



Lucas Metropolitan Housing
Authority,
Toledo, OH
Public Housing Program

Office of Audit, Region 5
Chicago, IL

Audit Report Number: 2016-CH-1013
September 30, 2016



To: Kevin J. Laviano, Director of Public and Indian Housing Hub, 5DPH

From: //signed//
Kelly Anderson, Regional Inspector General for Audit, 5AGA

Subject: The Lucas Metropolitan Housing Authority, Toledo, OH, Did Not Always Follow HUD's or Its Own 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 Lucas Metropolitan Housing Authority's public housing program.

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 312-353-7832.



Audit Report Number: 2016-CH-1013

Date: September 30, 2016

The Lucas Metropolitan Housing Authority, Toledo, OH, Did Not Always Follow HUD's or Its Own Procurement Requirements

Highlights

What We Audited and Why

We audited the Lucas Metropolitan Housing Authority's public housing program as part of the activities in our fiscal year 2016 annual audit plan. We selected the Authority based on the results of a risk assessment of housing agencies in Region 5's¹ jurisdiction. Our objective was to determine whether the Authority complied with the U.S. Department of Housing and Urban Development's (HUD) and its own procurement requirements.

What We Found

The Authority did not always comply with HUD's and its own procurement requirements. Specifically, it did not (1) competitively award two contracts and (2) include the required minimum and maximum amounts in its indefinite-quantity contracts. As a result, (1) the Authority inappropriately spent more than \$276,000 on contracts that were awarded without competition and (2) HUD and the Authority lacked assurance that nearly \$410,000 in capital funds would be used appropriately.

What We Recommend

We recommend that the Director of HUD's Cleveland Office of Public and Indian Housing require the Authority to (1) reimburse its Public Housing Capital Fund program \$240,413 from non-Federal funds for the contracts that were awarded without competition, (2) deobligate \$409,663 in capital funds from its task letters for its housing units and kitchen renovation projects, (3) reimburse its program \$36,264 for the Capital Fund disbursements in excess of its indefinite-quantity contract, and (4) implement adequate procedures and controls to ensure that its contracts are procured and executed in accordance with HUD's and its own requirements.

¹ Region 5 includes the States of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.

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Background and Objective

The Toledo Metropolitan Housing Authority is a public housing agency created in 1933 by the State of Ohio to provide decent, safe, and sanitary housing for low-income households. Its name was changed to the Lucas Metropolitan Housing Authority in 1975. The Authority's mission is to create quality housing opportunities, build communities through collaborative partnerships, and develop the neighborhoods of tomorrow for the people of today.

The U.S. Department of Housing and Urban Development (HUD) established the public housing program to provide decent and safe housing for eligible low-income families, the elderly, and persons with disabilities. HUD provides funds to local housing agencies that manage housing for low-income residents at rents they can afford. The Public Housing Operating Fund program was developed under section 9(e), and the Public Housing Capital Fund program was developed under section 9(d) of the Housing Act of 1937 as amended. Capital and operating funds are made available to housing authorities to carry out capital and management activities.

HUD authorized the Authority the following assistance for its Public Housing Operating and Capital Fund programs for calendar years 2014 and 2015:

Calendar year	Operating Fund program	Capital Fund program
2014	\$10,774,768	\$4,208,671
2015	10,805,378	4,124,123
Totals	<u>21,580,146</u>	<u>8,332,794</u>

The objective of the audit was to determine whether the Authority complied with HUD's and its own procurement requirements.

Results of Audit

Finding: The Authority Did Not Always Comply With HUD's and Its Own Procurement Requirements

The Authority did not always comply with HUD's and its own procurement requirements. Specifically, it did not (1) competitively award two contracts and (2) include the required minimum and maximum amounts in its indefinite-quantity contracts. These deficiencies occurred because the Authority disregarded HUD's and its own procurement requirements. As a result, (1) the Authority inappropriately spent more than \$276,000 on contracts that were awarded without competition and (2) HUD and the Authority lacked assurance that nearly \$410,000 in capital funds would be used appropriately.

