive director in Cleveland, Ohio.

Director of Leased Housing. The Authority announced the position vacancy on February 20, 1997 and received a significant number of applicants. It identified 12 applicants who met the job qualifications. However, there was no evidence to indicate the Authority conducted interviews of the qualified applicants or ranked them as called for in its personnel rules and procedures. Instead, the executive director hired the current director of leased housing on September 22, 1997. The individual was hired even though he was not one of the applicants, and HUD had instructed the executive director the month before not to hire the individual. The HUD recovery team had terminated the individual in 1996 because he had poorly managed the Section 8 department.

General Manager of Family Sweep. The executive director

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hired the individual for this position in November 1997 without a job announcement being issued. There was no evidence that any other person was given the opportunity to be considered. Similarly, the individual had been previously hired in February 1997 as a temporary construction project manager without a job announcement being issued or evidence that others were given the opportunity to apply for the position.

Financial Advisor. A job announcement for the position of financial advisor was dated September 11, 1998 and specified a closing date of September 25, 1998. However, there was no evidence that the opening was advertised to give the public an opportunity. As a result only two persons applied: the person holding the position temporarily since August 31, 1998, and a person who heard of the job through a friend who worked at the Authority. The person holding the job temporarily was selected and there was no evidence the unsuccessful candidate was considered.

Additionally, the person selected was holding the job temporarily, based on a July 22, 1998 offer. The executive assistant had contacted him to advise him of the opening. There was no evidence that other potential candidates were considered for the temporary position.

Inter-Governmental Affairs Specialist. The executive director created the position of inter-governmental affairs specialist and moved an employee into that position on December 9, 1998, six days before the Authority posted the job announcement internally on December 15, 1998. Six people applied for the position. Three people were identified as being qualified for the job, including the person already in the position. Although three non-Authority employees applied for the position, candidates outside of the Authority did not have equal opportunity to apply for the position since the job was not advertised in the newspaper.

This individual held two other temporary positions immediately prior to the inter-governmental affairs position. He was hired as a temporary conservation corps coordinator in December 1996 and as a temporary construction project manager in June 1997. In both cases there was no job announcement or evidence of

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open recruiting efforts.

Employees Need To Be Qualified

Employees need to possess necessary skills and qualifications to ensure they perform effectively and compensation is reasonable. The Authority's policy I-001 requires employees to be selected for available positions based solely on their applicable experience, education, and demonstrated ability to perform the work specified. Its policy II-010 says: "The housing authority intends to follow the applicable state and federal laws with regard to wage and salary administration and to pay reasonable and equitable wages and salaries to all its employees. The salary range minimum reflects an entry level salary position for an employee learning a new set of job skills and who meets the position's minimum requirements."

Compensation Must Be Reasonable

For agencies like the Authority, Office of Management and Budget Circular A-87 says compensation for personnel services is reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the agency competes for the kind of employees involved. Compensation surveys providing data representative of the labor market are an acceptable basis for evaluating reasonableness.

The Authority's personnel policies are generally consistent with this requirement. Policy II-010 requires salaries for each position to be comparable to those to similar industries within the same geographical region. To achieve this, the Authority compares the knowledge, skills, and requirements of its job position to the compensation paid by the City and County of San Francisco. The Authority usually uses City and County pay scales for positions it considers comparable. Since compensation is based on comparable knowledge and skill qualifications, employees must meet those requirements for the compensation to be reasonable.

It Was Not Apparent Half Of The Employees Tested Were Fully Qualified

Of the eight administrative employees reviewed, it was questionable whether four met the minimum required qualifications such as knowledge, skills, or education for the position. Three of these employees, as previously discussed, were selected without considering other potential applicants.

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General Manager of Family Sweep. The general manager of family sweep, initially hired as a temporary construction project manager (a similar position), did not meet the minimum required qualifications for either of the positions. (The salaries received for the above positions were over double and triple his salary respectively before coming to the Authority.) The positions required the employee to have the educational equivalent of a bachelor's degree with major or minor course work in architectural design, construction engineering, public administration or a related field. He did not have such a degree. Further, it was not evident that he possessed the required knowledge and skills. His resumé indicated no prior experience with the development or implementation of modernization and rehabilitation of construction programs; preparing cost estimates; or developing and implementing operating capital projects, and grant budgets.

Being responsible for many millions of dollars in modernization work, the general manager position is complex and requires extensive experience in housing modernization and management. The employee's previous construction experience was not anywhere near this level. His previous job at the Cuyahoga Authority was that of a construction job captain where he was responsible to survey, plan, and control the generation of data by the construction department.

Financial Advisor. It was not evident that the person hired for this position had the requisite knowledge and skills. The duties of the job are to evaluate the HOPE VI program and improve financial operations; conduct cost and time studies; monitor activities and compliance with applicable rules and regulations; and prepare budget, accounting, and other reports on the program.

The job's minimum required qualifications include a thorough, experience-based understanding of: public housing administration practices in the areas of accounting and budgetary management and control; principles and practices of organization, administration and fiscal management; federal, state, and local legislation on public housing, with particular emphasis in goals, objective, performance and financial requirements; and management system operational programs

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related to auditing both fiscal and operational programs. The person must possess the ability to plan, assign, direct, review and coordinate the activities of staff engaged in a complex financial operation; and analyze, evaluate and resolve routine and complex system and operational problems.

In contrast, the person's experience for the previous fifteen years was in the field of investment, marketing and managing investment products and services for bank clients. His responsibilities included tax planning, retirement analyses, and strategic review of investment portfolios. He was a principal agent for lines of credit, tax strategies, estate planning. His skills included marketing analysis, research and modern portfolios. He had some accounting experience, but it was very limited to approximately one year back in 1984/85. Although employed as a management analyst with HUD from 1979 to 1984, it was not evident he had experience with HOPE VI or public housing.

Inter-Governmental Affairs Specialist. The inter-governmental affairs specialist did not meet the minimum required qualifications for either this position or his former position as temporary construction project manager. Both positions required a suitable bachelor's degree, but the individual did not possess one.

Further, his previous job experience was not the experience required for the positions. In his previous job he was a conservation coordinator at the Authority involving landscape maintenance and prior to that he was a camp manager in Ohio. The intergovernmental affairs specialist position called for experience in the planning and implementation of resident empowerment and economic development programs for low-income individuals and families; or the statutory and regulatory requirements associated with such programs. The construction manager position required knowledge in the modernization and rehabilitation of housing. His employment file information showed no such credentials.

Director of Contracting. The individual hired in June 1999 as director of contracting did not meet the minimum experience requirements for the position. One of the qualifications in the position description was an experience-based understanding of

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the principles and practices associated with federal laws, rules and regulations relating to procurement activities. However, this requirement was omitted from the job announcement. We consider the requirement for experience in federal rules and regulations essential, particularly because of the serious deficiencies noted in the Authority's procurement activities over the years. This individual was employed as a commodity manager prior to his employment with the Authority. His primary experience was in material management in the health industry such as hospital and medical centers. However, the individual did not have experience with federal procurement regulations.

The following table shows the salaries paid through September 30, 1999 to the individuals with questionable qualifications.

Position	*Amount*
General manager of family sweep (and construction project manager)	$201,463
Financial advisor	102,703
Inter-governmental affairs specialist (and construction project manager)	146,528
Director of contracting	29,567
Totals	$480,261

References And Credentials Were Not Adequately Checked

The Authority did not check references or credentials for most of the eight employees tested, despite its policy requiring that it be done. Policy I-003 says at least three reference checks are to be made on all selected job applicants to confirm work history, and where a license or degree is required, applicants are to provide evidence of them. Nevertheless, there was complete verification for only one of the selected applicants. For six of the eight employees there was no evidence verifications were done. For the attorney, only education and license were verified. (A recent event shows the peril of not checking references and credentials. Although not among the eight individuals tested, a director of social services at the Authority reportedly lied that he was a licensed clinical social worker to get the position. When this became known, the Authority reduced the employee's pay.)

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Salaries And Relocation Compensation Were Sometimes Excessive

Of the eight employees previously discussed, three also had salaries (regardless of qualifications) in excess of Authority policies, and two received excessive compensation for relocation. Also, one employee received compensation while not performing Authority duties.

General Manager of Family Sweep. This employee received $5,230 of excessive relocation compensation, consisting of the following.

- $2,300 for reimbursement for lodging expense in excess of two months. The Authority has no policy for compensating relocation costs. Federal Acquisition Regulations limit reimbursement to two months lodging. However, the executive director reimbursed the Authority for the amount paid on his behalf that was in excess of two months lodging. This indicates the Authority realized that two months was the maximum allowable lodging expense in relation to relocation.
- $2,930 to offset tax effects of the relocation reimbursements. Federal regulations do not provide for payments to offset tax effects in this situation, and it is not Authority policy to provide such payments.

Director of Leased Housing. As previously mentioned, the Authority uses City and County salary scales for each position. The scales have five steps. An employee normally starts at the first step and progresses over time to the higher steps. Under certain conditions and when documented, such as superior qualifications or to match the person's previous pay, an employee can be started at a higher step.

The director of leased housing was hired in November 1997 at step 1, but this was retroactively changed to step 5 in 1998, a salary level over 20 percent higher than step 1. The step 1 salary was $80,388, 14 percent more than his salary at his previous job (the Authority's assistant director of subsidized housing), thus the change to step 5 was unjustified. The unwarranted increase resulted in excess pay of $29,998 through September 30, 1999.

Director of Finance. When hired, the director of finance

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started at step 3 rather than step 1. However, Authority records provide no basis for the higher step. The unsubstantiated increase resulted in excess pay of $8,324 through September 30, 1999.

Inter-Governmental Affairs Specialist. This individual had been an employee of the Cuyahoga Authority in Cleveland, Ohio, providing landscaping and related services. As evidenced by expense reports this employee submitted to the Cuyahoga Authority, he was absent from his San Francisco Authority job for 34 days between February 25 and October 24, 1997 while performing services for Cuyahoga. Nevertheless, the time sheets he submitted to the San Francisco Authority claimed that he was working for it. Based on the time sheets, the Authority inappropriately compensated the employee $7,324 while in positions held previous to that of inter-governmental affairs specialist: $1,844 while he was a conservation coordinator and $5,480 while he was a construction project manger. This individual is no longer employed at the Authority.

Executive Assistant. This employee was hired at a pay rate substantially higher than the previous employee holding the same position, as well as given several pay increases (two retroactively) which increased his salary to 2.3 times what he earned previously. The basis for setting his compensation was not adequately supported and appeared arbitrary and excessive.

The previous employee was compensated using pay schedule 71.0. If this schedule was used, the present executive assistant would have received an annual salary of $76,160, which was 14 percent more than his previous job as acting human resources director at Cuyahoga. Instead, he was hired in February 1998 at step 5 of pay schedule 70.45 at $90,123, a 26 percent increase over his previous salary.

Within a year the employee's annual salary was effectively raised to $154,460, 61 percent more than his starting pay, and 132 percent more than it was prior to working for the Authority.

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- In April 1998 his salary was retroactively increased to schedule 71.0 step 5 ($96,022).
- In August 1998 it was increased to schedule 77.20 step 5 ($125,254).
- In February 1999 it was retroactively increased effective August 1998 to schedule 80.90 step 5 ($149,866) and increased effective February to schedule 81.50 ($154,460).

The Authority did not believe the position of executive assistant was directly comparable to any City of County positions, nor did it have documentation showing how the job requirements related to the City and County classifications. The first retroactive pay increase was given on the basis that the initial pay scale was selected in error. The pay was increased to be 5 percent greater than that of the position of Authority general counsel. The subsequent increases were on the basis that the individual had increasingly taken on the duties of a deputy executive director. The last increase was on the basis of 85 percent of the executive director's salary. The Authority had no justification for the 85 percent figure.

