



**CHICAGO HOUSING AUTHORITY
OFFICE OF INSPECTOR GENERAL
CHA AUDIT COMMITTEE
CHICAGO, IL**

OIG case #2015-03-0043 – PPM Emergency Contracts

May 25, 2016

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A. Executive Summary

I. Background

The authority to perform this review is pursuant to the Board approved *Inspector General Charter*, which states that the OIG has the power and duty to review the administrative programs of the Chicago Housing Authority (CHA). The OIG is tasked to identify inefficiencies, waste, fraud, potential for misconduct, and to promote economy, efficiency, effectiveness, and integrity in the administration of CHA programs and operations. The role of the OIG is to review CHA operations and make recommendations for improvement, when appropriate. CHA management is responsible for establishing and maintaining processes to ensure that CHA programs operate economically, efficiently, effectively, and with integrity. The OIG conducts reviews of programs in accordance with *The Principles and Standards for Offices of the Inspector General*. Based on previous audit observations, and as part of the 2015 Audit program plan, the OIG selected an operational review of the Property Management Companies (PPMs) Emergency Contracts. The OIG reviewed the Emergency Contract process for East Lake, H.J. Russell, The Habitat Company (Habitat), Hispanic Housing Development Corporation (HHDC), and Woodlawn Community Development Corporation (WCDC).

II. Objective

1. Review PPMs' Emergency Contract procurement process to ensure procedures are in compliance with HUD regulations, CHA's Procurement Procedures Manual and PPMs' procurement procedures.
2. Assess effectiveness of PPM's internal controls related to the review, approval, and processing of Emergency Contracts.

III. Scope

The scope period of this review is for emergency contracts entered into by PPMs from January 1, 2014 to December 31, 2014.

IV. Approach and Methodology

The review was performed by conducting interviews, reviewing documentation, inspecting, testing and other measures deemed necessary. Other measures included, but were not limited to, utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data. Interviews were conducted with:

1. Property Office
2. Procurement Contract Department
3. PPMs

Selection: Sample testing was based on the size of the entire population.

The PPM Emergency Contract Review began prior to the transition of the new PPM firms. During a status meeting, the OIG was informed by the new Chief Property Officer that a new process was already being implemented that will minimize the identified findings. The new procedures included bringing the procurement process in-house that will increase internal controls and minimize the likelihood of these findings reoccurring. The OIG plans to follow-up within the next twelve (12) months to ensure the new directives/procedures were properly implemented.

The OIG will provide the Property Office a draft report with observations and allow management time to respond in writing.

The OIG will present the final report to the Audit Committee that will include the responses from the pertinent management team. The final report will also be submitted to the CEO, Eugene Jones Jr. and the impacted CHA departments.

V. Summary of Results

The following table provides an overview of the observations and recommendations included in this report. Details of each observation and recommendations can be found in the Observation and Recommendations section.

	Observations	Risk Level¹	Recommendations
I.	Issuance of Emergency Contracts for non-emergency services: a. Delay in process, caused an emergency b. Emergency Contracts for non-emergency services	High	Comply with HUD regulations and CHA Procurement Procedures as it relates to issuance of Emergency Contracts. a. Property Office should process procurement requests following CHA's established timelines for maintenance contracts. b. Property Office should take appropriate actions (including a default notice) when PPMs' deviate from HUD and CHA's Emergency Procurement Procedures.
II.	Non-Compliance with CHA/HUD Procurement Guideline	High	PPMs adhere to their contractual obligation with CHA and HUD regulations.
III.	Lack of Oversight and Monitoring of Emergency Contract Files	Medium	Have a centralized location for Emergency Contract Files to facilitate their retrieval.

¹ We ranked findings as High, Medium, or Low Risk, to indicate urgency of recommended 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 operations and/or to correct minor control weakness.

B. Observations and Recommendations

I. Issuance of Emergency Contracts for non-emergency services

Risk Level: High

Observation:

- a. The PPMs submitted a request to procure predictable seasonal operational services (snow removal and landscaping) to the Property Office. Due to lack of timely process and forecasting by the Property Office, the non-emergency service (regular maintenance contracts) became an emergency service.
- b. The PPMs awarded emergency contracts for non-emergency services as defined by HUD and CHA Procurement Procedures Guide Manual. Testing was conducted to assess compliance with the following policies:
 - i. CHA Procurement Procedures Guide Manual:
“an emergency is defined as an immediate threat to life, health or safety of the residents, CHA employees, or any agent of the CHA.”
 - ii. HUD Handbook 7460.8 REV 2, dated 2/2007:
“An emergency exists that seriously threatens the public health, welfare, or safety, or endangers property, or would otherwise cause serious injury to the FHA, as may arise by reason of a flood, earthquake, epidemic, riot, equipment failure, or similar event. In such cases, there must be an immediate and serious need for supplies, services, or construction such that the need cannot be met through any of the other procurement methods, and the emergency procurement shall be limited to those supplies, services, or construction necessary simply to meet the emergency.”