The Authority Did Not Competitively Procure Two Projects

We reviewed 26 contracts² totaling more than \$2.5 million to review for compliance with HUD's and the Authority's procurement requirements. Of the 26 contracts reviewed, 2 projects (housing unit renovations and air conditioning installations) were not competitively procured.

Housing Unit Renovation Project

On June 4, 2015, the Authority issued an invitation for bids for its housing unit renovation project. However, when it became aware that there would be only one potential bidder, it canceled the solicitation before the public bid opening. The Authority then negotiated a task letter,³ under its ongoing indefinite-quantity contract⁴ with the same potential bidder.

The indefinite-quantity contract included a not to exceed amount of \$250,000.⁵ On September 22, 2015, the Authority's board approved a resolution to increase the not to exceed amount of the indefinite-quantity contract to \$500,000. On October 1, 2015, the Authority's director of real estate development and modernization approved the task letter for the housing unit renovations project in the amount of \$488,605 without approval from the Authority's board as required by its own policies.⁶ Further, the Authority did not prepare a cost analysis⁷ to ensure that the price it paid for the housing unit renovations was reasonable. See the table below for a summary of funds that had not been disbursed as of July 21, 2016, for the housing unit renovations awarded under indefinite-quantity contract.

² Our methodology for the selection of the contract is explained in the Scope and Methodology section of this audit report.

³ HUD Handbook 7460.8, REV-2, paragraph 1.9

⁴ The indefinite-quantity contract was executed on June 8, 2015, after evaluating proposals. The contract was for maintenance and small construction services for the Authority's vacant and occupied units. Under the contract, the Authority would award work to the contractor through negotiated task letters.

⁵ HUD Handbook 7460.8, REV-2, paragraph 10.1.C.3.a.iii

⁶ Section III.B.1 of the Authority's procurement policy

⁷ HUD Handbook 7460.8, REV-2, paragraph 10.3.C.7

	Housing unit renovations
Task letter amount	\$488,605
Less: funds disbursed through July 21, 2016	84,479
Funds not disbursed through July 21, 2016	<u>404,126</u>

Further, the Authority awarded four additional task letters to the same contractor for kitchen renovations at several of its housing projects under the indefinite-quantity contract. The four task letters totaled \$53,196. Although the task letters were appropriately awarded, along with the task letter for the housing unit renovations, the amount of work awarded to the contractor was \$541,801 (\$488,605 + \$53,196), exceeding the indefinite-quantity contract’s limit by \$41,801. Of the \$41,801, the Authority paid \$36,264 and obligated \$5,537 as of July 21, 2016.

Air Conditioning Installation Project

For the Authority’s air conditioning installation project, it initially awarded an indefinite-quantity contract after evaluating quotations for heating, ventilation, and air conditioning services. The Authority entered into a firm fixed-price contract for \$155,934, which required it to use the sealed bids procurement method.⁸ The Authority believed it could award the air conditioning unit installations contract without competition because it had an indefinite-quantity contract in place with the same contractor. Further, the Authority’s construction manager stated that the Authority did not realize that the contractor’s services were initially procured through a request for quotations when they needed to use a sealed bid process. As a result, the Authority paid \$155,934 for work that did not receive competition as required by its policy and HUD regulations.

The Authority Did Not Include Minimum and Maximum Amounts in Its Indefinite-Quantity Contracts

Contrary to HUD’s requirements,⁹ all of the Authority’s indefinite-quantity contracts we reviewed did not state the minimum and maximum quantity of supplies and services that it would be required to order. From January 1, 2014, through December 31, 2015, it had 141 active indefinite-quantity contracts. The Authority’s former executive director said that the Authority had mistakenly overlooked HUD’s requirement. As a result of our audit, the Authority had begun including the required amounts in its indefinite-quantity contracts.

