



Charlottesville Redevelopment and Housing Authority Charlottesville, VA

Public Housing Operating and Capital Funds



To: Robert F. Davenport, Director, Office of Public Housing, Richmond Field Office, 3FPH
//signed//
From: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia Region, 3AGA
Subject: The Charlottesville Redevelopment and Housing Authority, Charlottesville, VA, Did Not Always Comply With Applicable Procurement Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Charlottesville Redevelopment and Housing Authority's purchases of products and services using operating and capital funds.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov/>.

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6734.



Audit Report Number: 2019-PH-1002

Date: August 2, 2019

The Charlottesville Redevelopment and Housing Authority, Charlottesville, VA, Did Not Always Comply With Applicable Procurement Requirements

Highlights

What We Audited and Why

We audited the Charlottesville Redevelopment and Housing Authority's use of public housing operating and capital funds because (1) we received a hotline complaint alleging that the Authority mismanaged its procurement activities and improperly awarded an internet services contract for more than \$200,000 without receiving competitive bids and (2) we had never audited the Authority. Our audit objective was to determine whether the Authority procured products and services using U.S. Department of Housing and Urban Development (HUD) operating and capital funds in accordance with applicable procurement requirements.

What We Found

Although the allegation that the Authority improperly awarded an internet services contract for more than \$200,000 without receiving competitive bids had no merit, the allegation that the Authority mismanaged its procurement activities had merit. The Authority did not follow procurement requirements for acquiring products and services totaling \$728,516 using operating and capital funds. It also did not execute appropriate written agreements for some services it received. These conditions occurred because the Authority (1) lacked controls to ensure that it complied with Federal, HUD, and State procurement requirements and its own procurement policy and (2) misinterpreted Federal procurement requirements. As a result, HUD lacked assurance that the Authority purchased products and services totaling \$728,516 at fair and reasonable prices.

What We Recommend

We recommend that the Director of HUD's Richmond Office of Public Housing require the Authority to (1) provide documentation to show that it purchased products and services totaling \$728,516 at fair and reasonable prices or reimburse either its Public Housing Operating or Capital Fund from non-Federal funds for any amounts that it cannot support, (2) provide documentation to show that it had contracts for dumpster rentals and pest control services or re-procure these services, (3) obtain written agreements with the originating public bodies for its ongoing awards procured through intergovernmental agreements or re-procure these services, and (4) develop and implement controls to ensure that it complies with all applicable procurement requirements. We also recommend that the Director of HUD's Richmond Office of Public Housing provide technical assistance to the Authority to ensure that it understands Federal procurement requirements, including the proper use of intergovernmental agreements.

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Background and Objective

The U.S. Department of Housing and Urban Development (HUD) established the public housing program to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. The Public Housing Operating Fund and Public Housing Capital Fund are two major components of HUD's public housing program. Operating funds provide annual operating subsidies to public housing agencies to assist in funding the operating and maintenance expenses of low-income housing units. Capital funds provide annual formula grants to public housing agencies for development, financing, modernization, and management improvements.

The Charlottesville Redevelopment and Housing Authority was established in 1958. Its mission is to provide affordable quality housing, revitalize communities, and promote upward mobility and self-sufficiency for low- and moderate-income families residing in Charlottesville. The Authority's administrative office is located at 1000 South First Street, Charlottesville, VA. It is governed by a seven-member board of commissioners appointed by the Charlottesville City Council. The board hires an executive director to manage the day-to-day operations of the Authority. The Authority manages 376 low-income public housing units.

HUD's Richmond Office of Public Housing has oversight responsibility for the Authority. HUD authorized the Authority the following financial assistance for its public housing units for fiscal years 2017 and 2018:

Fiscal year	Operating funds	Capital funds	Totals
2017	\$1,155,460	\$541,097	\$1,696,557
2018	1,257,425	840,509	2,097,934
Totals	2,412,885	1,381,606	3,794,491

We received an anonymous complaint alleging that the Authority mismanaged its procurement activities and improperly awarded an internet services contract for more than \$200,000 without receiving competitive bids. Because we had never audited the Authority, we decided to audit its procurement process.

Our audit objective was to determine whether the Authority procured products and services using HUD operating and capital funds in accordance with applicable procurement requirements.