We examined the City and County's pay scale schedule effective July 1997 looking for positions that might be comparable to deputy director. The schedule showed the beginning salary for deputy general manager of the municipal railway was $77,714 (schedule 71.50), for deputy director of the department of building inspection it was $86,996 (schedule 73.80), and for deputy director of planning it was $107,720 (schedule 74.20). All of these salaries were significantly less than the pay given to the Authority employee after August 1998.

We consider the salary in excess of the pay scale given to the previous executive assistant to be unsupported. This excess totaled $84,745 through September 1999. We also take exception with $31,312, or 23 percent of the accepted salary pay scale. This represents the amount the executive assistant is paid one week each month when he is permitted to tele-commute from Ohio. The Authority has no policy providing for tele-commuting. Further, in this situation there is no apparent benefit to the Authority, nor is it evident that the responsibilities of his position can be readily fulfilled halfway across the

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continent.

The executive assistant also received excessive relocation compensation totaling $17,213 consisting of the following:

- $8,400 for temporary lodging in excess of two months.
- $3,543 excess moving allowance. The employee received $5,000. However, when an employee provides no accounting for actual expenses as in this case, federal regulations (5 USC 5724a) limit reimbursement to no more than one week's pay of a GS-13 ($1,457).
- $5,270 to offset tax effects for the relocation reimbursements.

The Compensation Paid To The Executive Director Was Excessive

In addition to the eight employees tested as discussed above, we compared the payments to the executive director with his employment agreement. The agreement with the executive director gave him the option to assign his rights to the Ron C. Davis Company, Ltd. and to have payments, including benefits, made directly to the company. The executive director exercised this option in February 1998. However, the payments to the company exceeded the compensation provided for in the contract by $60,273 through September 1999.

- $38,523 was paid, in addition to his salary, for vacation, sick leave, and personal leave days. The Authority's personnel policies provide only for payment of accrued vacation upon termination of employment. Further, the payments to the executive director were not reduced although Authority staff told us he had taken leave. The executive director himself also indicated that he had taken leave and that neither he nor anyone else at the Authority had kept track of the leave he had taken. Therefore, we consider this amount to be duplicative of his salary.
- $11,250 of the monthly payments was for a performance bonus. The calculation used to make the monthly payments included the bonus before the bonus had been earned or approved.
- $10,500 included in the monthly payments to offset taxes on the above bonus. The contract did not provide for this and, as previously noted, neither do Authority policies.

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In addition, the executive director was being paid approximately ten days in advance, before the compensation was earned. This was inappropriate because it is inconsistent with prudent business practices and the Authority's policies.

The executive director also received $9,359 in excessive compensation for relocation.

- $8,594 excess moving allowance. The director received $10,000. However, where an employee provides no accounting for actual expenses as in this case, federal regulations limit reimbursement to no more than one week's pay of a GS-13 ($1,406).
- $765 to partially offset tax effects for the relocation reimbursements. After we brought this matter to the Authority's attention, the executive director repaid this amount.

The Executive Director Was Inappropriately Treated As A Contractor

When the executive director exercised his option for compensation to be paid to his company, the Authority stopped withholding from his pay income and other taxes paid by employees and also stopped paying the employer's share of social security taxes and Medicare. This was inappropriate because, Internal Revenue Service rules (in its publications 15 and 15A) require that he be treated as an employee. Some of the factors why the executive director should be treated this way include (1) he was originally treated as an employee, (2) his services are key to regular Authority business, and (3) he is provided with all necessary facilities, materials and training. The rules make the Authority liable for unpaid taxes when an employee is treated as a non-employee. In March 2000 the executive director and Authority entered into a new contract with the executive director as an employee.

Reimbursement To Cuyahoga Was Not All Unsupported

Previous to his contract with the Authority, the current executive director was on loan from the Cuyahoga Metropolitan Housing Authority as the acting executive director. The Authority agreed to reimburse Cuyahoga for the individual's salary and related costs. Cuyahoga was reimbursed a total of $236,691 for salary and benefits that covered the period October 26, 1996 to November 24, 1997. We consider $43,804 of this to be unsupported.

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- $35,168 was for a bonus in August. Of that $18,277 was based on 15 percent of three-fourths of the $162,465 annual salary, plus $16,891 to reduce the tax impact. The Authority's board authorized a 15 percent after-tax-bonus. The board authorized this based on Cuyahoga's statement that the acting director would have gotten a bonus based on the presumption of his outstanding performance at the Authority. However, considering the lack of a written evaluation of the person's performance, we consider the bonus unsupported.
- $8,636 was paid for life and disability insurance. Cuyahoga provided no support concerning life insurance paid on behalf of its other employees so that the reasonableness of the amount paid on the borrowed employee's behalf could be determined. Further, Cuyahoga did not provide disability insurance to its other employees. We note that these costs greatly exceed similar costs that would have been paid if the acting director had been a San Francisco Authority employee. At San Francisco the costs would have been $558 and $159 respectively for life and disability insurance.

HUD reimbursed the Authority for certain expenses incurred during its recovery period through September 1997. Included in the reimbursement was $43,711 for the $35,168 bonus and $8,543 of the $8,636 life and disability insurance discussed above. Thus, to the extent that the Authority cannot provide support to show the reasonableness of such costs, it should return the funds to HUD as well as reimburse the Authority's federal program accounts.

Excess Per Diem Was Paid

The State of Ohio Auditor disallowed $12,135 of charges the acting executive director made using the Cuyahoga credit card while on loan to San Francisco. San Francisco subsequently reimbursed the costs to Cuyahoga, using the Authority's miscellaneous fund containing non-federal funds. A portion of these charges was for restaurant meals for the executive director and others at restaurants such as Lulu, Morton's, and Julie's Supper Club where the average cost of meals is as high as $58 per person.

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These charges, however, duplicated the per diem allowance the acting executive director received from Cuyahoga and that were subsequently reimbursed by the Authority. When meals are otherwise provided, the per diem should have been reduced ($8 each for breakfast and lunch, and $20 for dinner), but they were not. We identified $856 of excess per diem related to 50 meals between January and August 1997.

The Authority Was Billed For Costs Of Work Done For Cuyahoga

In April 1997, the loaned acting director attended a HOPE VI conference in Detroit on behalf of Cuyahoga. Nevertheless, the Cuyahoga billing to the Authority included the employee's salary and travel expense related to the trip. As a result, the Authority paid $3,553, consisting of salary of $1,799 and travel expense of $1,754, that was not necessary to Authority operations.

Annual Appraisals Of Employee Performance Were Not Done

As previously mentioned, there was no performance appraisal for the acting executive director while on loan from Cuyahoga. This is in contrast with Authority policy II-011, requiring supervisors to give employees annual performance appraisals as well as a six-month appraisal for probationary employees. Appraisals serve to justify compensation increases as well as to provide feedback to employees to encourage improved performance. However, tests of 20 employees disclosed no performance appraisals were given in recent years.

After the period covered by this audit (September 30, 1999), the Authority had begun performing some employee appraisals. Our subsequent March 2000 test of 18 selected employees showed that five of them had appraisals. Of the seven employees discussed in this finding, only one had been appraised.

Various Causes Were Noted For The Conditions

In our opinion, the principal reasons the above conditions arose were as follows:

- Management officials did not follow the Authority's written policies as well as sound management practices. This was particularly evident in the hiring process where frequently there was limited or no consideration of multiple potential applicants or proper screening of applicants to assure they met minimum required qualifications. The inattention to

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policies was also evident in the absence of verification of selected applicant's background and preparation of employee performance evaluations.

- The executive director gave the appearance of using favoritism in hiring acquaintances and former associates. These included the executive assistant, general manager of family sweep, and financial advisor. These individuals were hired without considering other applicants and/or their qualifications were questionable.
- Proper analyses for establishing the executive assistant's various salary levels were not performed.
- There was insufficient board involvement, especially in the setting of the executive director's compensation. The finance director was to have computed the monthly payment amount and present it to the board for its approval, but this was not done.
- There was no written policy concerning compensation for relocation.

Funds Were Wasted, Effectiveness Was Reduced, Also Potential Tax Liabilities And Penalties Exist

The effects of the poor management practices are:

- Funds were spent for ineligible, unnecessary and unreasonable costs that reduced funding that could have been available to further the Authority's mission.
- The highest qualified and capable individuals were not hired, thus, the effectiveness of the Authority's operations was reduced. Employee effectiveness was also not assured due to a lack of positive feedback and constructive criticism given as a result of performance evaluations.
- The appearance of favoritism in personnel practices diminishes the Authority's effectiveness by reducing employee morale and undermining the credibility of management. The excessive compensation unnecessarily wasted resources and sends the wrong message to struggling low and moderate income persons who are supposed to be helped by the Authority's programs.
- A significant and unnecessary potential tax liability exists because the executive director was treated as a contractor rather than an employee. A penalty may arise resulting further unnecessary expenses.

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Auditee Comments

The Authority generally disagreed with the finding's conclusions based on the following arguments.

- The finding failed to acknowledge that the Authority followed its policies/practices in effect at the time and to include a cost/benefit analysis of the contributions as well as the achievements the employees at issue in this finding have made relative to its recovery effort.

- The finding did not acknowledge the valid exercise of management discretion in the hiring of temporary/term employees to continue the recovery.

- The finding was not representative of the Authority's employment activities as it was based on an extremely small percentage of all the Authority's employee population.

- The finding failed to acknowledge corrective actions taken since the beginning of the recovery effort.

The Authority also stated that all of the finding's recommendations should be dropped, claiming that it followed sound personnel practices and did not deviate from its policies, procedures or practices. It contended that the OIG used a very small sample to arrive at a major and erroneous conclusion, and that a salary of $61,999 does not represent a highly compensated person in the San Francisco labor market. It argued that the recommendation for the monitoring of the Authority's employment practices will remove or restrict the Authority's appointing authority.

The Authority claimed that its classification of employees was in full compliance with Office of Management and Budget Circular A-87 and was based upon the classifications used at the City and County of San Francisco. It added that its approaches were both prudent and consistent with well-established and widely accepted classification and compensation practices and noted that its personnel decisions were sound and improving.

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With respect to the recommendation to review payments made for the loaned employee and return unreasonable or unsupported amounts, the Authority said that HUD had reviewed these expenses and deemed them appropriate and adequately supported. It also contended that HUD reimbursed it for the payments made to Cuyahoga for the loaned employee as an allowed, supported, and justified HUD recovery expense.

Regarding the recommendations concerning the executive director's contract, the Authority contended that all actions were in accordance with the conditions of the employment agreement which was approved by the board as an exercise of their statutory authority. It further noted that the November 19, 1997 employment agreement between the Authority and the executive director was negotiated at arms-length between the executive director, the board of commissioners, and its attorney.

The Authority's response to the recommendations concerning the former intergovernmental affairs specialist was that he did not have a contract with, nor was he paid by Cuyahoga, and therefore seeking reimbursement from the employee was unwarranted. The Authority further asserted that, although it paid the employee while he was working for Cuyahoga, he was not paid by both housing authorities for the same time worked, that the payments were simply a time keeping error, and that there was no attempt on the part of the employee to deceive anyone.

On the final recommendation, the Authority noted that the recommendation did not provide any legal, regulatory or policy citations regarding the travel regulations that might apply to public housing authorities. The Authority further stated that its draft revised personnel policies, which were given to the OIG, contains a relocation travel policy that allows for reimbursement of reasonable relocation expense.

