



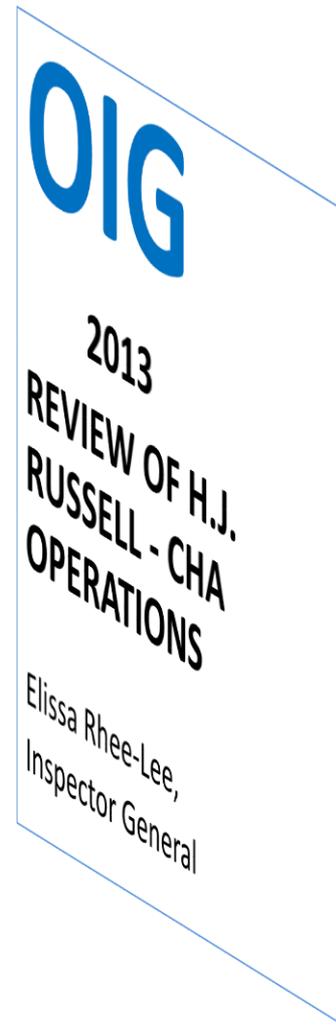
CHA OIG CHA AUDIT COMMITTEE

OIG Final Report, OIG case #13-002
July 10, 2013

Office of the Inspector General
Elissa Rhee-Lee, Inspector General
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*We ranked findings as High, Medium, or Low Risk, to indicate urgency of actions.

High Risk --- Lack of prompt action by Management may severely impact the agency mission/operation in the short run and/or may expose the agency to violation of laws and regulations.

Medium Risk ---- Lack of corrective action by Management will materially and adversely impact operation in the long run. Action is needed to prevent or mitigate loss.

Low Risk ---- Action by Management is necessary to improve operation and/or to correct minor control weakness.

Risk is defined as the probability and severity of loss and the impact to the Agency's overall objective or/and mission.

Executive Summary

The Inspector General 's Office (OIG) performed an operational review of H . J. Russell & Company, a Private Property Management company (PPM) contracted by CHA to manage certain CHA's properties.

The review scope included review of the financial transactions and reporting as well as review of expenditures incurred during the pendency of the current contract. These items were assessed to determine if H.J. Russell's activities and expenditures constituted... "Activities that are customarily associated with third party multi-unit property management and in accordance with the contractual agreement." (Section 4.1 of H.J. Russell and CHA contract dated 10/01/2009).

This review promotes continuous improvements in operations, effectiveness, and transparency of process.

The review period was from the January 1, 2012 through December 31, 2012.

The review covered H.J. RUSSELL Contracts #9075, #9077 and amendments.

An exit conference was held with the PPM on May 28, 2013 at which time the report was reviewed and each finding discussed. A formal review response was received on June 11, 2012 and a copy is included with the report.

We also discussed the findings with the Asset Management Department.

Findings	Risk Level*	Recommendations
Eighteen motor Vehicles purchased with CHA funds were not recorded In CHA 's Fixed Assets.	High	The PPM transfers the title of the Eighteen (18) vehicles to CHA and to Fixed Assets Department for recording.
The PPM paid non-allowable expenditures using CHA's funds in violation of CHA's Business Expense Policy.	Medium	The PPM comply with CHA General Business Expense Policy and Illinois Local Government Prompt Payment Act (50 ILCS 505).
The PPM was not in compliance with CHA/HUD Competitive Procurement Guidelines.	High	The PPM adheres to it contractual obligation with CHA, and abide by the Section 4.11 and 4.12 of the Article 4. Service of Management section of the Agreement.
The PPM did not adhere to CHA Private Managers Financial Policy and Procedures Manual, which requires the PPM to use Yardi Purchase Orders for all purchases.	Medium	The PPM create Purchase Orders (P/O) in the Yardi system and submits P/O to vendors prior to ordering goods and services.
PPM's subcontractors were not adhering the U.S. Department of Labor prevailing wage requirement.	High	The sub-contractors that repeatedly failed to submit certified payroll records, and thus conform with the prevailing wage act, be prohibited from further contract participation.
Transactions totaling \$297,068.06 were charged to accounts in which they did not pertain.	Medium	The PPM make the appropriate changes to affected accounts
Disbursements totaling \$35,100.52 could not be accounted for.	Medium	The PPM establish an effective system of internal control and monitoring system to ascertain that the accounting staff are carrying out the duty with diligence.

