Housing Authority of the City of Long Beach, CA

Housing Choice Voucher Program

Office of Audit, Region 9
Los Angeles, CA

Audit Report Number: 2020-LA-1002
March 5, 2020

To: Marcie Chavez, Director, Office of Public Housing, Los Angeles, CA, 9DPH

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: The Housing Authority of the City of Long Beach, CA, Did Not Administer Its Housing Choice Voucher Program in Accordance With HUD 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 Housing Authority of the City of Long Beach's Housing Choice Voucher 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, Appendix 8M, requires that OIG post its 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 213-534-2471.

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The Housing Authority of the City of Long Beach, CA, Did Not Administer Its Housing Choice Voucher Program in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the Housing Authority of the City Long Beach's Housing Choice Voucher Program based on a referral from the U.S. Department of Housing and Urban Development's (HUD) Los Angeles Office of Public Housing due to concerns regarding its financial activity control weaknesses. The objective of the audit was to determine whether the Authority administered its Housing Choice Voucher Program in accordance with Program requirements, with an emphasis on its financial transactions, cost and payroll allocations, contracting, and procurement.

What We Found

The Authority did not follow Program requirements under 2 CFR (Code of Federal Regulations) 200 and 24 CFR 982 in administering its Housing Choice Voucher Program. It did not adequately support or perform overhead allocations, follow procurement requirements, or ensure that costs were eligible. As a result, HUD had no assurance that Housing Choice Voucher Program funds totaling more than $2.4 million were appropriately used for the operation of the Program. In addition $5,648 was not used for eligible Program expenses.

What We Recommend

We recommend that the Director of the Los Angeles Office of Public Housing require the Authority to (1) develop and implement a HUD-approved cost allocation plan(s), (2) support the reasonableness of more than $1.9 million in overhead allocations[1] or repay the Housing Choice Voucher Program from non-Federal funds, (3) determine how much of the general operating costs applied to the Housing Choice Voucher Program and repay potential overcharges (estimated at $50,947) to the Program from non-Federal funds, (4) support or repay $25,827 in personnel expenses and $64,150 for accounting services that applied to other programs from non-Federal funds, (5) support the reasonableness of the $340,701 Casterline and $33,415 Genesis contract amounts or repay the Program from non-Federal funds, (6) implement additional written procurement and contracting policies and procedures, and (7) repay the Housing Choice Voucher Program for $5,648 in unallowable expenses from non-Federal funds.

[1] The Authority reimbursed $183,251 to the Housing Choice Voucher program, but did not adequately indicate to which of the questioned costs it was applicable. Offsets to the questioned costs may be applied once a correct allocation and reconciliation is performed.

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Background and Objective

The Housing Choice Voucher Program is the U.S. Department of Housing and Urban Development's (HUD) major program for assisting very low-income families, the elderly, and the disabled in affording decent, safe, and sanitary housing in the private market. Housing assistance is provided on behalf of the family or individual so participants are able to find their own housing, including single-family homes, townhouses, and apartments. The vouchers are administered locally by public housing agencies, which receive Federal funds from HUD to administer the Program.

The Authority is part of the City of Long Beach and is one of seven bureaus managed by the City's Health and Human Services (HHS) department. The Authority administers the City's rental housing assistance programs, including

- the Housing Choice Voucher Program,
- Housing Opportunities for Persons With Aids (HOPWA),
- Veteran's Affairs Supportive Housing (VASH), and
- the Shelter Plus Care (SPC) and Homeless Assistance Program in conjunction with the Health Department's Continuum of Care Program (CoC).

These assistance programs are designed to provide financial and technical assistance services to low-income, elderly, and disabled residents of Long Beach so they can live with dignity in decent, safe, and sanitary housing conditions. The Authority works in partnership with more than 2,600 property owners and assists more than 6,800 households that lease units in Long Beach. Authority records show more than $182.9 million in housing assistance payments for its Housing Choice Voucher Program from fiscal years 2016 to 2018, as shown in the table below.

