

MEMORANDUM TO FILE

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: January 20, 2020

SUBJECT: Recommendations to consider related to Crowe's January 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 a listing of internal control and process improvement recommendations to consider related to our investigation findings, which we summarized below.

Improvement Areas and Best Practices

Crowe gained an understanding of the controls in place at CHA designed to provide oversight of procurement, compliance with internal policies and procedures, and scrutiny over contract compliance and performance. We identified the following areas for improvement, best practices in procurement, and procedural improvements to strengthen monitoring of contracts entered into by CHA:

Inclusion Requirements:

1. Include a checklist of the documents required by the RFP¹ and the documents submitted by respondents with their proposals to CHA.
2. Return incomplete proposals to respondents and create a process to verify the inclusion of all required documents prior to a predetermined deadline date outlined in the RFP, such as the first consensus meeting.

Evaluation Process:

1. Include a hardcopy of the final scoresheet (i.e., technical, pricing, compliance, oral evaluations, and BAFO) in the procurement file, along with supporting documentation.
2. Require approval and signatories from each member of the Evaluation Committee, the Contracting Officer, the UD Head, and a representative from the Board of Commissioners on the final scoresheet.
3. Document in a memorandum to the procurement file the rationale to award the contract to the winning respondent, including any exceptions or changes to the RFP or evaluation processes (e.g., the highest rated respondent was not awarded the contract).
4. Require additional due diligence of the financial health of each respondent based on CHA's financial review and investigate red-flags (i.e., significant debt and liens) prior to the awarding of contracts. Perform annual due diligence and follow-up monitoring of vendors at risk for bankruptcy or going out of business to confirm improved financial positions.
5. Document all confirmed performance related issues (i.e., audit findings, substantiated complaints) with existing vendors and consider the prior performance of respondents within the evaluation process of future RFPs.
6. Implement a formal process to select qualified members of the Evaluation Committee who have relevant technical knowledge of the scope of services and/or experience with the respondents.
7. Include the date, location, attendees, and minutes to all consensus meetings in the procurement file.

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

Management Fee - Base Compensation:

1. Implement a process to verify the monthly management fee invoices provided by vendors, especially the units occupied and rent collection reported to CHA.

Incentive and Disincentive Program:

1. Evaluate the incentive and disincentive compliance program outlined in the Agreements and determine whether the program and underlying contract language should continue or be removed from the Agreements.
2. Consider alternative performance incentives and disincentives for vendors to measure overall performance of vendors, in addition to occupancy rates and rent collections.

Deliverables: Monthly Financial Packages

1. Require vendors to provide all deliverables as stated in the Agreements or revise the language in the Agreements to match actual deliverable requests by CHA. Update the checklist provided by CHA to vendors.
2. Strengthen internal controls to examine monthly financial packages submitted by vendors and follow up on any missing information. Document all instances of missing information and consider within the overall performance assessment of the vendor.
3. Examine quarterly and annual payroll tax filings in order to verify payroll taxes paid by vendors.
4. Perform internal audits of all existing property management vendors to verify contract and monitoring compliance and minimize risks to CHA.

Other Matters

This Memorandum 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 Memorandum are intended to provide legal advice. This Memorandum is prepared solely to assist the Chicago Housing Authority.