Background, Purpose, Scope and Approach

Background

On October 1, 2009, H.J. Russell (PPM) entered into a two-year agreement under Contracts # 9075 and # 9077 to rent, lease, operate, and manage CHA's Properties for valuable consideration. Under the terms of the contract, the PPM shall fulfill all services customarily associated with third party multi-unit property management including but not limited to:

- Complying with all applicable local, state and federal laws, regulations, codes;
- Purchasing all materials, equipment, tools, appliances, supplies and services necessary for the proper maintenance and repair of the Properties as authorized in the Property Operating Budget pursuant to HUD Regulations and CHA's Procurement Policy;
- All services shall be performed in conformity with the Governing Documents, Management Plan, Request for Proposal, and they may be modified from time to time by CHA and upon appropriate written notice to the PPM of those modifications, and other direction CHA may provide from time to time.

Since the inception of the contracts, there were seven amendments and the services were extended to October 31, 2013.

Purpose and Scope

As part of our function, OIG conducted an Operational Review of H. J. Russell, Private Property Management Company. The objectives of the review were:

1. To assess whether H.J. RUSSELL's activities and expenditures constituted... "Activities that are customarily associated with third party multi-unit property management".
2. To provide the Chicago Housing Authority (CHA) with an independent analysis of cash inflow/outflow processes that the PPM utilized when performing services and activities on behalf of CHA as required by the contracts.

This review promotes continuous improvements in operations, effectiveness, and transparency of process.

The period of the review was from the January 1, 2012 through December 31, 2012, and information contained herein is based solely on operational activities during that period. The scope covers Contracts #9075, #9077 and amendments.

Approach

The review was performed utilizing interviews, inspections, tests and other measures deemed necessary. Other measures included employing investigative techniques to collect, analyze, evaluate and interpret evidentiary matters. The field work for this review occurred from April through May 2013.

The invoices and contracts tested during this review assignment were related to the operation of the following properties:

PPM	Properties Names and Locations
H.J. RUSSELL ²	Abla Homes, 1324 S. Loomis
	Cabrini Row House, 900 N. Hudson
	Horner- West Haven Superblock, 123 N. Hoyne
	Scattered Sites West, 913 S. Western (SSW)
	Scattered Sites South West, 8109 S. Ashland (SSSW)
	Loomis Courts ¹

- 1 C/S Loomis Courts, is a 50 year limited partnership agreement formed on September 1, 2005, among Loomis Courts LLC (CHA) as General Partner, MMA Special (Florida company) as Special Limited Partner, and MMA Loomis Courts (Delaware company) as Investor Limited Partner.
- 2 H.J. Russell & Company is an Atlanta, Georgia based Real Estate Development and Property/Program Management company with operations that extend to Chicago, Dallas, Miami, St. Louis, New York and Washington, D.C .

Finding No. 1 and Recommendation

Motor Vehicles not Recorded In CHA 's Fixed Assets

Risk Rating High*

Key Rule: Exhibit H of the Contract. The Manager shall comply with CHA's Fixed Assets Policy with regard to Capital Assets.

CHA Fixed Assets Policy states: The PPM manager is responsible for the preparation and completion of the Fixed Assets acquisition form (Form CHA/FA-001). This form will be filled-out based on the information obtained from the invoices and assets. The completed form will be submitted to the Fixed Assets Department within two working days of receipt of the asset along with a copy of the purchased asset's invoice.

Process

In reviewing the payment documents we noted payments to Motors Vehicle Equipment's Financing Company. We requested a copy of the contractual agreements and all documents associated with the vendor.

- We noted that the PPM purchased eighteen (18) motor vehicles for it's operation: fourteen (14) in December 2009, and four (4) in May 2010. The purchases were made through a loan from BB&T Equipment Finance Corporation.
- The \$422,637 loan for fourteen vehicles matured on December 1, 2012 and the vehicle titles were released to PPM by BB&T.
- CHA was not added as a Loss Payee on the Certificate of Insurance with respect to the insurance coverage.
- The loan (\$122,154) for the four vehicles purchased in May 2010 matured in June 2013.
- Both loans were paid entirely from CHA operating account and resulted in CHA paying interest in the amount of \$41,718.50.
- Vehicle Identification Numbers (VIN's) of the purchased vehicles were traced to CHA's Fixed Assets (vehicle) record and it was determined that none of the vehicles purchased by PPM were recorded as Fixed Assets.

