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| Issue Date        | January 21, 2005 |
| Audit Case Number | 2005-LA-1805     |

TO: Cecilia Ross  
Director, Los Angeles Office of Public Housing, 9DPH  
*Joan S. Hobbs*

FROM: Joan S. Hobbs  
Regional Inspector General for Audit, 9DGA

SUBJECT: Housing Authority of the City of Los Angeles  
Resident Management Corporations/Resident Advisory Councils -  
Procurement and Procurement-Related Activities

### **INTRODUCTION**

We reviewed the Housing Authority of the City of Los Angeles' (Authority) procurement activities, including ongoing monitoring and management of resultant contracts, as they relate to its Resident Management Corporations/Resident Advisory Councils (RMCs). The review was initiated in response to several citizen complaints alleging irregularities with the Authority's Resident Management Corporations and related contracting activities. Complaints included allegations of kickbacks, unfair bidding practices, nonprofessional and unethical conduct, and conflicts of interest involving Authority employees and a contractor. Although we did not verify any instances of kickbacks, we did identify serious problems in the Authority's procurement activities, as discussed in the findings of this memorandum report. Audit work related to this review was performed from November 2001 through October 2002. However, legal complications delayed issuance of the audit report until now.

In accordance with U.S. Department of Housing and Urban Development (HUD) Handbook 2000.06, REV-3, within 60 days, please provide us for each recommendation without a management decision, a status report on (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after the report is issued for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (213) 894-8016, or Charles Johnson, Assistant Regional Inspector General for Audit, at (602) 379-7243.

## SUMMARY

We performed a limited review of the Authority's operations associated with its Resident Management Corporations/Resident Advisory Councils. The review was limited to an evaluation of the Authority's contracting and management activities as they related to its RMCs. We examined the Authority's contracting activities with its RMCs for moving, cleaning/detrashing, extermination, and security services, and the Authority's and the RMCs' procurement of business consulting services for the RMCs and the related management of the resultant contracts. The review was initiated to determine the validity of allegations of kickbacks, unfair bidding practices, nonprofessional and unethical conduct, and conflicts of interest involving Authority employees and a contractor.

The Authority did not follow applicable procurement requirements when contracting with its RMCs or monitor the contracts entered into. The Authority awarded all contracts noncompetitively to the RMC of its choice, even after applicable Federal thresholds were exceeded. More importantly, there was no documentation available showing that, before entering into the contracts, the Authority performed independent cost estimates or price analyses for the contracted services or determined whether the RMC officials and employees had the capability to carry out the required contract services. Further, the Authority consistently awarded RMC contracts that exceeded two years without obtaining prior HUD approval as required. Consequently, the Authority had no assurance that the prices paid for the services were reasonable or that the RMCs had the capacity to carry out the services required under the contracts awarded. Based upon results of our review, the Authority noncompetitively awarded more than \$4.6 million in contracts to RMCs that did not have the capacity to carry out the services required, and the prices paid by the Authority for the services provided were not reasonable. Additionally, due to a failure to adopt and implement monitoring procedures, significant contract overpayments (of at least \$397,960), ineligible payments (\$451,055), and unsupported payments (\$844,750) were made. It should be noted that the ineligible and unsupported payments we identified resulted from a review of a limited number of contracts. A detailed review of the other RMC related contracts would likely identify significant additional ineligible or potentially fraudulent payments. Other significant deficiencies noted during our review include (1) the Authority's awarding of contracts for \$25,000 or less and, more recently, \$50,000 to bypass Board of Commissioners approval, followed by the issuance of substantial amendments and (2) RMCs operating in a haphazard and wasteful manner. The above significant deficiencies resulted in the waste of millions of tax dollars.

The Authority's controls over the procurement of consulting services by both itself and its RMCs were not sufficient to ensure that such services were necessary and obtained at a reasonable price. Additionally, contract management was unable to offer assurance that contracted services were provided and payments were made in accordance with the contracts. As a result, competition was unreasonably restricted, the Authority and its RMCs paid excessive prices for services often not provided, and duplicate payments were made for consulting services. During our review, we identified ineligible contract payments to a consultant totaling \$439,803; questionable payments totaling \$49,842; and an overall perception of favoritism in the acquisition of RMC related consulting services. In our opinion, these problems resulted from a failure by the Authority to institute sufficient controls over its procurement process and

to develop and implement appropriate procedures for monitoring its RMCs' operations and an intentional disregard of applicable procurement policies and procedures.

There were serious problems with the Authority's procurement activities and contract management relating to its RMCs. Seemingly preferential treatment was provided to the one consultant who received all of the Authority's and the RMCs' contracts for consulting services to assist the RMCs in establishing and managing business operations. Additionally, \$13 million in noncompetitive contracts awarded to the RMCs over a 7-year period did not significantly benefit the residents they represent. It appears the primary beneficiary of the Authority's contracting activity with its RMCs was the consultant, who received more than \$2.1 million to unsuccessfully train and mentor the RMC staff and Board members. Further, the long-term personal and business relationship the consultant had with the Authority's former Assistant Executive Director/Director of Housing Services, who had almost complete control over RMC contracting and management, presented an apparent conflict of interest, which the Authority's former Executive Director, who approved the majority of the contracts, and former Board of Commissioners failed to address.

We discussed the findings with Authority officials at an exit conference held on December 16, 2004. We also provided the Authority with a copy of the draft audit report for comments on December 18, 2004. We received their written response on January 17, 2005. In its response, included in its entirety as Appendix F, the Authority agreed with the audit findings, but requested that it not be required to reimburse the full amount of questioned costs from non-federal funds currently on hand.

## **BACKGROUND**

The Authority was organized as a public housing authority in 1938 to provide low-cost housing to individuals meeting established criteria. The Authority, one of the largest public housing authorities in the Nation, has more than 60 developments with more than 8,000 units and 20,000 residents in its conventional public housing program. The Authority also administers Section 8 programs with more than 44,000 units and 95,000 residents. Programs administered by the Authority are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair.

Within several of the Authority's public housing developments, resident organizations have been created to encourage increased resident management of the housing developments and to promote the formation and development of resident management entities and resident skills.

We performed limited reviews at two of the Authority's resident organizations: (1) Pueblo Del Rio Resident Management Corporation (Pueblo) and (2) Jordan Downs Resident Management Corporation (Jordan). During the period of our review, Pueblo and Jordan each received more than \$2.3 million in funding from the Authority.

### **Authority Contracts with RMCs**

The Authority used its Comprehensive Grant Program to fund contracts with RMCs. Under these contracts, the RMCs, primarily through subcontractors, provided various services to the public housing developments and their residents, including

- Moving services,
- Unarmed security services,
- Detrashing and cleaning services, and
- Extermination services.

During our review period, the Authority entered into five contracts with Pueblo and seven contracts with Jordan totaling more than \$2.3 million each.

### **OIG Hotline Complaint**

In July and September 2001, the Office of Inspector General (OIG) received two separate complaints alleging similar Authority contracting irregularities with its RMC contracts including

- Kickbacks,
- Unfair bidding practices,
- Nonprofessional and unethical conduct, and
- Conflicts of interest.

Based on the nature of the complaints, OIG initiated a limited review focusing on the allegations received.

### **AUDIT OBJECTIVES**

The overall objective of our review was to determine the validity of the two complaints. The complaints alleged kickbacks, unfair bidding, nonprofessional and unethical conduct, and conflicts of interest by Authority staff and a consultant. As part of this objective, we performed a limited review of the Authority's procurement and monitoring processes as they related to its RMCs and the involved consultant. Additionally, although not considered relevant to our original objectives, during our review, we noted significant weaknesses in the Authority's management of its legal affairs. This matter was reported in a previous report (see Audit Report No. 2004-LA-1002, dated March 30, 2004).

### **AUDIT SCOPE AND METHODOLOGY**

To accomplish our audit objectives, we

- Obtained and reviewed applicable Federal procurement regulations.
- Obtained and reviewed Authority procurement policies and procedures.

- Obtained and reviewed contracts between the Authority and the RMCs, primarily Pueblo and Jordan.
- Obtained and reviewed contracts between the Authority and the named consultant.
- Obtained and reviewed the Authority's independent audit reports for the years ending December 31, 1999, 2000, and 2001.
- Obtained and reviewed, where available, unaudited financial statements for the RMCs for the years ending December 31, 1999, 2000, and 2001.
- Obtained and reviewed payments from the Authority to the RMCs, primarily Pueblo and Jordan, and all available supporting documentation.
- Obtained and reviewed all available documentation relating to payments from the Authority and five RMCs (Pueblo, Jordon, Pico Aliso, Aliso Village, and San Fernando) to a consultant.
- Reviewed the Authority's procurement process as it relates to its RMCs and the named consultant.
- Reviewed the RMCs' procurement process for obtaining subcontractors.
- Reviewed the Authority's monitoring process relating to its RMCs and the named consultant.
- Reviewed the Pueblo and Jordan RMCs' subcontractor-monitoring process.
- Reviewed the Pueblo and Jordan RMCs' financial records related to cash receipts and disbursements.
- Interviewed Authority staff and officials, RMC staff and officials, the RMCs' independent certified public accountant, Authority attorneys, Authority independent auditors, the attorneys for the named consultant, the attorney for the named complainants, past Authority employees, past members of the Authority's Board of Commissioners, past RMC officials and staff, past and present RMC subcontractors, the HUD Los Angeles Public Housing staff, and HUD Headquarters Public Housing staff.

We conducted our audit at the Authority and the above-mentioned RMCs, located in Los Angeles, California. Our review covered the period January 1, 1995, through December 31, 2001. Where appropriate, the review was extended to include other periods. Audit work was performed from November 2001 through October 2002.

Our review was conducted in accordance with generally accepted government auditing standards.

**FINDING 1 - THE AUTHORITY DID NOT COMPETITIVELY AWARD CONTRACTS, ENSURE PRICE REASONABLENESS OR CAPACITY BEFORE ENTERING INTO CONTRACTS, OR MONITOR CONTRACTS WITH ITS RESIDENT MANAGEMENT CORPORATIONS (RMCS) – INELIGIBLE - \$451,055; UNSUPPORTED - \$844,750**

The Authority did not follow applicable procurement requirements when contracting with its RMCs or monitor the contracts entered into. The Authority awarded all contracts noncompetitively to the RMC of its choice, even after applicable Federal thresholds were exceeded. More importantly, there was no documentation available showing that the Authority performed independent cost estimates or price analyses for the contracted services or determined whether the RMC officials and employees had the capability to carry out the services required under the contracts before entering into the contracts. Further, the Authority consistently awarded RMC contracts that exceeded two years without obtaining prior HUD approval as required. Consequently, the Authority had no assurance that the prices paid for the services were reasonable or that the RMCs had the capacity to carry out the services required under the contracts awarded. Based upon results of our review, the Authority noncompetitively awarded more than \$4.6 million in contracts to RMCs that did not have the capability to carry out the services required, and the prices paid by the Authority for the services provided were not reasonable. Additionally, due to a failure to adopt and implement monitoring procedures, significant contract overpayments (of at least \$397,960), ineligible payments (\$451,055), and undocumented/questionable payments (\$844,750) were made. It should be noted that the ineligible and unsupported payments we identified resulted from a review of a limited number of contracts. A detailed review of the other RMC-related contracts would likely identify significant additional ineligible or questionable payments. Other significant deficiencies noted during our review include (1) the Authority's awarding of contracts for \$25,000 or less and, more recently, \$50,000 to bypass Board of Commissioners approval, followed by the issuance of substantial amendments and (2) RMCs operating in a haphazard and wasteful manner. The above significant deficiencies resulted in the waste of millions of tax dollars.

**Reasons for Procurement Deficiencies**

The Authority's deficient procurement process, nonexistent RMC monitoring, and other deficiencies were a result of

- The Authority's decentralized procurement process, which provided the department head (former Director of Housing Services and the Authority's former Assistant Executive Director) not only the authority to request the procured services, but also total oversight and control over the subject contracts and related billings, including price negotiation and billing approval, rather than these responsibilities remaining with its General Services Department's procurement office.
- Failure to develop and implement procedures to provide ongoing monitoring of the RMCs and their business operations, especially considering the complete lack of business experience of the RMC Board of Directors/managers.

- Allowing one consultant, who was the prime beneficiary of the RMCs' contracts, complete control over the RMCs' operations, including day-to-day management, billing, and subcontractor monitoring and control. Further, the long-term personal and business relationship between the consultant and the Authority's former Assistant Executive Director/Director of Housing Services raises concerns about conflicts of interest and favoritism.
- The lack of regard and controls exercised by the Authority's former Executive Director, who approved the majority of the contracts, and former Board of Commissioners relating to the deficiencies and problems affecting the Authority's contracts with its RMCs.

### **Governing Regulations and Requirements**

In accordance with Section 3 of the Housing and Urban Development Act of 1968 (12 U.S. Code 1701u), recipients of HUD assistance are to take affirmative actions to ensure that, to the greatest extent feasible, employment and other economic opportunities generated by HUD financial assistance are directed to low- and very low-income persons and to business concerns which provide economic opportunities to low- and very low-income persons. Regulations implementing these requirements are set out in 24 Code of Federal Regulations (CFR) section 135. The Authority, in a claimed attempt to meet the intent of these requirements, contracted with several of its RMCs (on a noncompetitive basis) to provide services such as moving, security, extermination, and cleaning (referred to as detrashing in the RMC contracts). Contracting requirements, applicable to all procurement actions including these types of affirmative procurements, are set out in 24 CFR 85.36. Critical procurement requirements include

- Ensuring, before contract award, that contractors possess the ability to perform successfully under the terms and conditions of the proposed contract (24 CFR 85.36(b)(8));
- Conducting a cost or price analysis in connection with every procurement action (24 CFR 85.36(f)(1)); and
- Ensuring that contractors perform in accordance with contract terms (24 CFR 85.36(b)(2)).

