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TO: Forrest D. Jones, Director, Office of Public Housing, Indiana State Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Indianapolis Public Housing Agency
Low-Income Housing Program
Indianapolis, Indiana

We completed an audit of the Indianapolis Public Housing Agency's Low-Income Housing program. We selected the Housing Agency for audit at the request of HUD's Indiana State Office of Public Housing. The Office was concerned about the deterioration in the performance of the Agency's operations. Our audit objective was to determine the reasons why the performance has deteriorated.

We found the Agency's operations had deteriorated because there was frequent turnover of key management personnel, and it did not have a plan to facilitate continuity of operations. The Agency also did not: have a plan that addressed methods and procedures to reduce an excessive number of vacant units; follow proper procurement procedures; have adequate control over its maintenance operations; follow economical and efficient applicant screening procedures; and document the method it used to allocate its indirect costs to the various HUD programs.

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

Should you or your staff have any questions, please contact me at (312) 353-7832.

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Executive Summary

We completed an audit of the Indianapolis Public Housing Agency's Low-Income Housing program. We selected the Housing Agency for audit at the request of HUD's Indiana State Office of Public Housing. The Office was concerned about the deterioration in the performance of the Agency's operations. Our audit objective was to determine the reasons why the performance has deteriorated.

We found the Agency's operations had deteriorated because there was frequent turnover of key management personnel, and it did not have a plan to facilitate continuity of operations. The Agency also did not: have a plan that addressed methods and procedures to reduce an excessive number of vacant units; follow proper procurement procedures; have adequate control over its maintenance operations; follow economical and efficient applicant screening procedures; and document the method it used to allocate its indirect costs to the various HUD programs.

Operations Were Inconsistent And Ineffective

The Indianapolis Public Housing Agency did not operate efficiently and effectively. This occurred because the Agency: had frequent turnover of key management personnel and did not have a plan to facilitate continuity of operations; did not have or only recently developed written policies and procedures for all functional areas; and did not have an adequate personnel evaluation system. As a result, scarce resources were not used to provide the maximum benefit to low and moderate income persons.

A Plan Is Needed To Reduce The Number Of Vacant Units

Even though the Agency had a long waiting list for its units, it had a vacancy rate of 23 percent. The Agency did not have adequate resources to repair a backlog of vacant units and did not have a plan to correct the problem. The Agency also experienced long delays in its maintenance process and had a lack of coordination between its Maintenance Department and Admissions and Occupancy Department.

Proper Procurement Procedures Were Not Followed

The Agency did not have a system to ensure the integrity of its procurement process. It awarded contracts without using full and open competition and awarded a contract when a known conflict-of-interest existed. The Agency also did not: prepare cost estimates; follow proper procedures when there was an inadequate response to a solicitation; and adequately evaluate bid proposals.

Maintenance Operations
Needed Better Controls

The Agency did not have adequate control over its maintenance staff time and performance. Additionally, work order documentation was not properly completed and the Agency did not have performance standards to adequately evaluate maintenance employees.

Screening Procedures
Were Not Efficient

The Indianapolis Public Housing Agency's procedures for screening new tenants wasted valuable resources. The Agency screened all applicants at the time of initial application regardless of when they would be offered housing. The Agency's waiting time for housing varied from one to three years depending on the bedroom size. Since the results of screening are only valid for 120 days, the Agency had to screen all applicants a second time before they were admitted to a unit.

Allocation Of Indirect
Costs Was Not Supported

The Indianapolis Public Housing Agency did not document the method it used to allocate its indirect costs to the various HUD programs it operated. The Agency did not have documentation to support the amounts it allocated to each program.

Recommendations

We recommend that the Director of the Public Housing Division requires the Indianapolis Public Housing Agency to develop an overall plan for the Agency's direction and that HUD uses the plan to monitor the progress of the Agency to improve its operations and to ensure its direction remains consistent. We also recommend the Director of the Public Housing Division assures the Agency implements corrective actions to correct the weaknesses in its vacancy reduction operation, procurement process, maintenance operations, applicant screening process and its allocation of indirect costs.

We provided our draft findings to the Agency's Acting Executive Director and HUD's staff during the audit. We held an exit conference on May 8, 1997 with the Agency's and HUD's staff. The Agency provided written comments to our findings. We considered the comments in preparing our report. The Agency's comments are included in their entirety in Appendix B.

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Introduction

The Indianapolis Public Housing Agency was established in 1964 under the Indiana Housing Authority Act to provide decent, safe and sanitary housing to low income families. On January 1, 1986, the Agency became a division of the City of Indianapolis, Department of Metropolitan Development.

In December 1994, a City Ordinance terminated the Agency as a division of the City's Department of Metropolitan Development and established an independent organization, the Indianapolis Public Housing Agency. A seven-member Board of Commissioners governs the Housing Agency. The Mayor of the City of Indianapolis appoints four Board members and the City-Marion County Council appoints the other three. The Agency is administered by an Executive Director appointed by the Mayor, subject to confirmation by the City-County Council and the Agency's Board of Commissioners.

The Agency has 2,595 low-income housing units at 15 developments. The Agency plans to demolish 310 units and sell 450 units at four developments. As a result, the Agency has 1,835 units available for occupancy: 1,130 at seven family developments; and 705 at four elderly developments. The Agency also manages 3,016 Section 8 Certificates; 1,010 Section 8 Vouchers; and, 170 Section 8 Moderate Rehabilitation units.

The Agency received \$11,950,441 in HUD operating subsidies for the Low-Income Housing Program during 1995 and 1996. HUD also approved \$29,999,010 for the Agency's HOPE VI Program (Urban Revitalization) in 1995 and \$11,300,681 for Comprehensive Grants in 1995, 1996 and 1997.

The Agency has been rated as a standard performer by HUD since 1993 under the Public Housing Management Assessment Program. However, its scores have been decreasing each year since 1994.

The Agency's books and records are at Five Indiana Square, Indianapolis, Indiana. Martin Williams is the Acting Executive Director.

Audit Objectives

Our audit objective was to determine the reasons why the Agency's performance has deteriorated.

Audit Scope And Methodology

To obtain background information, we interviewed HUD's staff from the Indiana State Office's Public Housing Division. We reviewed the Indiana State Office's files related to independent and Office of Inspector General audit reports, operating budgets, and monitoring.

To determine the reasons for the deterioration in the Agency's performance, we interviewed the Acting Executive Director and applicable Agency staff and reviewed and evaluated the Agency's: policies and procedures; occupancy and unit

turnover reports; waiting list; procurement records; work orders; maintenance staff productivity; inventory records; check register; support for expenditures; employee job descriptions and performance evaluations; and tenant files.

The audit covered the period January 1, 1995 through December 31, 1996. We extended the audit period as necessary. We did the on-site audit work between January 28 and May 9, 1997.

We conducted the audit in accordance with generally accepted government auditing standards. We provided a copy of the report to the Acting Executive Director of the Indianapolis Public Housing Agency.

The Operations Of The Agency Were Inconsistent And Ineffective

The Indianapolis Public Housing Agency did not operate efficiently and effectively. This occurred because the Agency: did not have a plan to facilitate continuity of operations even though there was frequent turnover of key management personnel; did not have or only recently developed written policies and procedures for all functional areas; and did not have an adequate personnel evaluation system. As a result, scarce resources were not used to provide the maximum benefit to low and moderate income persons.

HUD's Requirements

Section 4 of the Annual Contributions Contract states that a Housing Authority shall at all times develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects.

The Public and Indian Housing Low-Rent Technical Accounting Guide, Section II (3) states that to ensure programs are carried out in an efficient and economical manner, a housing authority's controls should include such things as: clearly defined staff responsibilities and job accountability; a well-designed management system; effective supervisory review of operations; competitive procurement procedures; and well-planned, organized, and supervised maintenance programs. The Guide also requires a housing authority to maintain detailed written policies and procedures.

Operations Were Not Effective

The Indianapolis Public Housing Agency did not manage its operations in an effective, economic and efficient manner. As shown in Findings 2 through 6 of this report, the Agency:

- had an excessive vacancy rate of 23 percent. It did not have the resources to repair and reoccupy the backlog of vacant units and it did not have a plan to correct the problem.
- did not keep its waiting list to show demand by development. To effectively prioritize workload, the

Agency needed to know the demand for each of its developments.

