



# Richmond Redevelopment and Housing Authority, Richmond, VA

## Public Housing Program



**To:** Catherine D. Lamberg, Director, Office of Public Housing, Richmond Field Office, 3FPH  
**//signed//**

**From:** David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia Region, 3AGA

**Subject:** The Richmond Redevelopment and Housing Authority, Richmond, VA, Did Not Comply With HUD Requirements When Procuring Services

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 Richmond Redevelopment and Housing Authority.

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 Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6730.



**Audit Report Number: 2015-PH-1008**

**Date: September 30, 2015**

**The Richmond Redevelopment and Housing Authority, Richmond, VA, Did Not Comply With HUD Requirements When Procuring Services**

## Highlights

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### What We Audited and Why

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We audited the Richmond Redevelopment and Housing Authority's public housing program based on a request from the Office of Public Housing in the U.S. Department of Housing and Urban Development's (HUD) Richmond, VA, field office. The request was made after media inquiries noted possible fraud, waste, or abuse at the Authority. Our audit objective was to determine whether the Authority complied with HUD procurement requirements.

### What We Found

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Under the leadership of its former chief executive officers, the Authority did not procure services associated with its public housing program in accordance with HUD procurement requirements. Specifically, it did not prepare an independent cost estimate and cost analysis before awarding contracts, did not maintain documentation to demonstrate that services were procured competitively, and did not ensure that option years were awarded competitively. The issues identified occurred because the Authority was not fully aware of HUD procurement requirements and mistakenly believed that it was properly procuring services. Because the Authority did not comply with HUD procurement requirements, HUD and the Authority had no assurance that more than \$6.5 million in public housing operating funds paid under the contracts was fair and reasonable.

### What We Recommend

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We recommend that HUD direct the Authority to (1) provide documentation to support that payments for services totaling more than \$6.5 million were fair and reasonable or reimburse its program from non-Federal funds for any amount that it cannot support, (2) not exercise remaining option years for the contracts identified, and (3) implement controls in its procurement process to ensure that HUD requirements are followed. We also recommend that HUD provide technical assistance to the Authority to ensure that responsible personnel receive necessary procurement training.

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# Background and Objective

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The Richmond Redevelopment and Housing Authority was established in 1940. The Authority's mission is to be the catalyst for quality affordable housing and community revitalization for the city of Richmond, VA. The Authority is governed by a board of commissioners consisting of nine members appointed by the city council. The board appoints a chief executive officer to manage the day-to-day operations of the Authority. In January 2015, the board announced the resignation of its chief executive officer and selection of a new interim chief executive officer. The Authority is located at 901 Chamberlayne Parkway in Richmond, VA.

The Authority is the largest public housing agency in Virginia, serving nearly 10,000 residents. It manages more than 4,000 units under its public housing program. In fiscal year 2014, the Authority received \$18.9 million in public housing operating subsidies and \$6.6 million in public housing capital funds. The U.S. Department of Housing and Urban Development (HUD) provides operating funds annually to public housing agencies for the operation and management of public housing. It provides capital funds annually to public housing agencies for the development, financing, and modernization of public housing developments and for management improvements.

Our audit objective was to determine whether the Authority complied with HUD procurement requirements.

# Results of Audit

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## **Finding: The Authority Did Not Comply With HUD Procurement Requirements When Procuring Services**

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Under the leadership of its former chief executive officers,<sup>1</sup> the Authority did not procure services associated with its public housing program in accordance with HUD procurement requirements. Specifically, it did not prepare an independent cost estimate and cost analysis before awarding contracts, did not maintain documentation to demonstrate that services were procured competitively, and did not ensure that option years were awarded competitively. The issues identified occurred because the Authority was not fully aware of HUD procurement requirements and mistakenly believed that it was properly procuring services. Because the Authority did not comply with HUD requirements, HUD and the Authority had no assurance that more than \$6.5 million in public housing operating funds paid under 58 contracts was fair and reasonable.

### **The Authority Did Not Prepare Independent Cost Estimates and Analyses Before Awarding Contracts**

Contrary to regulations at 24 CFR (Code of Federal Regulations) 85.36(f), the Authority did not prepare an independent cost estimate and cost analysis before receiving bids or proposals and awarding five contracts with payments totaling more than \$7 million, including \$2.9 million in public housing operating funds.<sup>2</sup> The regulations required the Authority to make independent estimates before receiving bids or proposals. They also required the Authority to perform a cost analysis. HUD Handbook 7460.8, REV-2, explains that an independent cost estimate serves as a yardstick for evaluating the reasonableness of the contractor's proposed costs or prices. While the level of detail would depend upon the dollar value of the proposed contract and the nature of goods or services to be acquired, the independent cost estimate must be prepared before the solicitation of offers. An independent cost analysis consists of evaluating the separate elements (labor, materials, etc.) that make up a contractor's total cost proposal to determine whether they are allowable, directly related to the requirement, and reasonable. Because the Authority did not perform independent cost estimates and analyses as required, HUD and the Authority had no assurance that the \$2.9 million paid under the contracts was fair and reasonable.