Additionally, as required by Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," for costs to be allowable under Federal awards, they must be necessary and reasonable for proper and efficient performance and administration of the funded activities.

The Authority did not follow the above requirements during its procurement and management of the service contracts it entered into with its RMCs. Further, in relation to the contracting process, 24 CFR 963 provides for noncompetitive contracting with resident-owned businesses. However, such noncompetitive procurement is limited to a cumulative maximum award of \$1,000,000 (i.e., 24 CFR 963.10(d) states, "A resident-owned business is not eligible to participate in the alternative procurement process provided by this part if the resident-owned business has received under this process one or more contracts with a total

combined dollar value of \$1,000,000.”). The Authority violated this requirement by continuing to contract with its RMCs on a noncompetitive basis after the threshold of \$1,000,000 was reached. Our concerns with the Authority’s procurement and management of RMC service contracts and its monitoring of RMC activities are discussed below.

### The Procurement Process

We performed a limited review of the five most recent contracts awarded to Pueblo Del Rio Resident Management Corporation (Pueblo) (\$2,325,539.69), the six most recent contracts awarded to Jordan Downs Resident Management Corporation (Jordan) (\$1,075,675.67), and one older unarmed security service contract awarded to Jordan (\$1,278,000). The total value of the contracts reviewed exceeded \$4.6 million as detailed below.

| <i>Name</i>   | <i>Contracted Service</i> | <i>Contract Number</i> | <i>Total Amount of Contract as of Review Date</i> | <i>Original Contract Award</i> |
|---------------|---------------------------|------------------------|---|--------------------------------|
| Pueblo        | Moving                    | HA-2002-012            | \$565,805.98                                      | (See note 1)<br>\$565,805.98   |
| Pueblo        | Moving                    | HA-2000-014            | \$646,568.31                                      | \$126,270.31                   |
| Pueblo        | Unarmed security          | HA-2000-013            | \$980,190.40                                      | \$25,000.00                    |
| Pueblo        | Extermination             | HA-2000-045            | \$25,000.00                                       | \$25,000.00                    |
| Pueblo        | Detrash/cleaning          | HA-98-040              | \$107,975.00                                      | \$25,000.00                    |
| <b>Pueblo</b> | <b>Total</b>              |                        | <b>\$2,325,539.69</b>                             |                                |
| Jordan        | Moving                    | HA-2002-052            | \$50,000.00                                       | (See note 2)<br>\$50,000.00    |
| Jordan        | Security                  | HA-2001-032            | \$471,017.60                                      | \$25,000.00                    |
| Jordan        | Security                  | HA-2001-023            | \$285,459.20                                      | \$25,000.00                    |
| Jordan        | Detrash/cleaning          | HA-2001-021            | \$25,000.00                                       | \$25,000.00                    |
| Jordan        | Moving                    | HA-2001-005            | \$219,198.87                                      | \$25,000.00                    |
| Jordan        | Detrash/cleaning          | HA-2001-004            | \$25,000.00                                       | \$25,000.00                    |
| Jordan        | Security                  | HA-97-065              | \$1,278,000.00                                    | \$25,000.00                    |
| <b>Jordan</b> | <b>Total</b>              |                        | <b>\$2,353,675.67</b>                             |                                |

Note 1: This contract was awarded after the start of OIG’s review, in which we questioned the Authority’s procurement methods, including the issuance of \$25,000 contracts and the bypassing of Board of Commissioners approval and later requests for large contract amendments.

Note 2: This contract was awarded after the Authority changed its procurement procedures, which raised the contract threshold without the need for Board of Commissioners approval from \$25,000 to \$50,000. This contract replaced moving contract HA-2001-022 for \$25,000.

## Noncompetitive Awards

Our review of the above contracts disclosed that the Authority did not follow applicable dollar limitations affecting noncompetitive procurement/contracting actions with its RMCs. The Authority noncompetitively awarded contracts and amendments to Pueblo totaling \$2.3 million (from 1998 through April 2002) and to Jordan totaling \$1.1 million (from 2001 through 2002). Further, during the period 1996 through 2000, Jordan was noncompetitively awarded contracts and amendments totaling an additional \$4.8 million (including contract HA-97-065 incorporated into the table above). The cumulative noncompetitive contract awards to Pueblo and Jordan violate the requirements of 24 CFR 963, which provides for noncompetitive contracting with resident-owned businesses but limits such procurements with any one resident-owned business to a cumulative maximum award of \$1,000,000. Once the threshold of \$1,000,000 is reached, additional procurements involving a resident-owned business must be competitive. As discussed above, cumulative noncompetitive contracts with both Pueblo and Jordan far exceeded this threshold. Consequently, existing contracts with its RMCs should be evaluated for possible termination if the noncompetitive threshold has been exceeded in violation of the requirements of 24 CFR 963.

## Independent Cost Estimates

Although repeatedly asked, the Authority could not provide documentation showing that it performed independent cost estimates or price analyses for the contracted services (24 CFR 85.36(f)) before entering into contracts with Pueblo and Jordan. Consequently, the Authority had no assurance that the prices paid for the services provided by Pueblo or Jordan were reasonable. In this regard, we noted that Pueblo and Jordan always subcontracted out their total moving service responsibilities, and the price they paid their subcontractors for the actual moving services was often less than one half of what they were being paid by the Authority. For example, as of May 2002, the Authority had paid Pueblo more than \$425,000 under moving contract HA-2000-014. Pueblo in turn had paid its contractor, who carried out the moves, about \$195,000. Thus, Pueblo was paid approximately \$230,000 to administer a \$195,000 contract. Our review disclosed that the move prices allowed by the Authority versus the actual costs incurred by Pueblo were inflated by up to 159 percent (see the following table).

| <i>Bedroom Size</i> | <i>Contract Price Allowed</i> | <i>Actual Cost Incurred (Paid to Subcontractor)</i> | <i>Markup %</i> |
|---------------------|-------------------------------|---|-----------------|
| 1 bedroom           | \$397.00                      | \$230.00  | 73%             |
| 2 bedroom           | \$517.00                      | \$260.00  | 99%             |
| 3 bedroom           | \$601.00                      | \$290.00  | 107%            |
| 4 bedroom           | \$803.50                      | \$310.00  | 159%            |

As the table above shows, the move rates per unit were unjustifiably marked up and would more than cover all of Pueblo's administrative costs. However, within this same moving contract, the Authority allowed and paid an additional \$515 per unit moved for administration fees. For a one-bedroom unit, the administrative fee (\$515) was more than the amount the Authority paid Pueblo for the move itself (\$397.00). Total administrative fees allowed under this contract were

about 30 percent of the total contract value. It should also be noted that at the time of our review, Pueblo's actual administrative costs were very limited. The Authority provided Pueblo office space and an administrative staff person at no charge. The only significant administrative cost relating to this contract was Pueblo's consultant, who was charging from \$125 to \$140 per hour to manage the contract (see finding 2). As of May 2002, the Authority had paid Pueblo about \$167,500 in administrative fees under the contract. These fees are unnecessary and unreasonable, should have been covered by the contract values, and are, therefore, ineligible.

Besides the unreasonable and unnecessary moving rates and administrative fees allowed under the subject moving contract, contractual charges for moving supplies (boxes, paper, etc.) were often significantly more (up to 302 percent more) than the retail price for such supplies. To provide an example, the Authority paid \$24,445 to Pueblo for moving supplies, but the invoices from the subcontractor, who provided the supplies, totaled only \$8,760, a \$15,685 difference. The Authority's moving contract with Pueblo allowed for these inflated prices, with no support or independent cost estimate to justify the prices.

In addition to moving services, Pueblo and Jordan always subcontracted out their total extermination service responsibilities, and the price they paid their subcontractors for the extermination services was often one-half of what they were being paid by the Authority. For example, as of August 2001, the Authority paid Pueblo \$9,941 under extermination service contract HA-2000-045. Pueblo in turn paid its contractor, who actually performed the extermination services, only \$6,129. Thus, the Authority allowed a 62-percent markup to be incorporated into the original contract agreement with Pueblo. Further, the Authority's contract agreement also allowed for an administrative fee of 33 percent of the per-unit cost of the extermination services. Had the Authority performed an independent cost estimate before awarding this contract, these unreasonable and unnecessary costs would have been prevented.

It should be noted that the same circumstances, subcontractor, and consultant were involved in the Authority's other RMC moving and extermination contracts, and it is probable that similar unreasonable and unnecessary charges were incurred under these contracts. Accordingly, payments made under these other contracts must be reviewed to determine whether they were reasonable for the services provided.

The Authority provided OIG what it claimed to be independent cost estimates; however, they were merely prices/quotes prepared by the RMCs' consultant with no supporting documentation. These quotes were ultimately incorporated, unchanged, into the final Authority contract agreements with the RMCs. Accordingly, the service contracts awarded to the RMCs were overpriced and unreasonable and should be terminated (if not yet done so) and competitively reawarded in compliance with applicable Federal guidelines. An independent cost estimate or price analysis must be performed to ensure that future service contracts are priced fairly and reasonably.

## **Capability**

There was no documentation available showing that the Authority determined whether RMC officials and employees had the capability to carry out the services required under the contracts (24 CFR 85.36(b)(8)) before entering into the contracts. Based upon our review, the RMC members did not have the capability to carry out the contracted services, or manage the subcontracted services. Instead, the RMCs contracted with a consultant, who carried out almost all of their management functions (see finding 2). Even with the services of the consultant, the RMCs were unable to properly manage their contracts (see the Contract Management section of this finding).

Pueblo did not have any employees with the experience and capabilities needed to carry out the services required under the contracts they received from the Authority. For example, moving services (as previously noted) were always contracted out as Pueblo had no moving employees or equipment. Further, Pueblo officers and employees had only minimal involvement in the management of the contracts. Almost all management functions were carried out by the consultant, who was charging \$140 per hour for his services (see finding 2), or by Authority employees. Pueblo officials and employees were not qualified to provide moving services or to independently manage any of their service contracts (i.e., moving, unarmed security, detrashing/cleaning, extermination). According to the consultant, he was dealing with unsophisticated and unknowledgeable residents. In September 2000, he took control of Pueblo's checking account and other routine tasks necessary to maintain its businesses as Pueblo officials and employees were not able to perform these functions. This same consultant, for the most part, also managed all service contracts awarded to Jordan.

## **Contract Management/Monitoring Process**

### **Monitoring of RMC Activities**

The Authority could not provide evidence that it conducted any meaningful monitoring of Pueblo's or Jordan's activities. Further, it did not adequately review contract billings submitted by the RMCs or require sufficient supporting documentation to enable it to make a reasonable determination as to the propriety of the billings. As a result, significant contract overpayments (of at least \$397,960), ineligible payments (\$451,055), and unsupported payments (\$844,750) were made (these unsupported and ineligible payments are over and above the previously discussed questionable unit prices incorporated into the contract agreements).

As part of its management/monitoring process, the Authority did not require the RMCs to obtain, and submit for its review audited financial statements (required by Office of Management and Budget Circular A-133 for those RMCs receiving more than \$300,000 from the Authority), which could have assisted in monitoring the RMCs' operations and activities. However, unaudited statements were sometimes available for review, which, if reviewed, should have raised questions about the RMCs' activities and ability to manage their affairs. For example, Pueblo's unaudited financial statements for the year ending December 31, 2001, showed that 37 percent of its total (gross) income went to pay one consultant for his

services. Essentially, these statements indicated that the primary beneficiary of the Authority's contracts with Pueblo was the consultant, not the residents as intended.

The Authority claimed to monitor RMC activities through the use of annual "Section 3 reports," which it prepared and submitted to HUD. However, these reports merely showed the number and types of jobs created by the RMCs, and how much the public housing residents had earned as employees of the RMCs' unarmed security and detrashing/cleaning businesses. These reports were not intended to be used as a primary tool for monitoring a RMC's activities. However, a cursory review of Pueblo's Section 3 reports for the period July 1999 through June 2002 would have shown the Authority how little of the total contract funds awarded for unarmed security and detrashing/cleaning services had been paid to residents. According to Pueblo's Section 3 reports, a total of \$451,035 had been paid to residents; representing only 41 percent of the amount awarded under the security and cleaning contract agreements (\$1,088,165). Similarly, according to Jordan's Section 3 reports for the period July 2000 through June 2002 (only those contracts awarded under Jordan's new Board of Directors), a total of \$192,708 had been paid to residents under its unarmed security and detrashing/cleaning contracts, representing only 24 percent of the amount awarded under contract agreements totaling \$806,477. Since moving and extermination services are subcontracted out by both RMCs, no jobs were created for Pueblo or Jordan residents during these same periods, and, thus, no contract funds were used to pay them. This indicates the minimal employment impact these RMC contracting activities had on public housing residents.

