CHICAGO HOUSING AUTHORITY
OFFICE OF INSPECTOR GENERAL
CHICAGO, IL

OIG Case #2018-09-00018

Audit of Private Property Management Vehicle Use

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ACRONYMS

- **CHA:** Chicago Housing Authority
- **HUD:** U.S. Department of Housing and Urban Development
- **OIG:** Office of the Inspector General
- **PO:** Property Office
- **PPM:** Private Property Management
- **SS:** Scattered Site

A. Executive Summary

I. Authority and Role

The authority to perform this audit is pursuant to the Board-approved *Inspector General Charter*, which states that the Office of the Inspector General (OIG) has the authority and duty to audit the administrative programs of the Chicago Housing Authority (CHA). The OIG is tasked with identifying inefficiencies, waste, fraud, abuse, misconduct and mismanagement, as well as promoting economy, efficiency, effectiveness, and integrity in the administration of CHA programs and operations. The role of the OIG is to conduct independent audits of CHA operations and programs and make recommendations for improvement when appropriate. CHA management is responsible for establishing and maintaining measurable processes to ensure that CHA programs operate economically, efficiently, effectively, and with integrity.

<u>Standards</u>

The OIG conducts program audits in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and *The Principles and Standards for Offices of the Inspector General*. Those standards apply to performance audits of government agencies, and require the OIG to plan and perform the audit to provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.[1]

II. Objectives

The OIG conducted a performance audit on the use of vehicles by CHA's Private Property Management (PPM) firms. The objectives of the audit include the following:

1. Assess whether PPM vehicle related expenses are consistent with third-party property management activities.
2. Determine whether PPM vehicle use is in accordance with CHA Policy and Procedures.
3. Assess the risk environment and determine whether the current internal controls are sufficient to minimize fraud, waste and abuse of PPM vehicles.
4. Assess the economy and efficiency between leasing and purchasing vehicles and determine whether budget allocations are consistently applied across PPMs.

III. Scope

The scope period of this audit is January 1, 2016 to December 31, 2018.

[1] The U.S. Government Accountability Office, Comptroller General of the U.S. (2018). *Government Auditing Standards* (The Yellow Book). Washington, DC: GAO.

IV. Approach and Methodology

The audit was performed by reviewing relevant documentation, conducting interviews, inspections, and tests with the Property Office (PO), PPM firms and leasing companies.

Lease agreements were reviewed by OIG auditors. Certificates of insurance were reviewed to ascertain proper coverage and confirm CHA was listed as additionally insured.

Site visits were conducted to observe the conditions of the vehicles and to observe whether they were parked in a secure location. Mileage information was also collected on the vehicles. This data was compared to the maximum mileage allowed per year, as listed in the lease agreements, and to the minimum mileage based on open source analyses on vehicle utilization.

The OIG reviewed invoice documents from CHA's Yardi database. Invoices from the leasing companies were matched against the billable rates, terms, car value and warranties listed in the lease agreements. Transactions related to vehicle maintenance services were reviewed for reasonableness based on open source information and to ensure the services performed were not already covered by the insurance or car warranties. Invoices for gas and protocol for refueling were also reviewed for proper controls over purchasing.

The OIG further identified the number of Scattered Site (SS) properties per PPM and analyzed the concentration and density of those CHA units to determine the distance each PPM's maintenance personnel is required to cover. Additionally, the number of work orders for SS properties in 2018 was analyzed to identify the volume of work orders executed by PPM maintenance staff.

The OIG believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives to identify conditions and/or an environment that results in, or could result in, waste, fraud, abuse, misconduct or mismanagement.

Material deficiencies and relevant issues were discussed with and communicated to CHA's PO. The OIG provided CHA management and PPM management a draft report with findings and observations and allowed each business unit time to respond. Both units submitted written responses to the OIG.

V. Research

1. Property Management Procedural Manual for the Traditional Portfolio (PPM Procedural Manual)
2. Private Managers Financial Procedures Manual
3. U.S. Department of Housing and Urban Development's (HUD) Fleet Management Program Handbook
4. State of Illinois Travel Regulation Council Rule
5. Illinois Local Government Prompt Payment Act (50 ILCS 505)

The OIG tested for compliance with all the above governing documents, policies, procedures and regulations.

VI. Background

PPMs act as independent contractors to the CHA and are responsible for the management and administration of CHA properties. They are allocated CHA funds for both vehicle and travel related expenses. PPMs' maintenance staff use these resources to assist with property maintenance duties, such as repairing damaged units and replacing equipment. However, the amount of funds distributed varies among the PPMs. PPMs can either 1) utilize CHA-owned vehicles; 2) lease vehicles at CHA's expense; or 3) use personal vehicles and receive a travel reimbursement.