OIG Evaluation Of Auditee Comments

We reviewed the Authority's detailed responses and supporting exhibits and have made modifications to the report where appropriate. However, these changes did not significantly change our conclusions or recommendations.

We did not include a cost/benefit analysis of Authority achievements as this was not an objective of the audit. Benefits are expected from any expenditure, so whether some benefits were obtained had no bearing on the conclusion that management did not always follow its policies and procedures or federal requirement, which resulted in wasted resources.

In its responses, the Authority repeatedly implies that it has the right to the valid exercise of management discretion in its actions; however, this does not give its management the right to circumvent Office of Management and Budget and other federal requirements when expending federal funds. Contrary to the Authority's assertion that it followed its own policies at the time, our review of the hiring of administrative staff members showed that it did not do so.

Our review concentrated on the higher-salaried positions and not the general employee population because the higher salaried employees have a greater impact on the management of the Authority and the use of its limited funds, and most were key administrative staff. The review of the employees selected clearly showed that the Authority routinely hired candidates with questionable qualifications to carry out key responsibilities. Our review showed any corrective actions the Authority may have taken since the beginning of the recovery period were not working effectively.

Although the Authority claimed that salaries in excess of $61,999 does not represent a highly-compensated person in San Francisco, it is well above the $50,700 average annual salary for Authority employees, particularly if a person is not fully qualified. The recommendation to monitor the Authority's employment practices is not intended to remove or restrict the Authority's hiring authority, but is intended to eliminate favoritism, ensure that the best qualified persons are hired, and

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ensure conformance with Office of Management and Budget Circular A-87 and sound management practices.

Although the Authority appeared to be basing the classifications of most of its employees on the basis used at the City and County, it did not always hire employees who met the minimum qualifications for those positions. For example, when the Authority hired the construction project manager (who later filled the intergovernmental affairs specialist position), it used the City and County classification for a civilian engineer which required a bachelor's degree. He had not have the required degree. We further believe that the Authority's employment practices were not prudent as it did not always announce jobs to obtain an adequate pool of applicants and, when it did announce the openings, did not give adequate consideration to all those applying.

We also disagree with the Authority's claim that HUD's reimbursement of the loaned employee's expenses means that these expenses are appropriate and adequately supported as it was not evident that HUD performed a detailed analysis of these expenditures. Concerning the executive director's employment agreement, we agree that the board had the power to legally bind the Authority to a contract, but only long as contract payments from federal funds conform with HUD and other federal requirements. However, as detailed in the body of the finding, payments were made in excess of the terms and conditions of the contract and were not always in conformance with the Authority's own policies.

In its response to the recommendation regarding the inter-governmental affairs specialist, the Authority stated that this person did not have a contract with and was not paid by Cuyahoga. However, this is irrelevant as the Authority paid for work that this person performed for Cuyahoga We disagree that these payments were a time keeping error since the misreporting of attendance was repeated over an extended period of time.

The final recommendation was modified to cite the applicable federal requirements pertaining to relocation cost reimbursements. Since the board has not yet approved changes

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to the Authority's personnel policies, the Authority will have an opportunity to ensure conformance with the cited requirements.

Recommendations

We recommend the Assistant Secretary for Public and Indian Housing:

2A. Direct the Authority to stop deviating from sound personnel practices and its written policies and procedures, and requires the Authority to submit a plan to HUD on how this will be accomplished. The plan should, at a minimum, include improved controls and board of commissioners oversight.

2B. Closely monitor the Authority's employment and personnel practices until there is confidence that the use of sound methods are in effect and will continue, and requires the Authority to submit for HUD's review the documentation supporting the selection process and the basis for compensation for key and highly compensated (over $61,999 annual salary) positions before a job is offered to a selected applicant.

2C. Have an independent, HUD-approved expert in personnel classification and compensation review the qualifications and salaries of the questioned personnel. Require the Authority to take appropriate action on employees not meeting minimum qualifications and adjust salary rates, responsibilities, and status.

2D. As a result of recommendation 2C, require the Authority to reimburse its federal programs for all excessive salaries. In addition, require it to similarly return all other ineligible, unreasonable, and unnecessary compensation also identified in this finding. (See unnecessary/unreasonable costs identified in Appendix A of this report for Finding 2.)

2E. Require the Authority to obtain documentation in support of the reasonableness of amounts billed for the loaned employee. Have an independent, HUD-

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approved expert in personnel classification and compensation to evaluate compensation paid, and require the Authority to return to its federal program any amount considered unreasonable or unsupported.

2F. Require the Authority to obtain a refund from Cuyahoga for costs associated with the loaned employee when he was performing at Cuyahoga.

2G. Require the Authority to stop paying the executive director in advance, and provide evidence that any tax liability is paid.

2H. Require the Authority to obtain reimbursement for the former intergovernmental affairs specialist who was compensated while not working on Authority business.

2I. Initiate administrative sanctions against the former intergovernmental affairs employee who submitted time sheets to the Authority for time he was not working on Authority business.

2J. Require the Authority to implement a written policy addressing relocation expenses that complies with federal requirements, including the Federal Acquisition Regulation, Office of Management and Budget Circular A-87, and 5 USC chapter 57.

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The Authority Is Using an Invalid Section 8 Waiting List

The contractor chosen to create the Authority's waiting list used to select Section 8 program beneficiaries did not perform adequately. The list contained duplicate names, names did not appear to be chosen randomly, and federal and local ranking preferences were not applied correctly. As a result, the Authority is using an invalid list that gives certain individuals unfair and unintended advantages to the detriment of others. This occurred because the Authority did not adequately monitor the contractor's performance. Further, the Authority's improper procurement practices resulted in selecting a contractor with limited experience.

HUD Required A New Waiting List

Under the Section 8 program, recipients must normally be selected from a waiting list in accordance with an acceptable plan. Thus, in January 1997 HUD instructed the Authority's acting executive director to plan for the opening of a new waiting list to provide an applicant pool sufficient to effectively utilize available funds. When HUD returned the Authority to local control later that year, HUD further instructed the Authority to contract out the development of the new list.

On February 8, 1998 the Authority entered into a $149,200 contract with the Wil Davis Management Company of Cleveland, Ohio to create the waiting list. The contract called for setting up a telephone-based application process and using a computer program to randomly select applicants for the waiting list. The contractor's responsibilities included identifying and deleting any duplicate applicants from the waiting list prior to delivery. The contractor was also required to provide all applicant data obtained during the application process.

The contractor provided a waiting list which the Authority began using in May 1998. However, the contractor had not delivered the database containing all the applicants from which the waiting list was created. Subsequent to our pointing this out, the Authority withheld final payment to the contractor. Thus, only $121,300 was paid.

In August 1999, after nine months and numerous attempts to obtain the contractor's cooperation, the contractor provided the

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database and a written narrative describing the waiting list selection process.

The Waiting List Was Created From A Faulty Database

According to the contractor's narrative, (1) 38,417 applicants were entered into the applicant database, (2) the database was scanned several times for duplicate social security numbers, and (3) all duplicates were purged, leaving over 29,000 applicants on the "purified" database from which the waiting list was created. However, we found that the supposedly cleaned-up database contained the records of 1768 applicants whose social security numbers appeared more than once and as many as 11 times in the database. As a result, those individuals listed more than once have a greater advantage in being selected for the waiting list.

Individuals Did Not Appear To Be Selected Randomly

We searched the waiting list for duplicate social security numbers and found that it contained the names of 195 applicants holding more than one position on the list. Further, the selection of applicants for the waiting list did not appear to be done randomly because 26 of the applicants appearing more than once on the list were assigned sequential rankings, that is, the duplication of their names on the list appeared immediately after the first appearance.

Federal and Local Preferences Were To Be Assigned

The Authority's administrative plan for the Section 8 program provides for federal preferences as well as two local preferences: (1) residents of and persons working in San Francisco and (2) veterans of the U.S. armed services. The plan provides for the following priority categories for the ranking of Section 8 applicants:

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Priority Level	Category
1	Federal Preference, Resident, Veteran
2	Federal Preference, Resident, Non-Veteran
3	Federal Preference, Non-Resident, Veteran
4	Federal Preference, Non-Resident, Non-Veteran
5	No Federal Preference, Resident, Veteran
6	No Federal Preference, Resident, Non-Veteran
7	No Federal Preference, Non-Resident, Veteran
8	No Federal Preference, Non-Resident, Non-Veteran

The Contractor Did Not Properly Assign Preferences

According to the contractor's narrative describing the creation of the waiting list, the list ranked names using the above guidelines. However, we found that due to the contractor's data entry and programming errors, persons selected for the waiting list were not correctly ranked in accordance with above preferences. This resulted in higher-category individuals being placed in lower positions on the waiting list than lower preference category individuals. Some of the inconsistencies in assigning preference categories included:

- 46 persons with at least one federal preference who were San Francisco residents and veterans and were assigned to priority category 2, even though they qualified for priority category 1.
- 718 persons who had addresses in San Francisco and were paying greater than 50 percent of their incomes for rent (a federal preference) and were assigned to priority categories 3, 4, 5, and 6 even though they qualified for priority category 2.
- 182 applicants assigned to the priority 2 category even though they did not have either of the local preferences required to be listed in category 2.
- 673 persons on the waiting list who were paying over 50 percent of total income for rent that were not identified as having the federal preference for this.
- 317 persons on the waiting list who had San Francisco addresses that were not identified in the database as having a residence preference.

The Authority has been setting up eligibility appointments in the order that applicants appear on the waiting list without making any adjustments for the incorrect assignment of priority categories by the contractor. Thus, Section 8 assistance is

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being offered to persons having a lower preference ranking than some applicants with higher rankings.

Inadequate Monitoring And Limited Experience Caused The Problems

We attribute the above problems to the Authority's inadequate monitoring of a contractor that had limited experience. The Authority did not evaluate the final product (the waiting list) nor ensure that the contractor provided all deliverables. Also, the Authority used a solicitation process that resulted in only one firm responding, and that firm's previous experience was limited to waiting list work done at the Cuyahoga Metropolitan Housing Authority in Cleveland, Ohio. Finding 1 in this audit report discusses systemic weaknesses in the Authority's contracting activities.

Auditee Comments

While acknowledging some difficulties with the contractor, the Authority believes that the duplication and preference problems were not significant. This conclusion was based on an analysis done by a consultant from the Cleveland office of Deloitte & Touche to scrutinize our analysis. Thus the Authority believes that the contractor substantially performed the contract requirements, and it disagrees with the finding's recommendations.

The Authority said that a scan on social security number alone may not result in an accurate indication of potential duplicates and asked Deloitte to test the finding based on a match of social security number, first name, and last name. The Deloitte consultant concluded that there were only 798 true duplications in the database when last and first names are matched with those records with duplicate social security numbers. The consultant also concluded that the effects of the duplicate applicants was immaterial as the "true" duplicate applicants had less than a 2 percent increased probability of being selected over those applicants appearing only once in the database. The Authority also stated that the Wil Davis Management Company had notified them that there were 143 duplicate names on the original waiting list and that these names were purged leaving a waiting list consisting of 9,857 records. Deloitte tested the 9,857 records in response to the audit finding and concluded that there were only 66 applicants duplicated on the final waiting list.

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The Authority also used Deloitte to analyze the preference issue. Deloitte concluded that our figures were not accurate if the analysis is conducted on the 9857-name list and stated that it found only 206 individuals who were not given the proper preference ranking due to errors made by Wil Davis. The Authority advised that any of these individuals that had not been housed were called in for eligibility appointments. Further, it said it verifies preferences when an applicant is called in for an eligibility appointment and any applicant that cannot verify the preferences claimed is moved to the appropriate position on the waiting list. The Authority contends that the balance of the preference ranking errors reported by OIG was overstated because the Wil Davis Company was only instructed to enter preferences into the database that were self-declared by the applicants and that the contractor was not required to analyze the data and assign the preferences. The preferences do not occur until the applicant is called in from the waiting list and the amount of adjustments necessary have not been material enough to support our conclusion.