### **Monitoring of Contract Billings**

In addition to the lack of effective monitoring of RMC activities and operations, the Authority did not adequately review contract billings submitted by the RMCs, or require the submission of sufficient documentation to support these billings. The failure to implement appropriate billing review and documentation procedures allowed contract overpayments, ineligible billings, and unnecessary and unreasonable payments to go undetected. The consultant for Pueblo (who was also the consultant for Jordan) prepared all RMC contract billings, which were then finalized, signed by the President of the RMCs' Board of Directors, and submitted to the Authority for payment. These billings resulted in substantial contract overpayments, payments for ineligible claims, and unnecessary and unreasonable payments as discussed below.

### **Moving Service Contract - HA-2000-014 – Pueblo**

This moving contract for relocating Pueblo residents was between the Authority and Pueblo. All services to be provided by Pueblo under the contract were subcontracted out. The subcontractor would provide the moving services, including materials (at a much lower cost than Pueblo's contract rates with the Authority), and then bill Pueblo. Based upon these billings, Pueblo's consultant would then prepare a billing to the Authority. A review of these billings identified serious problems as follows:

- The contract allowed for 18 cases of packing tape at \$90 per case (total of \$1,620); however, Pueblo billed and the Authority paid for 105 cases of tape at various prices (total of \$11,232). This resulted in a contract overpayment of \$9,612. This overpayment includes an ineligible payment of \$1,782 for 36 cases of tape billed at \$144 per case, rather than at the allowable contract rate of \$90 per case.
- The contract allowed for 53 cases of paper at \$38 per case (total of \$2,014); however, Pueblo billed and the Authority paid for 172 cases of paper at various prices (total of \$5,204). This resulted in a contract overpayment of \$3,190.
- Pueblo billed the Authority for quantities of tape and paper that were either not listed on the bill of the subcontractors who provided these supplies, or billed for twice the amount of actual quantities purchased. These ineligible billings totaled \$5,042.
- In addition, on January 28, 2002, Pueblo billed the Authority for material costs of \$16,029 without explanation as to what materials were being charged. The only applicable Pueblo subcontractor material bill was for \$2,115. Based upon material quantities listed on this subcontractor billing, Pueblo's allowable material charge under the terms of its contract would have been \$3,805 (an 80-percent markup). Accordingly, the \$12,224 difference between the \$16,029 charged and the \$3,805 eligible under the contract is ineligible.

The same type contract and management conditions existed with another Pueblo moving contract and at Jordan for two other moving contracts so it is probable that similar problems exist with these contracts.

#### **Unarmed Security Service Contract - HA-2000-013 – Pueblo**

- Pueblo billed the Authority for more hours and employees than actually worked. The consultant prepared invoices that consistently billed the Authority the maximum amount allowed under the contract per week, without regard to the actual number of employees who worked or the total amount of hours worked. The ineligible billings under this contract totaled \$166,045 through April 6, 2002 (22 percent of total payments).
- As of April 6, 2002, the Authority had paid Pueblo \$768,544 for unarmed security services provided under this contract, \$73,813 more than the \$694,731 maximum allowed under the contract.

The same type contract and management conditions existed at Jordan for two unarmed security contracts so it is probable that similar problems exist at this RMC.

#### **Extermination Service Contract – HA-2000-045 – Pueblo**

A review of Pueblo's contract billings for the period April 26, 2000, through March 9, 2001, identified the following deficiencies:

- The Authority paid Pueblo \$2,915 in ineligible fees. This resulted from Pueblo charging more than three times the contract allowable unit rate (\$145 versus \$47) for

what was noted on the billing invoices as a “delay.” The contract agreement did not allow for these added fees, and, therefore, the \$2,195 is considered ineligible.

- In two instances, the Authority paid Pueblo for duplicate billings. In one instance, two Authority employees initially prepared and submitted to the Authority a billing reflecting the correct amount (via the “Request for Voucher Miscellaneous Disbursement” form), but an Authority Housing Services Department employee changed the amount and allowed a double payment of \$327 to occur. In the other instance, Pueblo’s billing invoice clearly reflected a double charge of \$47 for extermination services for the same unit. These duplicate payments totaling \$373 are ineligible.
- Pueblo claimed to have provided extermination services for the same units and buildings twice within 30 days even though, under the terms of the contract, it “guarantees the elimination of all cockroaches for thirty days after each application occurrence.” Individual instances of these ineligible claims totaling \$373 are as follows:
  - Building 5307 was sprayed on 1/26/01 and 1/29/01 - only 3 days apart (\$47 ineligible).
  - Building 5413 was sprayed on 5/12/00 and 5/25/00 - only 13 days apart (\$47 ineligible).
  - Buildings 10349, 10501, and 10504 were sprayed on 7/10/00 and 7/24/00 - only 14 days apart (\$140 ineligible). Additionally, Building 10504 was sprayed again on 8/25/00 (three times within 45 days)!
  - Units 27, 28, and 31 were sprayed on 7/10/00 and 7/24/00 - only 14 days apart (\$140 ineligible). Additionally, Unit 31 was sprayed again on 8/25/00 (three times within 45 days)!
- The contract agreement between the Authority and Pueblo clearly stated that the Authority would pay Pueblo \$46.66 per unit/building exterminated, and of this amount, the contractor (Pueblo) would pay the subcontractor \$31.33 for each unit/building exterminated. However, the Authority approved payments to Pueblo of up to \$145 per unit (as discussed above), while Pueblo paid the subcontractor various amounts, ranging from only \$23.33 to \$87 per unit. This demonstrates the failure to properly review contract billings by both the Authority (of Pueblo), and Pueblo (of its subcontractor).
- Before payment, the Authority never received, reviewed, or required any supporting documentation (i.e., subcontractor billing invoices) related to Pueblo’s billings for extermination services.

### **Detrashing /Cleaning Service Contract – HA-98-040 – Pueblo**

We only reviewed one billing invoice (#6 - for the period December 1, 2001, through January 18, 2002) (prepared by Pueblo’s consultant) submitted by Pueblo to the Authority for cleaning and detrashing services rendered under this contract. However, our review identified significant problems with the billing, which would indicate problems not only with the billing reviewed, but also with the legitimacy of all billings under this contract. Problems noted with this billing included

- Pueblo billed the Authority for more hours than were worked. The invoice billed the Authority for 376 staff hours at the fully burdened contract rate of \$9.25 (employee pay rate of \$7.25 per hour plus \$2.00 per hour burden rate) for a total of \$3,478 (this figure does not include supervisory hours billed). Payroll records at Pueblo support only 329 hours, 47 hours less than billed. This resulted in an overcharge of \$434.75 (47 hours x \$9.25 per hour), which is ineligible.
- Pueblo billed the Authority an additional \$3,125 for 243.5 work hours required for unforeseen conditions at hotels and unforeseen conditions for detrashing. These unforeseen conditions were not described, and payroll records did not support the claimed additional hours worked. The \$3,125 is, therefore, ineligible.
- Pueblo billed \$469 for cleaning stoves and refrigerators, not provided for in the contract agreement. This amount is not supported and, therefore, ineligible.
- Pueblo billed the Authority \$533 for materials for 32 units at \$17 per unit cleaned. The contract required that materials and expenses be documented and billed at actual cost. Since there was no documentation submitted to support material costs, the \$533 charge is unsupported and, therefore, questionable.
- The billing also included miscellaneous administration charges of \$71 per unit (32 units) totaling \$2,283. Under the terms of the contract, Pueblo could charge up to \$71 per unit cleaned (equal to 26 percent of the estimated contract cost) for actual, documented miscellaneous administrative expenses. This contract allowance is unreasonable considering that, as previously discussed, Pueblo's administrative expenses were minimal (other than its consultant fees) and the contract already allowed for separate payment of supervision, materials, and drug testing expenses. Further, the costs were not documented as required. Accordingly, the \$2,283 charge is considered questionable until supporting documentation is provided.

We could not review any other invoices under this contract agreement as they did not contain the dates of service. However, based upon the serious problems noted in this billing, other billings under the contract are also questionable and must be reviewed to determine eligibility.

The same type contract and management conditions existed at Jordan for two detrashing/cleaning contracts so it is probable that similar problems exist at this RMC.

### **Unarmed Security Service Contract – HA-97-065 – Jordan**

This contract was originally executed on March 3, 1997. For the period March 3, 1997, through October 5, 1999, the contract called for one security guard, 24 hours a day, 7 days a week (168 hours a week) at \$14.50 per hour, plus administrative costs of \$350 per week for a total per-week contract maximum of \$2,786. Based on the above, the maximum payable for a 1-year period would be \$144,872. Although, this appears to be a very basic contract, many deficiencies were identified as follows:

- None of the billings we reviewed contained supporting information sufficient to determine the bills' accuracy, and the Authority should not have paid them until additional supporting documentation was provided.

- During the period January 1 through October 5, 1999, Jordan was paid \$435,590 under this contract. However, the maximum allowable under the then existing contract (\$2,786 per week) would have been only \$111,440. The contract overpayment of \$324,150 is questionable. In this regard, a \$75,968 billing invoice we examined claimed to be for the period May 7 through June 14, 1999, a period of 5 weeks and 3 days. There was no documentation submitted to support this charge. Further, based upon the maximum payable under this contract (see above), the billing should not have exceeded \$15,124. This payment is also questionable in that it was not paid until almost 6 months later, on December 10, 1999, and the payment check was not deposited/cashed until February 17, 2000.

The check was made payable to Jordan but endorsed by the Authority's former Assistant Executive Director/Director of Housing Services and used to open a for-profit corporate checking account in the name of Jordan Downs Resident Group, Inc. The Authority's former Assistant Executive Director was the sole authorized signator for the account. Within a 1½-week period, five checks totaling \$54,750 were written and cashed against the account. All of the checks were written and endorsed by the Authority's former Assistant Executive Director. Two of the checks were made payable to Jordan Downs Security Service, while three of the checks were made payable to the consultant. The consultant's billing invoices supporting two of the three check payments included time charged for meeting with a bank employee and the Authority's former Assistant Executive Director to open this account. On March 2, 2000 (13 days after the account was opened), a cashier's check for \$21,218, payable to the Authority, was issued to close out the account. However, this check was never cashed, and approximately 1 year later, February 23, 2001, a "stop payment" was placed on the cashier's check. On March 8, 2001, 13 days after the stop payment, a new cashier's check, payable to Jordan Downs Resident Management Corp., was issued for the same amount (\$21,218). This check was deposited on March 9, 2001, into Jordan's bank account. The above information brings into question the legitimacy of this \$75,968 billing.

- On October 6, 1999, the Authority and Jordan entered into an amended contract, calling for additional security guards, reducing the hourly charge per guard (salary and burden) from \$14.50 to \$9.25 per guard, and establishing an hourly rate for supervisors of \$13.08 (previously they were paid through the allowance made for administrative support). However, Jordan continued to bill and was paid under the old contract rate of \$14.50 per hour for security guard services. This is \$5.25 per hour more than allowed under the contract for regular guard services. Jordan billed the Authority more than \$282,000 under this amended contract, and a large portion of this would be ineligible because of the hourly overcharges. Also, during this period, we identified double billings totaling \$1,740 in five instances in which Jordan billed twice for the same service.

Because of all the problems with this contract, including significant questionable payments in 1999 and an overall lack of documentation to support billings, we question all payments under this contract totaling \$830,914. To resolve this issue, the Authority must determine eligible charges under the contract based upon documented hours worked by Jordan

employees, including analysis of the significant questionable payments during the period January 1 through October 5, 1999, and adjustment of billings/payments after October 5, 1999, to reflect the amended contract billing rates.

### **Extermination Service Contract – HA-96-074 – Jordan**

In addition to the above-mentioned contracts, we reviewed a single invoice under Authority contract HA-96-074 for extermination services. The Authority awarded this contract to Jordan on September 18, 1996, for \$25,000 for a term of 10 weeks. An amendment was approved 1½ months later (October 31, 1996), extending the term of the contract to 3 years and increasing the total contract price to \$131,250.

- Payments under the contract totaling \$37,354 were made by the Authority to Jordan for invoices, dated October 15, 1996, through October 31, 1998, an average of approximately \$1,500 per month (2-year period). Payments totaling \$6,375 were later made to Jordan for invoices, dated from November 1, 1998, through June 30, 1999 (7-month period). On **April 18, 2001**, Jordan's consultant prepared and submitted an additional invoice to the Authority for \$82,740, claiming it was for extermination services rendered by Jordan for a 7-month period between November 1998 and June 1999. No supporting documentation was available to show that extermination services totaling this amount had been performed 2 years earlier by Jordan's subcontractors and paid for by Jordan (all extermination services were subcontracted out). Further, based upon the previous payment history under this contract, average payments of approximately \$1,500 per month, it is doubtful that \$82,740 in billings, \$12,000 per month, would have been incurred under the contract. Also, we interviewed two moving subcontractors and inquired whether their moving trucks had ever been sprayed since \$33,726 of the \$82,740 in retroactive extermination billing was allegedly for spraying (i.e., exterminating) their moving trucks. One subcontractor stated that his trucks were never sprayed, and the other stated that spraying occurred only once or twice because the fumes were too strong for his moving employees to tolerate. The above facts imply that the billing may have been prepared to use up the remaining balance under the contract; i.e., with this payment, total payments under the contract equaled \$127,742, versus the adjusted contract award of \$131,250. Based on the above information, the \$82,740 billing is unsupported and appears to be a false billing created by the consultant. This billing is, therefore, ineligible.
- The consultant charged Jordan \$8,750 to prepare the \$82,740 invoice. Based upon the questionable nature of the billing, this preparation fee is considered unreasonable and unnecessary and, therefore, ineligible.