- took excessive time, 314 days, to repair and lease its vacant units. There were long delays in the maintenance process and a lack of coordination between the Maintenance Department and the Admissions and Occupancy Department.
- did not always: award contracts with full and open competition; prepare cost or price analyses to determine cost reasonableness; and adequately evaluate bids. As a result, HUD lacks assurance the procurement process was fair and the lowest responsive contract price was received.
- did not have written procedures to adequately control its maintenance program. The maintenance staff's time was not fully accounted for and maintenance personnel were not effectively supervised and evaluated.
- wasted resources by screening all applicants at the time of their initial application and then again screened the applicants if they did not receive housing within 120 days. The average applicant waited between one and three years to receive housing.
- did not have a proper cost allocation plan. The Agency could not support the method it used to allocate its indirect costs to the various HUD programs it operated.

In addition two Board of Commissioners received travel reimbursements totalling \$141 for ineligible items. We reviewed a sample of travel vouchers to evaluate an allegation that numerous ineligible transportation expenses, such as airline tickets, were being charged to the Agency. We found the allegation was unsubstantiated, with the exception of two minor occurrences. The occurrences happened because no one was reviewing the Commissioners' travel vouchers. The Agency now has procedures to review Commissioners' travel vouchers. Although the ineligible charges only amounted to \$141, they reflect less than prudent judgment and need to be reimbursed.

The Agency Did Not Have
A Plan For Continuity Of
Operations

Over the last six years, the Agency has had three Executive Directors and two acting Executive Directors. Currently, the Executive Director position has been filled since December 1996 by the Deputy Executive Director who is acting until a new Executive Director takes over in June 1997. The new directors usually changed the management team, thus limiting knowledge of the Agency's goals and direction. According to a TAG Associates consultant report completed in March 1997, the Agency experienced a personnel turnover rate of over 36 percent during the last 12 months.

The frequent changes in leadership caused a lack of continuity in operations. The Agency did not maintain an overall plan that outlined its direction, initiatives, and planned actions for each functional area. As a result, the Agency's initiatives and priorities frequently changed and employees lost enthusiasm for their jobs.

The Agency Only Recently
Developed Policies And
Procedures

In the past the Agency did not have written policies and procedures, which contributed to its ineffective and inconsistent operations. In 1996, the Agency began to formally develop and implement policies and procedures. Most of its policies and procedures were adopted in the latter part of 1996 and were not fully implemented at the time of our review. The policies and procedures that were developed but not fully implemented included: The Employees Policies and Procedures Manual; Section 3 Policy; Resident Initiative Policy; Investment Policy; Insurance Policy; and Procurement Policy. The Agency did not have policies and procedures to govern the overall operations of its Finance Department. However, the Director of Finance who took over in March 1997 was in the process of developing a procedures manual for his Department.

It is important for an agency to have written policies and procedures, especially when it has high personnel turnover. Formal, written policies and procedures provide direction for day to day operations and serve as a basis for consistent operations.

Personnel Were Not
Effectively Evaluated

The Indianapolis Public Housing Agency did not have a system to routinely evaluate employees. The Agency developed a performance evaluation system in July 1996 and job descriptions for each job category in October 1996.

However, the evaluation system was not adequate because it used a universal evaluation form for every position. For example, maintenance personnel and accounting personnel were evaluated using the same standards. The form did not evaluate the employees against the performance standards contained in their respective job descriptions. As a result, HUD and the Agency lack assurance that employees are working up to expected standards, and employees have less motivation to accomplish the tasks and standards in their job descriptions.

Auditee Comments

Excerpts from the Acting Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The Acting Executive Director said the Agency acknowledges that the operations of the Agency were inconsistent and ineffective. The Agency has carefully reviewed and studied the OIG's recommendations and find them to be helpful. An agency wide Management Assessment has just been completed and contains details on how recommendation 1A can be put in place. The process is already underway. Monthly reports to the Board will reflect progress made.

An Agency wide Procedures Handbook is almost complete. Written procedures for the Finance Department will be completed in the next sixty days. All the policies referenced are being implemented and we are establishing a reporting system to ensure continual monitoring of the implementation of policies.

The agency has developed a new Employee Evaluation form. The Finance Department has been instructed to prepare detailed bills for the two Commissioners.

OIG Evaluation of
Auditee Comments

The actions the Agency has taken and planned should correct the problems presented in the finding if the Agency effectively implements the corrective actions, verifies they are effective, and ensures they become routine procedures.

Recommendations

We recommend that the Director of Public Housing, Indiana State Office:

- 1A. Requires the Indianapolis Public Housing Agency to develop an overall plan that includes the goals, direction, initiatives, and tasks for the Agency and each of its functional areas. The Director of Public Housing should then use the plan to monitor the progress of the Agency to improve its operations and to ensure its overall direction remains consistent.
- 1B. Ensures the Agency develops and fully implements written procedures for its Finance Department.
- 1C. Ensures the Agency fully implements its Employees Policies and Procedures Manual, Section 3 Policy, Resident Initiative Policy, Investment Policy, Insurance Policy, and Procurement Policy.
- 1D. Assures the Agency's new employee evaluation form is used to evaluate performance standards for each job category.
- 1E. Assures the applicable Commissioners reimburse the Agency \$141 for ineligible expenses received for travel reimbursements.

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The Agency Needs To Develop and Implement A Plan To Reduce The Number Of Vacant Units

Despite demand for its units, the Indianapolis Public Housing Agency had an excessive number of vacant units. Four hundred twenty one of its 1,835 available low-income housing units, or 23 percent, were vacant even though the Housing Agency had a waiting list of 1,942 applicants. The excessive vacancies existed because the Agency did not have the resources to repair the backlog of vacant units and it did not have a plan to correct the problem. Additionally, there were long delays in the maintenance process and a lack of coordination between the Maintenance Department and the Admissions and Occupancy Department. As a result, the Agency lost rental income and deprived low income persons of affordable housing. During 1996, the vacant units cost the Agency over \$389,000 in lost income.

HUD Requirements

The Annual Contributions Contract, Part A, Section 4, requires the Agency to manage its projects to promote economy, efficiency, and stability.

Regulation 24 CFR Part 901 establishes the Public Housing Management Assessment Program. The program provides a system to measure the performance of public housing agencies using standard criteria. The first performance measure evaluates the number and percentage of units that are vacant. The Agency receives a score of "F" or zero when the actual vacancy rate is greater than 8 percent. HUD assigns this measure a triple weight when assessing the overall performance of a housing agency.

Unit turnaround is an operations indicator under the Public Housing Management Assessment Program. Paragraph 6-2 E 10(b) of Handbook 7460.5 defines turnaround time as the annual average number of calendar days for vacant units to be prepared for re-rental and for a new lease to take effect. Under the Assessment Program, unit turnaround is one of the seven indicators to measure the performance of public housing agencies using standard criteria. An agency receives a score of "F" or zero when the unit turnaround time is greater than 50 days.

HUD Handbook 7460.7 REV-1, Field Office Monitoring of Public Housing Agencies, Paragraph 5-2 (c) requires an

A High Vacancy Rate Has Been A Continuing Problem

agency to complete vacant unit turnaround activities on an average of no more than 30 calendar days.

The high vacancy rate at the Housing Agency has been a problem since 1983. Although the Agency had 1,942 applicants on its waiting list on December 31, 1996, 421 or 23 percent of its 1,835 available low-income housing units were vacant. As shown by the following table, 213 of 705 elderly units and 208 of 1,130 family units were vacant.

<u>Type of Unit</u>	<u>Available Units</u>	<u>Vacant Units</u>	<u>Percent Vacant</u>
Elderly	705	213	30
Family	<u>1,130</u>	<u>208</u>	<u>19</u>
Total	<u>1,835</u>	<u>421</u>	<u>23</u>

There Is No Plan To Repair The Backlog Of Vacant Units

As of December 31, 1996, only 31 of the Agency's 421 vacant units were available for occupancy. Three hundred ninety one units were not repaired and, therefore, were unavailable for occupancy. The Director of Maintenance said he did not have enough maintenance staff to repair the backlog of vacant units in addition to repairing units resulting from normal turnover (see Finding 4).

