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District Inspector General for Audit

Report No. 96-PH-201-1015

March 19, 1996

MEMORANDUM FOR: William D. Tamburrino, Director, Office of Public
Housing, Maryland State Office, 3BPH

FROM: Edward F. Momorella, District Inspector General
for Audit, 3AGA

SUBJECT: Special Procurement Report
Housing Authority of Baltimore City

Attached for your information and action is a Special Report on procurement activities at the Housing Authority of Baltimore City (Authority).

The review was conducted in response to a request from United States Senator Barbara Mikulski, and covered procurement activities at the Authority since the issuance of our September, 1994 audit report.

As you know, our independent review was conducted in conjunction with the recent comprehensive review by your staff and the HUD contracting office. We have reviewed your final report and agree with the observations and recommendations.

Based on our review, we make the following additional recommendations related to the Authority's procurement activities.

Staffing & Training of Procurement Personnel - Perform an assessment of the staffing and training needs for the Authority's Purchasing Department to assure the Authority is adequately staffing this critical function.

Retain Threshold at \$25,000 - Require the Authority to maintain its threshold at the current level of \$25,000 until the Authority has cleared all the findings reopened in recommendation 1B above and your monitoring reviews indicate the Authority is operating its procurement activities properly.

Reopen Prior Audit Recommendations - Reopen recommendations 1B, 6A, 6B, and 6C from our prior audit report, number 94-PH-201-1016, dated September 23, 1994.

Use Enforcement Remedies To Obtain Compliance - We also recommend that your office make appropriate use of the enforcement remedies outlined in 24 CFR Part 85.43. We recognize that with the number of procurement transactions executed, errors and omissions can occur, however, any indications of the Authority's unwillingness to address staffing levels, or other indicators of intent to circumvent procurement procedures, should prompt HUD to take action to disallow the cost of that procurement, as provided by Part 85.43

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

Should your staff have any questions, please have them contact me or J. Phillip Griffin, Assistant District Inspector General for Audit, at (215) 656-3401.

INTRODUCTION

At the request of United States Senator Barbara Mikulski, we performed a special review of procurement activities at the Housing Authority of Baltimore City (Authority).

The review was performed between December 1995 and February 1996, and covered the activities from July 1994 through December 1995. Where appropriate, the review was extended to include other periods.

The objectives of the review were to : 1) determine if the Authority's procurement activities were administered in accordance with applicable laws and regulations, and in an economical, efficient and effective manner; 2) assess the effect of the Authority's increase in dollar threshold for formal bidding; and 3) follow-up on promised corrective actions to procurement deficiencies cited in our prior audit report issued on September 23, 1994.

Specific procedures included, but were not limited to, review of applicable laws, regulations and policies, review of the Authority's books and records, vendor invoices, vehicle inventory, and interviews of various individuals. We also inspected 31 rehabilitated properties, and reviewed the recent procurement review performed by HUD public housing & procurement staff. Judgmental sampling was used for testing purposes and inspection of properties.

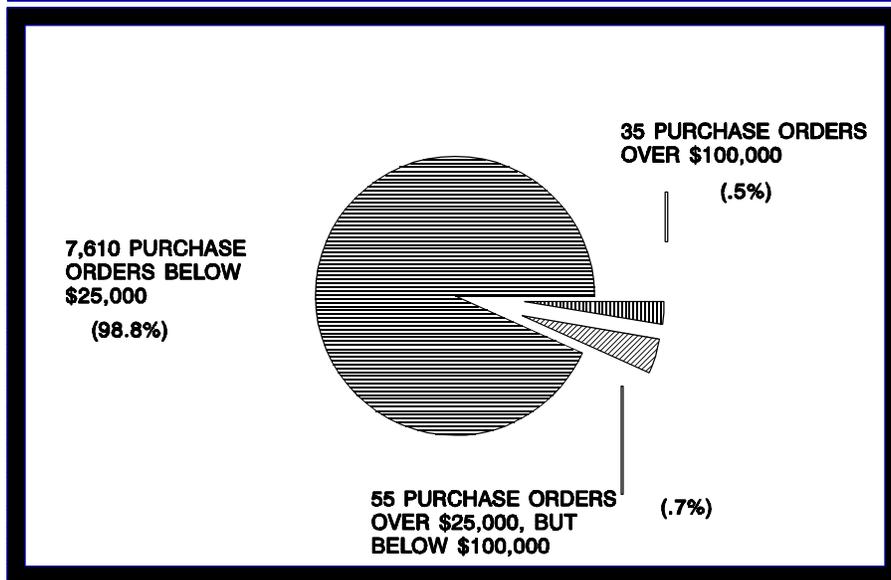
BACKGROUND

We reviewed applicable documentation pertaining to selected procurement actions which included requisitions, bid lists, tabulations, and advertisements. Also, we interviewed Authority personnel to obtain information related to certain procurements. The following chart illustrates our review of the approximately 7,700 purchase orders issued between July 1, 1994, and December 31, 1995.