### **Other Deficiencies Noted**

Other significant deficiencies noted during our review include (1) executing contracts, which exceeded two years, without prior HUD approval (2) the Authority's awarding of contracts for \$25,000 (later raised to \$50,000 at the time of our audit), which resulted in the issuance of contracts that bypassed the need for Board of Commissioners approval, followed by the

issuance of substantial contract amendments within 60 days or less and (3) RMCs operating in a haphazard and wasteful manner.

### **Executing Contracts, Which Exceed Two Years, Without Prior HUD Approval**

In accordance with paragraph 11-1.A.1.f of HUD Handbook 7460.8, “Procurement Handbook for Public and Indian Housing Authorities,” “contracts for services whose initial period exceeds two years, and any option, extension, or renewal of a contract for services which makes the total length of the contract, as modified, exceed two years, require prior HUD approval”. The Authority executed numerous service contracts with its RMCs that exceeded two years, without obtaining prior HUD approval as required, including

- HA-2000-014 (Pueblo moving)
- HA-2000-013 (Pueblo unarmed security)
- HA-98-040 (Pueblo [detrashing and cleaning] (Contract was in its fifth year)
- HA-97-065 (Jordan unarmed security)
- HA-96-074 (Jordan extermination)

The Authority needs to inform HUD of any existing RMC service contracts, which have exceeded two years, and obtain the appropriate approval from HUD.

### **Bypassing of Board Approval**

The Authority consistently awarded contracts to its RMCs for \$25,000 (and more recently \$50,000) and then, within 60 days, made substantial increases to the contracts through amendments. This practice served to bypass the original Board of Commissioners approval requirement for contracts exceeding \$25,000 (now \$50,000). As the table on page 8 shows, The Authority awarded 12 service contracts to Pueblo and Jordan, all but two of which were issued at \$25,000 (nine contracts) or \$50,000 (one contract). The original value of the 10 contracts totaled \$275,000 but, through amendment, totaled more than \$3.4 million, a greater than tenfold increase. This is an inappropriate method of contracting and places undue pressure on the Authority’s Board of Commissioners to approve the huge contract amendments since the contracts are already in place and operating.

An example of this inappropriate contracting process was Pueblo’s unarmed security services contract (HA-2000-013). The contract was originally issued on April 18, 2000, for \$25,000, and within 1 month, an amendment increased the contract to \$409,272. Later amendments increased the amount to more than \$980,000. The original contract price approved by the Authority was unreasonable, unsupported, and underpriced. To show the unreasonableness of the original contract value, by taking the contract schedule of fees and contract term length, we determined that \$570,918 was necessary to implement the original contract term of 1 year (or \$10,979.20 per week); however, only \$25,000 was awarded up front for the 1-year contract. The original contract award of \$25,000 would have been enough to carry out unarmed security services for 2<sup>1</sup>/<sub>4</sub> weeks before the full contract award had been spent. This type of procurement deficiency should have been identified and addressed before the award of the contract. Another example of this contracting process was Jordan’s unarmed security service contract (HA-97-

065). The initial contract award was \$25,000, while the ultimate value of the contract, after six amendments, reached \$1,278,000. There was no documented support for the large contract amendments.

### **RMC Operations**

Over the last 7 years, the Authority's RMCs have received millions of dollars in contracts from the Authority, primarily through the Comprehensive Grant Program (i.e., Capital Fund). Our review disclosed that many of these RMCs had not established accountability for the Federal funds they received and operated in a haphazard, nonaccountable manner. They failed to maintain adequate accounting records, and their Boards of Directors/staff were not capable of effectively managing their operations. Consequently, substantial payments were made for inappropriate or undocumented purposes, particularly by Jordan and Pueblo. This is especially troubling because of the considerable amount of funds these two RMCs paid to a consultant (over \$1.3 million in hourly fees) who was to assist them in carrying out their day-to-day activities. Below is a listing of some of the deficiencies identified in the operations of Pueblo and Jordan:

- \$34,000 in unsupported payments were made to the President of the Pueblo Board of Directors and \$21,000 to the current President of the Jordan Board of Directors. Pueblo and Jordan frequently disbursed checks payable to either "cash" or specific Board members, without any supporting documentation, for such items as school supplies, holiday events, cleaning supplies, Board meetings, etc.
- At least \$6,000 in inappropriate cash bonuses were given to current Board members (Pueblo and Jordan).
- \$4,200 in funeral/burial expenses was paid to residents (Pueblo and Jordan).
- \$2,780 in personal loans were made to Board members and the consultant with no record/accounting, including evidence that the loans were ever repaid (Pueblo and Jordan). Personal loans were made to residents and cash repayments kept in a drawer, rather than deposited into the bank account. It was also noted that the consultant was providing personal loans to the Board members (at least \$2,000 at Pueblo).
- Significant inappropriate payments were made to prior Jordan Board members, including \$6,510 diverted at the end of their management term. However, records necessary for a detailed review of these payments were missing.
- Jordan did not have financial statements prepared, file tax returns, or pay employment taxes for the years 2000 and 2001, although it paid a consultant to help it manage these activities.
- Board members were empowered with signature authority and other controls; however, they did not have the background, expertise, or capability to perform effectively in their positions (Pueblo and Jordan).
- Board stipends (up to \$400 per month) were paid to Board members regardless of whether they attended board meetings (Pueblo and Jordan).
- No records were maintained of Board meeting minutes (Pueblo and Jordan).
- A combined savings/checking account was used as a petty cash fund with no accountability for expenditures, and checks were issued out of sequence (Pueblo).

- Board members with Authority jobs were being paid by the Authority but spending official time working on RMC activities (Pueblo and Jordan).
- A Board member was paid as a RMC employee when in fact she was not an employee (Pueblo).
- There was no competitive process in place to obtain subcontractors for moving and extermination services (Pueblo and Jordan). Both RMCs used the same moving subcontractors, whose services were obtained without benefit of competition.
- Pueblo did not maintain the insurance coverages required under its contracts with the Authority.
- The Internal Revenue Service was not notified of the consultant's contract earnings through the RMCs' filing of IRS Form 1099s. The consultant was the person responsible for ensuring appropriate IRS filings were made (Pueblo and Jordan).

## **Summary**

As discussed above, the Authority's procurement and contract management processes, especially as they related to its RMCs, were seriously deficient. Since 1996, the Authority has noncompetitively awarded all of its RMCs more than \$13 million in service contracts; i.e., moving, extermination, unarmed security and detrashing/cleaning. However, before awarding these contracts, it did not determine cost reasonableness or whether the RMCs had the capability to carry out the contract requirements. The costs were not reasonable and the RMCs did not have the needed capability. Also, the Authority did not adequately monitor or review the RMCs' activities or the contract billings they submitted. As a result of these weaknesses, more than \$1.2 million in unsupported and ineligible costs were incurred at the two RMCs we reviewed. The \$13 million in contracts awarded to the RMCs did not significantly benefit the Authority's residents, as few of them were hired under the contracts and, after 7 years, none of the RMCs we reviewed were capable of managing their business affairs. The primary beneficiary of these contracts was the consultant, whom the RMCs paid more than \$1.6 million (through a noncompetitive procurement process) to assist them in carrying out their basic day-to-day operations. The consultant had a long-term business and personal relationship with the Authority's former Assistant Executive Director/Director of Housing Services, who had almost total control over the RMCs and their contracts, including initial award and ongoing monitoring. This relationship presented an apparent conflict of interest, which the Authority's former Executive Director and former Board of Commissioners failed to address. Due to the significant problems identified with the RMC contract and billing process, HACLA needs to review all current RMC contracts to determine whether they should be cancelled and review all contract billings under all Authority service contracts with its RMCs to ensure their credibility and accuracy. Any further unsupported, questionable, and/or unnecessary and unreasonable payments need to be repaid by the Authority from nonfederal funds.

## **AUDITEE COMMENTS**

The Authority agreed with the audit finding.

## **RECOMMENDATIONS:**

We recommend that your office require the Authority to

- 1A Obtain appropriate supporting documentation or repay all unsupported expenditures discussed above and itemized in appendix A (\$844,750).
- 1B Reimburse its Capital Fund, from nonfederal sources for the ineligible costs discussed above and itemized in appendix A (\$451,055).
- 1C Review all contract billings under all service contracts with all of its RMCs to ensure that payments were made only for fully supported expenses and were in accordance with contract requirements. This would include ensuring that claims for security and cleaning services are supported by employee time records and reimbursable material and administrative expenses are fully documented as required by the contracts.
- 1D In an orderly manner, terminate any current contracts with Pueblo and Jordan. Any future service contracts with these RMCs should be awarded only through competition and in accordance with all applicable Federal procurement requirements; i.e., independent cost estimates/price analyses are performed and determination of capacity is made and fully documented.
- 1E Enter into new or amend existing contracts with its RMCs only after HUD reviews and approves the contracts.
- 1F Develop and implement a process to monitor RMC activities, which at a minimum include
  - Periodic, structured onsite monitoring reviews;
  - Remote monitoring efforts, including the review of audited or unaudited financial statements; and
  - Requiring supporting source documentation to be submitted (and appropriately reviewed) with every contract billing.
- 1G Strengthen its contracting process by implementing controls to segregate responsibilities to ensure that no one person or department has full control over the procurement of individual goods and services and ensuring that questions arising during the procurement process are fully and fairly resolved.
- 1H Ensure that the Authority's Board of Commissioners is fully involved in relevant contract oversight activities, to include providing them with documentation supporting the reasons for issuing contracts which bypass their approval process and providing them with affirmation that price reasonableness and capacity determinations have been made before entering into any contracts with the RMCs.

**FINDING 2 - THE AUTHORITY DID NOT HAVE SUFFICIENT CONTORLS OVER THE PROCUREMENT AND MANAGEMENT OF CONSULTING SERVICE CONTRACTS – INELIGIBLE - \$439,803; UNSUPPORTED - \$49,842**

The Authority's controls over the procurement of consulting services by both itself and its RMCs were not sufficient to ensure that such services were necessary and obtained at a reasonable price. Additionally, contract management was inadequate to offer assurance that contracted services were provided and payments made in accordance with the contracts. As a result, competition was unreasonably restricted; the Authority and its RMCs paid excessive prices for services often not provided; and duplicate payments were made for consulting services. During our review, we identified ineligible contract payments to a consultant totaling \$439,803, other questionable payments totaling \$49,842, and an overall perception of favoritism in the acquisition of RMC related consulting services. These problems resulted from a failure by the Authority to institute sufficient controls over its procurement process, failure to develop and implement appropriate procedures for monitoring its RMCs' operations, and a disregard for applicable procurement policies and procedures.

In accordance with Section 3 of the Housing and Urban Development Act of 1968 (12 U.S.Code 1701u), recipients of HUD assistance are to take affirmative actions to ensure that, to the greatest extent feasible, employment and other economic opportunities generated by HUD financial assistance are directed to low- and very low-income persons and to business concerns which provide economic opportunities to low- and very low-income persons. Regulations implementing these requirements are set out in 24 CFR section 135. Additionally, contracting requirements, which would be applicable to all procurement actions including these type of affirmative procurements, are set out in 24 CFR 85.36. Critical procurement requirements include

- Ensuring, before contract award, that contractors possess the ability to perform successfully under the terms and conditions of the proposed contract (24 CFR 85.36(b)(8)).
- Conducting a cost or price analysis in connection with every procurement action (24 CFR 85.36(f)(1)).
- Ensuring that "all pre-qualified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition" (24 CFR 85.36 (c)(4)).
- Using time and material only when no other contract is suitable and only if the contract includes a ceiling price that the contractor exceeds at its own risk (24 CFR 85.36 (b)(10)).
- Prohibiting restriction of competition by noncompetitively awarding contracts to consultants that are on retainer (24 CFR 85.36(c)(1)(iv)).
- Prohibiting the use of cost plus a percentage of cost contracting (24 CFR 85.36 (f)(4)).
- Ensuring that contractors perform in accordance with contract terms (24 CFR 85.36 (b)(2)).

Additionally, as required by Office of Management and Budget Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments,” for costs to be allowable under Federal awards, they must be necessary and reasonable for proper and efficient performance and administration of the funded activities.

During the period of our review, the Authority and its RMCs entered into numerous contracts with one consultant. Many of these contracts were made in conjunction with an attempt to provide economic opportunities to residents by providing business and operational training to several RMC Boards of Directors to assist them in establishing resident-owned businesses. Other contracts between the RMCs and the consultant called for the provision of “Professional Consultant services” on an hourly basis related to contracts the RMCs’ businesses had entered into with the Authority to provide various services; i.e., moving, security, extermination, and cleaning/detrashing (see finding 1). The Authority entered into other contracts and procurement actions with the consultant related to program design, moving, and other miscellaneous services. These contractual services were not obtained nor managed in accordance with applicable procurement requirements as discussed below.