Housing assistance payments	Amount
Fiscal year 2016	$55,314,102
Fiscal year 2017	61,057,248
Fiscal year 2018	66,547,993
Total	**182,919,343**

HUD's Departmental Enforcement Center conducted an onsite review of the Authority from March 28 to 30, 2017. The scope of the review was October 1, 2014, to September 30, 2016. The focus was on whether the Authority had the administrative capacity to reach optimal utilization of its Housing Choice Voucher Program and to assess its financial and administrative management systems in accordance with 2 CFR (Code of Federal Regulations) part 200. The review identified several issues, including concerns with cost allocations, procurement, and minor inappropriate costs. These concerns were referred to the Office of Inspector General (OIG) by the Los Angeles Office of Public Housing.

Our audit objective was to determine whether the Authority administered its Housing Choice Voucher Program in accordance with Program requirements under 2 CFR 200 and 24 CFR 982, with an emphasis on its financial transactions, cost and payroll allocations, contracting, and procurement.

Results of Audit

Finding 1: The Authority Did Not Allocate Costs in Accordance With Program Requirements

The Authority did not follow Program requirements for allocating overhead, general operating, payroll, and accounting service costs. This condition occurred because the Authority relied on City cost allocation plans, which were not in full compliance with Program requirements under 2 CFR 200 and did not fully consider that the Authority performs the majority of its own administration. The Authority also disregarded Program requirements by failing to properly allocate expenses to other programs. As a result, HUD had no assurance that Housing Choice Voucher Program funds totaling more than $1.9 million for overhead, an estimated $50,947 in general operating costs, $25,827 in personnel expenses, and up to $64,150 in accounting charges were appropriately used for the operation of the Program in accordance with 24 CFR 982.

City Overhead Was Not Allocated in Accordance With Program Requirements

The Authority did not ensure that Program requirements under 2 CFR 200.4 and 200.404 (see appendix C) were met for the assessment of City overhead. As part of the City's HHS department, the Authority was assessed a monthly or quarterly allocation for overhead costs for both the City and HHS through a City-wide cost allocation plan and an additional HHS cost allocation plan. The City-wide plan allocated costs for its various divisions, such as City Manager, City Auditor, City Clerk, Accounting, Budget, Purchasing, etc., to the City's various departments, including the Authority. Although the Authority paid its portion of the City-wide allocation directly to the City, the City-wide allocation was also incorporated into the HHS plan. HHS allocated its portion of the City-wide costs to the Authority and the other HHS bureaus, along with its own executive office costs for administration, fiscal support, and personnel support. Overall, the Authority paid more than $1.9 million from fiscal year 2015 to March 31, 2019, for overhead expenditures. These overhead costs were charged to the Housing Choice Voucher Program, although the Authority managed additional programs.[2] In addition, although the plans' methodologies appeared logical, we identified several issues:

- The City-wide plan included housing assistance payment pass-through amounts as part of its basis for some departments' allocations (City Auditor and possibly Financial Manager Control). Pass-through costs, such as housing assistance payments, should not be considered in an allocation as they inflate the applicable costs of that department.

[2] The Authority reimbursed the Housing Choice Voucher program $183,251 from the SPC and CoC programs during the audit period. However, according to the Authority, the amount was a maximum fixed percentage of housing assistance payments allowed by the program, and not based on an appropriate allocation of costs. It was therefore not clear what amounts may be applicable to the various types of overhead and administrative costs. A proper cost allocation needs to be performed to determine what portion of the reimbursement may be applicable to the $1.9 million in overhead.

According to 2 CFR part 200, appendix VIIC(3)(e), the allocation base must exclude distorting items, such as pass-through funds. (See appendix C.)

- The majority of HHS' allocation to the Authority was for Executive Office administrative expenses (approximately 85 percent). This amount was assessed evenly between HHS' five bureaus so each (including the Authority) was allocated 20 percent. The costs were, therefore, not assessed on a reasonable basis according to use.
- Over the last 4 fiscal years, the Authority paid a flat $350,000 annually for HHS' portion of the allocation, which was less than the amount allocated according to HHS' calculation. However, there was no methodology supporting how this amount was determined or whether it was reasonable.