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<sup>1</sup> The audit covered the period July 2010 to December 2013. This period included the tenures of three different chief executive officers, with the third serving from April 2012 through January 2015. In January 2015, the Authority announced the resignation of its chief executive officer and selection of the current interim chief executive officer.

<sup>2</sup> For some of the contracts cited, the Authority made additional payments using non-Federal funds, such as those from the Authority's central office cost center.

### **The Authority Did Not Maintain Documentation To Demonstrate That Services Were Procured Competitively**

The Authority could not demonstrate that services under 53 contracts with payments totaling more than \$4 million, including \$3.6 million in public housing operating funds,<sup>3</sup> were procured competitively. Regulations at 24 CFR 85.36(b)(9) required the Authority to maintain records sufficient to detail the significant history of the procurement. Regulations at 24 CFR 85.36(c) required the Authority to conduct all procurement transactions in a manner providing full and open competition.

The Authority issued two requests for proposal for a variety of services, including grounds and property maintenance, painting, repair, renovation, elevator maintenance, power line distribution, roof replacement, demolition, fire sprinkler inspection, fire extinguisher inspection, and other construction- and maintenance-related services. The Authority then awarded contracts to the 53 bidders that it deemed to be responsive, for a total of 53 contracts. The Authority did not provide documentation showing how it evaluated the proposals received.

For some services, such as property rehabilitation and renovation, the request for proposal indicated that the Authority would contact three vendors, request quotes for a given task, and select the vendor with the lowest complete quote. For other services, such as vacancy reduction, the request for proposal did not require contact with a minimum number of vendors or explain how vendors would be selected for the task. The Authority indicated that after awarding the 53 contracts, it operated them based on purchase orders, which would contain bid quotes, detailed cost analyses, and information identifying the vendors selected to perform each task. However, for the 10 purchase orders reviewed related to 2 contracts, the files did not contain this information.

While HUD Handbook 7460.8, REV-2, allows indefinite delivery contracts, the Authority would have been required to award the contracts competitively, and this type of contract generally does not allow the use of purchase orders. Further, while HUD Handbook 7460.8, REV-2, allows indefinite quantity contracts, which are run by purchase orders, the Authority would have needed to meet various requirements such as specifying a minimum quantity of supplies or services. The Authority did not meet the requirements for either the indefinite delivery or quantity type of contract.

Without documentation demonstrating that the Authority adequately evaluated the proposals and showing how it selected vendors for individual work orders, HUD had no assurance that the services were procured competitively and that the \$3.6 million paid under the contracts was fair and reasonable.

### **The Authority Did Not Ensure That Option Years Were Awarded Competitively**

Contrary to regulations at 24 CFR 85.36(c), the Authority did not ensure that option years were

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<sup>3</sup> See footnote 2.

awarded competitively. The regulations required that all procurement transactions be conducted in a manner providing full and open competition. Further, HUD Handbook 7460.8, REV-2, details that options must be priced out in the terms of the contract<sup>4</sup> and evaluated as part of the overall contract award, and indicates that the option to extend is the unilateral right of the housing authority. For 55 contracts, the contract terms stated that the parties could agree to renew the contract for additional years, subject to any escalation provisions as negotiated and agreed to in writing. The Authority did not ensure that its contracts gave it the unilateral right to exercise the option years. Also, the Authority did not require the option years to be priced out as part of the bids and considered when awarding the contract. Allowing negotiation at the end of the initial contract period can prevent full and open competition because it does not require option year prices to be evaluated during the competitive procurement process. As a result, HUD had no assurance that the amount paid under the contract option years was fair and reasonable.<sup>5</sup>

### **The Authority Was Not Fully Aware of Procurement Requirements**

The issues identified occurred because the Authority was not fully aware of HUD procurement requirements and mistakenly believed that it was properly procuring services. The Authority's written policies and procedures were generally in line with applicable requirements. For example, the Authority's policy required it to ensure full and open competition consistent with the requirements at 24 CFR 85.36, its annual contributions contract with HUD, and the Virginia Public Procurement Act. Further the Authority's policy required it to obtain an independent cost estimate for all procurement actions. However, Authority staff did not understand how various procurement requirements applied to the contracts in question and could not demonstrate how its practices followed applicable requirements and the Authority's policy.