CHA's PO has oversight responsibility of the PPM vehicle inventory and associated operating costs of the vehicles.

Data Overview

CHA assigned 17 CHA-owned vehicles to its PPMs to perform maintenance related duties. The OIG identified 25 additional vehicles being leased by two PPMs. The following table represents the number of vehicles issued to and leased by the PPMs and the respective total expenses:

Management Company	Leased	CHA-Owned	Total Expenses
Habitat	18	3	$ 668,536.13
McCormick Baron	7	6	$ 252,948.88
East Lake	0	5	$ 80,647.44
WCDC	0	3	$ 15,567.35
TOTAL	**25**	**17**	**$ 1,017,699.80**

VII. Summary of Results

The audit revealed that CHA does not provide adequate oversight over the PPM fleet; PPMs are not employing the most economical and efficient methods in acquiring and maintaining the vehicles; and opportunities exist to strengthen internal controls to prevent waste and abuse of CHA resources.

Notable Risks Observed:

1. CHA is not employing economical and efficient methods in acquiring and maintaining vehicles;
2. Potential loss through lack of inventory control;
3. Waste from non-allowable expenses;
4. Lack of third-party liability insurance.

Summary of Recommendations:

The OIG made 15 recommendations, which promote continuous improvements in operations, effectiveness and transparency of process. Most importantly, CHA should evaluate whether PPMs are using the most economical method of work-related travel and expenses and develop appropriate criteria to determine whether PPM vehicles are adequately used and serve a justified purpose.

Since the audit, two PPMs are no longer managing CHA properties, while the portfolios of the other two PPMs have changed. Details of each finding, the associated risks and recommendations, and management's response can be found in the sections to follow.

B. Finding and Recommendations

I. Finding: Noncompliance with Federal Regulations and Government Best Practices
Risk Level: Medium

Audit Objective: Assess the economy and efficiency between leasing and purchasing vehicles and determine whether budget allocations are consistently applied across PPMs.

A. Lack of Assurance that PPMs Used Most Economical Method of Travel
PPMs leased vehicles without conducting an analysis to determine the most cost-effective option available to them.

According to HUD's Fleet Management Program Handbook and the State of Illinois Travel Regulation Council Rules, agencies are responsible for selecting the most economical method of travel.

To assist in determining the most economical method, most agencies, including the Illinois Department of Central Management Services, conduct an annual "break-even analysis" to identify whether leased vehicles accumulate a minimum mileage to offset the cost of owning a vehicle or of reimbursing employees who use their personal vehicle.[2]

HUD's Fleet Management Program Handbook states,

> *"If vehicle utilization is fairly low and retention cycles are expected to be longer (minimum replacement for sedans/station wagons, per 41 CFR §102-34.270, - three years or 60,000 miles), the best approach may be to purchase the vehicle since the acquisition cost would be distributed over a longer period of time."*

CHA does not enforce such a policy. Rather, CHA paid in excess of $54,000 for two rental vehicles and allowed a PPM to retain a month-to-month lease 29 months beyond the agreed upon term (See Finding II). An interview with the leasing company revealed that it would have been more cost-effective to enter into an open-ended lease to help build equity, as the vehicles incurred low mileage and excess wear and tear damages.

The OIG also could not ascertain how the PPMs' picked the current leasing companies. CHA's Procurement Policy specifically requires the PPMs to competitively solicit bids or state an acceptable reason why it was not. According to interviews, one of the PPMs had been in business with a leasing company for over 30 years. Compliance with CHA's Procurement Policy regarding competitive procurement would assist PPMs in determining the most cost-effective vehicle available.

[2] Administrative Code (2014). Title 44: Government Contracts, Grant Making, Procurement and Property Management. Subtitle D. Property Management. Chapter I: Department of Central Management Services. Part 5040. State Vehicles and Garage. Section 5040.270. Requests for Acquisition of Vehicles.

Risks:

- Inconsistent vehicle acquisition methods;
- Lack of justification for vehicle acquisition or vehicle retainage;
- CHA is not employing economical and efficient methods in acquiring vehicles;
- Lack of assurance PPMs are complying with CHA's Procurement Policy.

Recommendations:

1. PO should establish a consistent procedure for vehicle acquisition by the PPMs.
2. CHA should ensure PPMs select the most economical method (i.e. leasing v. purchasing).
3. CHA should require PPMs to provide a thorough and documented justification for the method used to acquire the vehicles.
4. PPMs should comply with the CHA's Procurement Policy as it relates to competitive procurement.