This Table is the list of the 18 vehicles :

YEAR	MAKE	MODEL	VIN #	MAKE	MODEL	VIN #
2009	FORD	F-250 SUPER DUTY	1FTSE34L99DA93097	FORD	F-250 SUPER DUTY	1FTNF21559EA35997
2009	FORD	F-250 SUPER DUTY	1FTNF21559EA51312	FORD	F-250 SUPER DUTY	1FTNF21559EA81619
2009	FORD	F-250 SUPER DUTY	1FTNF21549EA54217	FORD	F-250 SUPER DUTY	1FTNF21579EB29430
2009	FORD	F-250 SUPER DUTY	1FTNF21599EA38739	FORD	F-250 SUPER DUTY	1FTNF21539EA48909
2009	FORD	F-250 SUPER DUTY	1FTNF21579EA38545	FORD	F-250 SUPER DUTY	1FTNF21569EA04452
2009	FORD	F-250 SUPER DUTY	1FTNF21549EA23128	FORD	F-250 SUPER DUTY	1FTNF2B50AEB19731
2009	FORD	F-250 SUPER DUTY	1FTNF21599EA58750	FORD	F-150 XL	1FTRF14W19KA84065
2009	FORD	F-350 SUPER DUTY	1FTSE34L99DA47596	FORD	F-350 SUPER DUTY	1FTSE34L49DA91344
2010	FORD	CONNECT	NMOLS7BN9AT020396	FORD	F-250 SUPER DUTY XL	1FTNF2B59AEA03878

Recommendation: No. 1

1. The PPM file Form CHA/FA-001, along with supporting documents and forward it to the Fixed Assets Department for recording.
2. The PPM transfers the title of the fourteen (14) purchased vehicles to CHA
3. The PPM transfers the title to remaining four vehicles to CHA when the second loan matured (June 1, 2013).
4. The PPM add CHA 's name to the certificate of insurance as a loss payee with respect to the vehicle coverage.

Management Response

PPM's Management concurred with the finding and will implement the recommendations.

Finding No. 2 and Recommendation

Non-allowable Expenditures

Risk Level Medium

CHA funds were used to pay non-allowable expenditures such as City of Chicago violations, fines, late payment penalties, and sales taxes. This violates CHA's General Business Expense Policy, Illinois Local Government Prompt Payment Act, and CHA's Tax-Exempt Status. The amount identified is **\$13,819.13 (Schedule 1)**. This table illustrates a sampling of the non-allowable expenses charged.

<u>Vendor Code - Name</u>	<u>Property</u>	<u>Invoice #</u>	<u>Invoice Date</u>	<u>Amount</u>	<u>Check #</u>	<u>check Date</u>	<u>Remarks</u>
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	s0001	11ds29434I	9/27/2011	\$540	1170	1/31/2012	Code violation-11ds29434I
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	hr014	9181673513	11/21/2011	\$50	1529	3/22/2012	Ticket - missing front plate Ford Truck 9123xB
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	s0001	12DS385YL	3/8/2012	\$490	1276	4/2/2012	CITY FINE 4342 S HONORE 12DS385
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	s0001	11S0301070	3/23/2012	\$440	1254	3/22/2012	7740 S GREEN 11S0301070
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	s0001	32888L	2/2/2012	\$560	1324	5/7/2012	FINE CITATION #32888L 2242 W 50
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	s0001	12DSS52718L	9/17/2012	\$640	1584	9/25/2012	5108 WEST 47TH STREET 12DSS5271
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	hr014	9-64-125	11/4/2012	\$200	2105	11/27/2012	Truck no window sticker violation plate 9123X
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	s0001	55447L	11/19/2012	\$1,240.00	1736	12/14/2012	55447L 3329 WEST 38TH PLACE
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	s0001	54021L	11/19/2012	\$1,240.00	1737	12/14/2012	5100 WEST 47TH STREET 54021L
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	s0001	54008I	11/19/2012	\$1,240.00	1738	12/14/2012	5108 WEST 47TH STREET 54008L
vcha1637 - CITY OF CHICAGO - DEPT OF REVENUE	hr014	NMOLS7BN9AT	7/25/2012	\$260	1841	7/26/2012	WINDOW STICKER FOR VIN# NMOLS7BN
vcha1667 - CITY OF CHICAGO	s0147	12DS53608L	5/8/2012	\$640.95	1594	1/4/2013	CODE VIOLATION AT 3137 W. WASHIG
vcha1708 - CITY OF CHICAGO	s0147	P003896579	12/5/2012	\$100	1556	12/13/2012	FALSE BURGLAR ALARM AT 815 S. WE
vcha1069 - THE HOME DEPOT SUPPLY	lom01	9115965254	6/20/2012	\$168.69	1349	8/28/2012	SALES TAX
vcha1098 - DUMORE SUPPLIES INC	lom01	01-10001435-	9/13/2012	\$151.43	1465	10/30/2012	SALES TAX
vcha1244 - SUPERCO SPECIALTY PRODUCTS	lom01	LW1670	7/3/2012	\$89.75	1396	9/18/2012	SALE TAX
vcha3692 - PORTER PIPE SUPPLY CO INC	ab032	20109129-00	3/7/2012	\$45.53	5384	4/2/2012	Taxes
vcha1069 - THE HOME DEPOT SUPPLY	lom01	9114837597	4/26/2012	\$72.87	1201	5/24/2012	SALES TAX
vcha1211 - FREDRIKSEN & SONS FIRE EQUIPMT	ab032	141693	9/7/2012	\$33.52	5697	9/25/2012	Taxes
vcha1057 - MOBILE MINI INC	hr014	118253139	1/12/2012	\$17.39	1534	3/23/2012	storage container - late fee
v0002101 - GE CAPITAL C/O RICOH USA PROGRAM	s0147	85788424	10/21/2011	\$24.25	1246	5/7/2012	Late Charges for copier
vcha1260 - SCREENING REPORTS INC.	s0147	220127972	2/29/2012	\$75	1191	3/13/2012	Late Charges