The Agency's records showed its maintenance staff prepared 297 units for occupancy during 1996. Unit turnover during 1996 was 295 units. Thus, the Agency was not able to reduce the backlog of vacant units.

The Acting Executive Director said the Agency did not have funds to repair all of the units. He said some units require extensive repairs and funds. The Agency did not have a unit by unit breakdown showing the required repairs and estimated costs. The Agency also did not have a plan outlining its strategy for the use, repair or disposition of all vacant units. As a result, the Agency had not prioritized its repair workload to allow the units in better condition to be completed first. For example, one on-site manager of an elderly development with 45 vacant units said many of the units were vacant a long time but did not require extensive repairs. As of December 31, 1996, there were 681 persons on the elderly waiting list. The vacancy problem will not get better and the condition of

The Agency Believes
Some Of Its Units Are
Undesirable

the housing stock will decline as vacant units deteriorate, unless the Agency develops an accurate assessment of its needs, develops a realistic plan and goals, and explores avenues to obtain needed resources.

The Director of Housing Management and the Manager of Admissions and Occupancy said some applicants were unwilling to move into certain developments. For example, John J. Barton Apartments, an elderly 21 story development, had 99 vacant units out of 247, a 40 percent vacancy rate. As of December 31, 1996, only four of the 99 vacant units were ready for occupancy. The Director of Housing Management said there was no point in repairing the other units for occupancy because elderly persons did not want to move to the development. The Director said the development was unattractive because: (1) the elderly did not want to live on a floor higher than the eighth floor; (2) the units are very small; and (3) the elevators are old, slow, and not reliable. As a result, the Agency only prepared the vacant units on the lower floors for occupancy.

For family units, the Manager of Admissions and Occupancy said the majority of the applicants did not want to live at three of its complexes located on the south side of Indianapolis. The Manager said this was due to a poor reputation and a high crime rate in and around the development sites. Our analysis showed that the vacancy rate at these developments was 6 percent higher (22 percent versus 16 percent) than at the Agency's other family developments. The relatively small 6 percent variance between the south side developments and the other family developments indicates the condition and reputation of the south side developments is not the major factor causing the Agency's overall vacancy rate of 19 percent.

The Agency did not have documentation to support the conclusions of its managers or a proposal or plan on how to resolve the vacancy problem at its family and elderly developments. Additionally, the Agency did not have any documentation that supported the demand at individual developments. The Agency kept a centralized waiting list that did not show preference for particular developments. A waiting list that shows demand by development is an

important tool that is needed to effectively prioritize workload.

Unit Turnaround Time Was Excessive

The Indianapolis Public Housing Agency took excessive time to turn around its vacant units. The 324 units that the Agency leased during 1996 were vacant an average of 314 days. The turnaround time ranged between 20 days and 2,004 days. The average time for the Maintenance Department to repair a unit was 252 days and the average time for the Admissions and Occupancy Department to lease a unit was an additional 62 days. As shown by the following table, the turnaround time for 96 percent of the 324 units was above the HUD recommended 30 days.

<u>Days Vacant</u>	<u>Number of Units</u>	<u>Percentage</u>
01-30	12	4
31-50	22	7
51-180	90	28
181-360	95	29
361 and over	<u>105</u>	<u>32</u>
Total	<u>324</u>	<u>100</u>

Units Were Not Repaired Timely

The Maintenance Fields Operation Manager said it only takes the maintenance staff about seven to ten days to repair a unit once a work order is written; however, it was the Agency's policy to not write work orders until the Maintenance Department was ready to begin work. We could not verify the Manager's comments since the Agency did not maintain information on how long each step of the turnover process took. We believe it is important to maintain information on how long each step in the turnover process takes so management can analyze the process, identify delays, and take corrective actions. Beginning in 1997, HUD required all housing agencies to start tracking specific times in the turnover process; however, this was not being accomplished at the Indianapolis Agency.

Units Were Not Leased Timely

After the Agency repaired units, it took excessive time to lease them. The Agency averaged 62 days to lease the 324 units that were repaired during 1996. The excessive time resulted

because of the poorly configured waiting list and a lack of coordination between the Maintenance Department and the Admissions and Occupancy Department.

The Agency's procedures did not require the Maintenance Department to notify the Admissions Department of the estimated completion dates for units. The Maintenance Department only informed the Admissions Department after units were repaired and inspected. As a result, the Admissions and Occupancy Department could not anticipate vacancies and begin the certification process for potential tenants.

The Manager said delays were also caused by applicants refusing to accept available units because they preferred to live in other complexes. However, as previously noted, the Agency did not have a procedure to determine an applicant's preference before it offered the unit to the applicant.

Auditee Comments

Excerpts from the Acting Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The Agency concurs with the need to develop and implement a plan to reduce the number of vacant units.

The Agency agrees to prepare a Vacancy Reduction Plan in line with the specific recommendations contained herein and in compliance with other HUD formats for doing so. Our Comprehensive Grant application will reflect this item as a high priority. Given the availability of funds, we anticipate our plan to be fully operational by July 1997.

The Agency is already developing and implementing its strategy for a "Site-Based" management operation. In addition to developing and maintaining a waiting list that reflects local preferences and preferences for specific developments, each community will also maintain its own waiting list, and use these to prioritize repair workload. The details will be included in the Vacancy Reduction Plan scheduled to be operational by July 1997.

OIG Evaluation of
Auditee Comments

The Agency has planned actions that should correct the problems identified in the finding if the actions are fully implemented and become routine procedures.

Recommendations

We recommend the Director of Public Housing, Indiana State Office, requires the Indianapolis Public Housing Agency to:

- 2A. Prepare a plan outlining the Agency's strategy for all its vacant units. The plan should include: the proposed use for each vacant unit; the estimated cost to repair/convert/dispose of each unit; the resources necessary to accomplish the actions; the sources of funds; and the target dates.
- 2B. Maintain a waiting list that reflects applicants' preferences for specific developments and use the list to prioritize repair workload.
- 2C. Establish a system to track the number of days it takes the Agency to perform each step in the unit turnaround process.
- 2D. Use the information obtained from Recommendation 2C to analyze the steps of the turnaround process, establish acceptable time standards for the completion of each step, and develop correction strategies when the time standards are not met.
- 2E. Establish and implement procedures to assure the Maintenance Department estimates the completion date for each vacant unit and coordinates the information with the Admissions and Occupancy Department.

The Agency Needs Controls To Assure Proper Procurement Procedures Are Followed

The Indianapolis Public Housing Agency did not follow proper procurement procedures, as required by HUD and its own policies. Specifically, the Agency awarded contracts without using full and open competition and awarded a contract when a known conflict-of-interest existed. The Agency also did not: prepare cost estimates; follow proper procedures when there was an inadequate response to solicitations; and adequately evaluate bid proposals. The problems occurred because the Agency did not have a system to ensure the integrity of the procurement process. As a result, HUD lacks assurance that the Agency's procurement process was fair, equitable and that the lowest responsible contract price was received.

Housing Agency's Procurement Policy

The Agency's procurement policy says its objective is to provide fair and equitable treatment of all persons or firms involved in the Agency's procurement process; promote competition in contracting; and assure purchases are made in full compliance with applicable Federal standards, HUD regulations, and State and local laws.

HUD Requirements

HUD Handbook 7460.8 REV-1, Procurement Handbook for Public Housing Agencies and Indian Housing Authorities, requires a housing agency to conduct all procurements using full and open competition. An agency must allow all responsible sources to compete.

HUD Regulation 24 CFR 85.36 (b)(9) requires a housing agency to maintain sufficient records to show the significant history of a procurement. The records should include the rationale and justification for the method of procurement, the type of contract, the selection of the contractor, and the basis for the contract price.