Results of Audit

Finding: The Authority Did Not Always Comply With Applicable Procurement Requirements

Although the allegation that the Authority improperly awarded an internet services contract for more than \$200,000 without receiving competitive bids did not have merit, the allegation that the Authority mismanaged its procurement activities had merit. The Authority did not always follow Federal, HUD, and State procurement requirements and its own procurement policy. Specifically, it did not have documentation to show that it properly procured products and services in accordance with applicable requirements from seven of eight vendors reviewed. It also did not execute appropriate written agreements with the entities that initiated the procurement actions for services it received from five vendors. These conditions occurred because the Authority (1) lacked controls to ensure that it complied with Federal, HUD, and State procurement requirements and its own procurement policy and (2) misinterpreted Federal procurement requirements. As a result, HUD lacked assurance that the Authority purchased products and services totaling \$728,516 at fair and reasonable prices.

The Specific Allegation in the Complaint Did Not Have Merit

The Authority did not purchase or award a contract for internet services for more than \$200,000 from a vendor as alleged in the complaint.

The Authority Lacked Documentation To Show That It Complied With Requirements

The Authority did not always procure products and services in accordance with applicable procurement requirements. It did not have documentation to show that it properly procured products and services in accordance with applicable requirements from seven of eight vendors reviewed. Regulations at 2 CFR (Code of Federal Regulations) 200.318(i) stated that non-Federal entities must maintain records sufficient to detail the history of the procurement, including the basis for the contract price. The paragraphs below provide details on the deficiencies identified. Appendix C provides a summary of our results and the related questioned costs.¹

Cost Estimates and Cost Analyses Were Not Documented

The Authority did not have cost estimates and cost or price analyses to support purchases totaling \$548,859 from five vendors. Regulations at 2 CFR 200.323(a) stated that the Authority was required to perform a cost or price analysis in connection with every procurement action in excess of the Federal simplified acquisition threshold, including contract modifications. In addition, section 6.1 of the Authority's procurement policy stated that the Authority was required

¹ All purchases had more than one deficiency.

to prepare an independent cost estimate before solicitation for all purchases above its micro-purchase threshold of \$3,000. Also, section 7.1.4 of the policy stated that the Authority was required to conduct a cost analysis to ensure that the price paid was reasonable when competition was inadequate.

Public Solicitations Were Not Documented

The Authority had no documentation to show that solicitations were publicized before it purchased products and services totaling \$370,719 from four vendors. Regulations at 2 CFR 200.320(d) stated that requests for proposals were required to be publicized, identify all evaluation factors and their relative importance, and be solicited from an adequate number of qualified sources. Further, section 8.1.3 of the Authority's procurement policy required solicitations to be made through advertising in newspapers, trade journals, or the internet using e-procurement systems.

Profit Negotiation Was Not Documented

The Authority had no documentation to show that it negotiated profit before making purchases totaling \$357,227 from three vendors. Regulations at 2 CFR 200.323(b) stated that the Authority was required to negotiate profit as a separate element of the price for each contract in which there was no price competition and in all cases in which cost analyses were performed.

Proposal Evaluations Were Not Documented

The Authority had no documentation to show that it evaluated proposals before purchasing services totaling \$197,944 from two vendors. HUD Handbook 7460.8, REV-2, paragraph 7.2.K.2, stated that the evaluation results had to be sufficiently documented and included in the contract file. Paragraph 7.2.L further clarified that the Authority was required to prepare an evaluation report to document the ranking of proposals. Further, section 5.4.3 of the Authority's procurement policy stated that proposals were required to be evaluated on the criteria stated in the requests for proposals and an evaluation report summarizing the evaluation results had to be prepared before contract award.

Board Approval Was Not Documented

The Authority had no documentation to show that its board of directors approved two awards for which the Authority paid \$298,945. Section V.B of the Authority's procurement policy stated that any procurement action exceeding \$50,000 was required to be submitted to the board of directors for approval before any contract award.

Contracts Were Not Executed

The Authority did not have executed, written contracts for services from two vendors to which it paid \$298,945. For dumpster rental services from one vendor, the contract period was November 2014 to November 2015. The Authority did not have documentation to show that it extended the contract beyond November 2015. It also did not have documentation to show that it executed a contract with another vendor for pest control services. Section 19.1.5 of the Authority's procurement policy required the Authority to maintain a copy of the contract documents.