In addition, the Authority's operation had been practically autonomous and independent from HHS, requiring minimal assistance. For example, timesheets were approved and tracked by the Authority, and invoices were processed and approved by the Authority, going to HHS only for final approval. In addition, the Authority contracted for accounting services with its housing assistance payment reimbursement transactions. Although HHS provided some administrative or managerial services, such as processing timesheets, approving payment of invoices, hiring new employees, and providing miscellaneous training, the services conducted by the City and HHS did not appear to merit the allocation of more than $1.9 million over the last 5 fiscal years. Interviews with HHS employees indicated that the average employee spent 4 to 8 hours on Authority activities per month. There appeared to be a disconnect between the allocation plans and the actual benefit received by the Authority. The Authority should develop its own cost allocation plan with HHS and the City, which reflects the benefits received.[3]

The Authority Did Not Correctly Allocate Its General Operating Expenses to Other Programs

The Authority allocated its general operating expenses to the Housing Choice Voucher Program instead of allocating a portion of the cost to its other programs. The Authority operates the following programs: Housing Choice Voucher Program, VASH,[4] HOPWA, CoC, and SPC.[5] The Authority failed to correctly allocate more than $2.5 million of its general operating expenditures among its programs for the vendors listed below within our scope:

- Building and Land Rentals – $945,495,
- Emphasys Computer Solutions, Inc. – $329,913,
- General Security Service, Inc. – $213,681, and
- Howroyd Wright Employment Agency, Inc. – more than $1 million.

We estimated the amount that should have been allocated to programs other than the Housing Choice Voucher Program based on the number of units for each of those programs. We

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[3] HHS was developing a new cost allocation plan; however, because the plan was being drafted during audit site work, we did not have an opportunity to review any planned changes.

[4] Because VASH is administered under the Housing Choice Voucher Program, we did not question the related allocation costs.

[5] We combined SPC with CoC in our analysis.

estimated that $50,947 ($19,356 + $31,591)[6] in general operating expenses should not have been absorbed by the Housing Choice Voucher Program and should have been allocated to CoC and SPC in accordance with the table below.[7] The Authority did not allocate operating costs among its programs because it believed it was unable to charge overhead to HOPWA, and that CoC and SPC costs were addressed through a fixed percentage reimbursement to the Housing Choice Voucher Program.

Combined allocation based on units

Vendor	Housing Choice Voucher Program	VASH	HOPWA	CoC-SPC	Total
Building Rental	$835,021	$91,385	$7,362	$11,727	$945,495
Emphasys Computer Solutions	291,272	31,972	2,578	4,091	329,913
General Security Service, Inc.	188,710	20,654	1,667	2,650	213,681
Howroyd Wright Employment Agency, Inc.	934,352	99,954	7,749	13,123	1,055,178
Total	**2,249,355**	**243,965**	**19,356**	**31,591**	**2,544,267**

The Authority Did Not Allocate Payroll Expenses Among Its Grant Programs

We determined that SPC was not appropriately charged for the time spent managing the program in accordance with program requirements. As a result, costs may have been absorbed by the Housing Choice Voucher Program.

The Authority performed 803 services for the SPC program within our audit scope of October 1, 2014 to March 31, 2019, including new admissions, annual and interim reexaminations, and inspections. We determined its staff spent an average of 38 minutes per service. As a result, approximately 509 hours[8] were spent performing services for the SPC participants within our scope, at an estimated average cost of $50.74 per hour. We, therefore, estimated that $25,827 in personnel expenses was not properly allocated to SPC.[9]

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6 See the HOPWA and CoC-SPC columns on the table "Combined allocation based on units" below.

7 The Authority reimbursed the Housing Choice Voucher program $183,251 from the SPC and CoC program during the audit period. However, according to the Authority, the amount was a maximum fixed percentage of housing assistance payments allowed by the program, and not based on an appropriate allocation of costs. It was therefore not clear what amounts may be applicable to the various types of overhead and administrative costs. A cost allocation needs to be performed to determine what portion of the reimbursement may be applicable to the general operating expenses.

8 803 SPC services x 38 minutes each = 30,514 minutes. 30,514 minutes / 60 minutes = 509 hours.

9 The Authority reimbursed the Housing Choice Voucher program $183,251 from the SPC and CoC programs during the audit period. However, according to the Authority, the amount was a maximum fixed percentage of housing assistance payments allowed by the program, and not based on an appropriate allocation of costs. It was therefore not clear what amounts may be applicable to the various types of overhead and administrative costs. A cost allocation needs to be performed to determine what portion of the reimbursement may be applicable to the payroll expenses.