Nine Contracts Were Selected For Review

We judgmentally selected nine contracts awarded between 1995 and 1997 for review. Five of the contracts were for services and four were for construction as follows:

<u>Service Contracts</u>	<u>Cost</u>
TAG Associates, Inc.	\$ 99,150
Environmental Training	10,500
Blueagle Security	482,506
Tise Hurwitz & Diamond	1,677,223
IT Business Corporation	<u>441,000</u>
Total	<u>\$2,710,379</u>

<u>Construction Contracts</u>	<u>Cost</u>
Aegean Construction	\$ 8,451,531
Hightower	456,445
Oscar Robertson/Smoot	1,113,448
GM Construction	<u>486,907</u>
Total	<u>\$10,508,331</u>

The Agency did not follow HUD's or its own procurement policies and procedures for the contracts reviewed. The different Executive Directors the Agency had over the past years also served as the Agency's Contracting Officer. None implemented a system to ensure the integrity of the procurement process. The Agency has had five different Directors during the last six years and no person in the upper management level was given responsibility to assure proper procurement processes were followed.

Contracts Were Awarded Without Adequate Competition

The Agency awarded three of the nine contracts without using full and open competition. The contracts were with Oscar Robertson/Smoot, Blueagle Security and TAG Associates. Two of the contracts were awarded without any competition; the third was awarded without adequate competition.

Oscar Robertson/Smoot

The Agency awarded a \$483,461 contract to Oscar Robertson/Smoot Company on October 1, 1993. The contract was for construction management services related to modernization and renovation at two projects.

On May 9, 1995, the Agency improperly extended the contract at a cost of \$829,407. The scope of services in the extensions was changed from providing construction management services for two projects to eight projects. Since the scope of services changed, the extension was actually a new contract that was awarded without competition in violation of HUD's procurement policy.

Blueagle Security

The Agency hired Blueagle Security in May 1996 to provide security services. The Agency did not solicit competitive bids and did not sign a contract, but procured the services using purchase orders. Between November 14, 1996 and February 27, 1997, the Agency paid Blueagle \$482,506.

The Materials and Contracts Manager said the Agency hired Blueagle Security after it terminated its contract with another security company, Diamond Security, who was awarded the contract competitively in 1995. Blueagle was the second lowest bidder at that time. The Agency should have solicited competitive bids after it terminated the 1995 contract. Using purchase orders to obtain the services circumvented the competitive process.

TAG Associates, Inc.

The Agency did not properly solicit bid proposals when it awarded a contract to TAG Associates on January 23, 1997. The \$99,150 contract was for conducting an operational assessment of the Agency.

The Agency did not allow a reasonable time for firms to prepare and respond to the Request for Proposal. The Agency usually allows firms two weeks to respond to its solicitations; however, in this case it only allowed them three days. The Agency solicited bids from 3 firms. TAG and one other firm

The Agency Awarded A Contract With A Conflict-of-Interest

responded. The solicitation was unnecessarily restrictive and gave unfair advantage to TAG Associates because they were already working at the Agency.

The Agency awarded a multi-year contract for Environmental Training Services on February 2, 1996 with the knowledge that one of the Commissioners had a conflict-of-interest. The Commissioner was negotiating to purchase the company. The contract was to provide asbestos removal training for the maintenance staff at \$150 per person. The first year contract amount was \$10,500.

The Board of Commissioners authorized the Interim Executive Director to execute the contract with Environmental Training Services on December 18, 1995, before the Agency initiated the procurement process.

On May 9, 1996, the Agency requested a conflict-of-interest waiver from HUD. HUD denied the request and the Agency terminated the contract after it had paid \$8,550 to train 57 employees. The Agency should have followed competitive procedures and if the identity-of-interest proposal was the lowest responsible bidder, requested the waiver from HUD before awarding the contract.

Cost Estimates Or Analyses Were Not Prepared

HUD Handbook 7460.8 REV-1, Procurement Handbook for Public Housing Agencies and Indian Housing Authorities, Paragraph 2-7, requires a housing agency to prepare an independent cost estimate for every procurement before soliciting bids or proposals. The estimate is needed to assure bids are reasonable. The paragraph also says when the procurement is for a complex item such as professional services, the agency should perform a cost analysis. The cost analysis should evaluate a contractor's labor costs, material costs, indirect costs, and proposed profit to identify items which appear to be inflated or unnecessary.

The Agency did not prepare cost estimates or analyses for the nine contracts reviewed. The Materials and Contracts Manager said the Agency did not prepare cost estimates or analyses prior to soliciting bid proposals. The Manager said the Agency relied on the end users or senior staff to review the reasonableness of cost proposals. The Manager said if the bid proposals appeared to be high, the Agency either negotiated

the price or re-bid. However, without a cost estimate or analysis, the Agency lacks a basis on which to judge the reasonableness of the proposal.

For example, the Agency did not prepare a cost estimate or analysis before it solicited bid proposals from firms to conduct an operational assessment of the Agency. After receiving the proposals, the Agency did not properly analyze the cost proposals of the two firms that submitted bids before it awarded a \$99,150 contract to TAG Associates. TAG's cost proposal did not provide a breakdown of labor hours and labor rates for each of the tasks described in the contract's scope of service, travel and other indirect costs. TAG's proposal only provided total hours and labor rates for each of the three individuals and three subcontractors, and the total indirect costs. The other firm's bid was \$453 more than TAG's; however, it provided a detailed breakout of its costs. As a result, HUD and the Agency lack assurance that TAG's proposal was comparable to the other firm and that the price paid was reasonable.

In addition to not preparing a cost estimate, the Agency awarded the TAG contract before obtaining the signature of its legal counsel. The Agency had a procedure where its legal counsel was supposed to review and sign all contracts before award as protection against a breach. After the contract had been awarded and completed, the Agency's legal counsel in a memorandum dated March 11, 1997 said she was unable to sign the TAG contract because TAG's scope of services was unclear and the payment provision was vague and was not tied to the scope of services. The Agency's Legal Counsel said the Agency was in the process of correcting the after the fact review problem; however, we could not determine if improvement was made since no new contracts were awarded during our audit.

Proper Procedures Were Not Followed When There Were Inadequate Responses To Solicitation

HUD's Handbook 7460.8 REV-1, Paragraph 4-26 (E) states if a housing agency receives fewer than three proposals, the Agency should analyze the proposals and document the reason for the poor response. Depending on the results of the analysis, the Agency may either reject the proposals and issue a revised solicitation or proceed to evaluate the proposals.

When the Agency did not receive an adequate number of proposals from firms, it did not follow required procedures before it awarded two of nine contracts. For example, the Agency selected IT Business Corporation for a \$475,000 professional services contract. IT Business was the only firm that submitted a bid proposal to develop and manage an economic development program.

The Agency's files did not: document the evaluation process; document possible reasons why only one firm submitted a bid proposal; or justify why it was not necessary to re-bid. As previously discussed, the Agency did not prepare a cost estimate before soliciting bids to establish the reasonableness of proposals.

The Interim Executive Director said since the bid proposal was within HUD's budget amount, the Agency felt re-bidding was not necessary.

Bid Proposals Were Not Properly Reviewed And Evaluated

According to HUD's Handbook 7460.8 REV-1 Chapter 4-23 (A), a technical evaluation requires a detailed evaluation plan. The plan should include a rating sheet for each offeror that lists the evaluation criteria and the weight assigned. The rating description should be clearly stated. The rating sheets should require the technical evaluator to assign numerical ratings and provide narrative justifications to support the ratings given.

Chapter 4-23(B)(1) requires the Agency to appoint a committee and a chairperson to evaluate technical proposals according to the evaluation criteria contained in the Request for Proposal. The chairperson is responsible for the deliberations of the committee.

The Agency did not properly review and evaluate the bid proposals that were submitted for the nine contracts reviewed. The evaluators did not provide narrative justifications to support their numerical ratings and in most cases did not sign their scoring sheets.

The Agency also did not assign a chairperson to be responsible for the deliberations of the committee. Therefore, there was no documentation to show how the evaluation committee conducted deliberations or arrived at its conclusions. There

was no documentation that showed the rationale for the selection process or discussed the numerical ratings when there were significant variances.

For example, in the contract awarded to Environmental Training Services, public housing experience was one of the five categories that was worth 25 points. One evaluator gave one firm zero points for this category while another evaluator gave the same firm the maximum 25 points. In order to enhance the consistency and integrity of the selection process, a significant difference in opinion as to a firm's experience such as this, should have been discussed and the rationale documented.