Price Quotes Were Not Obtained

The Authority did not obtain at least three price quotes before purchasing appliances totaling \$99,642 from one vendor. Of this amount, \$89,020 was for individual purchases of more than \$3,000. HUD Handbook 7460.8, REV-2, paragraph 5.3.A, stated that the Authority was required to solicit price quotes from three or more sources for purchases of more than \$3,000. This was also required by section 5.2 of the Authority's procurement policy.

The Procurement Method Was Not Justified

The Authority amended a contract without creating a new procurement for one vendor to which it paid \$159,283 for the installation of a chiller in its public housing project. The Authority added this work to a contract procured through an intergovernmental agreement. The installation of the new chiller was above and beyond the original contract's scope of work, which consisted of installing control modules as a part of its heating, ventilation and air condition automation upgrades. The Authority should have used the sealed bid procurement method to procure these services. HUD Handbook 7460.8, REV-2, section 1.9, stated that a new procurement should be used when there were major changes beyond the contract's general scope. Also, section 5.3 of the Authority's procurement policy stated that sealed bidding was the preferred method for procuring construction, supply, and noncomplex service contracts that were expected to exceed the small purchase threshold of \$100,000.

State Procurement Requirements Were Not Followed

The Authority did not follow State procurement requirements when it paid two vendors \$78,656. The Authority used the intergovernmental agreement procurement method to purchase services from two vendors. The vendors were originally procured by two different public entities. The Authority used the public entity contracts to hire the vendors. Section 2.2-4304 B of the Virginia Public Procurement Act stated that a public body was allowed to purchase from another public body's contract if the request for proposals specified that the procurement was conducted on behalf of other public bodies, except for construction. The Authority violated this requirement, as it

- Hired one vendor to perform consulting services. However, contrary to State requirements, the original procuring entity's request for proposals did not specify that the procurement was conducted on behalf of other public bodies.
- Hired another vendor to perform roof repairs. However, contrary to State requirements, roof repairs were a construction activity and were not allowed to be procured through other entities.

These deficiencies occurred because the Authority lacked controls to ensure that it followed applicable procurement requirements and maintained documentation to support its actions. The Authority's current executive director began his employment with the Authority in May 2016. The Authority made two of the eight awards that we reviewed before its current executive director was hired. Because the Authority lacked controls, the Authority could not provide documentation to support its procurement actions. As a result, HUD did not have assurance that products and services totaling \$728,516 were purchased at fair and reasonable prices.

The Authority Did Not Execute Written Agreements for Its Procurement Activities

The Authority did not follow Federal procurement requirements when it paid five vendors \$506,716 with Federal funds without first entering into an intergovernmental agreement with the entity that initiated the procurement action.² The five entities were responsible for preparing the requests for proposals, cost estimates, and other required documentation. The entities then made awards to five vendors for products and services, including dumpster rentals, air conditioning repair, maintenance supplies, roof repairs, and consulting services.³ After the five entities selected the vendors, the Authority executed contracts with the vendors to provide the Authority with products and services. Regulations at 2 CFR 200.318(e) allowed public housing agencies to enter into State and local written agreements, such as intergovernmental or cooperative agreements, to procure products and services. However, HUD Handbook 7460.8, REV-2, paragraph 14.2.A, stated that the Authority's procurement files should contain a copy of the intergovernmental agreement and the agreement had to be between the Authority and a State or local government agency. Paragraph 14.2.C also stated that, typically, the process to enter into an intergovernmental agreement was that the Authority entered into an agreement with another government agency. The Authority could then order supplies and services from the vendor under contract with the government agency. The Authority did not follow this requirement because it did not have a written agreement. This condition occurred because the Authority misinterpreted Federal procurement requirements concerning the use of intergovernmental agreements. The Authority believed that it could use another entity's contract because State law allowed the Authority to access contracts without an agreement with the original procuring entity. However, the Authority overlooked requirements in HUD Handbook 7460.8, REV-2, section 1.5, which required the Authority to comply with the more stringent of Federal standards or State law.

Conclusion

HUD lacked assurance that the Authority purchased products and services totaling \$728,516 at fair and reasonable prices. This occurred because the Authority lacked controls to ensure that it complied with procurement requirements and its own procurement policy and misinterpreted Federal procurement requirements.