### **The Authority Is Under New Leadership**

During the audit, the Authority announced the resignation of its chief executive officer and selection of an interim chief executive officer. The Authority also made several changes to key staff positions. As a result of our audit, the Authority stated that it would continue to work with HUD to address the issues identified and improve its procurement process.

### **Conclusion**

Under the leadership of its former chief executive officers, the Authority's procurement process did not ensure that services were procured in compliance with HUD requirements. Because the Authority did not comply with HUD requirements, HUD and the Authority had no assurance that more than \$6.5 million in public housing operating funds paid under 58 contracts was fair and reasonable. Further, because we identified issues in all 58 of the contracts reviewed,<sup>6</sup> the Authority needs to strengthen controls in its procurement process and train responsible personnel to ensure compliance with HUD procurement requirements.

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<sup>4</sup> According to HUD Handbook 7460.8, REV-2, an unpriced option is considered a new procurement, and therefore, may not be used. In some cases, options can be treated as a change order.

<sup>5</sup> Each of the 55 contracts discussed in this section are part of the 58 contracts previously discussed in the finding.

<sup>6</sup> Some contracts had more than one deficiency.

## **Recommendations**

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

- 1A. Direct the Authority to provide documentation to support that payments for services totaling \$6,565,897 were fair and reasonable or reimburse its program from non-Federal funds for any amount that it cannot support.
- 1B. Direct the Authority not to exercise remaining option years for 55 contracts to ensure that future services are procured competitively.
- 1C. Direct the Authority to develop and implement controls in its procurement process to ensure that HUD requirements are followed.
- 1D. Provide technical assistance to the Authority to ensure that responsible personnel receive necessary procurement training.

# Scope and Methodology

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We conducted the audit from December 2013 through September 2014 at the Authority in Richmond, VA, and our office in Richmond, VA. The audit covered the period July 2010 to December 2013.

To accomplish our objective, we reviewed

- Relevant background information;
- Applicable regulations, HUD handbooks, and the Authority's policies and procedures;
- Reports from the Authority's automated software; and
- Procurement files provided by the Authority.

We conducted interviews with responsible employees of the Authority and HUD staff located in Richmond, VA.

To achieve our objective, we relied in part on the Authority's computer-processed data. We used the data to select a sample of contracts and purchase orders to review. 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.

We initially selected five contracts for review based on the Authority's master contract listing and a purchase order listing that covered the period October 2011 through December 2013. We selected the only nonexpired contract listed for legal services, the only contract listed for security services, the only contract listed for financial benchmarking assessment services, the pest control contract with the vendor that received the most funds on the purchase order listing, and a temporary employment services contract with a vendor that had three contracts included on the contract listing.

Because the contract listing did not include the value of contracts and the Authority had indicated that its procurement system was driven by purchase orders, we selected an additional sample of purchase orders and contracts for vendors that had received a significant amount of money during our audit period. We summarized the purchase order listing by vendor and identified two vendors for review based on the amount of funds received and the number of purchase orders. We then selected five purchase orders for each of the two vendors based on the dollar amount and type of service provided. After our review of the 10 purchase orders and the 2 related contract files disclosed issues, we reviewed 51 additional contracts that resulted from the same requests for proposal, for a total of 53 additional contracts.

Using financial reports provided by the Authority, we determined that it had disbursed more than \$11.4 million for the 58 contracts reviewed, including more than \$6.5 million in public housing

operating funds. The remaining payments were made using non-Federal funds, such as those from the Authority's central office cost center.

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.

# Internal Controls

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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:

- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of resources is consistent with laws and regulations.

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 did not establish and implement controls to ensure that it complied with HUD procurement requirements.

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Unsupported 1/</b>
1A	\$6,565,897

- 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

**Board of Commissioners**  
Samuel S. Young, Jr., Chairman

Robley S. Jones  
Marilyn B. Olds  
Elliott M. Harrigan  
Jonathan Coleman  
LaToya Hawks  
Robert J. Adams  
Heidi Abbott



September 16, 2015

**Interim Chief Executive Officer**  
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Office of Inspector General, U.S. Department of Housing and Urban Development  
Office of Audit, Region 3  
Philadelphia, PA  
Attn: David E. Kasperowicz, Regional Inspector General for Audit

RE: Richmond Redevelopment and Housing Authority (the "Authority")

Dear Mr. Kasperowicz,

Thank you for allowing the Authority the opportunity to provide written comments to the HUD Office of Inspector General's ("OIG") report on the recent audit of the Authority's Public Housing Program procurement records for the period July 2010 through December 2013. The Authority recognizes that, as a steward of public housing operating funds, it must ensure that housing services that are provided to Richmond's low income citizens in a cost efficient, responsible, and transparent manner, and in accordance with both Federal and Virginia law.