The Authority Disregarded HUD’s and Its Own Procurement Requirements

The Authority disregarded HUD’s and its own procurement requirements. For instance, regarding the housing unit renovation project, correspondence between the Authority’s manager

⁸ Section III.B.4c of the Authority’s procurement policy

⁹ Handbook 7460.8, REV-2, paragraph 10.1.C.3.a.iii(A)

of modernization and former deputy executive director expressed concern that HUD would not approve the only bid received for the project because it would not consider the lack of competition in an urban area as a valid reason to award a contract without competition. In addition, the Authority was concerned that it would lose funding if it did not obligate its capital funds before the obligation deadline. Therefore, the Authority bypassed HUD's procurement requirements and used task letters to award the work under an indefinite-quantity contract for maintenance and small construction.

Conclusion

The weaknesses described above occurred because the Authority disregarded HUD's and its own procurement requirements. As a result, (1) the Authority inappropriately spent more than \$276,000 on contracts that were awarded without competition and (2) HUD and the Authority lacked assurance that nearly \$410,000 in capital funds would be used appropriately.

Recommendations

We recommend that the Director of HUD's Cleveland Office of Public and Indian Housing require the Authority to

- 1A. Reimburse its Public Housing Capital Fund program \$84,479 from non-Federal funds for expenditures for its task letter that was issued for the housing unit renovations project.
- 1B. Deobligate the remaining \$404,126 from its task letter for the housing unit renovations project.
- 1C. Reimburse its Public Housing Capital Fund program \$36,264 from non-Federal funds for disbursements made for the kitchen renovations projects that exceeded the not to exceed amount of its indefinite-quantity contract.
- 1D. Deobligate the remaining \$5,537 from its task letter for the kitchen renovations projects that exceeded the not to exceed amount of its indefinite-quantity contract.
- 1E. Reimburse its Public Housing Capital Fund program \$155,934 from non-Federal funds for the air conditioning unit installation project that was not competitively procured.
- 1F. Implement adequate quality control policies and procedures, including but not limited to providing training to its staff to ensure that its contracts are procured and executed in accordance with HUD's requirements and its own procurement policy.

Scope and Methodology

We performed our audit work from February through July 2016 at the Authority's offices located at 435 Nebraska Avenue and 201 Belmont Avenue, Toledo, OH. The audit covered the period January 1, 2014, through December 31, 2015, and was expanded as necessary.

To accomplish our objective, we reviewed

- Applicable laws; the Federal Register; Federal regulations at 2 CFR (Code of Federal Regulations) Parts 200 and 225; HUD's regulations at 24 CFR Parts 85, 905, 960, and 990; Office of Public and Indian Housing notices; HUD Procurement Handbook 7460.8, REV-2; and HUD Guidebook 7510.1.
- The Authority's 5-year and annual action plans; Capital Fund 5-year action plan; accounting records; annual audited financial statement for fiscal year 2014; bank statements; contract and procurement files; contract agreements; policies and procedures; organizational charts; board meeting minutes for January 2014 through December 2015; and program annual contributions contract with HUD and amendments.
- HUD's files for the Authority.

In addition, we interviewed the Authority's and HUD's staff.

We selected a nonrepresentative sample of 26¹⁰ contracts to review, which the Authority paid for using operating and capital funds. We selected our sample based on (1) the dollar amount of the contract, (2) the timing of the procurement, and (3) a review of the Authority's board of commissioners' meeting minutes.¹¹ The Authority's list of contracts included indefinite-quantity contracts. Therefore, we reviewed the Authority's check register and general ledger to determine the amount and source of funds disbursed to each contractor that had at least one indefinite-quantity contract during the audit period. We combined the disbursements made to each contractor that were included in the Authority's check register to establish the total amount of operating and capital funds disbursed to contractors during the audit period. We determined that based on the contractors included on the Authority's list, the total amount of operating and capital funds disbursed during the audit period totaled more than \$11.6 million. The contracts selected for review totaled more than \$2.5 million, which represented 22 percent of the total amount of operating and capital funds disbursed.