Recommendations

We recommend that the Director of HUD's Richmond Office of Public Housing require the Authority to

- 1A. Provide documentation to show that it purchased products and services totaling \$728,516 at fair and reasonable prices or reimburse either its Operating or Capital Fund from non-Federal funds for any amounts that it cannot support.

² The five entities were: (1) Virginia Commonwealth University, (2) Fairfax County, VA, (3) Maricopa County, AZ, (4) the Housing Authority of Columbus, GA, and (5) the City of Charlottesville, VA.

³ The Authority continues to receive dumpster rental services, maintenance supplies, and consulting services from three of these vendors.

- 1B. Provide documentation to show that it had contracts for dumpster rentals and pest control services, and if it cannot provide the contracts, re-procure these services.
- 1C. Obtain written agreements with the originating public bodies for its ongoing awards that were procured through intergovernmental agreements, including dumpster rentals, maintenance supplies, and consulting services, and if it cannot provide the agreements, re-procure these services.
- 1D. Develop and implement controls to ensure that it complies with all applicable procurement requirements.

We also recommend that the Director of HUD's Richmond Office of Public Housing

- 1E. Provide technical assistance to the Authority to ensure that it understands Federal procurement requirements, including the proper use of intergovernmental agreements.

Scope and Methodology

We conducted the audit from October 2018 through June 2019 at the Authority's office located in Charlottesville, VA, and our offices located in Baltimore, MD, and Pittsburgh, PA. The audit covered the period October 1, 2016, through September 30, 2018, but was expanded to include awards made before October 1, 2016, under which the Authority paid for products and services during the audit period.

To accomplish our objective, we reviewed

- Applicable laws; regulations; the Authority's procurement policy; HUD's program requirements at 2 CFR Part 200 and 24 CFR Parts 85, 905, and 990; HUD's Procurement Handbook for Public Housing Agencies 7460.8, REV-2; and other guidance.
- The Authority's procurement files, annual audited financial statements, board meeting minutes, and organizational chart.
- HUD's monitoring report for the Authority.
- The Commonwealth of Virginia's Public Procurement Act.

We also interviewed the Authority's employees, its consultant, and HUD staff.

To achieve our objective, we relied in part on the Authority's computer-processed data. We used the Authority's expenditure database to determine the total amount of operating and capital funds paid during the audit period. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The universe consisted of 231 vendors to which the Authority paid operating and capital funds totaling more than \$4.3 million.⁴ We selected a nonstatistical sample of eight vendors to review, including

- Three vendors with the most funds paid from capital funds. The Authority paid these vendors \$567,181 from operating and capital funds during the audit period.
- Three vendors with the most funds paid from operating funds that were subject to procurement requirements.⁵ The Authority paid these vendors \$401,558 from operating and capital funds during the audit period.

⁴ This amount included operating funds totaling \$3.5 million and capital funds totaling \$790,495.

⁵ We did not review vendors that provided utility, health insurance, and banking services.

- One vendor that the Authority hired to perform consulting services. The Authority paid this vendor \$13,492 in operating funds during the audit period.
- One vendor that was awarded a contract in June 2018. The Authority did not pay this vendor during the audit period.

The following table summarizes our sample.

Seq. no.	Service or product	Expenses incurred	Operating funds	Capital funds
1	Dumpster rentals	\$166,165	\$166,165	-
2	Air conditioning repairs	159,283	159,283	-
3	Pest control services	132,780	132,780	-
4	Maintenance supplies	102,612	79,059	\$23,553
5	Appliances	99,642	33,620	66,022
6	Roof repairs	65,164	1,534	63,630
7	Consulting services	13,492	13,492	-
8	Auditing services ⁶	-	-	-
	Totals	739,138	585,933	153,205

From these eight vendors, we reviewed the procurement file for each vendor's award with the most payments. Of these eight awards, five were made through intergovernmental agreements, two were made through competitive proposals, and one was made through micro-purchases. We reviewed \$739,138 in operating and capital funds paid during the audit period. This amount represented 17 percent of the total operating and capital funds paid. This approach did not allow us to make a statistical projection to the population, but it allowed us to select a large proportion of the funds paid. We believe that this non-statistical sample was sufficient for us to determine whether the Authority procured products and services using HUD operating and capital funds in accordance with applicable procurement requirements.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