The Authority contended that it took all reasonable and prudent steps to ensure the propriety of the waiting list. The Authority also believed that the vendor had sufficient experience.

OIG Evaluation Of Auditee Comments

The Deloitte consultant hired to analyze this finding was the same consultant who managed the contracting for the waiting list and who recommended the authority contract with the Wil Davis Management Company. (See Finding 1.)

Deloitte's methodology of using social security numbers along with first and last names to identify duplicates in the Wil Davis applicant database found fewer duplications because it did not take into account spelling or typing errors by the Wil Davis staff who took down and input applicant information into the database. Deloitte's search for duplicates would also fail to account for deliberate first or last name changes made by the applicants to escape detection when applying more than once in an attempt to increase their chances of selection for the waiting list.

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The following are examples of applicants we identified as duplicates but claimed by Deloitte and the Authority as not being duplicate applicants:

- Applicant numbers 012308 and 014546 - Both had same social security number and last name, but two letters of the first name were transposed on the applicant intake form.
- Applicant numbers 014462 and 28810 - Both had same social security number and first name, but the last name was mistyped into the data base and was off by one letter.
- Applicant numbers 009122 and 009225 - Both had the same social security numbers and last name, but two letters in the first name were transposed when typed into the database.

In our search for duplicate persons selected for the waiting list, we used the original 10,000-name list Wil Davis gave to the Authority. It used this 10,000-name list for calling in applicants for their Section 8 eligibility interviews beginning in May 1998. For its analysis, Deloitte used a revised 9857-name list that Wil Davis delivered to the Authority in August 1999, 16 months subsequent to when the authority began using the original list. The new list was purged of 143 duplicate names identified by Wil Davis. Our analysis of the 143 names that were removed from the new list showed the Authority had already called in most of these people for eligibility interviews, and these people continued to hold other positions on the revised list even though they had already been called in.

Verification of the preferences is not the issue. The issue is that names are ordered on the waiting list on the basis of the preferences, so if the claimed preferences are not properly indicated, individuals are not properly ranked. The contractor obviously did not consider information affecting the preferences. For instance, when individuals gave a San Francisco home address, the contractor often did not give a preference for a San Francisco residence. Similarly, high housing cost preference was often not given even though the housing cost and income information collected from the individual indicated that they would qualify. The contractor could have readily programmed the database to avoid errors for those two preferences. Still, the apparent carelessness of the contractor indicates that errors in other preferences (such as veterans'

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where other data were not available to indicate whether the preferences applied) also occurred.

We disagree that the Authority took all reasonable and prudent steps since even a cursory review of the waiting list would have identified problems, and examination of intake forms would have shown inconsistencies of indicated preferences verses other information on the form.

We concluded the vendor did not have adequate experience, since the contractor had only one similar previous contract and demonstrated general ineptitude on the subject contract. As described in Finding 1, the limited opportunity given to other potential contractors reduced the possibility of selecting a more competent contractor.

Recommendations

We recommend the Assistant Secretary for Public and Indian Housing require the Authority to:

3A. Discontinue use of the current Section 8 waiting list.

3B. Develop and implement a proper Section 8 waiting list.

3C. Repay from non-federal funds the cost of the contract issued to develop the waiting list.

3D. Privatize its Section 8 activities if it does not implement recommendations 3A and 3B.

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Section 8 Overpayments Were Not Properly Managed

The Authority needs to improve its management of Section 8 overpayments. Specifically, it should do proper research in determining receivable balances, take more aggressive recovery actions, and abstain from inappropriately retaining part of the recoveries. Further, it should record the receivables in its general ledger. These actions had not been taken because of omissions in policies and procedures and misinterpretation of HUD requirements. As a result, an accurate picture of the extent of receivables was not available, the extent of recoveries was low, monies for Section 8 housing was inappropriately reduced by at least $128,553 from the improper withholding of recoveries, and complete and accurate data was not available in the financial statements to monitor the Authority.

Landlords Are To Return Any Overpayments

The purpose of the Section 8 program is to provide housing for low-income families by subsidizing their rents through direct payments to private landlords. To receive the payments, an owner enters into a lease with the tenant which requires both parties to comply with program requirements. The lease requires both the tenant and landlord to notify the Authority of any termination of tenancy.

The owner also enters into agreement with the Authority, known as a Housing Assistance Payments contract. The contract specifies the conditions to be met in order to receive the payments. These payments may only be paid to the owner for the period of the lease and while the family is residing in the unit.

An owner is in breach of the contract if it violates any of its conditions, including accepting housing assistance payments on a unit no longer occupied by a Section 8 tenant. Title 24 CFR subpart 982.453 states that a housing authority's rights and remedies against the owner under the Housing Assistance Payments contract includes recovery of overpayments. Thus, a housing authority has the right to a refund, as well as the responsibility to take all appropriate action to recover the overpayments.

In September 1997 HUD returned control of the Authority to its board of commissioners and issued a report containing

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specific actions (termed benchmarks) to be taken by the Authority to improve its Section 8 program. The benchmarks included the identification of Section 8 receivables from property owners and the establishment of policies and procedures for collection of owner receivables.

Tests Were Made Of Individual Receivable Balances

To determine the cause of the housing assistance overpayments and test the effectiveness of the leased housing office's collection efforts, we obtained the January 5, 1999 listing of all owner receivables from the Authority's Creative Computer Solutions system. From the list we selected a sample of 25 owners with receivable balances in excess of $1,000. The sample consisted of all 14 owners with receivable balances in excess of $3,500 and 11 of the 89 owners with balances between $1,000 and $3,500. The receivables tested totaled $123,027 (23 percent) of the $524,860 of total owner receivables shown in the system.

The Majority Of Receivables Were Erroneous

Our tests showed that only $41,509 (33 percent) of the $123,027 in receivables tested were verifiable overpayments. The tested receivables were overstated by $81,518, primarily due to data entry errors and because the Creative Computer Solutions listing did not account for checks that had been voided or returned. Also included in the overstated balance was $18,970 of recorded overpayments from years 1993 and 1994 for which the Authority had insufficient supporting documentation.

The overstatement occurred because the Authority's written policy to research the individual receivables had not been followed. However, we noted the leased housing office had begun to review the validity of the receivables in the Creative Computer Solutions system during the audit.

There Were Three Causes For The Overpayments

There were three reasons why the 13 valid receivables in our sample existed. Six overpayments totaling $24,349 were due to failure of landlords or tenants to timely inform the Authority of Section 8 lease cancellations. Another six totaling $14,820 existed because leased housing office staff failed to timely enter the cancellations into the system. This problem appears to have been corrected. One $2,340 overpayment occurred due to a

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human error resulting in duplicate payments for three months' subsidy.

The Rate Of Recovery Was Low

As of October 1999, the Authority had only recovered $8,450 (21 percent) of the net valid receivables ($40,981) in the audit sample, leaving an unrecovered balance of $32,531.

We believe the low rate of recovery was due to the Authority not taking aggressive action. As of December 1999, efforts to recover the overpayments had been limited to sending landlords payment request letters in December 1998 and follow-up letters in February 1999. The Authority had not contacted owners directly who had not responded to the letters, referred uncollected balances to a collection agency, or initiated legal procedures against the owners to recover the overpayments. We phoned one landlord who had received 13 months' payments after lease termination to confirm the balance. Immediately after this contact, she began negotiations with the Authority.

The Authority's written policies and procedures do not call for aggressive recovery actions. Its administrative plan for the Section 8 program does not have any provisions for the collections of housing assistance overpayments other than sending invoices to the landlords for the overpayment amounts. The Authority's March 3, 1997 interim procedures on amounts due from landlords, state that the clerk is to enter the overpayment information into the system, generate an invoice for the overpayment, and mail the invoice to the landlord. The procedures contain no provisions for further action if the landlord fails to pay the invoice.

The Authority Inappropriately Retained Recoveries

When the Authority receives reimbursement of overpayments from the Section 8 owners, it credits the housing assistance payment accounts in the general ledger for the full reimbursement. Similarly, collections of Section 8 tenant accounts receivables are credited to various housing assistance payment expense accounts. Thus, the owner overpayments and tenant reimbursements are initially returned to accounts from which the payments were originally made. Nevertheless, $128,553, (50 percent) of all the recoveries collected from October 1998 through August 1999 were inappropriately

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transferred from the housing assistance payment accounts into the Authority's fraud recovery account.

According to Title 24 CFR subpart 792.102, retention of fraud recoveries applies only in instances where a tenant or owner commits a fraud and the recoveries are obtained through litigation, court-ordered restitution, or an administrative repayment agreement as a result of a grievance procedure pursuant to subpart 882.216 or 887.405. The retention of fraud recovery funds does not apply in cases of calculation errors. Further, subpart 792.204 requires the Authority to maintain all records including the amounts recovered, the nature of the judgment or repayment agreement, and the amount of legal fees and expenses incurred in obtaining the judgment or repayment agreement and recovery.

The director of leased housing said it was his decision to retain 50 percent of receivables collected upon hearing of HUD's fraud recovery program. However, the leased housing office produced no documentation that the receivables were generated because of owner or tenant fraud. Further, the Authority was unable to show that it had incurred legal expenses related to the collections of the owner and tenant receivables.

An Authority official advised us that a decision had not been made on how the funds in the fraud recovery account will be used. In our opinion, any use other than what was originally intended (that is, to provide rental subsidies to families) would be improper unless the retentions complied with program requirements.

Overpayments Were Not Included In The General Ledger

The Authority did not include the overpayments in its general ledger. This is contrary to HUD handbook 7420.6, *Housing Assistance Payments Program Accounting* which says public housing agencies should maintain complete and accurate books of account and records. The Authority kept a list of the receivables, but since this information was not included in its general ledger, the receivables were also omitted from the financial statements. Thus, HUD and other users of the financial statements do not have a complete accounting of Section 8 activities.

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Authority management said the receivables were not recorded in the general ledger because they viewed the receivables as being owed to HUD and not to the Authority. These funds are owed to HUD in the sense that they reduce program expenditures, making funds available for providing additional Section 8 assistance (or to be returned to HUD if it terminates the Section 8 program at the housing authority). Nevertheless, the Authority is responsible to recover these funds, and to use the funds in accordance with HUD requirements.

Auditee Comments

The Authority asserted that they had already identified that $220,737 (42 percent) of the $526,284 in owner receivables were erroneous. It noted that adjustments were made in the Creative Computer Solutions system for the erroneous amounts but that the incorrect balance continues to show on the summary reports because the only way to remove these balances is by writing them off. The Authority also said, since it took control from the HUD recovery team in September 1997, it has implemented procedures and a tracking system to collect past amounts owed by the section 8 landlords and, in 1999, had collected a total amount of $176,808 from these landlords. The Authority said this represents a collection rate 190 percent greater than prior to 1996.

The Authority asked that we drop the recommendation to create and implement a collection policy that describes actions to be taken when written requests for repayment fail. Nevertheless, it said that it will ensure that written policies will reflect the aggressive procedures it currently claims are in use. It added that it will continued to research the receivables and will implement the recommendations to record all valid receivables in the general ledger.

Regarding the retention of 50 percent of its recoveries, the Authority said that it believed it was in compliance with the spirit and intent of the CFR regulations and was thus entitled to retain 50 percent of funds recovered. Thus, it will continue the practice.