Number of Purchase Orders	Dollar Threshold	Number Reviewed
7,610	\$25,000 or less	113
90	Greater than \$25,000	33

The following chart illustrates the number of purchase orders by various dollar levels:

PURCHASE ORDERS ISSUED BETWEEN 7/1/94 TO 12/31/95



In addition to these purchase orders, we also reviewed selected Authority contracts.

SUMMARY

Even though improvements have been made, especially discontinuing noncompetitive emergency rehabilitation purchase orders, procurement violations and control weaknesses still exist. Several of the corrective actions promised as a result of prior audit recommendations remain to be implemented.

Specific deficiencies noted include:

- * Two purchase orders and an extension were issued to a suspended contractor.
- * Purchase orders were issued without dollar limits.
- * Payments were made in excess of purchase order limits.
- * Personal Service contract was not re-bid for 10 years.
- * Two contracts did not receive the formal bidding required.
- * Thirteen noncompetitive purchase orders were issued without

justification.

- * 64 Instances of no price analysis to assure best price.
- * 17 Instances of failure to justify "emergency" work.
- * Lack of a central "contract register" for the Authority.
- * Funds unnecessarily used for purchase of personal use vehicle.
- * Use of procured vehicle by non Authority personnel.

(Details of the above deficiencies are attached as Exhibit I)

EFFECT OF INCREASE IN DOLLAR THRESHOLD FOR FORMAL BIDDING

As illustrated in the charts above, of the approximately 7,700 purchase orders issued between July 1, 1994, and December 31, 1995, only 90 (slightly more than one percent) exceeded the previous threshold of \$25,000. Considering the low volume of purchases over the previous threshold and the Authority's past and present problems with procurement, we see no compelling need for the Authority to increase its threshold to \$100,000.

CORRECTIVE ACTIONS ON PRIOR AUDIT RECOMMENDATIONS NOT COMPLETELY IMPLEMENTED

In our prior audit report dated September 23, 1994, we made several recommendations related to the Authority's procurement process. Based on our review, some of the recommendations which had previously been closed should be reopened. These recommendations were closed largely based on assurances from the Authority that proper corrective action had been taken. The following is a summary of the actions required of the Authority in the original recommendations.

- 1B. Consistently apply both its own procurement policies and HUD's procurement regulations at 24 CFR 85.36 (and in particular, HUD approval for all noncompetitive proposals prior to contract award).

- 6A. Develop and consistently implement written procurement procedures to identify criteria, rationale, selection of contract type, contractor selection, and the basis for price.

- 6B. Maintain sufficient records to detail the significant history of the procurement.

- 6C. Review proposed procurements to avoid purchase of unnecessary or duplicative items. Also, consider consolidation or breaking-out purchases for economy.

With regard to recommendation 1B., the draft report by the Maryland State Office of its recent review of the Authority's procurement process contained the following:

"The HABC Procurement Policy has been rewritten based on the HUD sample. However, this policy was accepted by HUD on February 21, 1995, conditioned on the removal of Para III E.1.e. which allowed the Executive Director to declare an emergency and use non-competitive procurement as a result of such declaration. The procurement policy given to this Office on December 21, 1995, still contained paragraph III E.1.e. This addition is unacceptable."

In conclusion, we found: (1) the Authority did not properly administer its procurement activities; (2) there does not appear to be a need for the Authority to increase its dollar threshold for formal bidding; and (3) promised corrective actions on prior procurement deficiencies have not been taken as claimed.

EXHIBIT 1

The Authority Procurement Activities Should be Improved

The Authority's administration of procurement activities does not adhere with Federal procurement and HUD handbook requirements. As a result, there is no assurance that the Authority's procurement practices are efficient, effective, and economical.

We noted the following deficiencies in our review of the Authority's procurement practices.

- A. Two purchase orders and an extension were issued to a suspended contractor;
- B. Purchase orders were awarded noncompetitively;
- C. Documentation for small purchases was not maintained;
- D. Formal bidding procedures were not used;
- E. Required HUD approval for change orders over \$25,000 was not obtained;
- F. A personnel service contract was not rebid;
- G. Funds were not used in an economical and efficient manner;
- H. Purchase orders were issued without a dollar limit;
- I. A purchase order's payment threshold was exceeded;
- J. Required Contract Register is not maintained; and
- K. A vehicle is being utilized by a non-Authority employee.

Details of these deficiencies are as follows.

- A. The Authority awarded two purchase orders and extended an existing purchase order to a suspended contractor.

On July 26, 1995, Elias Contracting Company was suspended under the provisions of 24 CFR 24.405. As a result, the firm was excluded from participating in federal procurement contracts. However, the Authority awarded and extended the following purchase orders while

the firm was suspended.

- P.O. 11129 in October 18, 1995 for \$900,
- P.O. 11709 in November 8, 1995 for \$6055, and
- P.O. 06503 was to expire in September 30, 1995, however, the Authority extended it for three additional months.