**Consulting Services for Training Resident Management Corporation Board Members – Ineligible - \$237,222; Unsupported - \$11,700**

We identified 19 procurement actions (9 contracts and 10 purchase orders) in which either the Authority or one of its RMCs entered into agreements with the consultant to provide consulting services to the RMCs relating to Board of Directors governance and business startup and operations. Contracts/purchase orders were either entered into directly between the consultant and the Authority (12 purchases) or entailed contracts between the Authority and the RMCs, in which the Authority provided funds to the RMCs to hire a consultant (seven purchases). Payments under these agreements totaled more than \$427,000. Numerous irregularities in the awarding and management of these contracts were identified as summarized below:

- The Authority could provide no documentation showing that a cost or price analysis had been performed for any of these procurement actions.
- All but one of the nine contracts we examined were issued at or about \$25,000, the upper limit at which the Authority’s procurement policy required neither board approval nor use of formal bid procedures. This raises concerns that the contracts may have been issued at these amounts to avoid the Authority’s administrative and procurement requirements yet still provide the maximum amount available to the consultant.
- We found no documentation showing that the Authority had determined whether the consultant had the experience and training necessary to provide business consulting services to RMCs. The consultant provided a resume to the Authority and several of the RMCs, listing a masters degree in business administration, which he did not have. He also claimed to have a consulting business with five employees. We could find no evidence that the consultant had ever provided consulting services to any entity other

than the Authority and its RMCs. Further, it appears that he never had any employees in his consulting business and that all claimed work could only have been done by the consultant, himself.

- The Authority continued to award contracts to this consultant even after learning he had made false statements regarding his qualifications and education.
- The Authority did not ensure that the consultant obtained and maintained insurance coverage as required by its contracts. It appears that, although the consultant began providing contractual services to the Authority in 1995, required liability insurance was not obtained until September 2000.
- All of the procurements appeared to have been sole source and directed specifically toward the subject consultant. There was no prequalified list of consultant firms, which could have been used in soliciting proposals for needed consultant work. The Authority in several instances, claimed to have contacted other vendors. However, in only two instances, were the names of those vendors documented. The Authority claimed that no one other than the subject consultant responded to the requests for proposal. The Authority's contracting department reportedly attempted to contact those who received the requests for proposal for the two contracts but could not verify that they had been contacted. We also attempted to contact these entities and were unable to verify any of them received the requests. One of the "consultants" was a medical management business, one was a tax and accounting firm that had not been at the mailing address for two years, and others denied having received a request for proposal from the Authority or could not be located at the given addresses. In an apparent attempt to avoid its own and HUD's procurement requirements, the Authority would often contract with the RMC, which would then use the contract funds to hire a consultant. In relation to these instances (seven), there was also no evidence of competition and it appears that the consultant was preselected. In four of the seven contracts, the consultant began work before the contract was issued, and in three instances, RMC staff claimed that Authority staff strongly suggested that they hire the consultant or they would not receive any future contracts from the Authority.
- There was no evidence that the Authority made a determination as to the necessity of the proposed work, adequately determined and detailed the scope of work, or verified that work was completed. As a result, contracts were issued and payment made for unnecessary or duplicative services and services which were not provided. We identified \$237,316 of ineligible payments and \$11,700 in questionable payments under 11 different procurements involving false procurement actions, payments for services not provided or not documented, payments for unnecessary services, and duplicative payments as discussed below (also see appendix B).
  - In December 1995, the Authority entered into a \$169,000 contract with Jordan. This contract (HA-95-066) was to provide Jordan funding necessary to assist in preparing residents to experience meaningful work and to hire a consultant(s) to establish a security company and help teach staff to manage it; develop a market

study of available business for the RMC; advise on organizational structure; train Jordan's Board of Directors in its duties, bookkeeping principles, management of its community center, and staff supervision; and advise the Board on "how to get a firm grasp on organizational behavior." Based upon a revised budget, dated December 8, 1995, Jordan was to use \$56,035 of the contract funds to pay a consultant(s) for his services, with the remaining funds to be used for Jordan's staff salaries and administrative expenses.

We could find no evidence that Jordan attempted to competitively obtain consultant services under this contract. Instead, it appears that the consultant was preselected as he was already working for and billing Jordan for his services under the contract before it was executed. A review of billings under the contract showed that the consultant primarily provided day-to-day operational services to Jordan, rather than consulting services. Further, almost none of the \$112,965 allocated for Jordan's staff salaries and administrative costs were used for that purpose. Only \$8,265 of the contractual payments were for the RMC; whereas payments for consultant services totaled \$178,647. Contract overpayments of \$17,913 (\$186,913 versus \$169,000) occurred under this contract because of accounting errors made by the Authority.

Additionally, a minimum of \$55,270 of ineligible payments were made under this contract. Two payments (\$5,375 and \$4,313) were paid directly to the consultant by the Authority. The consultant was contracted with Jordan and, thus, should not have been paid by the Authority since Jordan was already paying him for these services. Three additional payments were made to Jordan without supporting documentation and appeared to have been made simply because funds remained under the contract. There was no documentation available to show how these last three payments under the contract related to the original scope of work or were necessary for contract performance. These payments were – 1/24/97 - \$13,563; 9/19/97 - \$17,422; and 10/23/97 - \$14,600.

- On October 24, 1997, the Authority issued a \$10,000 purchase order to pay the consultant for "Training of the Jordan Downs Resident Management Corporation in Facility Management from January 1997 through September 1997." This purchase order (49583) was issued after the purported services were provided and appears to be based upon a September 24, 1997, billing from the consultant with no documentation showing the work was ordered or completed. Further, these same services were to have been provided by the consultant under a previous contract, HA-95-066. This appears to be a false, ineligible billing, which clearly demonstrates the weaknesses in the Authority's controls over its procurement process.
- On December 17, 1998, the Authority entered into a \$24,500 contract with the consultant to provide technical assistance to the Aliso Village Resident Advisory Council in the areas of resident training and development to prepare the residents for doing business in the private sector (contract HA-98-082). The Authority

- claimed to have solicited requests for proposals for these services on October 6, 1998, to have received more than one proposal, and that the consultant's offer was considered "one of the most advantageous..." However, there was no documentation available supporting the claim that proposals were solicited and received from other parties. The contract called for provision of weekly written reports of results and recommendations. No written reports were provided, and as a result, it is not possible to determine whether required work items were accomplished. In this regard, a former Resident Advisory Council Board of Directors member claimed the consultant provided very few services for the \$24,500 fee. This assertion is supported by the consultant's billings, in which he claimed to have completed six of the seven tasks within 6 days. Because of the failure to document the reasonableness of the charges and specify the consulting work results and recommendations, the \$24,500 paid under this contract is considered ineligible.
- The Authority entered into a \$24,999 contract (HA-99-076) with the consultant on October 25, 1999. The consultant was to provide the Pico Aliso Resident Advisory Council with business consulting services. The Authority claimed to have informally solicited responses from five firms to provide these services and stated that the only response received was from the consultant. However, the Authority's contract administrator raised numerous questions regarding this contract, including whether any firms would have had time to respond to the request for services; type of work done by those contractors purportedly contacted; questionable price; i.e., just below the \$25,000 threshold, which would require Board approval and formal bid procedures; lack of pricing information; and the failure to provide potential contractors with essential information. The Authority's former Assistant Executive Director/Director of Housing Services responded that because of an emergency situation, she had instructed her staff to "solicit bids under \$25,000." This "emergency situation" was never identified. The contract administrator's concerns were overridden by the former Assistant Executive Director and the contract executed.

We attempted to verify that the firms who were purportedly contacted were contacted by the Authority and could provide the type of services required. However, we could not verify that any of them were contacted to respond to this request. Further, at least one of the firms' business had nothing to do with providing the type of consulting work the Authority wanted – it was a medical management firm. The majority of the work (8 of the 11 work items) to be done under this contract were accounting related and accordingly should have been directed to a firm which provided accounting services, not to the consultant, who had to subcontract out the work.

The consultant's first billing (\$18,900), submitted on October 27, 1999, 2 days after contract execution, indicated all of the accounting-related work had been completed. In relation to the accounting work, the consultant had submitted a letter to the Authority on October 15, 1999, requesting to use a specific accounting firm as a

subcontractor on the contract. However, all accounting work had already been done and the accountant was paid his \$7,200 fee (versus the \$18,900 charged by the consultant) on October 6, 1999. Since the contract was not executed until October 25, 1999, it appears that the contractor was preselected and the Authority's claim to have participated in an open and fair competition was untrue.

In relation to services provided to this Resident Advisory Council, in August of 1999, the consultant was paid \$2,000 to evaluate the Resident Advisory Council's systems and controls (purchase order 58451). Based upon this evaluation, he recommended the Resident Advisory Council hire an accountant and a consultant to assist in correcting accounting problems and train staff. Based upon his recommendations, he was hired as a consultant. Additionally, in September 1999, he was paid \$2,500 under a separate purchase order (number 58696) to resolve business and licensing problems of the Resident Advisory Council. Under the subject contract, he again charged for providing the same services. The amount charged, \$344, is ineligible as it represents a duplicate charge.

In summary, it appears the consultant was preselected for this contract. Additionally, most of the contracted services should have been directly with an accounting firm, not with the consultant. Accordingly, the \$11,700 excess amount paid (\$18,900 versus \$7,200) is a questionable charge. The duplicate charge of \$344 to resolve business and licensing problems is an ineligible charge.

- On **February 28, 2000**, the Authority entered into a contract (HA-2000-006) with Pueblo in which the Authority agreed to provide Pueblo \$25,000 to hire a consultant to evaluate and train Pueblo's staff to operate a profitable business and develop business initiatives. On **March 1, 2000**, the consultant submitted a billing to Pueblo for \$16,500, claiming that six of the nine work items included in Pueblo's February 28, 2000, contract had been completed. The consultant claimed to have previously entered a contract with Pueblo to carry out the exact work items that were included in the Authority's contract with Pueblo, which was not executed until 1½ months later. These claimed work items were very general and included "train and assist RMC board members to understand the roles of CEO, CFO, and COO in business organization behavior," and "Oversee and assist to implement selection of CEO, CFO, and COO." It is unreasonable to claim to train individuals who have no previous business background in the relationships between a chief executive officer (CEO) chief financial officer (CFO), and chief operations officer (COO), and there would be no reason to do so. Further, there was no documentation available showing that the contractual work items were ever accomplished. Based upon the final report issued by the consultant on April 9, 2000, it appears that most of the work items were not accomplished. This final report merely provided generalities with only limited applicability to the original contract work items and made recommendations for future work, which the contractor was to have accomplished under this contract. The \$25,000 in costs related to this contract were not reasonable and necessary and, accordingly, are ineligible.

During this same time period, the Authority issued two additional noncompetitive purchase orders to the consultant to provide business training assistance to Pueblo: purchase order 60267 for \$2,500, dated February 14, 2000, to provide assistance in starting a moving company (consultant's billing was dated the same day as the purchase order) and purchase order 510018 for \$25,000, dated April 8, 2000, to provide training to Pueblo to start a security and extermination business (first billing by the consultant for \$5,500 was dated the same day as the purchase order). There was no work statement for these purchase orders, and, thus, it is not apparent what work the consultant did. However, it appears that much of the work is a duplicate of what he was to perform under contract HA-2000-011 (see below); i.e., assist Pueblo to establish businesses to take over the Authority contracts previously handled by Jordan.

One year earlier, the consultant had been contracted by Pueblo to evaluate and train it to operate as a "profitable" business (contract HA-99-026). This contract was a pass through from the Authority for \$25,000. The contract between the Authority and Pueblo was effective April 12, 1999, yet the consultant began billing under the contract on January 12, 1999, and the claimed final report due under the contract was dated January 30, 1999, 2½ months before the contract was executed. It should be noted that this claimed final report had little value and little relationship to contract work requirements. Accordingly, the \$24,906 paid under this contract is considered unreasonable and, therefore, ineligible.

Despite all the training the consultant supposedly provided to Pueblo and for which he was paid more than \$77,000, on September 28, 2000, he agreed to take over "...the routine functions necessary to maintain your business activities..." as Pueblo was incapable of doing so.

- On April 10, 2000, the Authority entered into a \$25,000 contract (HA-2000-011) with the consultant for assistance in the demobilizing and transfer of Jordan's contracts for moving, detrashing, and security to the Authority or other RMCs. The Authority claimed to have solicited six firms on March 23, 2000, and to have received only one response. However, the consultant's first billing was submitted on April 12, 2000, just 2 days after contract execution. In this billing, the consultant claimed to have begun work on the contract work items on March 20, 2000, 3 days before the Authority claimed to have solicited proposals for the work. Further, the contract called for completion of the work items by April 10, 2000, the date of the contract. Therefore, there was no solicitation involved in this matter as claimed by the Authority.

In addition, the need for many of the work items to be completed under this contract is questionable as they were either already being performed under Authority purchase orders 60267 and 510018 or were unnecessary. These two purchase orders, as discussed above, were for setting up Pueblo's moving, security, and extermination businesses, which took over the contractual services previously provided by Jordan. Work items 2, 5, 6, and 7 of the subject contract duplicated

these work items (total contract budget of \$15,000). Further, work items 3 and 4 were unnecessary and not related to the purpose of the contract, and there was no documentation available to indicate claimed work was done or could have been done (contract budget \$5,000). These items called for training Authority staff to monitor former Jordan businesses and implementing a labor distribution and employment program for Jordan. This makes no sense as the Jordan businesses were being closed out. In summary, \$20,000 of the amount paid under this contract is ineligible as the cost was not reasonable and necessary.

