



Crowe LLP
Independent Member Crowe Global
225 West Wacker, Suite 2600
Chicago, IL 60606-1228
Tel 312.899.7000
Fax 312.899.5300
www.crowe.com

TO: James Bebley, Acting Chief Executive Officer and Allen Faucett Director of Audit Management and Compliance for the Chicago Housing Authority

FROM: Crowe LLP

DATE: February 3, 2020

SUBJECT: DRAFT Executive Summary to February 3, 2020 Report of Findings

On October 5, 2015 and November 2, 2015, the Chicago Housing Authority (“CHA” or “you” or “your”) and Woodlawn Community Development Corporation (“WCDC”) entered into Private Property Management Agreements (collectively, the “PPM Agreements”) that engaged WCDC to serve as the property manager of over 4,300 CHA-owned public housing units. CHA agreed to pay WCDC a combined management fee of \$6,492,924.00 over the three-year base period and \$3,484,008.00 over a two-year option period in exchange for these services. After WCDC filed for Chapter 11 bankruptcy on October 24, 2018, CHA engaged Crowe LLP (“Crowe” or “we” or “our”) to review the procurement of WCDC as a vendor in 2015 and CHA’s monitoring of WCDC’s compliance during the contract period.

Crowe examined certain business processes and records of CHA and WCDC to help assess:

1. Conformance to procurement policies and procedures in the selection of WCDC by CHA as a private property manager, and
2. Level of CHA oversight of WCDC’s contract performance.

We have conducted interviews of certain employees and former employees of CHA and performed certain procedures, under your direction, with respect to the financial and business records of CHA and WCDC. Our analysis covered the business records available generally for the period from May 2015 to April 2019. Crowe’s findings related to this matter are set forth in our January 3, 2020 Report of Findings. You have requested an Executive Summary of our investigation findings, which are summarized below.

Executive Summary

Our analysis and interviews yielded the following financial and operational observations related to the

procurement and contract compliance of the PPM Agreements with WCDC.

1. WCDC's response to the RFP¹ lacked all required documents as stated in the RFP.
 - a. Third-party reports or evaluations of WCDC's compliance within the last five years;
 - b. HUD Form 5369-C Certifications & Representations of Offerors – Non-Construction Contracts;
 - c. Equal Employment Opportunity Compliance Certificate.
2. CHA's procurement policies and procedures included many best practices in the procurement of goods and services; however, in the case of the RFP, lacked adequate time for executive review.
 - a. The total time elapsed from issuance of the RFP on May 22, 2015 to the award date of August 17, 2015 was brief and DPC did not receive numerous key documents and analysis until August 14, 2015. As of August 13, 2015, or four days prior to the award date of August 17, 2015, DPC was still gathering financial information from WCDC to complete CHA's financial review of the vendor. The expedited timeline did not provide the Contracting Officer, UD Head, Board, and other departments adequate time to properly vet the procurement and recommendation to award Region 3 to WCDC prior to the presentation to the Board.
 - b. Respondents were permitted to prepare proposals for any/all of the five regions and the respondent that received the highest total score within a region would be recommended for the award of the contract for that region. Below are the final scores for the pricing, compliance, technical factors, oral presentations, and best and final offers compiled by DPC for Region 3 and presented to Mr. Veenstra, the UD Head:

	Technical	Compliance	Finance/ Fees	Oral Presentation	Total
Habitat	1,071	68	324	384	1,847
Eastlake	986	90	360	375	1,811
McCormack	925	68	450	366	1,809
WCDC	994	68	333	348	1,743
R&M Co.	978	68	288	404	1,738
RMS	757	68	333	297	1,455 ²
H.J. Russell	1,156	90	369	N/A	1,615
Globetrotters	896	90	378	N/A	1,364

The Habitat Company LLC, McCormack Baron, and Eastlake Management Group were ranked higher than WCDC after consideration for pricing, compliance, technical factors, oral presentations and best and final offers. Crowe found no evidence within the procurement files or CHA emails that supported why WCDC was awarded Region 3 over

¹ All capitalized and abbreviated terms not otherwise defined in this Executive Summary shall have the meanings ascribed to them in our January 3, 2020 Report of Findings.

² Exhibit E of our Report of Findings supports a score of 1,157.5 (e.g., 757, 67.5, and 333) for RMS prior to consideration of the oral presentations; however, a score of 1,163.50 was used in Exhibit E-1 to determine the combined score for RMS. Crowe relied upon Exhibit E as the support for RMS's combined score.

the other three higher rated vendors.

3. WCDC had a history of performance related issues servicing contracts with CHA, including improper use of CHA operating funds, that placed WCDC on CHA's Vendor Watch List. Additional due diligence and investigation into WCDC's performance was necessary and not completed by CHA prior to awarding them the Region 3 contract.
4. Based on CHA's financial review and Crowe's additional research in Lexis Nexis, WCDC was not a profitable or efficient organization. In August of 2015, CHA identified that WCDC may be at risk for bankruptcy or going out of business and still awarded the vendor a multi-million dollar contract. Follow-up was not performed by CHA to determine whether WCDC improved its financial position, per the Finance Department's recommendation.
5. WCDC does not appear to fulfill its contractual obligations to CHA with regards to the collection of rent. WCDC collected less than 98% of total rent charged to tenants in 36 of the 41 months examined by Crowe and less than 92% in 20 months. CHA also did not enforce the performance incentive/disincentive program related to the collection of rent as outlined in Exhibit K of the PPM Agreements.
6. WCDC does not appear to fulfill its contractual obligations to CHA with regards to filling vacant units. WCDC achieved a monthly occupancy rate of 98% in only 3 of the 41 months examined by Crowe. The average occupancy rate during the 41 months was 95%. CHA also did not enforce the performance incentive/disincentive program related to occupancy.
7. WCDC failed to provide all required monthly financial reports in accordance with Exhibit E of the PPM Agreements. Certain required reports within the financial packages examined did not contain all reports listed on Exhibit E (e.g., compliance reports, payroll registers and/or cancelled checks, fixed asset form of acquisition, due to/from account reconciliations, grievance reports tenant listing, budget revisions, and actual voided checks for the month).

Other Matters

This Executive Summary reflects events and circumstances as they are currently known to us. The forensic accounting procedures we performed to date do not constitute an audit, examination, review, or compilation of financial statements in accordance with generally accepted auditing standards. None of the contents of this Executive Summary are intended to provide legal advice. This Executive Summary is prepared solely to assist the Chicago Housing Authority.