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OIG Evaluation Of Auditee Comments

We acknowledge that the Authority has made progress in the identification and collection of overpayments to landlords since it resumed control in 1997. However, we believe that the Authority should continue this progress and take all necessary steps, including write off, to remove erroneous receivables from its accounting records and report the corrected receivable balance in the general ledger.

Further, the Authority still needs to establish and implement effective policies and procedures to ensure the collection of the overpayments from landlords who are not responsive to letters requesting repayments. We saw no evidence of aggressive collection claimed by the Authority. The collection rate of validated receivables remains low and, in our opinion will not improve until stronger collection methodologies are implemented.

The Authority is entitled to retain part of the recoveries only when certain conditions are met as described in the regulations. However, it did not demonstrate that it met those conditions. For instance, it did not demonstrate that the payments collected were generated because of owner or tenant fraud. Also, it had not incurred legal expense in connection with any particular overpayment.

Recommendations

We recommend the Assistant Secretary for Public and Indian Housing require the Authority to:

4A. Create and implement an effective overpayment collection policy as part of the administrative plan for the Section 8 program. The policy should describe actions to be taken when written requests for repayment fail. These actions should include assessing penalties for late repayment, referring receivables to collection agencies, and referring receivables to the Authority's legal department to commence legal action. The policy should also conform with HUD's requirements regarding retention of recoveries from

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overpayments that occur due to fraud.

4B. Return the $128,553 retention to the Section 8 contract accounts along with all amounts improperly retained since August 1999.

4C. Thoroughly research all Section 8 owner receivables for validity and provide a detailed analysis showing the research results covering the initial $524,860 receivable balance.

4D. Record all validated receivables in the general ledger in accordance with HUD Handbook 7420.6

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Management Controls

In planning and performing the audit, we considered the management control systems used by the San Francisco Housing Authority to determine the audit procedures and not to provide assurance on management control. Management control is the process effected by an entity's board, management, and other personnel, designed to provide reasonable assurance for achieving objectives for program operations, validity and reliability of data, compliance with applicable laws and regulations, and safeguarding resources.

Relevant Management Controls Were Considered

The following control systems were relevant to the audit objective:

- Public Housing Management Assessment Program reporting
- Performance Funding System reporting
- Contracting
- Administrative personnel hiring and compensation
- Section 8 receivables

We obtained an understanding of the control structure for the above systems and determined the risk exposure to design audit procedures. We concluded that the audit would be performed more efficiently by doing substantive tests without reliance on management control. Therefore, we did not necessarily make a complete assessment of control design or determine whether all policies and procedures had been placed in operation.

Significant Weaknesses Were Noted

A significant weakness exists if management control does not give reasonable assurance that control objectives are met. We observed significant weaknesses with contracting (*Findings 1* and *3*), administrative personnel (*Finding 2*), and Section 8 receivables (*Finding 4*).

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Follow Up on Prior Audit Reports

The HUD Office of Inspector General previously audited the Authority's Drug Elimination Program for the period of July 31, 1995 through December 31 1997. The audit report (number 98-SF-201-1003) was issued July 22, 1998.

The Report Contained Similar Issues

In the area of contracting, the audit raised similar issues to those problems identified in the current report. Specifically:

- Contractor billings were not adequately reviewed to determine their propriety.
- Documentation of the procurement process was often unavailable.
- Written contracts were sometimes absent.
- Proper cost analyses were not performed.
- Contract advances were made without proper accounting.

Prior Recommendations Remain Open

The audit's recommendations that pertain to the above issues are still open. These include recommendations:

1D. Provide proper training and written instructions to assure contract payments are correct and proper.

4A. Complete implementation of a centralized contracting unit.

4B. Revise written procurement procedures.

4C. Discontinue use of contract terms that provide advances to entities that are not required to be accounted for.

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Schedule of Questioned Costs

ISSUE	INELIGIBLE 1/	UNNECESSARY/ UNREASONABLE 2/	UNSUPPORTED 3/
Finding 1 – Contracting			
Second Creative Consulting Management Group contract, improper charges	$10,800		
Third Creative Consulting Management Group contract, improper charges	15,000	$1,887	
First Deloitte contract, questionable utility, and improper and unsupported charges	1,918		$247,371
Wil Davis contract (see Finding 3 on next page of this chart)			
First McFarlin contract, excess charges and unsupported work	27,750		68,290
Second McFarlin contract, excess charges and unsupported work	61,600	1,002	108,827
First Zirl Smith contract, unsupported services			39,750
Second Zirl Smith contract, duplicate payments and unsupported services	26,578		40,950
Amendment to Second Zirl Smith contract, made over HUD's objection			150,000
Total Finding 1	$143,646	$2,889	$655,188
Finding 2 – Administrative Personnel			
Questionable employee qualifications			480,261
General manager of family sweep's excess relocation compensation	5,230		
Director of leased housing paid at too high a step		[1]29,998	
Director of finance paid at too high a step		8,324	
Inter-governmental affairs specialist paid while not at work	7,324		
Executive assistant's questionable salary level			84,745
Executive assistant's compensation while tele-commuting		31,312	
Executive assistant's excess relocation compensation	17,213		
Continued on Next Page			

[1] This amount is also included two rows above in the $480,261 unsupported amount. The total unsupported costs for Finding 2 of $622,523 on the next page does not include the $29,998.

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ISSUE -CONTINUED	INELIGIBLE	UNREASONABLE/ UNNECESSARY	UNSUPPORTED
Executive director's compensation in excess of contract		$60,273	
Executive director's excess relocation compensation	$9,359		
Unsupported reimbursement of compensation on behalf of loaned Cuyahoga employee			$43,804
Portion of unsupported reimbursement of $43,804 reimbursed by HUD			[2]43,711
Excess per diem due to duplicate meal reimbursement	856		
Costs related to loaned employee performing duties for Cuyahoga	3,553		
Total Finding 2	$43,535	$129,907	$622,523
Finding 3 – Flawed Waiting List Inept contract performance		$121,300	
Total Finding 3	$0	$121,300	$0
Finding 4 - Section 8 Overpayments Improper retention of refunds	$128,553		
Total Finding 4	$128,553	$0	$0

1/ Ineligible amounts are those that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of funds, or are otherwise prohibited.

2/ Unnecessary amounts are those which are not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable amounts exceed those that would be incurred by the ordinarily prudent person in the conduct of a competitive business. Costs must be necessary and reasonable to be eligible under federal cost principles.

3/ Unsupported amounts are those whose eligibility or reasonableness cannot be clearly determined during the audit since they were not supported by adequate documentation or due to other circumstances. Under federal cost principles, a cost must be adequately supported to be eligible.

[2] To the extent this amount is sustained, funds should be returned to HUD since HUD reimbursed the Authority for these costs. For other amounts in the schedule, if sustained, the Authority should reimburse its federal program accounts with non-federal funds.

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Auditee Comments

[*Due to the large volume of the Authority's written responses to the draft report, only its summaries are included here.]*

The San Francisco Housing Authority (SFHA) has prepared and submitted detailed responses to the four draft findings delivered to the SFHA for review and comment. These draft findings and the response of the SFHA are summarized as follows:

1. Draft Finding 1 – The SFHA Disregarded Federal Requirements When Contracting for Consulting Services

   SFHA Response:

- **The draft findings first fails to acknowledge that some of these contracts were awarded under exigent conditions and further fails to include a cost/benefit analysis of the contributions these contractors have made to the SFHA and its recovery effort.**

  - The HUD OIG has, in the past, conducted a cost benefit analysis to determine the appropriateness of issuing findings. (See attached HUD OIG report dated August 1, 1997 relative to an audit of a $40 million sole-source contract to McCormack Baron, marked Exhibit A)
  - The total monetary contributions of only 4 of the 6 contractors at issue **exceeds $29 million** as follows:

These contractors conservatively contributed over $29 MM of monetary benefits to the SFHA

Contractor	Cost to SFHA	Deliverable	SFHA Costs Benefits	*Net Savings to the SFHA*
Deloitte & Touche	$ 528,082		$ 3,190,750	$ 2,662,668
		Portability payments	$ 1,026,750	
		Accounts Receivables	$ 1,300,000	
		Annual reoccuring benefits. Identified 1,200-1,500 additional voucher cerrtificates which were not being used. This action caused the wait list to be re-opened.	$ 864,000	
Dr. Emma McFarlin	$ 453,689		$ 2,500,000	$ 2,046,311
		Established in-house legal department resulted in a savings for the SFHA. At the time of Dr. McFarlin's arrival, HUD Recovery Team had legal costs of apx. $2MM.	$ 800,000	
		Annual reoccuring benefits. Retention of Section 8 Program management. Upon Dr. McFarlin's arrival, the HUD Recovery Team was poised to outsource Section 8, which would have resulted in a significant loss of administrative fees.	$ 1,700,000	
Zirl Smith	$ 700,858		$ 25,000,000	$ 24,299,142
		Instrumental part of team of financial advisors who leveraging $100MM. Conservative evaluation of ZSA contrbution is 25%.	$ 25,000,000	
CCMG	$ 449,579		$ 1,026,552	$ 576,973
		Annual reoccuring benefits. Reduced insurance coverage premiums due to improved maintenance conditions at the SFHA	$ 300,000	
		Provide day to day supervision for the Customer Service organization from 9/98 - 9/98 (No SFHA staff member was in place during this time	$ 133,600	
		Due to implementation of improved rent collection procedures, the SFHA collected additional rents of $294,492 from FY97 to FY98 and $298,460 from FY98 to FY99	$ 592,952	
Totals:	$ 2,132,208		$ 31,717,302	$ 29,585,094

NOTE: These amounts do not include the qualitative benefits of training, analysis, developed processes and day to day activities

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- **The HUD IG fails to understand or acknowledge exigent conditions existing during this recovery effort or valid approvals received for contracts sole-sourced under exigent circumstances.**

  - All sole-source contract awards were made in response to unforeseen and unexpected occurrences or conditions; perplexing contingencies or complication of circumstances; exigent circumstances which had historically gone unaddressed; or sudden or unexpected occasions for action to protect the health safety and welfare of the residents of the SFHA and in accordance with federal regulations governing such situations.
  - All sole–source awards were duly authorized by Secretary Cisneros Designee Kevin Marchman, acting on behalf of the SFHA Board, or by the SFHA board of Commissioners. (See for example, correspondence from former Secretary Cisneros Designee Marchman dated March 10, 2000 clarifying approval of sole-source contract to Deloitte & Touche, marked Exhibit B)

- **The draft findings confuse requests for approval of HUD to fund a Zirl Smith & Associates contract amendment with a request for HUD approval of the procurement process.**

  - On December 31, 1998, the SFHA requested HUD approval to charge a contract amendment for Zirl Smith & Associates to HOPE VI funding.
  - HUD indicated that the SFHA would be required to competitively bid the additional work in the event the costs were charged to HOPE VI. (See letter dated February 19, 1999 from Eleanor Bacon, Deputy Assistant Secretary, Office of Public Housing Investments, marked Exhibit C)
  - The contract amendment costs were not charged to HOPE VI funding and as such, HUD approval was not required.
  - The SFHA Board of Commissioners had the authority and duly authorized the contract amendment.

- **The draft findings are not representative of SFHA contracting and procurement activities as they are based on an extremely small percentage of SFHA contracting and procurement activities.**

  - In the past 3 years, the **SFHA has procured some $139 million** in goods and services for the agency.
  - **This draft report concerns itself with $2.1 million** or **only 1.6% of all SFHA procurement activity** over the past 3 years.