B. Lack of Utilization Criteria

CHA did not establish utilization criteria or conduct an assessment that determines whether the PPMs had the appropriate number and type of vehicles to carry out official CHA business.

The PO did not maintain a comprehensive PPM vehicle inventory list. Without appropriate information on these vehicles, the PO cannot validate that PPM vehicles support a validated need.

The Federal Management Regulation (FMR) 102-34.50 requires that agencies develop utilization criteria as a measure to justify a vehicle in an agency's fleet. It also requires agencies to conduct a study at least every five years to identify those vehicles that are potentially underutilized or unnecessary. Utilization criteria may include miles traveled, number of trips, hours in use, fuel economy, lifecycle cost or required response times to address operational issues.[3]

The lack of utilization criteria creates a disparity in the number and types of vehicles that each PPM uses (See Data Overview). For example, one PPM leases a Honda Odyssey, Ford Fusion and Chevrolet Malibu, which are not typically used for maintenance or to transport equipment and tools. Establishing utilization criteria would resolve and/or justify these discrepancies within the PPM fleet.[4]

Risks:

- Inconsistent allocation of resources;
- Potential loss through lack of inventory control;
- Lack of justification for acquiring and maintaining vehicles;
- CHA may be paying for underutilized vehicles.

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[3] General Services Administration (2017). GSA Bulletin FMR B-43 Motor Vehicle Management.

[4] The OIG identified the number of Scattered Site (SS) properties per PPM and analyzed the concentration and density of those units. Habitat, Region 1 has the largest number of SS units; however, the units in Region 1 are highly concentrated and not as widely spread as those in Region 2 and 3. Maintenance personnel in Region 2 and 3 have to cover a farther distance than those in Region 1.

Recommendations:

1. CHA should compile and maintain a list of vehicles being leased by the PPMs.
2. PO should establish utilization criteria that considers annual vehicle mileage and other relevant factors for determining the need to acquire and maintain vehicles.
3. PO should periodically review the size and types of vehicles being leased by the PPMs to ensure they are appropriate for construction and maintenance tasks.
4. The PO should conduct a study at least every five years to identify those vehicles that are potentially underutilized or unnecessary and eliminate those vehicles from their inventory.

Management Response:		
■ Concur with observation and recommendation	□ Do not concur with observation and recommendation	□ Concur with part of the observation and recommendation
Habitat no longer has leased vehicles and McCormak Baron and WCDC are no longer managing CHA properties. East Lake does not lease any vehicles.		
Custodian:	Eric Garrett	
Implementation Timeline:	June 30, 2019	

II. Finding: Inadequate Review of PPM Vehicle Expenses
Risk Level: Medium

Audit Objective: Assess whether PPM vehicle related expenses are consistent with third-party property management activities; Assess the risk environment and determine whether the current internal controls are sufficient to minimize fraud, waste and abuse of PPM vehicles.

The OIG noted payments that exceeded lease agreement terms, payments for non-allowable expenditures and improper payments to a leasing company.

The following tables (Table 1 & 2) illustrate the total amount CHA spent on PPM vehicle related expenses and in travel reimbursements per year.

Table 1. Vehicle Expenses

PPM	2016	2017	2018	Total per PPM
Habitat	$ 95,099.79	$ 224,750.30	$ 332,330.97	*$ 652,181.06*
McCormick	$ 26,268.16	$ 114,175.50	$ 112,037.06	*$ 252,480.72*
East Lake	$ 7,504.59	$ 18,707.90	$ 31,975.00	*$ 58,187.49*
WCDC	$ 4,955.41	$ 3,304.73	$ 7,181.46	*$ 15,411.60*
			Overall Sum:	**$ 978,290.87**

Table 2. Travel Reimbursements

PPM	2016	2017	2018	Total per PPM
Habitat	$ 4,175.26	$ 1,052.63	$ 11,127.18	*$ 16,355.07*
McCormick	$ 468.16	$ -	$ -	*$ 468.16*
East Lake	$ 22,459.95	$ -	$ -	*$ 22,459.95*
WCDC	$ -	$ -	$ 125.75	*$ 125.75*
			Overall Sum:	**$ 39,408.93**

A. Payments Exceeding Agreement Terms

Habitat's agreement with Bearcat Leasing Corporation (Bearcat) states, *"The lease of any vehicle shall terminate at the expiration of the number of months specified in the Equipment Schedule as the maximum lease period for such vehicle."*