¹⁰ We initially selected 18 contracts to review. However, the solicitations that were used to award five of the contracts initially selected for review resulted in eight additional contracts awarded. We decided to review the additional eight contracts, along with the 18 that were selected. Three contracts we reviewed had no funds disbursed. We do not intend to project our results to the universe.

¹¹ We selected a nonrepresentative sample because we knew enough about the universe to select higher risk procurements. In this case, high risk was determined based on amount and nature of the contract, board approval, and timing of the procurement action.

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 finding 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

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:

- Policies and procedures to ensure that the Authority used its public housing operating and capital funds in accordance with HUD requirements.

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 significant deficiency:

- The Authority lacked adequate controls to ensure it did not disregard HUD's and its own procurement requirements.

Separate Communication of Minor Deficiencies

We reported minor deficiencies to both HUD and the auditee separately in a memorandum issued on September 30, 2016.

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$84,479	
1B		\$404,126
1C	36,264	
1D		5,537
1E	155,934	
Totals	276,677	409,663

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, implementation of our recommendation will deobligate unreasonable amounts of capital funds and make them available for eligible uses.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1



Office of the President and CEO

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September 19, 2016

Kelly Anderson
Regional Inspector General for Audit
United States Department of HUD-Office of Inspector General
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Room 2201
Chicago, IL 60604

RE: Response of LMHA to Audit by Office of Inspector General

Dear Ms. Anderson:

Lucas Metropolitan Housing Authority (LMHA) provides this response to the audit done by your office. The purpose of this response is to confirm to your office LMHA has already begun implementing the recommendations of the audit. LMHA, also, provides this response to request the calculation of funds identified as being "at-risk" be reconsidered.

Air Condition Installation Project

While LMHA acknowledges the audit has identified control deficiency in its procurement process. It disputes, however, the financial impact calculation contained in the report.

The Authority entered into a contract regarding the installation of air conditioning under a request for quotation. There is no dispute a Request for Quotation procurement is permitted for this type of work up to \$50,000, under LMHA's policy, and up to \$100,000, under HUD's Procurement Handbook.

Given these undisputed facts, LMHA contends the ineligible costs related to this finding are less than the \$155,934. As seen in the calculations set forth below, LMHA asserts the proper amount of ineligible costs should either be \$55,934 or \$105,934.

Stated Ineligible Cost per Finding	\$155,934
HUD Request for Quotations Threshold ¹	(\$100,000)
Adjusted Ineligible Cost	\$55,934
Stated Ineligible Cost per Finding	\$155,934
LMHA Request for Quotations Threshold ²	(\$50,000)

¹ Handbook No. 7460.8 REV 2, paragraph 5.2
² Statement of Procurement of Procurement Policy, Section 3.B.1.

Martin H. LaMar, President and Chief Executive Officer
Board of Commissioners

William J. Brennan, *Chairman*, Barbara J. Fuqua, *Vice Chairman*, Hugh W. Grefe, James A. Peppers, Alisha M. Gant



Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comments 2 and 3

Comment 4

Comment 2



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Adjusted Ineligible Cost	\$105,934
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Housing Unit Renovations

A. Housing Unit Renovations Ineligible Cost

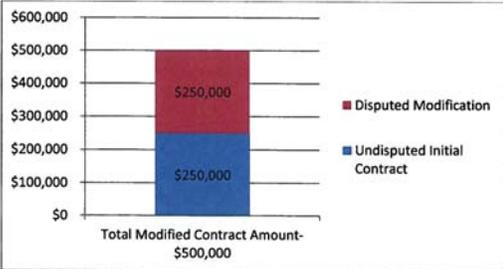
LMHA also acknowledges this finding identified a control deficiency. However, LMHA challenges the calculation of the ineligible cost and disputes the notion it did not prepare a cost estimate (Exhibit A, at 20).

The audit and LMHA agree, LMHA entered into a valid, correctly procured indefinite quantity contract on June 8, 2015. (Exhibit B). That contract authorized LMHA to spend \$250,000 towards the much needed renovations.