- On July 18, 2000, the Authority entered into a \$25,000 contract (HA-2000-024) with the San Fernando Gardens RMC to provide funds to hire a consultant to evaluate and train its staff to operate as a “profitable” business and develop business opportunities. The consultant entered into a contract with San Fernando Gardens on June 26, 2000, almost 1 month before it executed its funding contract with the Authority. The consultant submitted his first bill to San Fernando Gardens on August 1, 2000, for work performed during the period June 5 through July 31, 2000. These actions make it appear that the contractor was preselected. In this regard, a San Fernando Gardens representative stated that San Fernando Gardens attempted to obtain the services of another contractor but were almost forced to hire the subject consultant by the Authority’s former Director of Housing Services /Assistant Executive Director.

The Authority’s contract with San Fernando Gardens required the production of a final report by the consultant, documenting findings and recommendations of needs. However, this report was not provided, making it difficult to determine what, if any, work required by the contract was provided. In this regard, \$15,000 of the contracted work was for Board of Directors and staff training. However, the Board President stated that the consultant provided the San Fernando Gardens with almost no training. Further, it is questionable as to the effectiveness of any business consulting that may have been provided since the Board President and other members spoke and understood only limited English and the consultant did not speak Spanish. The consultant, for a fee of \$5,000, was also to acquire permits and licenses to register San Fernando Gardens as a new business. We asked the consultant and the Authority what licenses and permits were obtained but received no response, and, accordingly, we cannot determine the reasonableness of this charge. Based upon the Authority’s inability to document the reasonableness of the previously discussed consulting services, the \$15,000 applicable to training and \$5,000 applicable to obtaining permits and licenses are considered ineligible.

- The Authority paid Estrada Courts RMC \$25,000 to hire a consultant to train its staff to operate as a “profitable” business and develop business initiatives (contract HA-2000-025, dated July 18, 2000). There was no reason for this contract as Estrada Courts had been operating its businesses successfully for several years previously. Further, Estrada Courts’ staff claimed the consultant, whom they were forced by the Authority to hire, did nothing for the \$25,000 paid him other than look at their insurance policies and make suggestions for office

furniture and equipment. Services provided under this contract were typical of those provided under other contracts. This charge was not reasonable and necessary and, accordingly, is ineligible.

- The Authority entered into a contract with Jordan on April 4, 2001. The contract (HA-2001-009) provided Jordan \$25,000 to hire a consultant to “develop and start a ‘profitable’ grounds maintenance business.” There was no evidence that Jordan competitively solicited proposals from any other consultant to carry out the work. At the time this contract was issued, the consultant was already working for Jordan on an hourly basis. No grounds maintenance business was started, and the final report maintained by Jordan and the Authority, dated December 15, 2001, was just two pages of generalities, and even inaccuracies. In response to a request for additional information, the consultant provided us with another version of a final report, this one dated November 21, 2001. In that neither the Authority nor Jordan had a copy of the November 21, 2001, final report in their files at the time of our onsite visits, its authenticity is questionable. Further, it does not provide any useful detailed recommendations and outcomes. In that the intent of the contract was not attained and because there was no explicit, identifiable work product, the \$25,000 paid under this contract is considered unreasonable and unnecessary and, therefore, ineligible.
- On August 8, 2001, the Authority issued a purchase order (65102) to the consultant to provide Jordan “training on organizational behavior, contractual and operational activities.” There was no documentation indicating that the Authority obtained verbal quotes from other vendors as required by its procurement policy. In fact, it appears that the consultant was preselected as on August 11, 2001, 3 days after the purchase order was issued, the consultant submitted a \$7,200 bill claiming the contracted work had been accomplished. We could find no documentation indicating the work had been accomplished. We requested information from the consultant regarding this, and he indicated that a portion of the work was accomplished at a leadership training retreat in San Diego held on September 14 through 16, 2001, more than a month after the consultant’s billing for training. Further, the consultant was paid separately by Jordan for both his preparation and participation time for the retreat. We also noted separate hourly billings by the consultant to Jordan for other work supposedly accomplished under this purchase order with the Authority. Because of the lack of documentation supporting claimed accomplishments and indications of double billing for the work, the cost of \$7,200 is considered unreasonable and unnecessary and, accordingly, ineligible.

**Hourly Consulting and Accounting Services Provided to Resident Management Corporations for Ongoing Business Operations – Ineligible - \$33,411**

In addition to the contractual services discussed above, the consultant entered into contracts or was paid without benefit of a contract with various RMCs where he was to provide consulting services on an hourly basis. There was no documentation available to suggest

these services were obtained on a competitive basis. The pattern in all of these hourly arrangements was that the consultant would first receive a noncompetitive contract from or through the Authority to provide training and assistance in business development to a RMC. The Authority would then noncompetitively contract with the RMC to provide moving, security, extermination, and/or detashing services. The consultant, once having obtained access, would then enter an arrangement with the RMC to provide hourly consulting and, in some instances, accounting services in conjunction with its new business operations. Under these arrangements, the consultant was paid at least \$1.6 million by six different RMCs (through approximately May 2002). Significant problems were noted with the consultant's hourly contracts and his billing and payments under these contracts.

- The hourly contracts provided no safeguards to the RMCs and effectively allowed the consultant to charge whatever he wished, without need for any documentation showing the need for claimed work or whether anything was accomplished for the claims made. The contracts were open ended, with a total scope of work listed as "Consultant services in all areas where business expertise is required" or similar wording. There was nothing in the contracts setting out specific work items to be accomplished, no contract upset price to limit the amount paid under the contract, or any method to ensure that the consultant performed any type of service for his compensation. The consultant demonstrated a serious lack of business integrity when he allowed his clients (the RMCs) to enter such open-ended uncontrollable contracts.
- Since neither the Authority or the RMCs monitored the consultant's charges to the RMCs, the consultant was able to double and even triple bill them for claimed services. During the period January 1999 through December 2000, we identified 78 instances in which the consultant charged the Authority and/or two or more RMCs for the same periods of time. Total excessive charges for these duplicate charges totaled \$18,656 (see appendix C). Total duplicate charges could be significantly more than we identified, but numerous billings to the RMCs could not be located, and toward the end of 2000, the consultant ceased identifying the specific hours he claimed to have worked. Instead, he billed for a specific number of hours per day. Accordingly, we could not identify specific hours claimed for comparison purposes. The \$18,656 in identified duplicate charges are ineligible.
- The consultant billed several of the RMCs for accounting services. However, he did not provide these services. Rather, the accounting firm providing the services billed the consultant who then billed the RMCs a significantly higher amount. Ineligible overcharges we identified totaled \$14,755 (see appendix D).
- Billing invoices provided by the consultant to the RMCs often lacked sufficient detail to allow an evaluation of the reasonableness of the charges being made. This was especially frequent for billings for 2001 and 2002. Billing invoices routinely stated, "worked on routine business issues," with no additional information detailing what work was actually accomplished. For example, in October 2001, the consultant billed Jordan \$10,150 for work supported only by the claim "worked on routine business issues." The next billing in November 2001 for \$5,390, with the exception of "visited

vehicle dealerships” and one other 1-hour charge, was supported only by the claim “worked on routine business issues.”

- Based upon available information, charges under these contracts, which totaled more than \$1.6 million, were typically for routine daily management of the RMCs’ businesses. This was not the typical work for which a reasonable person would pay a consultant up to \$140 per hour. Further, the consultant routinely charged for services which would typically be performed by a lower paid employee or for which there typically would be no charge. Examples include charges for
  - Going to “office gift exchange and Christmas activity.” He charged \$840 to attend a RMC Christmas party.
  - Making bank deposits.
  - Dropping off paper work at the Authority and the accountant’s office.
  - Shopping for a vehicle.
  - Shopping for turkeys.
  - Shopping for supplies.
  - Searching for a van windshield.
  - Going to a music store.
  - Going on a march.
  - Picking up checks from the Authority.
  - Discussing funding of consultant contract (which he received).

The above services either were not necessary or were routine services, which could have been handled through the mail or by someone who was not charging \$140 per hour. Other questionable charges noted included charging for services without allowance for meal breaks. For example, one day he charged 14 hours straight with no break for either lunch or supper.

- In August 2001, the consultant unilaterally increased his hourly consulting fee from \$125 to \$140 per hour without the RMCs’ formal approval and without contract modifications.
- Neither the consultant or the RMCs maintained documentation to support more than \$600,000 in hourly consultant billings. Accordingly, we could not determine whether these charges were reasonable and necessary.

**Miscellaneous Contracts – Ineligible - \$169,170; Unsupported - \$38,142**

In addition to the business consulting services discussed above, the consultant charged the Authority and the RMCs \$207,312 for development of a preoccupancy training program, developing procedures and guidelines for operating resident-owned businesses, and moving services. Significant problems were also noted with these procurement activities as discussed below.

### **Preoccupancy Training Program**

In March 1995, the Authority entered into a \$25,000 contract with the consultant to **develop** a preoccupancy training program for Jordan residents (contract HA-95-027). In May 1997, the Authority entered into another contract (HA-97-045) with the same consultant to **design** a preoccupancy training program for Jordan residents. Work items under this \$88,320 contract duplicated many of the work items to have been provided under contract HA-95-027. Further, the work product finally produced under the two contracts was not useful. It consisted of written generalities and provided no specific, meaningful procedures or recommendations. As a result, in June 2002, the Authority again went out to bid on another contract to **implement** a preoccupancy training program and a good housekeeping education program. This included providing substantive comments to enhance the “Housing Authority’s Residential Housekeeping Standards and the Proposed PreOccupancy Education and Support Training Program Design.” In other words, the contract was to convert the generalities, for which the Authority had previously paid more than \$113,000, into a workable program. This proposal was cancelled so the Authority has nothing to show for the \$113,220 it paid the consultant under these contracts. Accordingly, the amounts paid under these contracts were not reasonable and necessary and, therefore, ineligible.

### **Procedures and Guidelines for Operating Resident Businesses**

On April 2, 2001, the Authority entered into a \$24,950 contract (HA-2001-010) with the consultant to “develop procedures and guidelines that will govern the operation of public housing resident businesses agency-wide.” The Authority’s Housing Services Division claimed to have solicited proposals from seven other firms but to have received a proposal only from the subject consultant. Having concerns about Housing Services’ claim to have solicited proposals from the other firms, the Authority’s Contracts Administrator unsuccessfully attempted to contact these other firms and concluded that no solicitation was made. We also attempted to contact three of the firms and determined that none of them had received the purported solicitation. Thus, the Authority’s claim to have solicited other firms was false.

The contract was to be completed within 3 months of contract execution; i.e., by July 2, 2001. However, the consultant’s first billing under the contract was not made until November 5, 2001, and the final billing was made on February 15, 2002 (a contract amendment to extend the term of the contract through December 31, 2001, was executed on December 7, 2001). The only work product available was not dated and consisted of meaningless generalities that did not meet the intent of the contract. For example, one of the contract work items was to “Determine and develop procedures for the transferring of power and assets from one elected body to another within the same development.” In essence, the consultant’s work product for this (for which he was paid \$3,000) consisted of stating the books, records, and assets of a RMC are to be transferred to the newly elected Board of Directors, and if the old Board fails to do so, it will be subject to all remedies available by law. The \$24,950 paid under this contract for a product, which in effect is worthless, is unreasonable and, therefore, ineligible.

## **Moving Services – The Authority and Aliso Village Resident Advisory Council**

The Authority paid the consultant \$38,142 for resident moving services (purchase orders 60980, 61505, and 63566). The consultant did not have a moving company and, accordingly, was not qualified or capable of performing these contractual services. It is questionable as to why the Authority would contract with the consultant, knowing he would just have to subcontract-out the moving activity, rather than contracting with one of the movers who was actually providing moving services to Authority residents. Such actions insert a middleman into the process and result in higher costs. Accordingly, the eligible cost for these moves should be limited to the amount the consultant paid those who actually made the moves. We asked the consultant for this information but he did not provide it. In that we cannot determine the actual cost of the moves, the full \$38,142 is unsupported until documentation is supplied which documents the actual cost of the moves.

In addition to the above, the consultant entered into a contract with Aliso Village Resident Advisory Council to assist in obtaining a contract with the Authority for moving residents at the William Mead housing development, specifically to provide “Consultant Services and Bid Documents and Bid Quotes for moving residents at William Mead Housing Development.” The consultant’s contract called for payment of 10 percent of the value of the moving contract between Aliso Village and the Authority. Payments made to the consultant under this contract totaled \$31,000. The consultant’s contract would be considered a percentage of cost contract, which is prohibited under applicable procurement requirements (reference - Section 44c of Office of Management and Budget Circular A-110, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations”). Costs paid under an unallowable contracting method are ineligible. Other problems were also noted with this contract, including

- During the period the contractor was being paid under this contract, he was also being paid on an hourly basis by Aliso Village for services provided to its moving company (more than \$36,000). Accordingly, payments under this contract appear to be a double billing and would be considered unreasonable and unnecessary.
- The contract between Aliso Village and the Authority was an amendment to an existing contract, and the increased value of the contract was \$135,649, which at 10 percent, would be \$13,565. Yet the consultant billed and was paid \$31,000 based upon an unsupported contract value of \$310,000.

Although the above ineligible costs affect Aliso Village, the Authority should assist Aliso Village in obtaining a refund of the \$31,000 of ineligible payments from the contractor.