Auditee Comments

Excerpts from the Acting Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The City of Indianapolis had contracted with Oscar Robertson/Smoot Company for construction management services. The Agency had the option to use this contract for construction management services without the need for a Request for Proposal. The Agency will involve counsel, procurement/finance in all future contract negotiations. Participation in contract negotiations by counsel, and procurement/finance staff will be added to the Procurement Manual.

In October 1995, the Agency prepared a Request for Proposal to obtain security services. Diamond Detective Agency and Blue Eagle were the only respondents. Diamond Detective Agency was selected for the contract but was terminated on May 17, 1996 because they were not able to perform in accordance with the contract. Based on experience with vendors that could successfully fulfill the Agency's requirements, there was little chance of receiving a valid response by advertising/soliciting a new Request for Proposal. To correct the problem, the Agency will follow HUD/OIG recommendations.

A memorandum from the Agency's Corporation Counsel, dated March 1, 1996 states that in her opinion there was not

a conflict of interest involving the environmental training services contract. On May 9, 1996, the Executive Director sent a letter to HUD requesting a conflict of interest waiver. The waiver was denied. There is no correspondence to support why the Director requested a waiver in light of the memo from counsel. The Agency will follow the instructions in the HUD/OIG report.

The Director of Finance will be assigned the responsibility for ensuring the integrity of the procurement process. The Agency will involve counsel in all contract negotiations. The need for a security contract is being eliminated with the hiring of in-house security.

OIG Evaluation of
Auditee Comments

We agree that the Agency did not need a Request for Proposal for the original Oscar Robinson/Smoot contract of \$483,461 signed October 1, 1993. We did not question that contract since it was awarded when the Agency was a part of the City. We questioned the extension of the contract on May 9, 1995 for an additional \$829,407. Since the scope of services was changed in the May 9, 1995 action, a Request for Proposal should have been issued for a new contract.

The Agency should have executed a formal contract for the security it needed after it terminated its contract with Blueagle Security. Using purchase orders to obtain security from a firm not under contract did not define the scope of services and circumvented the procurement process.

We reviewed the memorandum of March 1, 1996 from the Agency's Corporation Counsel. The Agency Counsel's opinion that a conflict-of-interest did not exist was based on assumptions that were not correct. The Counsel inaccurately assumed that the services were being provided on a competitive basis and that an emergency existed. In any case, the Agency should have requested a conflict of interest waiver from HUD prior to the award of the contract.

The actions the Agency has taken and planned should correct the problems presented in the finding if the Agency effectively implements the corrective actions, verifies they are effective, and ensures they become routine procedures.

Recommendations

We recommend that the Director of Public Housing, Indiana State Office, requires the Indianapolis Public Housing Agency to:

- 3A. Assign an upper level management person, in addition to the Executive Director, the responsibility of ensuring the integrity of the procurement system.
- 3B. Complete legal reviews of its contracts before the contracts are awarded.
- 3C. Advertise the contract for security services and award it on a competitive basis.
- 3D. Stop the practice of using purchase orders to circumvent the procurement process.

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Control Over Maintenance Operations Needs Improvement

The Indianapolis Public Housing Agency: did not have adequate control over its maintenance staff time and performance. Work order documentation was not properly completed and the Agency did not have performance standards to adequately evaluate maintenance employees. Therefore, HUD and the Agency lack assurance the Agency's maintenance resources are adequate to provide decent and sanitary housing.

HUD's Requirements

Section 4 of the Annual Contributions Contract states that a housing authority should at all times operate each project solely for the purpose of providing decent, safe and sanitary housing for eligible families. The projects should be operated in a manner that promotes serviceability, economy, efficiency, and stability of the projects, and the economic and social well being of the tenants.

Public and Indian Housing Low-Rent Technical Accounting Guide, Section II (3) says to ensure that programs are carried out in an efficient and economic manner, a housing authority's controls should include such things as: effective supervisory review of operations; clearly defined staff responsibilities and job accountability; and well planned, organized, and supervised maintenance programs. The guide also requires a housing authority to maintain detailed written policies and procedures.

The Agency Did Not Adequately Control Its Maintenance Staff

We randomly selected and reviewed the computerized work order time reports and completed work orders for four of the Agency's 56 maintenance employees. We reviewed the documentation to determine if the employees' time was accounted for and their work was reviewed for quality and efficiency. The documents were for the week ending March 21, 1997.

The Agency did not have adequate control over its maintenance staff's time or the quality and efficiency of work. There was not full accountability for three of the four employees' work time. According to the information entered on the work orders, we could only account for 19 percent of

two employees' time and 75 percent for the third employee. None of the work orders contained any evidence of supervisory, on-site Manager, or tenant approval. Our review of the work orders and on-site inspections showed work was satisfactorily completed, but because of the lack of effective procedures we could not evaluate the reasonableness of the time taken to complete the tasks.

In addition, as reported in Finding 1, the Agency did not have an employee evaluation system that rated employees against the performance standards contained in their job descriptions. As a result HUD and the Agency lack assurance that the maintenance staff is performing at expected standards.

The Field Operations Manager said she believed there were many legitimate down times, such as travel, that would not be reflected by work order reports. Therefore, all available work time may not be accounted for by the time on the work orders. The Agency did not have written procedures that required maintenance employees to account for all of their time.

The Field Operations Manager said, for everyday operations, she relied on her senior maintenance person at each project to assign work orders and to follow up to ensure that work was effectively accomplished. However, there were no written procedures on how this process was accomplished and there was no evidence any reviews were performed by the senior maintenance persons.

The Agency May Not Have Sufficient Maintenance Staff

The Nelrod Company performed an Assessment of the Housing Agency's Management Operations and issued a report on May 28, 1996 that recommended the Agency increase its maintenance staff by 14 employees to 80. They recommended the increase be funded by the elimination of six Area Maintenance Supervisors and reduction in housing and financial management staff. The Consultant's conclusion on how many maintenance staff were required was based on standards related to project conditions. The Consultant did not evaluate the experience or efficiency of the Agency's staff. The Agency's Director of Facilities and the Field Operations Manager estimated the Agency needed a maintenance staff of between 70 and 75; however, they had not performed any study to reach that conclusion.

We found the Agency eliminated the Area Maintenance Supervisors, but it did not follow the rest of the Consultant's recommendation. In fact, as of April 30, 1997, the Agency had 10 fewer (56) maintenance employees than when the consultant study was completed. The Maintenance Director said he had lost personnel from routine turnover and was having difficulty finding personnel with the necessary experience that fit within the Agency's pay scale. Since the Executive Director who was responsible for not implementing the Consultant's recommendation was no longer at the Agency, we could not determine why he did not take the recommended actions to increase the maintenance staff. An inadequate number of maintenance employees directly affects the effectiveness of the Agency's operation and service to low and moderate income tenants.

Auditee Comments

Excerpts from the Acting Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The number of maintenance staff is not adequate. For approximately one year, the on-site Tech IV's have been used as Crew Leaders with over-sight responsibilities for reviewing the quality of work, ordering materials, and reviewing and spot checking completed work orders.

It has been over one year since the supervisor positions were terminated, and much has been learned by the management staff regarding the lack of a front line reporting system. The Agency is preparing to implement Site Based Management for all communities by January 1, 1998.

The maintenance staff will be assigned to each community based on the number of units and condition of the units. The Maintenance Management staff did a study in March 1997 to determine the needs for each community and the number of employees needed to adequately service the maintenance needs. The ratio varied from one employee for every thirty-five units to one employee for fifty-five units. We agree that more employees will be needed to carry out the various maintenance programs.

We agree with the recommendations 4A and 4B.

Our Maintenance Procedure Manual will be updated to include written policies and procedures that control the completion and review of work orders and fully account for staff time.

Aggressive action to obtain the needed employees to accomplish the mission will be started.

OIG Evaluation of
Auditee Comments

The Acting Director indicated the Agency agreed with our recommendations; however, he said the agency had already completed a study to determine the number of maintenance employees needed. We found the Agency did not have any documentation to support the study or its conclusions. The ratios reported in the Director's comments indicate the need for maintenance employees is between 33 and 54. These numbers are contradicted by another part of the Director's comments where he said the maintenance staff is not adequate. On April 30, 1997, the Agency had 56 maintenance employees. Additionally, the Director of Facilities and the Operations Manager estimated the Agency needed a maintenance staff of between 70 and 75 persons. The Agency needs to do a proper study to determine the number of maintenance employees required to effectively accomplish its mission.