Non-allowable Expenditures

Risk Level Medium (Continued)

Key Rule: Chicago Housing Authority General Business Expense Policy Illinois Local Government Prompt Payment Act (50 ILCS 505)

CHA General Business Expense Policy Section II, Allowable and Non-Allowable Expenditures, Paragraph 8, Fines and Penalties. Illinois Local Government Prompt Payment Act (50 ILCS 505) requires local governmental agencies to pay for goods and services within 30 days after the receipt of bill.

Process

In reviewing the disbursements, it was noted that some payments contained sales taxes and late fee payments. In reviewing the PPM's expenses, it was noted that payments to the City of Chicago, were made with memos stating "red light ticket, parking ticket, late fee, block access alley and no displayed city sticker vehicle". (See Exhibit 1 and Schedule1)

Recommendation No. 2 It is recommend that:

1. The PPM comply with CHA General Business Expense Policy, with regard to allowable and non-allowable expenses.
2. The PPM adhere to CHA's Tax-Exempt Status when purchasing using CHA funds.
3. The PPM comply with the Illinois Local Government Prompt Payment Act (50 ILCS 505) with regard to CHA's operations, and action, to avoid future late payments.
4. The PPM reimburse CHA for any non-allowed expenses charged to CHA.

Management Response

PPM was not aware of CHA General Business policy for Allowable and Non-Allowable Expenditures as it has not been included in the contract or subsequent amendments. Upon receipt of said policy, Russell Management will comply. CHA, Asset Management instructed Russell management to pay the code violation at the time the violations were sent to PPM's Management. Sales tax was paid on the ABLA and Loomis Courts Properties as a result of an administrative error. The AP Clerk responsible for this error has been re-trained. All staff has been reminded of CHA's tax exempt status and provided a copy of the most recent tax exempt letter.

Finding No.3 and Recommendation

Non-Compliance with CHA /HUD Procurement Guideline

Risk Level High

Key Rules : CHA Procurement Policy requires that: Competitive Procurements be submitted through the sealed bid method for Construction Services greater than \$2,000, and HUD handbook No. 7460.8 REV 2, Chapter 5. Section 5. 3 (24CFR 85.36(c)(1)), Paragraph C. Prohibition Against Bid Splitting. Contract section Exhibit G , Procurement and Compliance Requirements Summary required an approval from a CHA Asset Manager, for contracts greater than \$2,000.

Process

Ten procurement packages (equipment and construction) and subsequent invoice payments with dollar amounts ranging from \$37,880 to \$99,969 were reviewed to ascertain whether the PPM was in compliance with CHA Procurement Policy.