The finding focuses on a modification of that contract. LMHA intended to modify the contract to increase the authorized amount of the contract by \$250,000, to make the spending cap for the entire renovations \$500,000. Although the finding identified problems with the modification process, it did not identify a problem with the original authorization for \$250,000.

For that reason, LMHA contends it was still authorized to spend up to \$250,000 on the renovations. LMHA, therefore, believes services procured less than the original \$250,000 amount were properly obtained, and the \$120,743 spent on the renovations was not an ineligible cost.

1. Illustration of the Original Undisputed Contract vs. the Disputed Contract Modification.



Category	Amount
Undisputed Initial Contract	\$250,000
Disputed Modification	\$250,000
Total Modified Contract Amount	\$500,000

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Auditee Comments and OIG's Evaluation

Ref to OIG
Evaluation

Auditee Comments

Comment 2

Comment 5

Comment 6



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2. Calculation of the Disputed Ineligible Cost

1A From Discussion Draft Audit Report	\$84,479
1C From Discussion Draft Audit Report	\$36,264
Disputed Ineligible Cost	\$120,743

B. Housing Unit Renovations "Funds to Be Put to Better Use"

LMHA agrees a portion of funds used for this project would be subject to being put to a better use pursuant to this finding. LMHA challenges the conclusion \$409,663 would be subject to that finding. Instead, LMHA suggests only \$280,000 would be subject to that finding.

LMHA's calculation is consistent with the logic set forth above that \$250,000 was properly allocated. Given that premise only funds spent above that amount would be an ineligible cost. As set forth below, LMHA calculates the funds to be put to better use as being \$280,406.

1A From Discussion Draft Audit Report	\$84,479	A
1C From Discussion Draft Audit Report	\$36,264	B
Disputed Ineligible Cost from Renovation Project	\$120,743	C=(A+B)
Undisputed Initial Contract Amount	\$250,000	D
Amount of left (Spending Authority for more renovations)	\$129,257	E=D-C
Appendix A From Discussion Draft Audit Report-Amount of the Funds to Be Put to Better Use	\$409,663	F
LMHA's Calculation of the Funds to Be Put to Better Use	\$280,406	(F-E)

Management Action Plan

LMHA agrees the audit process has identified control deficiencies in how it procured services. The Inspector General's team has provided LMHA with recommendations to correct those deficiencies. To implement those recommendations and ensure that its contracts are procured and executed in accordance with its and HUD's requirements, LMHA will take the following steps:

- Change leadership
- LMHA Team Training
- Procurement Process Automation
- Change Procurement Process and Policy
- Utilize HUD Field Office Guidance

Martin H. LaMar, President and Chief Executive Officer
Board of Commissioners

William J. Brennan, *Chairman*, Barbara J. Fuqua, *Vice Chairman*, Hugh W. Grefe, James A. Peppers, Alisha M. Gant



Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 6



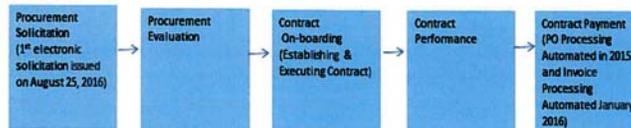
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- Update Procedures on Single Response Bids
- Update Contract Language to Include Maximum and Minimum Amounts
- Independent External Review of Procurement Process and Policy

Because LMHA takes seriously the need to improve its procurement process, it has already begun implementing the above recommended changes. Specifically, LMHA has done, and will do, the follows:

- Change Leadership- LMHA's Board of Commissioners selected a new Executive Director in late July. LMHA is committed to improving all phases of its operations including the Procurement process.
- Training - LMHA is committed to continuous training and improvement. All LMHA staff involved in the procurement process will attend HUD Capital Fund Training. They also will attend other applicable training that would help LMHA implement the recommended controls to the procurement process. (See Exhibit C).
- Procurement Automation- LMHA is committed in automating the Procurement Process as diagramed below:



(See Exhibit D and E.)