⁶ The Authority did not pay this vendor during the audit period. We included the Authority's award to this vendor in our sample because it was the Authority's most recently awarded contract.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with applicable laws, regulations, and contracts – Policies and procedures that management has implemented to reasonably ensure that program participants comply with laws, regulations, and contracts.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority lacked controls to ensure that it complied with applicable procurement requirements. (Finding)

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$728,516

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3

Comment 3

Comment 4

Comment 5

**CHARLOTTESVILLE REDEVELOPMENT &
HOUSING AUTHORITY**

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Residents *FIRST!*

July 15, 2019

Mr. David E. Kasperowicz
Regional Inspector General for Audit
U. S. Department of Housing and Urban Development, Office of Inspector General
100 Penn Square East, Suite 10205
Philadelphia, PA 19107

Mr. Kasperowicz:

Thank you for the opportunity to provide written comments to the HUD Office of the Inspector General ("OIG") draft audit report generated as a result of the Charlottesville Redevelopment & Housing Authority ("CRHA") Public Housing Operating and Capital Funds procurement review. First and foremost, we would like to thank the OIG staff who performed the review of the Authority's procurement process. The Auditors were professional and helpful during the review process. We appreciated their willingness to hear our perspective on these issues.

We also want to note that we are very pleased that despite being subjected to this investigation over a false hotline complaint, the OIG has not identified any activities including fraud, the clear misuse of federal funds or issued any findings that cannot be resolved. The OIG single finding revolves around record keeping and contract administration.

As noted, the single finding is fundamentally a question of documentation on procurements. While we are in agreement with the overall recommendations, we make the following comments:

1A. Provide documentation to show that it purchased products and services totaling \$728,516 at fair and reasonable prices or reimburse either its Operating or Capital Fund from non-Federal funds from any amounts that it cannot support.

CRHA 1A. The Authority intends to provide the HUD Richmond Field Office evidence that such costs were reasonable. Of the \$728,516 cited within the audit, please note the following:

- i. CRHA provided the auditors with substantiated cost estimates supporting \$179,657 of procurement; and
- ii. \$89,020 in appliance equipment procurement was independently reviewed by the audit staff and were determined to be acquired at savings through a multi-jurisdictional "piggyback" contract procurement; and
- iii. \$102,612 in materials procurement were determined to be acquired at savings through a multi-jurisdictional "piggyback" contract procurement; and
- iv. of the remaining \$357,227 in question:
 - a. \$224,447 were contracts for which the originating entity completed an independent cost estimate; and
 - b. \$132,780 was for pest control for which the CRHA utilized the previous contract to determine the cost estimate, as is allowable/recognized by HUD.



CRHA does not discriminate on the basis of race, color, sex, age, religion, national origin, disability, veteran status, or union affiliations in any of its federally assisted programs and activities.



Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 6

In an effort to close out this recommendation, we will work with the HUD Richmond Field Office to ensure their satisfaction with whatever additional documentation they may require for the remaining values.

While we acknowledge that we did not conduct formal cost savings analyses each year, CRHA nevertheless exercised ongoing oversight of all aspects of the services agreements including annual cost management through the budgeting process with the Board of Commissioners, annual audits and related practices and controls.

1B. Provide documentation to show that it had contracts for dumpster rentals and pest control, and if it cannot provide the contracts, reprocure these services.

Comment 7

CRHA Response 1B. With respect to the dumpster rentals, that contract was entered into previous to the current Executive Director. The CRHA provided the auditor with a signed contract from the vendor as well as an email from the previous Executive Director which the CRHA contends is support for her assent to the contract. With regard to Pest Control, the CRHA has released a document to reprocure these services and will work with the HUD Richmond Field Office to provide documentation as the process is finalized.

1C. Obtain written agreements with the originating public bodies for its ongoing awards that were procured through intergovernmental agreements, including dumpster rentals, maintenance supplies, and consulting services and if it cannot provide the agreements, reprocure these services.

Comment 8

CRHA Response 1C. The CRHA began the employment of this "piggy-backing" procurement method in July 2016 following CRHA staff attendance at a "Procurement & Contracts Management Training Seminar" held in Portsmouth, Virginia. Following the seminar, the CRHA advertised for Technical Assistance in Procurement on the Housing Agency eProcurement Marketplace. The Consultant emailed CRHA on August 1, 2016 stating that his services could be retained "pursuant to a piggyback contract, which means that I can be retained by your Agency without further competition."