Recommendations

We recommend that the Director of Public Housing, Indiana State Office, requires the Indianapolis Public Housing Agency to:

- 4A. Develop and implement written policies and procedures that control the completion and review of work orders and fully account for staff time.
- 4B. Perform a formal study that considers the experience and efficiency of the Agency's maintenance staff to determine the number of maintenance employees that the Agency needs and take aggressive action to obtain the needed employees.

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Applicant Screening Procedures Were Uneconomical and Inefficient

The Indianapolis Public Housing Agency's procedures for screening new tenants were uneconomical and wasted valuable resources. The Agency screened all applicants at the time of initial application regardless of when they would be offered housing. The Agency's waiting time for housing varied from one to three years depending on the bedroom size. Since the results of screening are only valid for 120 days, the Agency had to screen all applicants a second time before they were admitted to a unit. The initial screening was unnecessary and the Agency could save approximately \$6,132 a month by changing its procedures to only screen applicants when they are in position to be immediately offered housing.

HUD's Requirements

Section 4 of the Annual Contributions Contract requires the Housing Agency to operate in a manner that promotes serviceability, economy, efficiency, and stability.

The Agency Wasted Resources

The Indianapolis Housing Agency's applicant screening procedures were uneconomical and inefficient. The Agency screened all applicants who applied for housing at the time of initial application. However, depending on the bedroom size, the applicants had to wait from one to three years to receive housing. As of December 31, 1996, the Agency had 1,942 applicants on its waiting list. During 1996 the Agency filled an average of 24 units per month.

The Admissions and Occupancy Manager said the Agency considered the results of screening to be valid for only 120 days. The Manager said the Agency's procedures required all applicants to be screened at the time of the initial application and again if they were not offered housing within 120 days. Since applicants were not being offered housing within 120 days of their initial application, screening at the time of the initial application was not necessary.

The Agency's screening procedures consisted of verifying the accuracy of reported income, and obtaining and evaluating information on an applicant's credit and criminal background. The Agency paid \$13 per applicant to receive the credit and criminal background information. The Manager estimated that it takes a staff member two hours to complete one screening. During 1996, the Agency completed screening procedures on

an average of 181 new applicants per month. Additionally, they screened another 24 applicants per month who were being offered housing.

The resources used to screen the 181 new applicants were wasted because these applicants were not offered housing within 120 days of the screening. As a result, the Agency spent approximately \$2,353 per month for unnecessary credit and criminal checks and used approximately 362 staff hours to process and review the screening information. Using the average per hour wage rate of \$10.44 for the Admissions and Occupancy Department, \$3,779 was spent to pay wages for unnecessary screening.

Auditee Comments

Excerpts from the Acting Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

A similar recommendation was made in December of 1995, but, at that time, more emphasis was placed on housing applicants than on the time and money consuming the screening process. The Admissions Office of the Indianapolis Public Housing Agency welcomes the recommendation and new procedures will be immediately implemented to correct the finding.

OIG Evaluation of Auditee Comments

The problem in the finding should be corrected when the Agency completes its planned action to develop and implement procedures that require applicants to receive detailed screening, one-time, within 120 days of being considered for a unit.

Recommendations

We recommend that the Director of Public Housing, Indiana State Office, requires the Indianapolis Public Housing Agency to:

- 5A. Develop and implement procedures that require applicants to receive detailed screening, one-time, within 120 days of being considered for a unit.

The Agency Could Not Support Its Allocation Of Indirect Costs

The Indianapolis Public Housing Agency did not document the method it used to allocate its indirect costs to the various HUD programs it operated. The Agency did not have a study or documentation to support the amounts it allocated to each program. Unless the Agency can show that its allocation of administrative costs is accurate, HUD lacks assurance that amounts charged to the Agency's programs are appropriate.

HUD Requirements

Public and Indian Housing Low-Rent Technical Accounting Guide, Section II(5) states that funds are provided by HUD for a particular program or purpose. To be allowable, costs must be necessary and reasonable for the administration of the program. The costs can be either direct costs of the program or indirect costs (for example, shared administrative costs) that are proper for the program and allocated to the program on an equitable basis.

Allocation of Indirect Costs Was Not Supported

HUD regulation 24 CFR, Section 85.22(b) requires all grantees to comply with Office of Management and Budget Circular A-87. The Circular requires grantees to develop and carry out a plan to support the allocation of any joint (indirect) costs that benefit more than one program. All costs included in the plan must be supported by formal accounting records that prove the propriety of charges.

The Indianapolis Public Housing Agency did not have a supportable method to allocate the indirect costs it charged to the HUD programs it operated. The indirect costs included administrative costs such as legal expenses, staff training, travel costs, accounting and auditing expenses, and supplies. The Agency also allocated salaries and wages of 25 staff persons.

The Agency allocated \$1,294,084 in administrative costs to its various HUD programs for 1996. The Agency allocated \$575,217 to the Low-Income Housing program, \$632,288 to its Section 8 programs, \$31,717 to the Comprehensive Grant program, \$49,691 to Urban Revitalization (HOPE VI) program, and \$5,171 to its Drug Elimination Program.

There was no study to support the allocation amounts, nor did the Agency maintain any time distribution records to support the actual time that was worked on each program. The current Director of Finance said the costs were allocated according to budget estimates; however, he did not know how the estimates were developed.

Auditee Comments

Excerpts from the Acting Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The steps that the agency has taken or still needs to take to have an approved methodology for allocating indirect costs to various programs are: (1) Commencing with the May 10, 1997 pay period, the procedures are in place to record the allocation of time being spent on grant activity; and (2) a resolution needs to be prepared for the approval of a cost allocation methodology. The above steps should place us in compliance with OIG finding.

OIG Evaluation of Auditee Comments

The condition in the finding should be corrected after the Agency fully implements a cost allocation method that is in accordance with Office of Management and Budget Circular A-87.

Recommendations

We recommend that the Director of Public Housing, Indiana State Office, requires the Indianapolis Public Housing Agency to:

- 6A. Implement a method that allocates indirect costs to all programs on an equitable basis. The method should be in accordance with Office of Management and Budget Circular A-87 and supporting documentation should be maintained.

Internal Controls

In planning and performing our audit, we considered the internal controls over the management of the Indianapolis Public Housing Agency to determine our auditing procedures, not to provide assurance on internal controls. Internal controls consist of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations and policies; and that resources are safeguarded against waste, loss and misuse; and that reliable data are obtained, maintained and fairly disclosed in reports.

Relevant Internal Controls

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

- Management policies, procedures, and practices
 - Methods of assigning authority
 - Management monitoring methods
 - Staffing and organizational structure
 - Management maintenance of documentation

We assessed all of the relevant controls identified above.

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

Significant Weaknesses

Based on our audit, the following items are significant weaknesses:

- Management Policies, Procedures, and Practices. The Indianapolis Public Housing Agency did not establish policies and procedures to operate efficiently and effectively. The Agency did not: have a plan to facilitate continuity of operations and a system to routinely evaluate the performance of its employees (Finding 1); have a strategy to reduce the excessive number of vacant units (Finding 2); follow proper procurement procedures (Finding 3); and use economical and efficient procedures to screen new tenants (Finding 5).

- Management monitoring methods. The Agency did not have effective monitoring procedures to assure adequate control over its maintenance staff time and performance (Finding 4).

Follow Up On Prior Audits

The Office of Inspector General issued an audit report on the Indianapolis Public Housing Agency on September 24, 1986, pertaining to the operations of its Low-Income Housing Program (Audit Case Number 86-CH-201-1802). It contained five findings. There were no open findings from that report.

Three of the findings in the report are repeated.

<u>Report Number 86-CH-201-1802</u>	<u>This Report</u>
Need To Improve Organizational Direction And Guidance (Finding 1).	The Operations Of The Agency Were Inconsistent And Ineffective (Finding 1).
Need To Improve Supervision Of Staff (Finding 2).	Control Over Maintenance Operations Needs Improvement (Finding 4).
Need To Improve Occupancy Rates (Finding 4).	The Agency Needs To Develop And Implement A Plan To Reduce The Number of Vacant Units (Finding 2).