Lease agreements for two Ford F250s expired on 10/22/2016 but Habitat continued to pay $1,796.64 per month, for a total of 29 months beyond the expiration date. The invoices for the Ford F250s reflect the following:

Description	Ford F250 #1	Ford F250 #2
Car Value in 2013	$ 36,730.00	$ 36,730.00
Monthly Lease Rate	$ 898.32	$ 898.32
Paid to Date (71 months)	$ 63,780.72	$ 63,780.72

CHA has paid more than 1.5 times the value of the trucks by continuing month-to-month payments. As shown in Finding I, CHA will benefit from conducting a cost benefit analysis on vehicles leased by the PPMs. There were six additional lease agreements that ended in January 2019, for which the PPM continues to make month to month payments on, as of April 2019.

B. Non-Allowable Expenditures

According to CHA's PPM Procedural Manual and the Illinois Local Government Prompt Payment Act (50 ILCS 505), "*Late payment penalties are non-allowable expenditures.*"

PPMs used CHA funds to pay a total of $5,111.72 in late fees. For example, Habitat paid $3,442.06 to Bearcat for invoices that were not paid on time. Habitat's contract with Bearcat states,

> "*The Customer agrees to pay to Lessor the monthly rental specified on the first day of each and every calendar month…The Customer shall be in default if the Customer fails to make any payment in full when due…and the Lessor may take any reasonable action to correct the default or to prevent Lessor's loss."*

Any reasonable action taken by Bearcat, including late payment penalties, should be paid by Habitat and should not be charged to the CHA based on CHA's PPM Procedural Manual and 50 ILCS 505. An additional sample of 33 invoices from Habitat for fuel identified 13 invoices with late fees, ranging from $32 to $197 per invoice, for a total of $1,669.66 in late fees.

C. Improper Payments to Leasing Company
In reviewing invoices from a Bearcat, the OIG noted the following inconsistencies:

1. Invoice #57681 for $9,363.63 includes $3,383.99 for transmission repair for a 2013 Ford F250. This repair should have been covered under the powertrain warranty, which covers the cost to repair or replace an engine, transmission and drivetrain should they malfunction or be damaged. The powertrain warranty is valid for five years or until the vehicle exceeds 60,000 miles.

2. Invoice #56962 included a $2,589.32 charge for rear window repair on a 2013 Ford F250. Bearcat sent an additional invoice for using Allstar Windshield Centers to repair the rear window for $679.56 on invoice #60051278. Open source information shows the window would cost $285.07 for a tri-vent three panel slider, while it would cost $608.05 for a POWR slider.

3. Invoice #60836 for $11,969.64 was paid twice. The invoice was first paid on 8/30/2018 with check #5295 and then again as invoice "#60836 2" for $5,867.74 with check #5472 on 09/13/2018. It included $5,971.90 for front and rear bodywork on a 2016 Honda Odyssey, even though the car was insured and had a $1,000 deductible collision and comprehensive coverage. Therefore, the body work should have been paid by the insurance after the $1,000 deductible. During the course of the audit, CHA took the appropriate corrective action and the duplicate invoice was reversed.

PPMs used CHA funds to pay a total of $10,731.65 in improper payments. Formal review of the above invoices would have identified these discrepancies.

Risks:
- Lack of oversight by PO;
- Inefficient administration of the PPM fleet program;
- Waste from non-allowable expense.

Recommendations:
1. PPMs should properly review invoices before payment.
2. PPMs should ensure compliance with PPM Procedural Manual and Illinois Local Government Prompt Payment Act.
3. PPMs should have a new procurement of vehicles, especially if vehicles are being retained far beyond their leasing term.

Management Response:		
■ Concur with observation and recommendation	□ Do not concur with observation and recommendation	□ Concur with part of the observation and recommendation
Habitat no longer has leased vehicles and McCormak Baron and WCDC are no longer managing CHA properties. East Lake does not lease any vehicles.		
Custodian:	Eric Garrett	
Implementation Timeline:	June 30, 2019	

III. Finding: Noncompliance with CHA Policy and Procedures
Risk Level: Medium

Audit Objective: Determine whether PPM vehicle use is in accordance with CHA Policy and Procedures.

A. Vehicles Not Maintained in Operating Order

PPM vehicles were not maintained in operating condition and needed significant body work or tire replacement. The PPM Procedural Manual states, *"The Property Manager/Supervisor shall make sure that vehicles are maintained in operating order."*

Leased vehicles should be properly maintained because major wear and tear could result in additional charges upon return of the vehicle to the leasing company. Bearcat expressed concerns about the current conditions of the vehicles, as several vehicles have recently needed repairs.