- Consistent Communication with HUD Field Office LMHA is committed to a improving it communication with the HUD field office. LMHA recognizes that asking questions before or during the procurement process can avoid problems from occurring, especially for unusual, risky or difficult procurement issues. (See Exhibit F).
- Modify Contract Language - LMHA has revised the terms of its standard indefinite quantity contracts to include language setting maximum and minimum amounts. These improvements have already been provided to the Inspector General.

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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 6



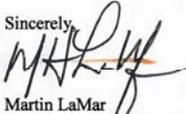
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- Update Policy on Single Response Bids - LMHA will update its policy to include more specific guidance on what to do when it receives a single response bid. This will ensure LMHA employees will know how to deal with high risk procurements, so that they will procure services and products appropriately.
- Amend Procurement Process and Policy - LMHA will update the procurement process and policy based upon this audit report, an internal review, and the independent review stated above. This updated policy will incorporate the recommendations from these reviews, especially those that focus on compliance and operational efficiency. LMHA will also update the operational process and assess the department to determine if any restructuring is required to ensure efficiency and compliance.
- Independent External Review of Procurement Process and Policy - LMHA will hire an independent third-party to review its procurement process and policy and to identify weakness, recommend solutions, and propose how those solutions should be implemented. LMHA will then timely implement those recommendations to ensure that it is more efficient and effective at meeting procurement requirements.

In conclusion, LMHA is moving forward and will use the results of the audit to revise anything problematic. Please contact me if you have a question or need additional information.

Sincerely,

Martin LaMar
President and CEO
Lucas Metropolitan Housing Authority

cc. K. Anderson kanderson@hudoig.gov
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Martin H. LaMar, President and Chief Executive Officer
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EQUAL HOUSING
OPPORTUNITY

OIG Evaluation of Auditee Comments

Comment 1 The Authority contends that it did not agree with our calculation of the questioned costs regarding the air conditioning installation project. Specifically, the \$155,934 ineligible for the project should be reduced by the maximum amounts allowable for small purchase procurements under the Authority's own policy or HUD Handbook 7460.8 REV-2. The Authority's small purchase threshold is \$50,000 and the small purchase threshold specified in HUD Handbook 7460.8 REV-2 is \$100,000.

We disagree. As stated in the audit report, the Authority entered into a firm fixed-price agreement with a contractor to install air conditioning units without allowing for competition. According to the Authority's procurement policy, the Authority was required to use the sealed bids method for procuring supplies and services in excess of its small purchase threshold of \$50,000. This requirement applied to the entire amount of the procurement. It is done to ensure that the cost is reasonable. Reducing the amount that we question as reasonable defeats the purpose of setting the threshold. Without conducting this procurement in a manner that provided full and open competition, HUD and the Authority lacked assurance that the amount that the Authority paid for the contract was reasonable. Therefore, the amount of the entire contract (task letter) represented in the audit report will remain.

Comment 2 The Authority contends that it did not agree with our calculation of questioned costs regarding the housing unit renovations project. Specifically, the Authority stated that since it was originally authorized to spend up to \$250,000 under its indefinite-quantity contract, the \$120,743 that was disbursed (\$84,479 for the housing unit renovations project and \$36,264 for the kitchen renovations project) falls under the initial \$250,000 limit and should not be questioned. The Authority provided a copy of the indefinite-quantity contract that was executed on June 8, 2015, as exhibit B along with its comments.

We disagree. The Authority did not comply with HUD's and its own procurement requirements when it canceled the invitation for bids for the project and awarded it to the contractor as a task letter under the indefinite-quantity contract without competition. Although the task letter for the housing unit renovations project was awarded under the indefinite-quantity contract, the task letter itself was a separate contract. Since the amount of the task letter exceeded the Authority's small purchase threshold of \$50,000 the project should have been competitively procured. The amount of \$120,743 questioned in the audit report will remain.

Comment 3 The Authority disputes that it did not prepare a cost estimate for its housing unit renovations project. The Authority referenced page 20 of exhibit A that was provided along with its comments.