The latest single audit covered the fiscal year ended December 31, 1995. The report contained 17 problems with the Low-Income Housing Program. Nine of the 17 pertained to the admissions, occupancy and tenant screening procedures. The Agency took corrective actions to correct these; however, as shown in Finding 5 of this report, the Indianapolis Public Housing Agency's procedures for screening new tenants were uneconomical and wasted valuable resources.

The remaining eight problems pertained to different areas; however only three were significant. The three are repeated in this report.

<u>Single Audit Report</u>	<u>This Report</u>
The Agency Could Not Provide Support For Proper Cost Price Analysis For Each Construction Contract.	The Agency Needs Controls To Assure Proper Procurement Procedures Are Followed (Finding 3).
The Agency Did Not Have All The Appropriate Policies And Procedures.	The Operations Of The Agency Were Inconsistent And Ineffective (Finding 1).
The Finance Department Encountered A Large Turnover In Its Employees.	The Operations Of The Agency Were Inconsistent And Ineffective (Finding 1).

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Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Ineligible Costs 1/</u>
1E	\$141

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

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Auditee Comments

May 29, 1997

Mr. Roger Niesen
Assistant Inspector General for Audit
U.S. Department of Housing & Urban Development
Office of the Inspector General
N.W. Jackson Blvd., Suite 2646
Chicago, Illinois 60604-3507

RE: OIG Audit Findings/Response

Dear Mr. Niesen:

Attached is the agency's response to audit findings that have already been identified to us and discussed during the exit conference.

On behalf of the Commissioners and staff I express our appreciation for a very professional undertaking by your staff. The recommendations under each finding are very meaningful and we will do all that is possible to fully implement each one of them. In fact, we have, in our specific response statement, indicated where we have already started the implementation process, with clear written procedures that will ensure consistency and effectiveness.

Should you need any clarification, please contact me.

Sincerely,

Martin D. Williams
Acting Executive Director

Attachments

MDW/kp

cc: Board of Commissioners
Muhammad Akhtar

INDIANAPOLIS HOUSING AGENCY

OIG AUDIT RESPONSE

FINDING #1

The agency acknowledges this finding--"That the Operations of the Agency were inconsistent and ineffective".

- 1A. The Indianapolis Housing Agency has carefully reviewed and studied the OIG's recommendation and find them to be very helpful and meaningful. An agency wide Management Assessment has just been completed and has details of how we could put in place items in recommendation 1A. This process is already underway. Monthly reports to the Board will reflect program being made under this item.
- 1B. An agency wide Procedures Handbook is almost completed. Written procedures for the Finance Department will be completed in the next sixty days.
- 1C. All the policies referenced are being implemented and we are establishing reporting system to ensure ongoing monitoring of the established policies implementations.
- 1D. The agency has already developed a new Employee Evaluation form that addresses this issue.
- 1E. The Finance Department has already been instructed to prepare the detail bills for the said amount to the two Commissioners referenced.

FINDING # 2

2. Auditee Comments
Recommendations

The IHA concurs with finding number 2 --" the need to develop and implement a plan to reduce the number of vacant units".

2A. The agency agrees to prepare a Vacancy Reduction Plan (VRP) in line with specific recommendations, contained herein, and in compliance with other HUD required format for doing so. Our Comp-Grant application will reflect this item as a high priority.

The plan will be very comprehensive using funds from Comp. Grant, HOPE VI, CDBG, LIHTC, CDBA and from our operating budget.

This plan will be managed by the Vacancy Reduction Coordinator, who will coordinate the efforts of Housing Management, Maintenance, and Occupancy and Admissions. This individual will keep all parties informed of the status of all units, being able to track each unit and hold people responsible for filing, turning and inspections. The individual will hold each responsible person to a time schedule of completing whatever is their respective task.

We anticipate this plan to be fully operational by July 1997, given the availability of funds identified above.

2B. The agency is already developing and implementing its strategy for a "Site-Based" management operation. In addition to developing and maintaining a waiting list reflecting "Local Preferences," and preferences for the developments, each community will also maintain its own waiting list, and these will, among other things be utilized to prioritize repair workload.

The details of these items will be included in the Vacancy Reduction Plan (VRP), due to be operational by July 1997.

2C. The agency's Vacancy Reduction Strategy (VRS) will contain a tracking system for each community that will detail out the time factor between each task to be completed in the unit turn around process.

2D. The Vacancy Reduction Coordinator will be the assigned personnel monitoring the process in establishing acceptable time standards for each task in the process.

- 2E One of the primary strategy of the VRS is to address item 2E. At the move out inspection phase that is when it will be critical to access the amount of work required, the time estimate and establish the coordination for its lease-up with the Vacancy Reduction Coordinator.

FINDING # 3

1. ORS CONTRACT

The City of Indianapolis had contracted with ORS for construction management. IHA had the option to use this contract for construction management services without the need for a Request for Proposal. The contract was executed by the then executive director and administered by then current director of modernization. IHA procurement was not involved in the negotiation and change process and received copies of the executed contracts after the fact.

CORRECTIVE MEASURES: Involve counsel, procurement/finance in all contract negotiations. Participation in contract negotiations by counsel, and procurement/finance staff shall be added to Procurement Manual.

2. BLUE EAGLE SECURITY

In October 1995 IHA prepared an RFP to obtain security services. IHA specifically requested an agency that could provide officers that had arrest powers and were armed. Diamond Detective Agency and BLUE EAGLE were the only respondents.

Previously, IHA had contracted with Protection Plus, obtained through a multi-City agency RFP, for officers that had arrest powers and were armed. IHA terminated the services of Protection Plus for poor performance. Burns Security had declined to participate in a response because of the armed officer issue. Stanley Smith and Pinkerton were also solicited and did not respond.

Diamond Detective Agency is based in the Chicago area and was chosen based on their responses to the RFP. BLUE EAGLE was the only other response.

Diamond was terminated on May 17, 1996 because they were not able to perform in accordance with the contract. Specifically, they were unable to fill the security needs. Based on experience with vendors that could successfully fulfill the requirements of armed with arrest powers, there was little chance of receiving a valid response by advertising/soliciting the RFP again. A scope of service for the contract was never finalized.

CORRECTIVE MEASURES: Re-issue an RFP for security services with a comprehensive and workable scope of services. Follow HUD/OIG recommendations for RFP procedures as outlined in Exit Report. The

other alternative would be to replace BLUE EAGLE with in-house security staff following established agency human resource policy.

3. TAG ASSOCIATES, INC.

The materials and contracts manager informed the acting executive director that the time for response was unusually short. The response was that two vendors, Quadel and TAG were appraised of the short response time and did not have a problem with complying. Counsel signed the contract on March 26, 1997 after TAG provided clarification on invoicing.

CORRECTIVE MEASURES: Long range planning would eliminate short deadlines. Follow RFP procedures in accordance with HUD/OIG Exit report. Include these procedures in staff training and expand Procurement Policy Manual with specifics in this area.

4. ENVIRONMENTAL TRAINING SERVICES

Memo from then IHA Corporation Counsel Margaret Drew, dated March 1, 1996 states that there is no conflict of interest. Date of complete contract executive is March 8, 1996 even through the Board Resolution was adopted in December 1995 and discussed at two successive board meetings. See attached memo from Margaret Drew.

On May 9, 1996, then Executive Director, Edward Jagnandan, sent a letter to HUD requesting a conflict of interest waiver which was denied. The HUD response letter was dated July 24, 1996. There is no correspondence to support why Jagnandan requested a waiver in light of the memo from counsel regarding conflict of interest.

CORRECTIVE ACTION: Follow instructions in HUD/OIG exit report.

5. HUD APPROVAL NOT OBTAINED FOR CERTAIN CONTRACTS

Finding: Agency did not obtain HUD's review and approval for HOPE VI grant program contracts for community and supportive services. Since Pam Thomas' departure from the Agency, is there anyone who could accurately answer this question? The Materials and Contracts Manager was not copied on HUD letter of March 27, 1997 notifying Agency of non-compliance.