- **The draft findings fail to acknowledge corrective actions taken by the SFHA since the beginning of the recovery effort.**

  - Previous audits of SFHA contracting and procurement indicated that as late as August 1, 1997, the SFHA was using open and competitive selection processes. Audit Memorandum 97-SF-201-1803 states: " Also, the housing authority's present selection process appears to be open and competitive". (emphasis added) (See attached HUD OIG Audit Memorandum 97-SF-201-1803 dated August 1, 1997 relative to an audit of a $40 million sole-source contract to McCormack Baron, marked Exhibit A)

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- Much of the significant criticisms contained in the February 24, 2000 draft report involves contracts procured prior to August 1, 1997.

- The HUD Troubled Agency Recovery Center (TARC) reviewed the Contracting/Procurement Division and on December 17, 1998 recommended that the SFHA Board raise its approval limit to $100,000 and that HUD remove zero-threshold limits. (See attached TARC Letter dated December 17, 1998, marked Exhibit D)
- On May 5, 1997, the Executive Director consolidated contracting and procurement activities by establishing the Contracting/Procurement Division.
- During 1997, the Executive Director requested HUD assistance in the centralization of contracting/procurement.
- HUD provided assistance from its staff in Kansas and elsewhere to provide the SFHA with guidance and assistance in the centralization process
- In June of 1999, the SFHA revised its solicitations to include required contract provisions for consultant (non-construction) contracts.
- In January of 2000, draft revised contracting/procurement policies and procedures were circulated and are being reviewed by the TARC and the Board for adoption.

2. Draft Finding 2 – Administrative Employees Were Hired and Compensated Without Following Sound Management Practices.

SFHA Response:

- **The draft findings fail to acknowledge that the SFHA followed its policies/practices in effect at the time and to include a cost/benefit analysis of the contributions as well as the achievements the employees at issue in this finding have made relative to the SFHA and its recovery effort.**

  - In all instances cited in this report, the SFHA acted consistently with its policies, practices and sound business judgment.
  - While the IG may not agree with the results of SFHA classification and salary administration, all classification actions and salary benchmarks were set and well documented in accordance with policy and sound classification principles.
  - The employees at issue under this draft finding have contributed to the recovery of this agency as follows:
  - Addition of **$33.4 million** in funding to support and further the recovery effort as well as adding **$23 million** in HOPE VI funding for Valencia Gardens.
  - Removal of the SFHA from the HUD list of financially and operationally “Troubled Housing Authorities” with an increase in PHMAP scores from 50.71% to 83.92% for 1998 and a score of 95% for Management Operations for 1999.
  - This has been accomplished in a little over 2 years.
  - The Section 8 Department receives consistent reviews from HUD indicating significant improvements in program delivery.
  - The Section 8 Department has been nominated for "Best Practices” awards by HUD.
  - Our HOPE VI developments are moving expeditiously towards completion with Hayes Valley North and South having been completed and occupied.

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- The SFHA will continue its efforts to achieve full recovery including strengthening and improving its policies, procedures and internal controls.
- The SFHA and the recovery team has performed exceptionally in moving this agency towards full recovery.

- **The draft findings do not acknowledge the valid exercise of management discretion in the hiring of temporary/term employees to continue the recovery of the SFHA.**

  - On October 10, 1996, Gary Albright, District Inspector General for Audit, in a Memorandum to then Secretary Cisneros Designee, Kevin Marchman suggested that the recovery effort would continue at least 18 more months and stated that:

    > "We found that while the environment of public housing residents has not improved significantly, the recovery team has made some substantive progress such as beginning a preventive maintenance program and enforcing leases more effectively. **Much of the recovery plan has yet to be effected**, including the recruitment of key managers that is expected to occur this fall." (emphasis added) (See attached Evaluation of the HUD Recovery Team's Efforts at the San Francisco Housing Authority, marked Exhibit E).

  - 4 of the 8 employees discussed in this finding were hired as temporary/term employees for the purpose of aiding and assisting the continued recovery of this agency as part of the Executive Director's "recovery team".
  - The recruitment of members of the recovery team is not an issue of "favoritism", but rather an effort to bring the skills and experience to this recovery necessary to maintain and enhance the momentum of this recovery effort as well as build staff capacity.

- **The draft findings are not representative of SFHA employment activities as they are based on an extremely small percentage of all the SFHA employee population.**

  - The SFHA currently **employs approximately 630 employees**.
  - This **draft report concerns itself with** 8 employees or **barely 1%** of the employment population.

- **The draft findings fail to acknowledge corrective actions taken by the SFHA since the beginning of the recovery effort.**

  - SFHA Personnel Policies have not been revised since 1987.
  - Revised Personnel Policies and Procedures addressing the issues raised in this draft finding have been drafted and are currently being reviewed by the Personnel Committee of the SFHA Board of Commissioners for recommendation on adoption.
  - A copy of the revised Personnel Policies and Procedures were given to the HUD OIG on September 15, 1999 for review and comment.
  - The HUD OIG declined comment.
  - 75% of SFHA employees have undergone and received Performance Evaluations.
  - New hires are screened through personal and professional reference checks, background checks and verification of credentials as appropriate to the position.

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3. Finding 3 – The SFHA Is Using a Flawed Section 8 Waiting List

SFHA Response:

- **This draft finding is based on an analysis of the SFHA Section 8 Wait List that used flawed criteria by the HUD OIG.**

  - The SFHA had an outside review conducted of the Wait List process by Deloitte & Touche, LLP, one of the 5 largest accounting and consulting firms in the nation, and determined that the conclusions reached by the HUD OIG were immaterial in nature. (See attached report of Deloitte & Touche, LLP, marked Exhibit F)
  - The IG scanned the data base of potential applicants by social security number only to identify potential duplicates.
  - During this period of time, the SFHA had opted out of requiring U.S. citizenship for public housing residents under the Quality Housing and Work Responsibility Act (QWHRA) and, as such, not all potential applicants would possess a social security number.
  - A scan by social security number alone necessarily resulted in inaccurate and artificially inflated results.
  - The IG analyzed the setting of preferences for San Francisco residents, those paying in excess of 50% of income for rent, etc. against background information provided by the applicant.
  - The SFHA assumed that background information may not necessarily accurately reflect the applicants true situation.
  - For example, an applicant may give a relative's address in San Francisco for purposes of notification to ensure notification where the applicant's housing situation is unstable.
  - When an applicant indicated rental payments, the amount may reflect full rent although the applicant might be sharing an apartment and actually pay a lesser amount.
  - As a result, the preferences were explained to the applicant and the applicant was asked to "self-declare" which preferences applied.
  - A scan by anything other than the "self-declaration" will result in inaccurate and artificially inflated results.
  - In addressing the draft findings for the Section 8 Wait List, the SFHA reviewed 100% of the original source documents.
  - The results of this review were then validated by Deloitte & Touche, LLP
  - As a result of using irrelevant criteria in the analyses, this draft finding is hopelessly inaccurate, irrelevant and unsupported.

4. Finding 4 – Section 8 Overpayments Were Not Properly Managed

SFHA Response:

- **The auditor used only a 9 month period as the sample to draw this conclusion. The SFHA has collected in excess of $1.5 million in accounts receivable under the Section 8 Program since early 1997.**
- **As a part of the continuing recovery effort, the SFHA will continue to review and evaluate its management of Section 8 overpayments, will amend its policies to ensure**

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that policy reflects the aggressive collection efforts of the Section 8 program will work with HUD to ensure proper treatment of monies recovered by the SFHA as a result of our efforts to identify fraud.

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RECOMMENDATIONS

This is the official San Francisco Housing Authority response to the recommendations contained in the draft report of the HUD Inspector General, number 00-SF-201-1002. The below responses to each recommendation should be included, unedited, in the official report as Auditee comments.

CONTRACTING

HUD-OIG RECOMMENDATION IA: Impose appropriate sanctions on the housing authority and its executive director.

SFHA RESPONSE: The recommendation to impose sanctions on the SFHA and its Executive Director is utterly without foundation in the audit report and represents a bizarrely vindictive response to actions which indicate, at worse, excessive zeal in the cause of public housing recovery.

A request for sanctions might have basis if a person or entity had flagrantly disregarded material federal requirements for an improper purpose. Although the draft report asserts at one point that there was a deliberate disregard of rules, it does not advance any evidence in support of that assertion, which is in any event contrary to facts. Nor, aside from vague allusions to "favoritism", does the audit report establish that the Executive Director and SFHA Board of Commissioners had any purpose, improper or otherwise, other than the urgent transformation of the SFHA.

The OIG may disagree with the SFHA's findings of exigent circumstances, but it cannot in good faith deny that the findings were made under circumstances where reasonable people might will think the exception applied, and that the SFHA made the finding in an open and procedurally proper manner. The OIG may believe that top recovery staff should be hired competitively, from among strangers, rather than by temporary appointments of people known to and respected by the Executive Director, but it cannot in good faith deny that SFHA'spersonnel practices were applied to these temporary appointments in the same manner as all temporary appointments and that use of these temporary appointments in a turnaround situation would not be seen by reasonable people as improper. The OIG may not believe it was good business to compensate the Executive Monitor on the basis of overall performance rather than by the hour, but it cannot in good faith say that a deal approved by the Secretary of HUD and the Secretary's Designee became flagrantly improper when continued by the SFHA.

We believe the auditors have told us how they reached their conclusions that exigent and urgent conditions did not, in their opinion, exist. The auditors disagree that the seriously deteriorated and deteriorating conditions in SFHA residential units constituted an urgent and exigent circumstance. This includes conditions in and around residential units that threatened life, health and safety.

The auditors state:

> The poor state of maintenance at the housing authority's developments was not a sudden, unexpected or unforeseen condition. HUD and the SFHA were aware of this problem long before the acting executive director arrived at SFHA. Although there was a need to reorganize the maintenance operations at the housing authority, this need did not constitute an emergency situation for which a sole source procurement could be justified.
>
> - - HUD-OIG February 24, 2000

This is an unbelievably outrageous conclusion by representatives of the very agency charged with protecting the lives of those who reside in public housing. The auditors suggest that the problem is little more than a need to reorganize maintenance operations. **To establish the magnitude of the problem, note that the SFHA maintenance department has completed more than 104,000 maintenance work orders during the period October 1, 1997 to September 30, 1999.** The auditors apparently conclude that conditions that would be universally recognized as requiring urgent and immediate action are not urgent when they only affect the residents of public housing. The SFHA vehemently disagrees.

The auditors conclude that exigent or urgent conditions to justify noncompetitive contracts were not present. However, their own office believed differently as expressed in a memorandum on October 10, 1996, subject: Evaluation of the HUD Recovery Team's Efforts at the San Francisco Housing Authority. This memorandum, signed by the District Inspector General for Audit, states:

> We found that while the **environment of public housing residents has not improved significantly**, the recovery team has made some substantial progress such as beginning a preventive maintenance program and enforcing leases more effectively. **Much of the recovery plan has yet to be effected**, including recruitment of key managers that is expected to occur this fall.... The CVR **recovery phase is expected to last at least 18 months** (emphasis not in original).
>
> - - HUD-OIG October 10, 1996

These comments are contemporaneous with the events and conditions that resulted in many of the contracts now being questioned in the glare of 20/20 hindsight by a different team of HUD-OIG auditors. We believe these 1996 comments by an earlier group of HUD-OIG auditors should be given great credence and clearly point out exigent conditions calling for urgent and immediate action, including noncompetitive contracts to protect the health and safety of the residents and the publicly owned assets of this agency.