### **Summary**

As discussed above, there are serious issues and concerns with the Authority’s procurement of consultant services related to its RMCs. Based upon available information, it appears that the consultant received preferential treatment both in the original contract process and during

the management phase of his contracts. The consultant had a long-term personal and business relationship with the Authority's former Assistant Executive Director/Director of Housing Services, who was in charge of obtaining and managing the contracts related to the consultant. In this regard, RMC staff informed us that if they questioned any of the consultant's actions, the Authority's former Assistant Executive Director/Director of Housing Services would threaten to cancel their Authority contracts.

As a result of the lack of controls over these activities, more than \$2.1 million was expended on Resident Management Corporation business consulting services without any of them becoming successful and capable of managing their own businesses as a result of the consultant's services. Once the Authority's contracts (see finding 1) were finished, the RMCs' businesses ceased to exist. The contracts primarily benefited the consultant, who was able to charge up to \$140 per hour for services, which could not be measured or defined and in many cases, could have been performed by almost anyone. In one instance, we noted that 36 percent of a RMC's gross income went to the consultant. Through these contracts, which appear to be the consultant's only business employment and were set up for his benefit, he was able to earn more than \$400,000 per year to provide minimal day-to-day oversight of the RMC's businesses. The consultant also had an office, provided rent free by the Authority at one of its developments (other than his home, the consultant had no other business location). Because of the failure of this program, the Authority needs to reevaluate its RMC contracting process.

### **AUDITEE COMMENTS**

The Authority agreed with the audit finding.

### **RECOMMENDATIONS**

We recommend that your office require the Authority to

- 2A Repay to its low-rent housing program, using nonfederal sources, the \$408,803 in ineligible payments made for business consulting services (appendixes B, C, and D).
- 2B Obtain documentation to support the eligibility of the \$49,842 of unsupported costs set out in appendix B and repay the low-rent housing program, using nonfederal sources, those costs which cannot be supported.
- 2C Assist the Aliso Village Resident Advisory Council in obtaining a refund from the consultant of the \$31,000 inappropriately charged to it for moving-related services at William Mead.
- 2D Evaluate its procurement process and related controls and in light of the failures identified in this finding, implement procedures which will ensure that procurement requirements are followed, including development of appropriate and measurable contract work requirements, meaningful and real competition, and appropriate ongoing contract monitoring and management.

## MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to our review, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined the following management controls were relevant to our audit objectives:

- ◇ Procurement policies and procedures as they relate to contracting with consultants and RMCs, including determining the necessity of the procurement.
- ◇ Contract management and monitoring.
- ◇ Contract payment process.

We assessed the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review, we believe the following items are significant weaknesses:

- ◇ Procurement policies and procedures were circumvented (findings 1 and 2).
- ◇ Contract management was inadequate to ensure required work product was obtained (finding 2).
- ◇ Payments were made for services not provided (findings 1 and 2).

Additionally, although not considered relevant to our original audit objectives, during our review, we noted significant weaknesses in the Authority's management of its legal affairs. This matter was reported in a previous audit report (see Audit Report No. 2004-LA-1002, dated March 30, 2004).

## **FOLLOWUP ON PRIOR AUDITS**

The most recent OIG audit of the operations and activities of the Authority was completed in 1992 and did not address RMCs. This is OIG's initial review of the Authority's contracting and management activities as they relate to its RMCs.

**Appendix A**

**HOUSING AUTHORITY OF THE CITY OF LOS ANGELES  
RESIDENT MANAGEMENT CORPORATIONS  
INELIGIBLE AND UNSUPPORTED SERVICE CONTRACT PAYMENTS**

| <b>Contract #</b> | <b>Unsupported</b> | <b>Ineligible</b> | <b>COMMENTS</b>   |
|-------------------|--------------------|-------------------|---|
| HA2000-014        |                    | \$167,502         | Unreasonable and unnecessary administration fees  |
|                   | \$7,830            | 1,782             | Tape quantities in excess of contract limit and excessive unit costs                            |
|                   | 3,190              |                   | Billings for paper in excess of contract limits   |
|                   |                    | 5,042             | Ineligible billings for tape and paper  |
|                   |                    | 12,224            | Billings for materials in excess of subcontractor billings.                                     |
| HA2000-013        |                    | 166,045           | Ineligible time billings  |
| HA2000-045        |                    | 2,941             | Extermination contract billings in excess of contract limits and provisions and double billings |
| HA1998-040        |                    | 4,029             | Ineligible charges for hours not worked   |
|                   | 2,816              |                   | Undocumented charges for materials and administrative expenses                                  |
| HA1997-065        | 830,914            |                   | Questionable charges under security contract – claimed hours not supported                      |
| HA1996-074        |                    | 82,740            | False extermination service claim   |
|                   |                    | 8,750             | Unreasonable and unnecessary charge by consultant to prepare false claim                        |
| <b>TOTALS</b>     | <b>\$844,750</b>   | <b>\$451,055</b>  |   |

**HOUSING AUTHORITY OF THE CITY OF LOS ANGELES  
QUESTIONABLE PROCUEMENT ACTIONS  
NOVEMBER 1995 THROUGH DECEMBER 2001**

| Procurement of Resident Management Corporation-Related Consultant Services |                  |                  |                         |  |
|--|------------------|------------------|-------------------------|--|
| Contracts/Purchase Orders/Invoices   | Ineligible       | Unsupported      | Evidence of Competition | Indication Services Initiated Before Contract Date |
| HA-95-027  | \$24,900         |                  | No                      |  |
| HA-95-066  | \$55,272         |                  | No                      | X  |
| HA-97-045  | \$88,320         |                  | Yes                     |  |
| HA-98-082  | \$24,500         |                  | No                      |  |
| HA-99-026  | \$24,906         |                  | No                      | X  |
| HA-99-076  | \$ 344           | \$11,700         | No                      | X  |
| HA-2000-006  | \$25,000         |                  | No                      | X  |
| HA-2000-011  | \$20,000         |                  | No                      | X  |
| HA-2000-024  | \$20,000         |                  | No                      | X  |
| HA-2000-025  | \$25,000         |                  | No                      |  |
| HA-2001-009  | \$25,000         |                  | No                      |  |
| HA-2001-010  | \$24,950         |                  | No                      |  |
| PO #49583  | \$10,000         |                  | No                      | X  |
| PO #60267  |                  |                  | No                      | X  |
| PO #65102  | \$ 7,200         |                  | No                      | X  |
| PO #510018   |                  |                  | No                      | X  |
| PO #60980 (Moving Services)  |                  | \$ 4,187         | No                      | X  |
| PO #61505 (Moving Services)  |                  | \$19,142         | No                      |  |
| PO #63566 (Moving Services)  |                  | \$14,813         | No                      |  |
|  |                  |                  |                         |  |
| <b>Total</b>   | <b>\$375,392</b> | <b>\$ 49,842</b> |                         |  |

Appendix C

**HOUSING AUTHORITY OF THE CITY OF LOS ANGELES  
CHARGES TO MORE THAN ONE ENTITY FOR SAME TIMES  
January 1999 through December 2000**

| Date     | Time Period    | Affected Entities                         | Hours    | Duplicate Charges |
|----------|----------------|---|----------|-------------------|
| 1/12/99  | 11:00a-12:30p  | Pueblo del Rio, Jordan Downs              | 1.5      | \$ 187.50         |
| 1/12/99  | 3:30p-3:45p    | Pueblo del Rio, Jordan Downs              | 0.25     | \$ 31.25          |
| 1/13/99  | 2:30p-6:30p    | Pueblo del Rio, Jordan Downs              | 4        | \$ 500.00         |
| 1/14/99  | 10:30a-3:30p   | Pueblo del Rio, Jordan Downs              | 5        | \$ 625.00         |
| 1/15/99  | 8:00a-4:30p    | Pueblo del Rio, Jordan Downs              | 8.5      | \$ 1,062.50       |
| 2/10/99  | 12:00p-2:30p   | Pueblo del Rio, Jordan Downs              | 2.5      | \$ 312.50         |
| 2/23/99  | 8:00a-10:00a   | Pueblo del Rio, Jordan Downs              | 2        | \$ 250.00         |
| 2/24/99  | 10:00a-10:45a  | Pueblo del Rio, Jordan Downs              | 0.75     | \$ 93.75          |
| 2/25/99  | 4:30p-5:30p    | Jordan Downs, Aliso Village               | 1        | \$ 125.00         |
| 3/16/99  | 3:30p-4:00p    | Pueblo del Rio, Jordan Downs              | 0.5      | \$ 62.50          |
| 3/16/99  | 8:00a-10:00a   | Pueblo del Rio, Jordan Downs              | 2        | \$ 250.00         |
| 3/18/99  | 8:15a-9:15a    | Pueblo del Rio, Jordan Downs              | 1        | \$ 125.00         |
| 4/10/99  | 9:30a-10:30a   | Aliso Village, Pueblo del Rio             | 1        | \$ 125.00         |
| 4/13/99  | 3:30p-4:30p    | Aliso Village, Pueblo del Rio             | 1        | \$ 125.00         |
| 6/10/99  | 1:00p-2:00p    | Aliso Village, Pueblo del Rio             | 1        | \$ 125.00         |
| 6/19/99  | 10:00a-1:00p   | Charged Pueblo twice on separate invoices | 3        | \$ 375.00         |
| 6/28/99  | 8:00a-8:45a    | Jordan Downs, Aliso Village               | 0.75     | \$ 93.75          |
| 7/6/99   | 1:00p-2:00p    | Jordan Downs, Aliso Village               | 1        | \$ 125.00         |
| 7/13/99  | 3:00p-3:30p    | Jordan Downs, Aliso Village               | 0.5      | \$ 62.50          |
| 7/14/99  | 3:30p-5:00p    | Pueblo del Rio, Jordan Downs              | 1.5      | \$ 187.50         |
| 7/15/99  | 8:00a-9:00a    | Pueblo del Rio, Jordan Downs              | 1        | \$ 125.00         |
| 7/16/99  | 1:30p-2:00p    | Aliso Village, Jordan Downs               | 0.5      | \$ 62.50          |
| 7/16/99  | 12:00p-12:30p  | Pueblo del Rio, Jordan Downs              | 0.5      | \$ 62.50          |
| 7/16/99  | 12:30p-1:30p   | Pueblo, Jordan Downs, Aliso Village       | (2 x1) 2 | \$ 250.00         |
| 7/20/99  | 10:00am-11:15a | Jordan Downs, Aliso Village               | 1.25     | \$ 156.25         |
| 7/27/99  | 11:00a-11:30a  | Jordan Downs, Aliso Village               | 0.5      | \$ 62.50          |
| 8/3/99   | 8:00a-11:30a   | Jordan Downs, Aliso Village               | 3.5      | \$ 437.50         |
| 8/13/99  | 2:00p-2:45p    | Jordan Downs, Aliso Village               | 0.75     | \$ 93.75          |
| 8/17/99  | 10:00a-11:00a  | Jordan Downs, Aliso Village               | 1        | \$ 125.00         |
| 8/19/99  | 12:00p -1:30p  | Jordan Downs, Aliso Village               | 1.5      | \$ 187.50         |
| 9/15/99  | 8:15a-8:30a    | Jordan Downs, Aliso Village               | 0.25     | \$ 31.25          |
| 9/16/99  | 2:30p-4:15p    | Jordan Downs, Aliso Village               | 1.75     | \$ 218.75         |
| 10/4/99  | 9:00a-1:00p    | Jordan Downs, Aliso Village               | 4        | \$ 500.00         |
| 10/5/99  | 9:00a-10:45a   | Jordan Downs, Aliso Village               | 1.75     | \$ 218.75         |
| 10/8/99  | 9:00a-9:30a    | Jordan Downs, Aliso Village               | 0.5      | \$ 62.50          |
| 10/19/99 | 12:30p-1:00p   | Jordan Downs, Aliso Village               | 0.5      | \$ 62.50          |
| 10/19/99 | 2:30p-3:30p    | Jordan Downs, Aliso Village               | 1        | \$ 125.00         |
| 11/2/99  | 10:00a-12:30p  | Jordan Downs, Aliso Village               | 2.5      | \$ 312.50         |