Recommendations:

- a. Property Office should process procurement requests following CHA's established timelines for maintenance contracts.
- b. Property Office should take appropriate actions (including a default notice) when PPMs' deviate from HUD and CHA's Emergency Procurement Procedures.

Management Response:

- a. *The Property Office, as part of the transition to the newly awarded private property management firms, has brought all procurement processing within the control of the Procurement Department of CHA. This has created a clear separation of duties between the Property office and the PPM firms and the procurement process approvals.*
- b. *Additional training for all property staff to more clearly define emergencies has occurred and continues to occur to ensure that only emergencies that meet CHA and HUD guidelines are processed as such. The Property Office is establishing a scenario based training tool and FAQ for emergency procurement to further reinforce training and to develop a knowledge management system around this topic area.*

- c. *The Property Office has also added the additional requirement, above the CHA and HUD standard, that in order to approve an emergency procurement the PPM must solicit at least three sources for quotes and document the responses from the sources.*

II. Non-Compliance with CHA/HUD Procurement Requirements

Risk Level: High

Observation:

PPMs awarded 417 contracts under \$2,000. Out of the 417, 35% (145 out of 417) were for contracts awarded on the same date, to the same contractor, for similar services to be performed at the same location. Contracts over \$2,000 required additional CHA approvals. To avoid going through the CHA approval process, the PPMs executed multiple contracts under \$2,000.

Testing was conducted to assess compliance with the following policies:

- i. Exhibit G of the PPMs Master Contract - Procurement and Compliance Requirements:
Over \$2,000 threshold, approval by CHA Asset Manager (as necessary).
- ii. HUD Handbook 7460.8 REV 2, dated 2/2007, Chapter 5, Section 5.3 (Competition Requirements (24 CFR 85.36(c)(1)) state:
"The Contracting Officer shall not break down requirements aggregating more than the small purchase threshold (or the Micro Purchase threshold) into multiple purchases that are less than the applicable threshold (commonly called 'bid splitting' or 'unbundling') merely to permit use of the small purchase procedures or avoid any requirements that apply to purchases that exceed those thresholds."

Recommendations:

Have the PPMs adhere to their contractual obligation with CHA and HUD regulations, and adhere to Exhibit G of the PPMs' Master Contract section regarding Procurement and Compliance Requirements.

Management Response:

- a. *The Property Office, as part of the transition to the newly awarded private property management firms, has brought all procurement processing within the control of the Procurement Department of CHA. This requires that all procurements are reviewed and approved by portfolio management staff and procurement.*
- b. *As part of the centralized procurement process the Property Office is leveraging the economies of scale and establishing clear controls by centralizing commodity purchases through CHA held contracts. The first two such contracts, to be signed in May of 2016, are with Home Depot and Office Depot which account for a preponderance of the micro procurements. These contracts, managed centrally by Property and Procurement, will increase accountability and decrease the costs of goods by leveraging CHA's economies of scale.*

- c. *To create similar accountabilities and improvements in services to residents with regards to micro procurements for services, the Property Office is currently soliciting a JOC Section 3 maintenance and repair service RFP as a centralized procurement. Each PPM will utilize the CHA procured pool of Section 3 businesses to complete work up to \$250,000 or have to provide, and have approved by property and procurement, justification for utilizing another CHA acceptable project delivery method. This program assigns work in a rotation based upon documented performance, ensuring equity and transparency.*

III. Lack of Oversight and Monitoring of Emergency Contract Files

Risk Level: Medium

Observation:

The Property Office did not maintain a comprehensive list of all Emergency Contracts and/or emergency task orders awarded by the PPMs. The Property Office provided a list of twenty-one Emergency Contracts while the PPMs provide a list of five hundred twenty-nine (529).

Recommendations:

Ensure that Property Office and PPMs are provided with adequate training including written procedures identifying their job responsibility. Have a centralized location where adequate documentation is prepared and retained in the contract files. Ensure that the PPMs' Emergency contract files are adequately stored in a manner that facilitates retrieval by the Property Office and other departments that need files for official use.

Management Response:

The Property Office, as part of the transition to the newly awarded private property management firms, has brought all procurement processing within the control of the Procurement Department of CHA. As such all emergency contracts are approved by both the Property Office and Procurement and kept in the Procurement document filing system.