The SFHA is concerned that the HUD-OIG has malleable standards when reviewing contracting actions. In their Audit Memorandum 97-SF-201-1803, August 1, 1997 dealing with the selection of a developer for Hayes Valley, the HUD-OIG stated:

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> Although the selection of the developer violated requirements for open competition, we have no recommendations. Reprocuring a developer for Hayes Valley would not be practical or prudent. Also, the housing authority's present selection process appears to be open and competitive.
>
> - - HUD-OIG August 1, 1997

The above quotation suggests two conclusions. First, the HUD-OIG selectively applies and enforces the regulations for unknown reasons. Second, the HUD-OIG believed that the SFHA's selection process for contractors was open and competitive. This second statement seems contrary to the findings of the current HUD-OIG team looking at contracts from the same period.

The suggestion of sanctions in this recommendation is grossly disproportionate to the actual events or even the alleged findings of the auditors. The actions taken by the Housing Authority and its Executive Director were well within their discretion and authority and in all cases, these were the actions that would have been taken by a reasonable and prudent person to protect the health, safety and welfare of the residents, employees, and property. The SFHA contends that all its contracting actions were within the spirit and intent, if not the letter, of applicable laws and regulations. **In most cases, the current team of auditors does little more than to substitute their judgement for the judgement of the management of the housing authority.** THIS RECOMMENDATION SHOULD BE DROPPED FROM THE REPORT.

HUD-OIG RECOMMENDATION I B: Intensify HUD's monitoring of the housing authority's contracting activities. This should include onsite visits by experts to scrutinize contract procurement and monitoring functions as well as the HUD experts' advance approval of service contracts over $50,000.

SFHA RESPONSE: The SFHA contends that the contracts it entered into were appropriate and substantially complied with applicable laws and regulations. The extraordinary level of scrutiny suggested in this recommendation is not warranted and is not a prudent use of HUD resources. This recommendation is also grossly disproportionate to the actual or even the alleged findings of the auditors. It should be noted that most of the alleged findings cover contracts that were entered into several years ago. The urgent and extraordinary conditions giving rise to the questioned contracts no longer exist.

The SFHA has taken significant action to improve its contracting and procurement policies and processes, including:

- Drafted new contracting policies and procedures.
- Moved to further consolidate contracting while ensuring internal controls.
- Hired a new contracting professional to provide leadership to the contracting function.
- Published procedures for processing payments.
- Published procedures for contract evaluation panels.

- Published procedures for reviewing proposal documents.
- Published procedures for reviewing solicitations.
- Published procedures for ensuring the proper transfer of contracts between departments.

The draft procurement policies and procedures have been sent to TARC for review and comment. The SFHA is moving in a very positive direction in strengthening its administrative policies, procedures and practices. There is no need for additional HUD intervention.
THIS RECOMMENDATION SHOULD BE DROPPED FROM THE REPORT.

HUD-OIG RECOMMENDATION 1C: Require the housing authority to reimburse its HUD programs for the ineligible, unnecessary/unreasonable, and unsupported costs identified in Appendix A for this finding.

SFHA RESPONSE: The amounts the auditors allege were ineligible, unnecessary/r unreasonable or unsupported are significantly overstated. The bulk of the amounts identified by the auditors are based on little more than their **subjective opinions, innuendo and hearsay** which have been largely refuted in the SFHA response to the draft report (see SFHA Comparative Analysis of HUD-OIG Schedule A, Ineligible, Unnecessary and Unsupported Amounts). **The SFHA analysis shows that the actual amount of ineligible expenses is $31,341. The SFHA has billed the contractor or CMHA for the appropriate amounts. There are no unnecessary/ unreasonable or unsupported costs.**

PERSONNEL AND ADMINISTRATIVE PRACTICES

HUD-OIG RECOMMENDATION 2A: Instruct the housing authority to stop departing from sound personnel practices and its written policies and procedures. Also, require it to present, for your evaluation, a plan of action on how this will be accomplished. The plan, among other things, should include improvements in the board's oversight of personnel activities.

SFHA RESPONSE: This recommendation misstates the facts and is based on erroneous conclusions. The SFHA followed sound personnel practices and did not deviate from its policies, procedures or practices. In the bulk of personnel actions included in the draft report, the **auditors merely substitute their opinions for the judgements of experienced Human Resources (HR) professionals and management officials in the exercise of legitimate and sound management discretion.** As the auditors know, but do not acknowledge, the SFHA has revised its personnel policies, rules and procedures and these revisions are being reviewed and coordinated now. A copy of the draft was sent to the HUD-OIG on September 15, 1999. This is an extensive process that covers all current polices and involves review and comment by nine (9) labor unions representing SFHA employees as well as the Board of Commissioners. The majority of the existing personnel policies were adopted in 1987 and do not cover topics that have emerged in recent years, e.g., telecommuting, use of electronic mail. The draft personnel policies, rules and procedures have been sent to TARC for review and comment. In

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addition to the revisions to its personnel policies, the Authority has made significant improvements in the past approximately two years including:

- Establishment of a Board of Commissioners Personnel Committee.
- Hired human resource professionals with a combined total of more than 75 years experience.
- Reinvigorated the performance management process.
- Personal and professional references and all credentials are checked for new hires
- Instituted criminal background checks on new employees.
- Strengthened and provided credibility to the internal EEO investigation process.
- Conducted training in the prevention of sexual harassment.
- Instituted formal employee orientation and clearance processes.
- Renegotiated nine labor agreements.
- Provided employee relations training to supervisors.
- Strengthened internal controls.
- Improved security of records and files.

Most of the actions questioned by the auditors took place in 1996-1998 during the initial stages of recovering an authority whose infrastructure was, by definition, dysfunctional. The urgent and extraordinary conditions that existed in 1996-1997 no longer exist. The sample used by the auditors was not random or statistical. They concentrated on eight personnel actions they apparently believed were problems or approximately 1% of the total employee population of the SFHA. Of the eight, four of the employees were hired as temporary employees hired for the specific purpose of furthering the recovery effort and building staff capacity. These employees were instrumental in adding some $30 million in additional funding for the recovery effort and establishing the SFHA Section 8 Program as a national model having recently been nominated for "best practices" by HUD in program delivery. The auditors conclude these temporary appointments were a problem because a job announcement was not issued. In every temporary appointment, including to the present, individuals were and are hired without posting a job announcement. This is a consistent practice that the SFHA believes is cost effective and results in timely and high quality placements. Any placement of a temporary employee into a permanent position is done through fair and open competition. This was the case with two temporary employees discussed in the draft report who competed for permanent positions. One other employee was rehired into the position he left. All of the other actions were filled through fair and open competition. The draft report covers eight employees while the SFHA hired 271 administrative employees during the audit period. The auditors used a very small (and largely dated) sample to arrive at a major and erroneous conclusion. THIS RECOMMENDATION SHOULD BE DROPPED FROM THE REPORT.

HUD-OIG RECOMMENDATION 2B: Closely monitor the housing authority's employment and personnel practices until there is confidence that the use of sound methods are in effect and that this will continue. In regards to employee hiring, you should require the housing authority to submit for your review the documentation supporting the selection process and the basis for compensation for key and

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highly compensated (over $61,999 annual salary) positions before the job is offered to the selected applicant.

SFHA RESPONSE: This recommendation is based totally on the false premise that the SFHA's employment, personnel, and compensation practices violated some standard. It also assumes that $61,999 represents "highly compensated" in the San Francisco labor market. We note that journey-level plumbers and electricians are paid more than $61,999. This is an erroneous conclusion and **this recommendation should be dropped from the report.**

The draft audit report and this recommendation fail to acknowledge the significant improvements made in all the administrative processes including Human Resources, in recent years. The focus of the draft report is on an old and highly selective sample of personnel actions. Most of these actions took place during a time of great urgency and extraordinary circumstances.

The essence of this recommendation is to restrict or remove appointing authority from the SFHA. This is an outrageous recommendation. In federal service, the U.S. Office of Personnel Management (OPM) conducts evaluations of federal personnel programs. They have authority to restrict the ability of a federal agency to make appointments. The use of this authority by OPM is extremely rare and reportedly amounts to a "handful" of cases over many years. The OPM will only consider such an action if they are confronted with willful, systemic, flagrant, repeated, and clear-cut violations of law and federal regulations. They would not consider such an action when the findings are subjective, isolated and within the discretion of the appointing official. The typical corrective action directed by OPM, and others, when they find an individual case where a regulation was violated, is to direct the correction of the individual action. However, the actions of the SFHA do not warrant either the withdrawal of appointing authority or correction of individual personnel actions since the actions were within established policies and practices and within sound management practices.

HUD-OIG RECOMMENDATION 2C: Have an independent, HUD approved expert in personnel classification and compensation review the qualifications and salaries of the questioned personnel. As necessary, require the housing authority to terminate or demote the administrative staff not meeting minimum required qualifications and adjust salary rates to a reasonable level.

SFHA RESPONSE: In the draft report, the auditors conclude that the SFHA's classification and compensation system complies with OMB Circular A-87, but that individual classifications are problems. This is another area in which **the auditors substitute their judgement for the judgement of experienced personnel specialists and management officials.** It is interesting to note that many of the actions covered in the draft report occurred under the leadership of a former HUD Regional Personnel Director with over 30 years of extensive experience in HUD and several other federal agencies. The more recent actions were taken under the leadership of a former Department of Army, Civilian Personnel Officer with 30 years of experience in all aspects of personnel management. It is also interesting to note that in federal service, corrective actions almost never call for, or result in the termination of the incumbent employee. Under existing federal rules for grade and pay retention,

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downgrades to correct previous erroneous classification actions may result in the position being reclassified to a lower grade with the incumbent remaining in the position and receiving grade retention for two (2) years, followed by indefinite pay retention. The auditors seek to apply a much more severe standard to the SFHA demonstrating again their lack of knowledge in personnel management.

The classification and compensation approach used by the SFHA fully complies with OMB Circular A-87. This circular (Attachment B 11.b., Compensation for personnel services) states as follows:

> Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit . . . . Compensation will be considered **reasonable** to the extent that it is **comparable** to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved (emphasis added).

The classification system used by the SFHA generally seeks to identify comparable classes in the City and County of San Francisco (CCSF) as a benchmark. In some cases, there are directly matching classes in the CCSF, and in other cases, SFHA classes will be benchmarked to a CCSF class with a different title but with similar organizational placement, duties, responsibilities, spans of control, and qualification requirements. In these instances, the SFHA class salary may be set above or below the CCSF class to recognize the differences. In other cases, SFHA class salaries are established for internal consistency and equity. For example, some class salaries are set at a level above or below other class salaries in the organization to recognize supervisor/subordinate relationships or to maintain internal alignment within the organization. Other salaries for classes of positions that supervise trades and crafts may be set at a given percentage above the highest craft supervised. We believe these approaches are both prudent and consistent with well-established and widely accepted classification and compensation methods, principles, and practices. The SFHA recently hired a new Classification and Employment Manager with more than 23 years of state and local government and private sector experience in this field.

Contrary to statements by the auditors, classification and compensation rationale is available. However, the auditors opined that the rationale was not adequate and was not acceptable to them. The SFHA disagrees. The SFHA contends that its personnel decisions are sound and improving. Having an alleged "independent, HUD-approved expert" review classification and compensation is not warranted and is not a prudent use of HUD resources. THIS RECOMMENDATION SHOULD BE DROPPED FROM THE REPORT.

HUD-OIG RECOMMENDATION 2D: As a result of C, require the housing authority to reimburse its federal programs for all excessive salaries through the time they are adjusted downward. In addition, require it to similarly return all other ineligible, unreasonable, and unnecessary compensation also identified in this finding. (See schedule A in this report for an itemization of questioned costs.).