The Authority welcomes the detailed assessment of its Public Housing Program procurement records, and is pleased to address the OIG's findings. The Authority takes its public mandate extremely seriously. Any indication of a deficiency, whether substantive or procedural, presents an opportunity for improvement. In this constructive and proactive spirit, the Authority has already instituted changes to comply with the OIG's recommendations. Records cited by the OIG's audit as missing or deficient have been located, and will be provided to HUD to fully support the expenditure of the \$6,565,923 referenced in the report. Additionally, the Authority wishes to stress that the OIG's audit has asserted no allegation of fiscal impropriety. Moving forward, the Authority is committed to strict compliance with its record-keeping and procedural obligations.

In recent years, the Authority has shown remarkable resilience in the face of reduced funding, operational challenges, and staff turnover. Under the leadership of its current Board of Commissioners and Interim Chief Executive Officer, the Authority has embraced a renewed focus on its core mission to be a catalyst for quality affordable housing and community revitalization; and values of integrity, accountability, customer focus and teamwork. Strengthening the Authority's procurement procedures, through better record keeping and more stringent controls, is a key element of this organizational "reset."

Comment 1

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 1

Comment 2

Comment 3

Comment 4

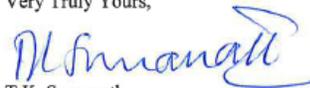
As the Authority plans for future success, it will do so with the confidence that its Public Housing Program procurement procedures are fully compliant with HUD requirements.

In response to the OIG's recommendations, the Authority offers the following comments:

- 1A. The Authority has compiled documentation verifying that the payments for services totaling \$6,565,923 were fair and reasonable. The Authority looks forward to providing this documentation to the Director of Public Housing in the Richmond HUD field office.
- 1B. The Authority has declined to renew the 55 contracts at issue. Procurement staff have been trained on the importance of evaluating contract renewal provisions as part of the competitive procurement process, and internal procedures have been implemented to ensure that future contracts will incorporate the requisite contract renewal provisions.
- 1C. The Authority has instituted internal procedures to ensure that documentation of independent cost estimates and cost analyses are retained in sufficient detail and stored within the appropriate procurement files.
- 1D. The Authority is working with the Director of Public Housing in the Richmond HUD field office on a technical assistance program to ensure that responsible personnel receive necessary procurement training and certifications. Additionally, an internal audit and training program for the Authority's Public Housing Program procurement procedures is ongoing.

The Authority is grateful for this opportunity to respond to the OIG's recommendations. The integrity of the Authority's procurement activities is critical to the success of the Authority's Public Housing Program. Please know that the Authority is focused on continuous improvement and preventing any future occurrences of the deficiencies cited in the OIG's report. As the Authority moves forward with its Public Housing Program, it does so with a resolute commitment to the necessary procurement safeguards and protocols in accordance with the OIG's recommendations.

Very Truly Yours,



T.K. Somanath  
Interim Chief Executive Officer

## OIG Evaluation of Auditee Comments

- Comment 1 The Authority stated that it had compiled documentation to verify that the payments for services totaling more than \$6.5 million were fair and reasonable and that it will provide the documentation to HUD. As part of the audit resolution process, HUD will need to determine whether the documentation supports the expenditures totaling more than \$6.5 million or direct the Authority to reimburse its program from non-Federal funds for any amount that it cannot support.
- Comment 2 The Authority stated that it had declined to renew the 55 contracts discussed in the report. Additionally, the Authority stated that it had trained its procurement staff to ensure that contract renewal provisions are part of the competitive procurement process and had implemented internal procedures to ensure that future contracts incorporate the required contract renewal provisions. These actions meet the intent of our recommendation. However, as part of the audit resolution process, HUD will need to evaluate and verify these actions.
- Comment 3 The Authority stated that it had instituted internal procedures to ensure that independent cost estimates and cost analyses are retained in sufficient detail in the procurement files. These actions meet the intent of our recommendation, however, to fully comply with the recommendation, as part of the audit resolution process, the Authority will need to demonstrate to HUD that it has developed and implemented controls in its procurement process to ensure that it complies with all HUD requirements.
- Comment 4 The Authority stated that it was working with HUD on a technical assistance program to ensure that responsible personnel receive the necessary procurement training and certifications. The Authority also stated that an internal audit and training program on procurement procedures were ongoing. We are encouraged by the Authority's focus on improving its operations and preventing future occurrences of the deficiencies identified by the audit.