On the Consultant's assertion, the CRHA sought the advice of its legal counsel concerning the appropriateness of such "piggy-backing" arrangement. Following extensive research, legal counsel determined the method to be appropriate. The CRHA retained the services of this consultant to provide technical assistance in the area of procurement. All piggyback templates and forms the CRHA utilized were delivered under this engagement and CRHA legal counsel provided individual review of each piggy-backing procurement. At no time, was the CRHA ever advised that agreements were required with the Lead Agencies and at no time did the Consultant ever offer an agreement with its Lead Agency, Port Arthur, Texas.

Comment 9

As provided by CRHA Legal Counsel to the Auditors by letter and attached as part of our formal written response, the CRHA participated in piggy back arrangements as covered by the Virginia Code whereby "a public body may purchase from another public body's contract...even if it did not participate in the request for proposal or invitation for bid, if the request for proposal or invitation for bid specified that the procurement was a cooperative procurement being conducted on behalf of other public bodies." In these scenarios, Virginia law allows public housing authorities to access the contract without any formal agreement with the lead agency.

Comment 10

With respect to the HUD Procurement Handbook, Chapter 14.2, intergovernmental or interagency agreements involve public housing authorities contracting for services directly with one another. The CRHA is not contracting with other agencies for services.

Comment 11

In an effort to satisfy the OIG's request, we did provide to the auditors the "Master Intergovernmental Cooperative Purchasing Agreement" for the maintenance supplies contract. We have communicated with the originating public body who describes this agreement to be the written agreement.

Comment 12

In an effort to close out this recommendation, the CRHA will take action on those still-existing contracts identified by the OIG for lacking proper records and either obtain the necessary signed agreement or reprocure.

Comment 13

1D. Develop and implement controls to ensure that it complies with all applicable procurement requirements.

CRHA Response 1D. The Authority is focused on continuous improvement and preventing any future deficiencies of the sort cited in the draft audit. As we move forward, we do with a resolute commitment to maintain its procurement

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 13

protocols and safeguards not only in accordance with the OIG's recommendations but also in accordance with all applicable laws and best practices.

Comment 14

In closing, we understand the purpose of the review and understand the finding. We have taken action based on the preliminary findings and recommendations. We will continue to improve our processes to ensure compliance. We look forward to working with the HUD Richmond Field Office during the audit resolution process to confirm our improvements.

Sincerely,



Grant Duffield

Executive Director
Charlottesville Redevelopment & Housing Authority
Ph: 434.326.4748 Fax: 434.971.4797

Residents *FIRST!*

Residents *FIRST!* is grounded in the belief that those we serve have the knowledge, experience and power to drive the systemic change needed to sustain healthy communities and build bright futures.

We are the Charlottesville Redevelopment and Housing Authority. For more than 60 years, we have taken great pride in being the primary provider of "housing of first opportunity" in our community. As such, we continue to strive tirelessly and passionately to be a *resident-centered organization committed to excellence in providing affordable quality housing, enhancing communities, and promoting self-sufficiency*. We subscribe to a Residents *FIRST!* philosophy that is grounded on relationships which develop and thrive only when mutual respect, dignity and commitment is afforded one another. At CRHA, relationships matter.