| Date     | Time Period   | Affected Entities                         | Hours     | Duplicate Charges |
|----------|---------------|---|-----------|-------------------|
| 11/12/99 | 8:00a-12:00p  | Charged Jordan on two separate invoices   | 4         | \$ 500.00         |
| 11/16/99 | 12:30p-1:30p  | Jordan Downs, Aliso Village               | 1         | \$ 125.00         |
| 11/18/99 | 9:30a-1:30p   | Jordan Downs, Aliso Village               | 4         | \$ 500.00         |
| 11/23/99 | 12:30p-3:00p  | Jordan Downs, Aliso Village               | 2.5       | \$ 312.50         |
| 12/2/99  | 8:00am-12:00p | Jordan Downs, Aliso Village               | 4         | \$ 500.00         |
| 12/8/99  | 7:00a-7:30a   | Jordan Downs, Aliso Village               | 0.5       | \$ 62.50          |
| 12/9/99  | 4:30p-5:30p   | Jordan Downs, Aliso Village               | 1         | \$ 125.00         |
| 12/9/99  | 6:30p-7:00p   | Jordan Downs, Aliso Village               | 0.5       | \$ 62.50          |
| 12/10/99 | 12:45p-2:30p  | Jordan Downs, Aliso Village               | 1.75      | \$ 218.75         |
| 12/10/99 | 9:00a-10:00a  | Jordan Downs, Aliso Village               | 1         | \$ 125.00         |
| 12/15/99 | 7:30a-10:15a  | Jordan Downs, Aliso Village               | 2.75      | \$ 343.75         |
| 1/5/00   | 1:30p-2:15p   | Pico Aliso, Jordan Downs                  | 0.75      | \$ 93.75          |
| 1/13/00  | 2:30p-4:00p   | Pico Aliso, Jordan Downs                  | 1.5       | \$ 187.50         |
| 1/19/00  | 6:00p-7:00p   | Charged Jordan on two separate invoices   | 1         | \$ 125.00         |
| 1/19/00  | 8:30a-3:00p   | Jordan Downs, Aliso Village               | 6.5       | \$ 812.50         |
| 1/20/00  | 5:00p-7:00p   | Charged Jordan on two separate invoices   | 2         | \$ 250.00         |
| 1/21/00  | 9:00a-12:00p  | Charged Jordan on two separate invoices   | 3         | \$ 375.00         |
| 1/27/00  | 8:00a-10:00a  | Pico Aliso, Jordan Downs                  | 2         | \$ 250.00         |
| 2/3/00   | 8:00a-8:45a   | Pico Aliso, Jordan Downs                  | 0.75      | \$ 93.75          |
| 2/4/00   | 11:00a-12:00p | Jordan Downs, Aliso Village, Pico Aliso   | (2 x 1) 2 | \$ 250.00         |
| 2/4/00   | 8:30a-11:00a  | Jordan Downs, Aliso Village               | 2.5       | \$ 312.50         |
| 2/7/00   | 11:00a-12:30p | Pico Aliso, Jordan Downs                  | 1.5       | \$ 187.50         |
| 2/8/00   | 8:30a-11:30a  | Jordan Downs, Aliso Village               | 3         | \$ 375.00         |
| 2/14/00  | 9:00a-12:00p  | Pico Aliso, Jordan Downs                  | 3         | \$ 375.00         |
| 2/15/00  | 12:00p-1:30p  | Jordan Downs, Aliso Village               | 1.5       | \$ 187.50         |
| 2/16/00  | 1:00p-3:30p   | Pico Aliso, Jordan Downs                  | 2.5       | \$ 312.50         |
| 2/23/00  | 9:30a-12:30p  | Pico Aliso, Jordan Downs                  | 3         | \$ 375.00         |
| 3/6/00   | 10:00a-11:00a | Aliso Village, Pico Aliso                 | 1         | \$ 125.00         |
| 3/8/00   | 10:00a-12:00p | The Authority, Pico Aliso, Aliso Village  | (2 x 2) 4 | \$ 500.00         |
| 3/8/00   | 12:00p -2:00p | The Authority, Pico Aliso                 | 2         | \$ 250.00         |
| 3/14/00  | 9:00a-10:00a  | Aliso Village, Pico Aliso                 | 1         | \$ 125.00         |
| 6/5/00   | 10:30a-11:00a | San Fernando, Aliso Village               | 0.5       | \$ 62.50          |
| 6/5/00   | 12:00p-12:30p | San Fernando, Aliso Village               | 0.5       | \$ 62.50          |
| 6/26/00  | 11:00a-1:00p  | San Fernando, Aliso Village               | 2         | \$ 250.00         |
| 7/21/00  | 11:00a-11:30a | San Fernando, Aliso Village               | 0.5       | \$ 62.50          |
| 10/12/00 | Not detailed  | Charged Pueblo twice on separate invoices | 8.5       | \$ 1,062.50       |
| 10/27/00 | 11:00a-12:00p | San Fernando, Aliso Village               | 1         | \$ 125.00         |
| 11/14/00 | 10:00a-10:30a | San Fernando, Aliso Village               | 0.5       | \$ 62.50          |
| 12/8/00  | 10:00a-10:45a | Jordan Downs, Aliso Village               | 0.75      | \$ 93.75          |
| 12/21/00 | 10:00a-2:00p  | Jordan Downs, Aliso Village               | 4         | \$ 500.00         |
|          |               |   |           |                   |
|          | <b>Totals</b> |   | 149.25    | \$ 18,656.25      |

**HOUSING AUTHORITY OF THE CITY OF LOS ANGELES  
RESIDENT MANAGEMENT CORPORATIONS  
CONSULTANT'S OVERCHARGES FOR ACCOUNTING SERVICES**

| <b>Accountant's Billings to Consultant for Resident Management Corporation Work</b> |                        | <b>Related Consultant Billings to Resident Management Corporation</b> |                     | <b>Overcharge Markup by Consultant</b> |
|---|------------------------|---|---------------------|--|
| <b>Ck/Billing Date</b>  | <b>Ck/Billing Amt.</b> | <b>Date</b>   | <b>Amount</b>       |  |
| 03/26/99  | \$ 1,733.36            | 03/12/99  | \$ 2,233.36         | \$ 500.00                              |
| 06/10/99  | \$ 400.00              | 06/19/99  | \$ 840.00           | \$ 440.00                              |
| 06/29/99  | \$ 1,050.00            | 07/19/99  | \$ 1,755.00         | \$ 705.00                              |
| 07/06/99  | \$ 550.00              | 06/19/99  | \$ 924.00           | \$ 374.00                              |
| 10/05/99  | \$ 1,200.00            | 10/11/99  | \$ 2,025.00         | \$ 825.00                              |
| 01/29/00  | \$ 1,600.00            | 02/01/00  | \$ 2,700.00         | \$ 1,100.00                            |
| 03/03/00  | \$ 6,000.00            | 02/24/00  | \$ 9,420.00         | \$ 3,420.00                            |
| 03/03/00  | \$ 800.00              | 02/29/00  | \$ 2,850.00         | \$ 2,050.00                            |
| 04/25/00  | \$ 400.00              | 04/27/00  | \$ 675.00           | \$ 275.00                              |
| 06/08/00  | \$ 800.00              | 06/08/00  | \$ 1,350.00         | \$ 550.00                              |
| 07/18/00  | \$ 400.00              | 07/06/00  | \$ 675.00           | \$ 275.00                              |
| 07/27/00  | \$ 875.00              | 07/20/00  | \$ 1,500.00         | \$ 625.00                              |
| 09/01/00  | \$ 800.00              | 08/31/00  | \$ 1,350.00         | \$ 550.00                              |
| 10/23/00  | \$ 400.00              | 10/13/00  | \$ 1,350.00         | \$ 550.00                              |
| 11/07/00  | \$ 400.00              |   |                     |  |
| 11/09/00  | \$ 492.22              | 01/04/01  | \$ 819.30           | \$ 327.08                              |
| 01/05/01  | \$ 2,460.00            | 01/04/01  | \$ 4,099.00         | \$ 1,639.00                            |
| 01/16/01  | \$ 800.00              | 01/04/01  | \$ 1,350.00         | \$ 550.00                              |
|   |                        |   |                     |  |
| <b>Total</b>  | <b>\$ 21,160.58</b>    |   | <b>\$ 35,915.66</b> | <b>\$ 14,755.08</b>                    |

**SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE**

| <u>Recommendation<br/>Number</u> | <u>Type of Questioned Cost</u> |                       | <u>Funds Put to<br/>Better Use 3/</u> |
|----------------------------------|--------------------------------|-----------------------|---------------------------------------|
|                                  | <u>Ineligible 1/</u>           | <u>Unsupported 2/</u> |                                       |
| 1A                               |                                | \$844,750             |                                       |
| 1B                               | \$451,055                      |                       |                                       |
| 2A                               | 408,803                        |                       |                                       |
| 2B                               |                                | 49,842                |                                       |
| 2C                               | 31,000                         |                       |                                       |

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

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity, and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation, or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ “Funds Put to Better Use” are costs that will not be expended in the future if our recommendations are implemented.

**AUDITEE COMMENTS**



**HOUSING AUTHORITY** OF THE CITY OF LOS ANGELES  
AN EQUAL EMPLOYMENT OPPORTUNITY-AFFIRMATIVE ACTION EMPLOYER  
2600 Wilshire Boulevard • Los Angeles, California 90057 • (213) 252-2500  
TTY (213) 252-5313

COMMISSIONERS  
ELENORE A. WILLIAMS, Chairperson

EXECUTIVE DIRECTOR  
RUDOLF MONTIEL

January 18, 2005

Ms. Joan S. Hobbs  
Regional Inspector General for Audit  
Department of Housing and Urban Development  
611 West Sixth Street  
Los Angeles, California 90017

Re: Response to Audit Report - January, 2005  
Housing Authority of the City of Los Angeles  
Resident Management Corporations/Resident Advisory Councils -  
Procurement and Procurement-Related Activities  
Audit Case Number-LA-XXXX

This response to Audit Report \_\_\_\_\_ dated \_\_\_\_\_ was prepared in consultation with the Housing Authority of the City of Los Angeles Board of Commissioners (Board). In the fall of 2001, the Office of the Inspector General - Audit (OIG-A) received two citizen complaints alleging serious problems with the Housing Authority of the City of Los Angeles' (Authority) procurement and contract monitoring processes related to its Resident Management Corporations (RMCs). In response, the OIG-A conducted an audit, yielding the Audit Report, which focused primarily on the Pueblo Del Rio and Jordan Downs RMCs. The Audit Report covers contract activities between **January 1, 1995** and **December 31, 2001**.

The audit resulted in the following findings:

1. "The Authority did not competitively award contracts, ensure price reasonableness or capacity before entering into contracts, or monitor contracts with its [RMCs] - ineligible - \$451,055; unsupported - \$844,750[;and]
2. "The Authority did not have sufficient controls over the procurement and management of consulting service contracts - ineligible - \$439,803; unsupported - \$49,842."

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As a result of the audit and above findings, the OIG-A concluded, “[i]t appears the primary beneficiary of the Authority’s contracting activity with its RMCs was the consultant, who received more than \$2.1 million to unsuccessfully train and mentor the RMC staff and Board members. Further, the long-term personal and business relationship the consultant (Mr. Dwayne E. Williams) had with the Authority’s former Assistant Executive Director/Director of Housing Services (Ms. Lucille Loyce), who had almost complete control over RMC contracting and management, presented an apparent conflict of interest, which the Authority’s former Executive Director (Mr. Donald J. Smith) and former Board of Commissioners failed to address.”

The OIG-A also concluded that past contracting practices “served to bypass the original Board of Commissioners approval requirement for contracts exceeding \$25,000 (now \$50,000).” Past contracting practices often misled the Board “... and placed undue pressure on the Authority’s Board of Commissioners to approve the huge contract amendments [of contracts already in place and operating.]” Based upon the findings and conclusions, the OIG-A recommended the Authority take a number of actions to remedy procurement problems and provide status reports beginning 60 days from the date of this document.

In consultation with the Authority Board, I agree with the findings in the Audit Report and, therefore, recommend the following course of action.

- A. Allow the Authority the opportunity to attempt to provide additional documentation concerning the questioned expenditures before the OIG-A determines the amount required to be reimbursed.
- B. Waive the requirement that the Authority reimburse the questioned funds using non-federal funds currently on hand.
- C. In lieu of requiring that the questioned funds be reimbursed using funds currently on hand, accept reimbursement to the extent available, from proceeds the Authority is able to recoup by pursuing all available legal civil and criminal remedies.

The recommendations, above, are based on a number of significant factors. The Authority experienced positive changes following the audit review period. With the support of the Mayor of the City of Los Angeles, the Board embarked upon an ambitious national search to find an Executive Director capable of leading the Authority through an economically challenging period while working closely with HUD to bring all management systems into compliance with federal regulation.

The Board hired me on November 15, 2004 to streamline the Authority and implement new management measures and technologies, which will redirect the

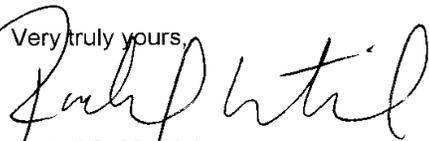
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Authority. Toward that end, I developed and the Board adopted a balanced budget to facilitate a complete reorganization of the Authority during the first half of 2005. Therefore, for the first time in some years, the Authority began the fiscal year with its operating budget in place.

We have changed from a decentralized procurement system to one that is centralized. This change will allow for close monitoring of procurement activities and result in reduced employee work redundancy and increased work product consistency. The Board has adopted a new procurement policy to comply with federal regulations, which I require be strictly enforced. New accountability measures make clear that staff will be held responsible for failure to follow the Code of Federal Regulations. The 2005 operating budget includes funding for an Internal Controls department, including a position for an Internal Controls manager. That position has been filled with a strong and reputable "certified fraud examiner" who will oversee forensic auditing services, including RMC/RAC monitoring and audits and Rental Integrity Monitoring. The cost of staffing this department is projected to be over \$1 million dollars per year.

I am in the process of assembling a strong leadership team committed to implementing the changes required at the Authority. We are implementing our organizational values with a commitment to be dedicated to providing better service within the guidelines imposed by federal regulation and raising employee morale to create a better workplace. Funds currently on hand are necessary to support these vital changes and turn-around of the Authority. If forced to reimburse the questioned funds from non-federal funds on hand, my ability to change the Authority and take advantage of this opportunity for improvement will be hampered.

In light of the new direction the Authority has taken, please give us the opportunity to make cost efficient and streamlined service delivery a reality for our clients, the good people of Los Angeles.

Very truly yours,  


Rudolf C. Montiel  
Executive Director, Housing Authority of the City of Los Angeles

CC: HACLA Board of Commissioners  
Rockard J. Delgadillo, Los Angeles City Attorney

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