According to CHA Fleet Procedures, effective October 2018, the PPMs are responsible for all repairs and maintenance on the vehicles assigned to their property. CHA-owned vehicles, however, do not receive routine maintenance or annual tests, such as testing and inspection of brakes, lights reflectors, horns and other safety device, which affects the longevity of the vehicles and increases the risk of costly breakdowns and repairs.

The following table shows the amount of money spent on maintenance and repairs.

Maintenance & Repairs*				
	2016	**2017**	**2018**	**Total per PPM**
Habitat	$ 28,701.13	$ 54,832.22	$ 63,801.89	$ 147,335.24
McCormick	$ 19,485.19	$ 49,403.90	$ 51,811.56	$ 120, 700.65
WCDC	$ 4,955.41	$ 3,304.73	$ 7,181.46	$ 15,441.60
East Lake	$ 7,504.59	$ 18,707.90	$ 31,975.00	$ 58,187.49
Total per Year	**$ 60, 646.32**	**$ 126,248.75**	**$ 154,796.91**	**$ 341,664.98**

*Maintenance expenses were calculated by subtracting the monthly lease rates and insurance from the total vehicle expense. Habitat has one lease agreement, for 7 vehicles, that includes a fee for maintenance. The total cost for maintenance shown above only applies to Habitat's 13 additional vehicles.

B. Lack of Third-Party Liability Insurance

The OIG reviewed Certificates of Liability Insurance and determined that McCormick does not list CHA as additionally insured for its leased vehicles.

The PPM Procedural Manual Section 20.7 identifies insurance requirements for CHA contractors, including comprehensive automobile liability for all owned, non-owned and hired [rental] vehicles. It goes on to state, *"The CHA must be added as an Additional Insured on the contractor's policy, and such insurance will be endorsed as 'primary and non-contributory' with any other insurance available to the Authority, as required by contract."*

Risks:

- Safety risk for drivers;
- Potential that the costs of repairs is more than the value of the vehicle or cost of replacing the vehicle;
- No third-party liability insurance.

Recommendations:

1. PPM should assess whether the costs of repairs are more than the value of a vehicle or the cost of replacing a vehicle before sending a vehicle in to an auto body shop.
2. CHA should ensure vehicles are maintained in operating order.
3. CHA should provide a centralized list of vendors for preventative maintenance and accident-related body repairs for the PPMs. In the alternative, PPMs should use the same vendor as CHA's General Services' Department for maintenance and repairs on CHA-owned vehicles.
4. CHA should ensure CHA is listed as additionally insured on all Certificates of Insurance.

Management Response:		
■ Concur with observation and recommendation	□ Do not concur with observation and recommendation	□ Concur with part of the observation and recommendation
Habitat no longer has leased vehicles and McCormak Baron and WCDC are no longer managing CHA properties. East Lake does not lease any vehicles.		
Custodian:	Eric Garrett	
Implementation Timeline:	June 30, 2019	

C. Results of Objectives

1. Assess whether PPM vehicle related expenses are consistent with third-party property management activities.
    - ❖ PPM vehicles are used for maintenance purposes, such as repairing damaged units, which is consistent with third-party property management activities. However, opportunities exist to decrease costs associated with PPM vehicles based on the OIG's review of payments that exceeded the lease agreement term; non-allowable expenses; and payments for repairs that should have been covered by the insurance or powertrain warranty.

2. Determine whether PPM vehicle use is in accordance with CHA Policy and Procedures.
    - ❖ PPM vehicle use is not in compliance with the PPM Procedural Manual. The PPMs failed to maintain the vehicles in operating condition; used CHA funds to pay for unallowable expenses; and did not ensure that the PPMs listed CHA as additionally insured.

3. Assess the risk environment and determine whether the current internal controls are sufficient to minimize fraud, waste and abuse of PPM vehicles.
    - ❖ CHA does not provide adequate oversight of PPM vehicles. CHA should strengthen internal controls over the management of the vehicles to detect and prevent waste and abuse of CHA resources.

4. Assess the economy and efficiency between leasing and purchasing vehicles and determine whether budget allocations are consistently applied across PPMs.
    - ❖ A comparison of each PPMs budget identified an inconsistent amount allocated for vehicle and travel expenses. There was no analysis or documentation to justify whether leasing or purchasing vehicles was most cost-effective, or whether the number and type of vehicles was appropriate for PPM operations.