OIG Evaluation of Auditee Comments

- Comment 1 The Authority stated that the finding was fundamentally a question of documentation on procurements and that it agreed with the recommendations. We disagree that the finding was fundamentally a question of documentation. The fundamental issue of the finding was that the Authority did not follow procurement requirements for acquiring products and services totaling \$728,516 using operating and capital funds. The Authority will have to provide documentation to HUD to resolve the recommendations. We are encouraged by the Authority's statement that it agrees with the recommendations.
- Comment 2 The Authority stated that it provided the auditors with substantiated cost estimates supporting \$179,657 of procurement. We agree that the Authority provided cost estimates for dumpster rental and consulting services totaling \$179,657. However, we found other deficiencies related to the procurement of these services. For example, the Authority's files lacked an executed contract, documentation of public solicitation, and written intergovernmental agreements with the entities that initiated the procurement actions.
- Comment 3 The Authority stated that the auditors determined that its procurement of \$89,020 in appliances and \$102,612 in materials was at a savings through multi-jurisdictional "piggyback" contract procurements. We disagree with these statements. One purchase lacked the required number of price quotes, the other purchase lacked an annual cost review, and both purchases lacked a required cost estimate. Therefore, we could not determine whether the prices the Authority paid for the products were reasonable and resulted in cost savings.
- Comment 4 The Authority stated that the original procuring entity completed an independent cost estimate for purchases totaling \$224,447. Although the Authority asserted that the original procuring entity completed independent cost estimates for the air conditioning (\$159,283) and roof repairs (\$65,164) purchases, it did not provide copies of them to us. In addition, the Authority could not show that it completed cost estimates or cost or price analyses to support these purchases. Regulations at 2 CFR 200.323(a) stated that the Authority was required to perform a cost or price analysis in connection with every procurement action in excess of the Federal simplified acquisition threshold, including contract modifications. In addition, section 6.1 of the Authority's procurement policy stated that the Authority was required to prepare an independent cost estimate before solicitation for all purchases above its micro-purchase threshold of \$3,000. Also, section 7.1.4 of the policy stated that the Authority was required to conduct a cost analysis to ensure that the price paid was reasonable when competition was inadequate. As part of the audit resolution process, the Authority will have an opportunity to support the questioned costs contained in the report and HUD will evaluate the documentation to ensure that it meets the intent of the recommendations.

- Comment 5 The Authority stated that for pest control services totaling \$132,780 it used the previous contract as a cost estimate for the purchase and that HUD considers this procedure acceptable. However, the Authority lacked evidence that the previous contract's price was reasonable. Section VII.D of the Authority's procurement policy stated that the presence of adequate competition should be sufficient to establish price reasonableness. However, the Authority must compare the price with an independent cost estimate when sufficient bids are not received. The Authority did not meet this requirement because it did not show that it received sufficient bids for its original contract. Prior to paying for services rendered, the Authority was required to ensure that its files contained adequate documentation to show that it followed procurement requirements and sufficiently documented details of the history of the procurement, including the basis for the contract price. However, the Authority's file lacked an executed contract, public solicitation, and other documentation including cost estimates to support the history of the procurement. Without the required documentation, the Authority was unable to show that the cost it paid was reasonable.
- Comment 6 We are encouraged by the Authority's response. As part of the audit resolution process, the Authority will provide documentation to HUD. HUD will review the documentation, determine whether it satisfies the recommendation, and provide its determination and the documentation to OIG for review and concurrence.
- Comment 7 The Authority stated that it entered into the contract for the dumpster rentals before the Authority hired the current executive director. It also stated that it provided the auditor a copy of the contract signed by the vendor and an email from the previous executive director which it contends shows assent to the contract. We agree that the Authority provided a signed contract for dumpster rental services for the period of November 2014 through November 2015. However, the contract did not cover services totaling \$166,165 that the Authority paid during our audit period. The Authority provided no documentation to show that the contract was extended beyond November 2015.
- Comment 8 The Authority stated that its legal counsel determined that the piggy-backing arrangement that was asserted by its consultant was an appropriate method of procurement. It retained the services of this consultant to provide technical assistance in the area of procurement. This consultant provided all of the piggy-back templates and forms the Authority used and its legal counsel reviewed each piggy-back procurement. The Authority stated that it was not advised at any time that it needed written agreements with the entities with whom it piggy-backed for products and services. Although the Authority stated that it implemented the use of piggyback arrangements based on the advice of its consultant and review by its legal counsel, the audit showed that it did not comply with Federal procurement requirements because it lacked written intergovernmental agreements with the entities that initiated the procurement actions. We recommended that the Authority obtain the necessary agreements or re-procure for the services if it cannot provide the agreements. In its response to the audit report, the Authority stated that it will

take action on the still existing contracts identified by the audit and either obtain the necessary signed agreements or re-procure these products and services. As part of the audit resolution process, the Authority will work with HUD on the actions it plans to take on the existing contracts.