According to HUD Handbook 7460.8 REV-1, contracts shall not be awarded to debarred, suspended, or ineligible contractors.

The contractor received new business while it was suspended because the Authority's Purchasing Department does not review the "List of Parties Excluded From Federal Procurement and Nonprocurement Programs" which is published monthly by the U.S. General Services Administration.

B. The Authority noncompetitively awarded purchase orders.

From the period July 1994 to June 1995, the Authority noncompetitively awarded 13 purchase orders. The Authority provided various explanations why the purchase orders were awarded noncompetitively:

- equipment was manufactured by the vendor and vendor would provide the best service;
- vendor was a prior low bidder and could still provide the best price; and
- maintenance department prefers one brand of equipment/appliances.

While the Authority's explanations may seem logical, the fact is, 24 CFR 85.36 (C) requires all procurement transactions to be conducted in a manner providing full and open competition consistent with the standards of 24 CFR 85.36.

C. The Authority did not maintain documentation for its small purchases.

24 CFR 85.36(b)(9) requires the Authority to maintain a significant history of a procurement. However, the Authority did not maintain the documentation needed to determine the reasonableness of price or justification of an emergency purchase order.

The following illustrates the results of our review in this area:

No. of P.O.s reviewed	Threshold	Deficiencies	No. of Deficiencies
83	\$1,000 or less	Price analysis not performed.	54
		Emergency not justified.	10
30	\$1,000 or more, but less than \$25,000	Price analysis not performed.	10
		Emergency not justified.	7

D. The Authority did not use formal bidding procedures.

The Authority awarded two insurance contracts that exceeded \$100,000 and did not utilize formal bidding procedures as required by 24 CFR 965.205(b). The contracts were executed after the Authority changed its procurement threshold to \$100,000. The Authority used informal bidding procedures for the following purchase orders because it was not aware that formal bidding procedures were required in the procurement of insurance contracts.

P.O. NUMBER	VENDOR NAME	CONTRACT AMT.
11020	American Phoenix Corp.	\$ 293,474
11019	American Phoenix Corp.	\$1,817,360

E. The Authority did not obtain HUD approval for change orders over \$25,000.

According to 24 CFR 85.36(g)(2)(v), HUD approval is required when a contract is increased by more than \$25,000. The following change orders for the Fairfield Replacement Housing were executed without HUD approval:

C.O.#	DATE	AMOUNT
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6	5/23/95	\$26,616
7	5/23/95	\$31,106

F. The Authority did not rebid a personal service contract.

A personal service contract has not been rebid in the last 10 years. Specifically, the Authority executed a no bid, no term limit legal representation contract on September 4, 1985. The contract was modified on October 15, 1992. As of FY 96, the contract was still active. The amounts paid in FY 95 and 96 were \$101,062 and \$32,050 respectively.

According to HUD Handbook 7460.8 REV-1, prior HUD approval is required when contracts are 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.

The Authority stated that the contract has not been terminated because litigation is lengthy and engaging a new legal firm was not cost effective.

G. The Authority did not use public funds in an economical and efficient manner.

In a repeat finding from the September 23, 1994 OIG audit report, limited housing funds of \$19,498 were used to purchase a new 1995 fully loaded Chevrolet Astro Van. This vehicle was purchased for the use of the Director, Management Information Services. The personal use vehicle was purchased when the Authority had a fleet of 117 Vans in its 1995 year end vehicle inventory. Including this vehicle, the Authority has 19 vehicles which are assigned to individuals and may be taken home by those individuals.

H. The Authority issued purchase orders without dollar limits.

The Authority executed open ended orders and times/materials orders without not-to-exceed amounts. As a result, unlimited acquisitions of goods and services may occur. Therefore, Federal informal and formal procurement regulations may be circumvented. The following purchase orders were issued without not-to-exceed amounts.

- P.O. 05822
- P.O. 05825
- P.O. 09229
- P.O. 09231

- I. The Authority made payments that exceeded the purchase order's payment threshold.

Purchase order 06503 was executed for the servicing and repairs of residential gas and oil furnaces; however, no one tracked total expenditures against the order. Specifically, the Authority paid over \$216,131 on a not to exceed \$75,000 a year purchase order.

- J. The required Contract Register is not being maintained by the Authority.

HUD Handbook HM 7510.1. requires the Authority to maintain a Contract Register. The Contract Register should contain the amount of each formally executed contract and all subsequent financial transactions.

Although a partial Contract Register is maintained by the Engineering Service Department, the Purchasing Department does not maintain a register for its procurements.

- K. An Authority vehicle is being used by a non-Authority employee.

A City employee that formerly worked at the Authority was assigned an Authority vehicle. Although the individual returned to the City on January 18, 1994, the vehicle is still assigned to the individual according to the Authority's records at the end of 1995.

The above deficiencies parallel problems cited in OIG audit report 94-PH-201-1016, issued September 23, 1994. The audit cited that the Authority needs to strengthen its procurement practices.