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SFHA RESPONSE: As stated in the entire SFHA response to this audit and its draft findings, the underlying assumptions for this recommendation are totally unsupported, unsupportable, not based on any objective data, and unwarranted. SFHA positions are properly classified in accordance with well-established and widely accepted classification and compensation methods, principles and practices. Compensation levels were established consistent with SFHA policies and prudent management. THIS RECOMMENDATION SHOULD BE DROPPED FROM THE REPORT.

HUD-OIG RECOMMENDATION 2E: Require the SFHA to obtain documentation in support of the reasonableness of amounts billed for the loaned employee. Have an independent, HUD approved expert in personnel classification and compensation to evaluate compensation paid, and require the SFHA to return to its federal program any amount considered unreasonable or unsupported.

SFHA RESPONSE: HUD has reviewed the expenses of the loaned employee and deemed the expenses (including salary) to be both appropriate and adequately supported. HUD reimbursed the SFHA for these expenses, including the expenses discussed in the draft report. The loaned employee also reimbursed the SFHA for some minor costs that were discovered by SFHA or the auditors. We believe the review by HUD, and the payment of expenses for the loaned employee constitutes the review the auditor is recommending and should fully satisfy this recommendation. THIS RECOMMENDATION SHOULD BE DROPPED FROM THE REPORT.

HUD-OIG RECOMMENDATION 2F: Require the CMHA to refund to the SFHA payments received for costs associated with the loaned employee while he was performing CMHA duties.

SFHA RESPONSE: HUD reimbursed these costs to the SFHA as an allowed, supported and justified HUD recovery expense. THIS RECOMMENDATION SHOULD BE DROPPED.

HUD-OIG RECOMMENDATION 2G: Require the housing authority to treat the executive director as an employee rather than the contractor, stop paying him in advance, and provide evidence that any tax liability is paid.

SFHA RESPONSE: As the auditors know, a new employment agreement between the SFHA and the Executive Director was approved on March 14, 2000. All actions reviewed by the auditors were in accordance with the terms and conditions of the November 19, 1997 employment agreement between the Executive Director and the SFHA, approved by Resolution of the SFHA Board as an exercise of their statutory authority to determine policy and legally bind the SFHA by contract. This agreement was negotiated at arms-length between the Executive Director, the Board of Commissioners and their attorney. This agreement was replaced by the new March 14, 2000 employment agreement. The new agreement requires the Executive Director to be an employee of the SFHA. Further, the minor issue of advance payment has been corrected. THIS RECOMMENDATION SHOULD BE DROPPED.

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HUD-OIG RECOMMENDATION 2H: Require the housing authority to obtain reimbursement from the former intergovernmental affairs specialist who was compensated while not working on SFHA business.

SFHA RESPONSE: This recommendation is based on a totally false assumption about the nature of the employee's service to CMHA. The draft report states, "This individual had a contract with CMHA to provide landscaping and related services." This is a highly misleading statement. The employee was performing work for CMHA as a Contract Technical Representative. He did not have a contract with CMHA and he was not paid by CMHA. The suggestion that the SFHA obtain reimbursement from the employee is unwarranted. However, as restated below, reimbursement will be requested from CMHA.

The draft report has a discrepancy in the number of days when the employee might have been performing work for CMHA. The draft audit report states the employee was at CMHA for 41 days. However, a review of the worksheets prepared by and provided by the auditors shows the employee was at CMHA for 42 days. In reviewing the documentation provided by the auditors, it is evident the employee frequently traveled to Cleveland on late night flights (as documented by airline tickets obtained from the auditors) or returned by approximately Noon. In each of these cases, the employee worked all or part of a day. The SFHA believes the employee may have performed work for CMHA for a net total of 34 days and a request for payment for 34 days has been submitted to CMHA. THIS RECOMMENDATION SHOULD BE DROPPED FROM THE REPORT.

HUD-OIG RECOMMENDATION 2I: Take administrative sanctions against the employee who was compensated while not working on SFHA business.

SFHA RESPONSE: This recommendation is absurd on its face. As the auditors know and acknowledge in their draft report, this employee resigned from SFHA on December 17, 1999. This employee was paid by SFHA while performing work for CMHA. However, the employee was not paid by CMHA for this same time. This issue is little more than a timekeeping error. The employee should have taken leave from SFHA and been paid by CMHA or SFHA and CMHA should have worked out a reimbursable detail before the services were performed. This employee was performing work that would be paid with HUD funds from one housing authority or the other. There was no attempt on the part of the employee to deceive anyone. There is absolutely no basis for any type of punitive action or administrative sanction against this former employee. THIS RECOMMENDATION SHOULD BE DROPPED.

HUD-OIG RECOMMENDATION 2J: Require the housing authority to implement a written policy addressing relocation expenses that complies with federal requirements.

SFHA RESPONSE: The draft audit report does not provide clarity to this issue. In the draft finding relating to the General Manager of Family Sweep (page 43 of the draft report), the auditor cites the Federal acquisition regulations as guidance on reimbursement for lodging expenses. In this same finding, they cite "federal regulations" without providing a specific citation. In the finding relating to the

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Executive Assistant (page 46) the auditors cite language from 5 U.S.C. 5724a relating to "excess moving expenses." We note that 5 U.S.C. 5724 is the law underlying the federal travel regulations and the specific citation deals with reimbursement for miscellaneous expenses.

The draft report does not provide any legal, regulatory or policy citations regarding the travel regulations that might apply to public housing authorities. Without this information, the SFHA will be hard pressed to develop the written policy recommended by the auditors. However, the SFHA had independently determined that payment of relocation expenses should be an explicit part of our revised personnel policies, rules and procedures. The draft policy has a relocation travel policy that allows for reimbursement of reasonable relocation expenses. **The draft of this policy was furnished to the OIG audit staff on September 15, 1999.** THIS RECOMMENDATION SHOULD BE DROPPED.

SECTION 8 WAITING LIST

HUD-OIG RECOMMENDATION 3A: Suspends use of the current Section 8 waiting list.

SFHA RESPONSE: The criteria and methodology of the HUD-OIG in reviewing the Section 8 waiting list was based on irrelevant criteria resulting in a hopelessly flawed analysis, unsupported and irrelevant conclusions. The waiting list has been in use since May 1998. The SFHA knew that by its nature, the use of a lottery together with the wide diversity of the populace of San Francisco, would create issues that needed to be resolved during the project and continuing through the administration of the waiting list, e.g., duplicate names, preference. These issues were deemed small compared to the overall effort to produce a proper waiting list. This list has now been thoroughly vetted. The SFHA reviewed 100% of the source documents to determine the quality of the list. In addition, the SFHA employed Deloitte & Touche (D&T) to validate the SFHA review. D&T deemed the issues raised by the auditors as immaterial. Based on the analyses of the SFHA and D&T, the comments of the auditors relating to alleged flaws in this list are severely overstated. THIS RECOMMENDATION SHOULD BE DROPPED.

HUD-OIG RECOMMENDATION 3B: Creates a proper Section 8 waiting list.

SFHA RESPONSE: The SFHA has thoroughly vetted the Section 8 waiting list and is certain it is a properly constituted list and adequate for continued use. See response to Recommendation 3A, above. THIS RECOMMENDATION SHOULD BE DROPPED.

HUD-OIG RECOMMENDATION 3C: Recovers all payments made to the contractor.

SFHA RESPONSE: There is no legal or regulatory basis for this recommendation. This contract was properly executed and the company did substantial work to develop a waiting list. The contractor had contact with nearly 40,000 applicants and narrowed the applicant database to approximately 29,000. A lottery process narrowed the actual waiting list to approximately 10,000. The company substantially

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performed the requirements under the scope of work in the contract. The auditors conclude the contractor produced a "flawed" waiting list. The SFHA, and Deloitte & Touche have not reached the same conclusion. Based on a thorough and objective analysis by D&T, the "flaws" are immaterial and have little bearing on outcomes for those on the list. Finally, the SFHA is not aware of any law or regulation that would allow withholding payment for services rendered or attempting to recover payment when the contractor has substantially fulfilled the work called for in the contract. We note the original contract was for $149,200. As of March 2000, the SFHA has not paid the contractor $27,900.36 or approximately 19% of the total. THIS RECOMMENDATION SHOULD BE DROPPED.

SECTION 8 OVERPAYMENTS

HUD-OIG RECOMMENDATION 4A: Creates and implements an effective overpayment collection policy as part of the SFHA administrative plan for the Section 8 program. The policy should describe actions to be taken when written requests for repayment fail. These actions should include assessing penalties for late repayment, referring receivables to collection agencies, and referring receivables to the housing authority's legal department to commence legal action. The policy should also conform to HUD's requirements regarding retention of recoveries from overpayments that occurred due to, fraud.

SFHA RESPONSE: As was explained to the auditors, the SFHA has implemented procedures and a tracking system to collect past due amounts owed by landlords. In 1999, the first full year under the improved collection procedures, the SFHA collected $176,808, which represents a collection rate of approximately 38%. Since early 1997, the SFHA Section 8 program has collected in excess of $1.5 million in accounts receivable. The SFHA will ensure it has written policies that accurately reflect the aggressive collection procedures currently used by the SFHA staff. THIS RECOMMENDATION SHOULD BE DROPPED.

HUD-OIG RECOMMENDATION 4B: Return the $128,533 retention to the Section 8 contract accounts along with all amounts improperly retained since August 1999.

SFHA RESPONSE: The SFHA believes it is in compliance with the spirit and intent of the cited regulations and thus will retain 50% of the funds recovered. However, the SFHA will work with HUD to ensure the issue of retention of funds is resolved between the SFHA and HUD. THIS RECOMMENDATION SHOULD BE DROPPED.

HUD-OIG RECOMMENDATION 4C: Thoroughly researches all Section 8 owner receivables for validity and provides a detailed analysis showing the research results covering the initial $524,860 receivable balance.

SFHA RESPONSE: The SFHA has and will continue to thoroughly research receivables.

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HUD RECOMMENDATION 4D: Record all validated receivables in the general ledger in accordance with HUD Handbook 7420.6, Housing Assistance Payments Program Accounting.

SFHA RESPONSE: This recommendation is being implemented as the SFHA converts to GAAP.

Prior Audit Findings

The HUD Office of Inspector General previously audited the SFHA's drug elimination program for the period of July 31, 1995 through December 31 1997. The audit report ([sic] number 98-SF-201-1003 was issued July 22, 1998.

Some Similar Issues Were Noted

The audit raised issues in the area of contracting, similar to those discussed in the report in-hand.

- Contractor billings were not adequately reviewed to determine their propriety.
- Documentation of the procurement process was often unavailable.
- Written contracts were sometimes absent.
- Proper cost analyses were not performed.
- Contract advances were made without an accounting.

Prior Recommendations Remain Open

The audit's recommendations that pertain to the above issues are still open. These include recommendations:

- 1D. Provide proper training and written instructions to assure contract payments are correct and proper.
- 4A. Complete implementation of a centralized contracting unit.
- 4B. Revise written procurement procedures.
- 4C. Discontinue use of contract terms that provide advances to entities that are not required to be accounted for.

SFHA Response

General comment

The District Inspector General for Audit conducted an audit of the Drug Elimination Program and issued report number 98-SF-201-1003 dated July 22, 1998. This report contained recommendations for HUD. The prior audit findings were resolved and sufficient documentation provided to HUD Troubled Agency Recovery Center (TARC) demonstrating compliance. Indeed, HUD TARC has recommended full closure of these findings. It has been the direct intervention of the auditors conducting the March

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1996 to September 1999 audit, apparently to bolster a 19 month audit which produced little to justify an enormous expenditure of federal funds and staff resources, that has prevented closure of these prior findings (see attached correspondence dated October 4, 1999 and January 11, 2000).

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