- Comment 9 The Authority stated that, during the audit and as an attachment to its written response to the audit report, it provided a letter from its legal counsel informing that Virginia law allows public housing authorities to access another public body's contract without any formal agreement with the entities that initiated the procurement. We agree that the Authority provided a letter from its legal counsel during the audit; however, it did not include that letter as an attachment to its written response to the audit report. We agree that Virginia law allows public housing authorities to access another public body's contract without any formal agreement with the entities that initiated the procurement. However, section 1.5 of HUD Handbook 7460.8, REV-2, required the Authority to comply with the more stringent HUD requirement (i.e. Federal standards vs. State law). Moreover, it overlooked State law which prohibited the use of a piggybacked contract for construction activities.
- Comment 10 The Authority stated that regarding chapter 14.2 of HUD's Procurement Handbook, intergovernmental or interagency agreements involve public housing authorities contracting for services directly with one another. It was not contracting with other agencies for services. We agree that the Authority did not contract with other agencies for services. The Authority allowed five entities to perform its procurement functions without first entering into a written intergovernmental agreement. The five entities were responsible for preparing the requests for proposals, cost estimates, and other required documentation. The entities then made awards to five vendors for products and services, including dumpster rentals, air conditioning repair, maintenance supplies, roof repairs, and consulting services. Regulations at 2 CFR 200.318(e) allowed public housing agencies to enter into State and local written agreements, such as intergovernmental or cooperative agreements, to procure products and services. However, paragraph 14.2.A of HUD Handbook 7460.8, REV-2, stated that the Authority's procurement files should contain a copy of the intergovernmental agreement and the agreement had to be between the Authority and a State or local government agency. Paragraph 14.2.C also stated that, typically, the process to enter into an intergovernmental agreement was that the Authority entered into an agreement with another government agency. The Authority could then order supplies and services from the vendor under contract with the government agency. The Authority did not follow this requirement because it did not have a written agreement with the five entities that initiated the procurement actions.
- Comment 11 The Authority stated that it provided the auditors a Master Intergovernmental Cooperative Purchasing Agreement for the maintenance supplies contract. It also stated that the entity that initiated the procurement described the agreement to be the written agreement. We agree that the Authority provided us a copy of a

Master Intergovernmental Cooperative Purchasing Agreement for its procurement of maintenance supplies. However, the agreement did not protect HUD's or the Authority's interest because the Authority did not execute a written agreement with the originating public body. The Master Intergovernmental Cooperative Purchasing Agreement was between the original procuring entity and the vendor. Paragraph 14.2.A, of HUD Handbook 7460.8, REV-2, stated that the intergovernmental agreement had to be between the Authority and a State or local government agency. The Authority did not comply with this requirement because it did not have a written agreement with the local government agency that made the procurement.

- Comment 12 We are encouraged that the Authority plans to take the recommended action. As part of the audit resolution process, HUD and OIG will agree on the action to be taken and the documentation to be provided by the Authority to show that its corrective actions satisfy the recommendations.
- Comment 13 The Authority stated that it is focused on continuous improvement and preventing the deficiencies such as those identified in the draft report. It also stated that it was committed to maintaining its procurement protocols and safeguards in accordance with all applicable laws and best practices. We are encouraged by the Authority's response.
- Comment 14 We are encouraged by the Authority's response. As part of the audit resolution process, HUD and OIG will agree on the action to be taken and the documentation to be provided by the Authority to show that its corrective actions satisfy the recommendations.

Appendix C

Schedule of Deficiencies and Unsupported Costs

Seq. no.	Service or product	Deficiencies*													Unsupported costs
		1	2	3	4	5	6	7	8	9	10	11	12	13	
1	Dumpster rental	X					X		X	X					\$166,165
2	Air conditioning repair	X	X	X	X	X						X			159,283
3	Pest control		X	X	X	X		X	X	X					132,780
4	Maintenance supplies	X	X				X								102,612
5	Appliances		X							X					89,020
6	Roof repairs	X	X	X	X	X		X						X	65,164
7	Consulting services	X		X									X		13,492
8	Audit services														0
	Totals	5	5	4	3	3	2	2	2	2	1	1	1	1	728,516

* Deficiencies noted during our review

1. No agreement between the Authority and entity that initiated the procurement action
2. No cost estimate
3. No publicized solicitation
4. No profit negotiation
5. No cost or price analysis
6. No annual cost review
7. No evaluation of proposals
8. No Authority board approval
9. No contracts
10. Lacked three price quotes
11. Procurement method not justified
12. Original procuring entity's contract did not state that it could be used for an intergovernmental agreement
13. Contract for construction; not allowed to be used for an intergovernmental agreement

* Criteria violated

Federal requirements

State requirements

Authority policy

Federal requirements and Authority policy