The draft audit report did not state that the Authority did not prepare a cost estimate for its housing unit renovations project. However, the report did state that the Authority did not prepare a cost analysis to ensure that the price it paid for the housing unit renovations was reasonable. The Authority did not provide documentation to support that a cost analysis was conducted in accordance with HUD Handbook 7460.8 REV-2, paragraph 10.3.D.3.

Page 20 of exhibit A, which was provided by the Authority, referred to a document that showed the starting and completion dates that were proposed by the contractor for the housing unit renovations project. We did not include page 20 of exhibit A in the report because it was not necessary to understand the Authority's comments. However, it is available upon request.

Comment 4 The Authority contends that it had intended to increase the indefinite-quantity contract limit to \$500,000 to accommodate the entire housing unit renovations project. Exhibit A was provided along with the Authority's comments.

Page 2 of exhibit A showed that the Authority's director of real estate development and modernization approved the housing unit renovations task letter on October 1, 2015. The director's approval occurred after the Authority's board approved the resolution to increase the indefinite-quantity contract limit to \$500,000 on September 22, 2015. The task letter provided by the Authority did not impact the finding because the Authority still awarded the housing unit renovations project without competition. Nonetheless, the report was updated to reflect that the board approved the increase of the indefinite-quantity contract limit **before** the housing unit renovations task letter was approved by the director. We did not document page 2 of exhibit A in the report because it was not necessary to understand the Authority's comments. However, it is available upon request.

Comment 5 The Authority contends that it did not agree with our calculation of funds to be put to better use. The amount reported as funds to be put to better use relates to capital funding that had been obligated, but not yet disbursed, for the housing units and kitchen renovation projects that did not fully comply with either HUD's or the Authority's procurement requirements. Therefore, the amount reported as funds to be put to better use will remain.

Comment 6 The Authority contends that it will take necessary steps to ensure that its contracts are procured and executed in accordance with its and HUD's requirements. It provided exhibits C through F, along with its written comments. We commend the Authority for its willingness to implement our recommendations. The Authority should work with HUD to ensure that the actions taken will address the deficiencies cited in the audit report. We did not include exhibits C through F in the report because they were not necessary to understand the Authority's comments. However, the exhibits are available upon request.

Appendix C

HUD's and the Authority's Procurement Requirements

HUD's regulations at 24 CFR 85.36(c)(1) state that all procurement transactions must be conducted in a manner providing full and open competition.

HUD Handbook 7460.8, REV-2, paragraph 1.9, states that contracts include job orders or task letters issued under basic ordering agreements, requirement contracts, or definite- or indefinite-quantity contracts.

HUD Handbook 7460.8 REV-2, paragraph 10.1.C.3.a.iii, states that indefinite-quantity contracts provide for delivery of an indefinite quantity, within stated limits (a minimum and maximum quantity), of supplies or services during a fixed period. Quantity limits may be stated in the contract as number of units or as dollar values. PHAs may use an indefinite-quantity contract when they cannot predetermine, above a specified minimum, the precise quantities of supplies or services that they will require during the contract period.

HUD Handbook 7460.8, REV-2, paragraph 10.1.C.3.a.iii(A), states that the indefinite-quantity contract must require the public housing agency to order and the contractor to furnish at least a stated minimum quantity of supplies and services. In addition, if ordered, the contractor must furnish any additional quantities, not to exceed the stated maximum.

HUD Handbook 7460.8, REV-2, paragraph 10.3.C.7, states that construction contracts awarded using any method other than sealed bidding and modifications to construction contracts require cost analysis.

Section III.B.1 of the Authority's procurement policy states any contract not exceeding \$50,000 may be made in accordance with small purchase procedures. However, any contract exceeding \$50,000 must be approved by the board of commissioners.

Section III.B.4b of the Authority's procurement policy states that for purchases between \$10,001 and \$50,000, a minimum of three price quotations submitted in writing is required.

Section III.B.4c of the Authority's procurement policy states that purchases exceeding \$50,000 must use the sealed bids procedure.