Observation

- In four of ten bids, the PPM was determined to have broken down bids of over \$100,000 (Bid Splitting , Stringing or Unbundling) into multiple small contracts which circumvented \$100,000 threshold solicitation requirements. H.J. Russell is the only PPM that did not submit any solicitation over \$100,000 to CHA Procurement Department for review during the period reviewed. *The table on following page illustrates the bid splitting method utilized by H. J. Russell.*
- 100% of the contracts were procured without using the sealed bid method.
- 70% of the contracts did not receive CHA Asset Management approval prior to the release of the contract or prior to completion of the contracts.
- Three different Clear Ridge True Value Hardware's invoices #16477 (\$29,634), #16318 (\$37,377), and #16398 (\$13,050) were bundled, recorded and paid as a single invoice 16398 for \$80,061. The same recording method was employed with H.T's DISCOUNT GLASS INC. invoice # 22348 (\$16,130) which was bundled with two other invoices and recorded as one for \$95,913.00. This practice prevents keeping track of invoices recording and payments, and it may lead to duplicate payments.
- The PPM unanimously recommended a construction service contract be awarded to PKP Remodeling, the lowest qualified bidder (\$28,520) on June 29, 2012. However the contract was given to Thomas Painting & Decorating on the same day for \$37,880 without an explanation.

Recommendation No. 3

1. The PPM adheres to its contractual obligation with CHA, and abide by the Section 4.11 and 4.12 of the Article 4. Service of Management of the Agreement.
2. The PPM discontinue the practice of bundling and recording multiple invoices as a single invoice, to ensure accurate accounting.

Management Response

Management concurred with finding, and has discontinued the practice of soliciting multiple projects as one and bundling.

Bids for the Following Contracts Were Split Into Smaller Procurements Under \$100,000

Project Descriptions	Bid #	Contract Number	Date	Dollar Value	Vendor Name
Windows and Screen Replacement SSSW		SSSW-2012-015	05/21/2012	\$95,913	H.T.'s DISCOUNT GLASS
		SSSW-2012-015A	05/21/2012	\$98,000	Thomas Painting & Decoration
		SSSW-2012-015B	05/21/2012	\$97,300	Coleman Development Corp.
<u>Total</u>				<u>\$291,213.00</u>	
Windows and Screen Replacement SSW	2012-024	SSW- 2012-033	07/30/2012	\$98,500	Thomas Painting & Decorating
	2012-024	SSW- 2012-024	7/2/2012	\$80,750	Coleman Development Corp.
	2012-024	SSW- 2012-015	06/29/2012	\$98,500	Thomas Painting & Decorating
<u>Total</u>				<u>\$277,750.00</u>	
Make Ready Services at SSSW, SSW, & Cabrini	2012-027	SSSW-2012-27A	7/5/2012	\$70,000	His Will Construction
	2012-027	SSW-2012-27	7/17/2012	\$47,500	His Will Construction
	2012-027	Cabrini 2012-27B	7/29/2012	\$14,000	Thomas Painting & Decorating
<u>Total</u>				<u>\$131,500.00</u>	
Code violation repairs at 934-936 W. 71 st street and 7654 S. Sangamon		1303-SSW-030B	07/30/2012	\$99,969	Done Rite Construction
	2012-044	SSSW 2012-044	12/3/2013	\$99,500	Thomas Painting & Decorating
<u>Total</u>				<u>\$199,469.00</u>	

Finding No. 4 and Recommendation

No Yardi Purchase Order

Risk Level Medium

Key Rule: CHA Private Managers Financial Policy and Procedure Manual:

- The PPM shall utilize Yardi Purchase Orders (P/O) for all purchases.
- The PPM shall ensure that a proposed procurement is funded (budgeted) prior to issuing an approved Yardi P/O to vendors.
- For re-occurring purchases, the PPM shall create a Yardi Annual P/O and not issue re-occurring P/Os

Process:

- While testing account payable transactions, it was noted that voucher packages listed Yardi Purchase Orders (P/O) dated subsequent to invoices dates.
- Of the 40 transactions tested, it was noted that in all instances P/Os were created by the PPM's Accounting Department after the receipt of goods and services and the invoices were due for payment.
- Note that, Yardi A/P module and P/O modules do not feed off the budget module. As a result, the PPM was exceeding their appropriations without being alerted. Therefore, it is suggested that the User and Procurement Department create spread sheets to record their encumbrances and monitor each budgeted line item.
- In reviewing finding reports prepared by CHA's Property Accounting Department, it was noted that each month during the 2012 fiscal year, all sites reviewed had expense accounts that exceeded their annual budgets, and expenses were charged to unbudgeted accounts.