CORRECTIVE ACTION: All required contracts will be sent to local HUD for approval prior to complete execution. Update by copy all staff

on HUD requirements as they become available to agency. Insert requirement for circulation of HUD updates in all procedure manuals.

6. RFP FOR REVOLVING LOAN/ECONOMIC DEVELOPMENT

Copies of the RFP were sent to three local banks, on realty corporation who deals with PHA's, and five local community and business development agencies. In addition, the RFP was advertised in three local newspapers. As of this response dated May 15, 1997, the contract has not been executed.

CORRECTIVE ACTION: Follow instructions as outlined in HUD/OIG Exit Report. Include in staff training.

7. COST ESTIMATES

Verbal estimates from end-users were obtained as a starting point.

CORRECTIVE ACTION: Follow instructions RFP/Bids as referenced in HUD/OIG Exit Report. Has been included in staff training syllabus.

8. BID PROPOSALS WERE NOT PROPERTY REVIEWED AND EVALUATED

Each reviewer received a score sheet with the same numerical value on the evaluation criteria as outlined in the RFP. In some cases there were narrative responses, but not all. In the case of RFP/contracts that had associated board resolutions, the resolution was included in the file. Each resolution showed the responding vendors and their scores and recommendation to the board.

CORRECTIVE ACTION: Follow instructions re RFP/Bid as referenced in HUD/OIG Exit Report. Has been included in staff training syllabus.

RECOMMENDATIONS

3A. Establish procedures and controls to assure procurement history records are maintained for all contracts.

Include procedures in procurement manual procedures for file maintenance. Moving Modernization records from the warehouse to Five Indiana Square and turnover of Modernization Coordinators created a lapse of continuity in record keeping. Emphasize through training and inclusion in policy

manual that copies all correspondence and documents relating to a contract must be forwarded to that contract file.

3B Establish procedures and controls and assign a top level management person to assure that procurement procedures are followed.

The assignment of the Director of Finance to this position will be sufficient as long as that position is empowered with enforcement by the Executive Director.

3C Advertise the contract for security services and award it on a competitive basis. Stop the practice of using purchase orders to circumvent the procurement process.

The need for contract security is being eliminated with the hiring of in-house security. Comply with recommendations of HUD/OIG Exit Letter.

3D Obtain HUD's approval for the contracts that require it.

Circulate compliance memorandums/letters to all affected departments.

FINDING # 4

CONTROL OVER MAINTENANCE OPERATIONS NEEDS IMPROVEMENT

The Agency did not have adequate control over its Maintenance staff.

Agree. The key word is adequate. The number of maintenance staff is not adequate, that includes maintenance supervisors. For approximately one year the on site Tech IV's have been used as Crew Leaders with over-sight responsibilities for reviewing the quality of work, ordering materials for the job, reviewing and spot checking completed work orders.

It has been over one year since the termination of the supervisor positions and a lot has been learned by the management staff regarding the lack of a front line reporting system. The Agency is preparing to have Site Base Management for all communities by the new fiscal year (January 1, 1998).

Maintenance staff will be assigned to each community based on the number of units and condition of those units. The Maintenance Management staff did a study in March 1997 to determine the needs for each community and the number of employees needed to adequately service the maintenance needs. The ratio varied from one employee for every thirty-five units to one for every fifty-five. We also agree that more employees will be needed to carry out the various maintenance programs.

We also **agree** with the recommendations - 4A &4B.

- 4A** Our Maintenance Procedure Manual will be updated to include written policies and procedures that controls the completion and review of work orders and fully account for staff time.
- 4B** A study has been performed. Aggressive action to obtain the needed employees to accomplish the mission will be started soon after the new Executive Director has an opportunity to review and evaluate.

FINDING #5

5. Auditee Comments

This recommendation was made in December, 1995, but, at that time, more emphasis was being placed on housing applicants than on the time and money consuming screening process. The Admissions Office of the Indianapolis Public Housing Agency welcomes this recommendation and new procedures will be implemented immediately to correct this finding.

FINDING #6

6. "The agency could not support its allocation of indirect cost".

This finding primarily sites that the agency did not have an approved methodology for the allocation of its indirect cost to various programs. The steps that the agency has taken or still needs to take are:

1. Commencing with the May 10, 1997 pay period the attached procedure is in place to record the allocation of time being spent on grant activity.
2. A resolution needs to be prepared for the approval of a cost allocation methodology. A draft is attached. (The draft resolution is not included in this report since it is not necessary for understanding)

The above steps should place us in compliance with OIG finding.

Attached Procedure:

**Indianapolis Housing Agency
Grant Allocation Time sheet**

Policy: To fairly record the allocation of employee work activity to various grants operated by the Indianapolis Housing Agency.

Procedure:

1. All management and employees working with grants of the agency need to record their hours according to the funding sources that fund their salaries.
2. The attached sheet must be completed and turned in with the employee's regular time card. this time sheet does not replace the standard agency time card.
3. It is the responsibility of the employee's supervisor to insure that the allocation sheet is filled out correctly and that the total hours reported equal the total hours of the standard agency time card.
4. Hours should be recorded in quarter hour increments. for example: 2.25 (2 hours and 15 minutes) or 2.75 (2 hours and 45 minutes)

(Margaret Drew Memo) CITY OF INDIANAPOLIS
Office of Corporation Counsel
200 EAST WASHINGTON STREET, SUITE 1601

TO: Edward R. Jagnandan, Executive Director, IPHA

FROM: Margaret A. Drew, Assistant Corporation Counsel

DATE: March 1, 1996

SUBJECT: Franklin Technologies/Environmental Training Services

This memo is in response to HUD's request for an opinion regarding the relationship of IPHA Board of Commission member, Mr. Ron Franklin to Franklin Technologies/Environmental Training Services and whether his relationship is compatible with I. C. 36-7-18-11.

During the Board of Commissioners' December 18, 1995 meeting, Resolution 95-H-114 was to provide asbestos awareness training to the IPHA maintenance staff. The resolution authorized the then interim Executive Director to execute a contract with Environmental Training Services, Inc. for an amount not to exceed \$10,500. This resolution was discussed further at Board of Commissioner meetings held on January 8, 1996 and January 22, 1996. Eventually the Board took a telephone poll among its members to approve the contract but that action has yet to be ratified at a regularly scheduled meeting.

I.C. 36-7-18-11 deals with conflicts of interest and generally prohibits (in part) a commissioner or employee of a housing authority to have an interest in a contract for materials or services used in connection with any housing project. (Id.(a)(3)). The statute does permit a commissioner or employee to have an interest in a contract for materials or services if such items are provided at a cost comparable to the same items provided on a competitive basis and an emergency exists (Id. (b)(2)) or the contract is to be provided by a minority business enterprise (Id. (b)(3)).

In the first instance, I.C. 36-7-18-11 does not apply to the IPHA and therefore does not apply to Mr. Franklin. According to I.C. 36-7-18-1.5, only certain sections of state law pertaining to housing authorities apply to a consolidated city. I.C. 36-7-18-11 is not one of the enumerated sections which a consolidated city (and therefore the IPHA) is subject to. Consequently, its requirements have no bearing on the IPHA Board of Commissioners.

Nevertheless, even if I.C. 36-7-19-11 was applied to Mr. Franklin's circumstances, it is my opinion that this section has not been violated. At all times during discussions

Edward R. Jagnandan
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regarding Resolution 95-H-114 Mr. Franklin disclosed and stated on the record that he had a financial interest in the proposed contractor, Environmental Training Services, and that he would not vote on the resolution.

I do not know if Franklin Technologies/Environmental Training Services is a minority business enterprise as defined in I.C. 4-13-16.5-1. However, I am aware that the IPHA received quotes from other entities which were comparable in cost and services to Environmental Training Services. I am also aware that, at least initially, the Board was under the impression that an emergency existed if the IPHA was to comply with various OSHA regulations relating to asbestos awareness training.

Consequently, and based on the foregoing, it is my opinion that the relationship between Mr. Ron Franklin and Franklin Technologies/Environmental Training Services is not in conflict with I.C. 36-7-18-11, even if that statute applied to the IPHA, which it does not.

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