Recommendation No. 4

1. The PPM create Purchase Orders (P/O) in the Yardi system and submits P/O to vendors prior to initiate ordering goods and services.
2. The PPM A/P clerks check P/O balance before they enter an invoice against a related P/O.

Management Response

Going forward the issuance of purchase orders prior to initiating/ordering goods or services will be strictly adhered to by all accounts payable clerks employed by Russell. Detailed reviews of expenditures will be performed by A/P Staff to ensure accuracy and to guarantee sufficient funding is available for the expense being recorded for payment on the order.

Finding No. 5 and Recommendation

No Certified Payrolls

Risk Level High

Key Rules : Exhibit G of the Contract with the PPM states in the Procurement and Compliance Requirements Summary that: “All procurements shall comply with applicable State and Federal laws including but not limited to the Davis Bacon Act”. CHA Procurement Guide also emphasizes that: “ Failure to comply with Davis-Bacon regulations could lead to a breach of contract and debarment from further participation in Federal and State contracts.”

Issue: The Final payments on two (2) of the ten (10) contracts reviewed did not contain Certified Payroll documents; therefore, were not in compliance with the U.S. Department of Labor prevailing wage, Davis-Bacon Act.

Vendor Code - Name	Property	Invoice #	Invoice Date	Amount	Check #	Check Date	Invoice Paid	Certified Payroll
v0001946 - THOMAS PAINTING & DECORATING	s0001	584	12/20/2012	\$99,500.00	1856	3/4/2013	YES	NO
v0001946 - THOMAS PAINTING & DECORATING	s0147	575	9/28/2012	\$98,500.00	1493	11/16/2012	YES	NO

Thomas Painting’s invoice #584, revealed that the certified payrolls in the file for this invoice were from Masonry Brothers Inc., for weeks ending 3/16/2013, 3/23/2013, and 3/30/2013. However, work was completed in 2012, and the inspection form was signed on 12/20/2012 and payment was made on 3/4/2013.

Recommendation: No.5

1. The PPM comply with the contractual agreement and fulfill the Procurement and Compliance Requirement.
2. The sub-contractors that repeatedly fail to submit certified payroll records, and cannot or will not conform to the prevailing wage act, should be not be used on CHA work.

Management Response

In 2013, CHA funded an additional position in the operating budgets specifically geared towards compliance. This individual will ensure that all required certified payrolls are submitted by vendors at the time they submit their invoice and prior to any payments being processed. Any vendor failing to adhere to the certified payroll submission rules will be deemed non-response and prevented from bidding on future projects on CHA Properties.

Finding No. 6 and Recommendation

Transactions Charged to Wrong Accounts

Risk Rating: Medium

Transactions totaling \$297,068.06 were improperly charged to accounts for which the work did not pertain. Consequently, accounts were under/over stated, affecting the accuracy of CHA's Financial Statement. The table below summarizes the results.

Accounts #	Account Descriptions	Amount Charged	Expenses recorded
4610030	Extra-Ordinary Maintenance Contract Cost	\$123,161	Appliances (washing machines, refrigerators, ranges, air conditioners etc..)
4480001	Protective Service Contracts	\$34,475	Make ready (rehab constructions)
4430001	Ordinary Maintenance Contracts Elevator Services	\$18,198	People Energy and Landscaping
4190049	Sundry Other	\$67,026	City violation, fine, parking ticket, monthly alarm, motor vehicle, Xerox machine copier, office depot credit plan, audit services, insurance claim etc..
4430013	Ordinary Maintenance Contracts Extermination	\$15,691	Landscaping and Scavenger Services
4540101	Employer Benefits-Medical Health Insurance	\$14,243	Car lease, Fuel Card, and Car Maintenance
443003	Ordinary Maintenance Contracts Scavenger	\$7,608	Appliances (refrigerators, gas ranges)
4430012	Ordinary maintenance Contracts Snow Removal	\$3,035	Bed Bug and Exterminations
4430008	Ordinary Maintenance Contracts Vehicle Expense	\$2,812	Sprint Cell Phone

Key Rule: Government Accounting Standard Board (GASB Cod. 100. 177)

To be useful, accounting information must be reliable, reasonably free from error and represent what it is intended to represent. Government Accounting Standard Board (GASB Cod. 100. 177) places emphasis on accountability, and states that, "Accounting reporting should provide information to assist users in assessing the service effort and the cost. For proper reporting and accountability, it is paramount that recordings of expenditures reflect actual expenditures."

Process

Reviewed transaction coding to ascertain whether expenditures were properly recorded and classified to meet reporting requirements as described in the Chart of Accounts. Schedule 3 presents classes of transactions that we identified to be incorrect.

CHA Private Managers Financial Policy and Procedures Manual states that, "The Private Managers must use CHA's Yardi Chart of Accounts."

Recommendation No. 6:

1. CHA Management reiterate to PPMs the importance of accurate recording.
2. CHA Property Accounting Department conduct more thorough review of monthly expense reports submitted by PPMs to ensure accurate recorded accounting information.
3. The PPMs make the appropriate changes to affected accounts.

Management Response

Russell Management understands the necessity of accurately recording expenses and therefore has developed a three-tier expense review plan. This begins with the A/P Clerk who originally codes and enters invoices, which are then reviewed and approved by the director of operations and/or regional director and then reviewed again once it is submitted to our corporate accountant. However, the 4190049-Administrative Sundry/Other general ledger line item has historically been used to charge items that do not have a pre-identified specific expenses line item. Going forward, this practice of multitiered levels of reviews will continue to prevent miscoding of expenses.

Finding No.7 and Recommendation

Disbursement Cannot Be Accounted for

Risk Level Medium

The PPM was unable to find 15% of the invoices selected for testing. These invoices amounted to \$6,264.33 and represent 5% of the total amount selected. (See Schedule 2)

OIG was unable to ascertain whether four other payments , totaling \$28,836.19 or 22.41% of the total amount selected for testing were mathematically accurate and/or agreed with the price of contracts and/or the services were actually provided because the PPM was unable to provide contract or service agreement documentation justifying the charges.

The following are the referenced four payments:

Vendor Code - Name	Property Code	Invoice #	Invoice Date	Dollar Amount	Check #	check Date	Invoice	Contract or Service Agreement
v0001501 - KATES DETECTIVE & SECURITY SVCS AGENCY	ab032	10474	11/15/2011	\$2,080.00	5532	7/2/2012	YES	NO
v0001501 - KATES DETECTIVE & SECURITY SVCS AGENCY	ab032	10473	11/15/2011	\$11,662.00	5532	7/2/2012	YES	NO
vcha1212 - WASTE MANAGEMENT	lom01	151-8195395-2991-0	10/1/2011	\$1,654.19	1146	4/10/2012	YES	NO
v0022614 - MAVERICK SECURITY INC	hr014	92212	9/22/2012	\$13,440.00	2034	10/22/2012	YES	YES

The invoice #92212 from Maverick Security was \$3,360 over charged. The invoice description stated “ 2 people /24 hrs. security for 7 days at \$30 per person per hour.” Therefore, the charged amount should be 24 x 2 x 7 x 30 totaling \$10,080.

CHA’s contract required \$5,000,000 Professional Liability Insurance coverage for armed / unarmed security for sub-contractor, Maverick Security. However, their current umbrella liability coverage was only \$1,000,000 (See Exhibit 2).

Recommendation No.7:

1. The PPM obtain properly procured and negotiated contracts / service agreements for all on-going services such as scavenger, security, elevator services for all CHA buildings under their management
2. The PPM adequately monitor and review all CHA related service invoices. Invoices should be compared to the negotiated price listed in the contract/service agreements and determined to be accurate prior to payment.
3. The PPM shall establish an effective system of internal controls and monitoring to ensure the accounting staff diligently perform their duties.
4. The PPM shall confirm that security companies adhere to \$5,000,000 Professional Liability Insurance requirement.

Management Response

Russell Management will enter into a service agreement for scavenger services as existing agreements for scavenger services as existing agreements between Russell and CHA have only been extended to October 2013. Moving forward, PPM will monitor and review all CHA related service invoices to ensure accuracy prior to processing and payment. Management will also devise and implement an effective system to ensure accounting staff performs their duties more diligently. Russell also contacted the insurance firm whose certificate did not contain sufficient coverage.