The Authority did not track or allocate time spent on SPC because it believed the costs were adequately resolved through reimbursements by the CoC and SPC programs that were consistently based on a fixed percentage.

The Authority Did Not Correctly Allocate Its Accounting Services Expenses

The Authority did not correctly allocate its contracted accounting services expenses among its other programs. It repeatedly charged the Housing Choice Voucher Program for time spent on activities related to non-Housing Choice Voucher Program activities. This practice is a violation of 24 CFR 982.152(a)(3) and 2 CFR 200.405(b) and (d), which require that Housing Choice Voucher Program funds be used only for administrative responsibilities related to the Program[10] and appropriate allocation of indirect costs to all activities benefiting from the indirect costs incurred by the entity, respectively. (See appendix C.)

The invoices from Casterline-BDO[11] from our audit period, covering fiscal years 2015 through 2019, amounted to $436,688. Although the invoices' descriptions of work generally identified whether the accounting services were for the Housing Choice Voucher Program, HOPWA, or SPC and CoC, the costs the Authority charged to each program did not accurately reflect the applicable time worked. The Authority used Housing Choice Voucher Program funds to pay for SPC and CoC expenses. See the table below.

[10] The Authority's administrative responsibilities for the Housing Choice Voucher program are addressed throughout 24 CFR 982.

[11] Casterline was purchased by BDO in March 2018. Under BDO, Casterline continued to provide the Authority accounting services as usual.

Comparison of actual charges to invoice descriptions

Fiscal year	Invoice charges in general ledger				Actual work according to invoice description			
	Housing Choice Voucher Program	HOPWA	SPC-CoC	Total	Housing Choice Voucher Program	HOPWA	SPC-CoC[12]	Total
2015	$89,781	$4,646	$0	$94,427	$71,744	$7,386	$15,297	$94,427
2016	78,438	13,084	0	91,522	72,546	6,474	12,502	91,522
2017	94,635	5,069	0	99,704	83,162	6,028	10,515	99,705
2018	95,604	6,005	0	101,609	76,136	6,653	18,821	101,610
2019	46,393	3,033	0	49,426	37,113	3,033	9,279	49,425
Total	**404,851**	**31,837**	**0**	**436,688**	**340,701**	**29,573**	**66,414**	**436,689**[13]

Based on all of the reviewed invoices from Casterline-BDO covering fiscal years 2015 through 2019, the Authority may have undercharged SPC and CoC approximately $66,414.[14] This condition resulted in possible overcharges to the Housing Choice Voucher Program and HOPWA of up to $64,150 and $2,264, respectively. See the table below.

Program	Actual charges to the general ledger	Appropriate charges according to invoices	Overcharge or undercharge
Housing Choice Voucher Program	$404,851	$340,701	$64,150
HOPWA	31,837	29,573	2,264
SPC-CoC	0	66,414	(66,414)
Total	**436,688**	**436,688**	**0**

The Authority did not correctly allocate accounting services in accordance with program requirements because it believed the costs were addressed through a reimbursement from the CoC and SPC programs that were consistently based on a fixed percentage.

12 Although the invoices stated that they included non-Housing Choice Voucher Program activities, some charges may have also contained and mixed time spent on the Housing Choice Voucher Program. Casterline-BDO failed to specify how much time was spent on each of the programs listed in the related descriptions provided in the invoices. As a result, we determined that the questionable costs were unsupported rather than ineligible.

13 Figures may not add to totals (off by $1) due to rounding.

14 The Authority reimbursed the Housing Choice Voucher program $183,251 from the SPC and CoC program during the audit period. However, according to the Authority, the amount was a maximum fixed percentage of housing assistance payments allowed by the program, not based on an appropriate allocation of costs. It was therefore not clear what amounts may be applicable to the various types of overhead and administrative costs. A cost allocation needs to be performed to determine what portion of the reimbursement may be applicable to the accounting expenses.

Conclusion

The Authority did not follow Program requirements for the assessment of overhead. It relied on City and HHS overhead cost allocation plans, prepared by consultants that did not fully consider that the Authority performs the majority of its own administration. In addition, the Authority disregarded Program requirements by failing to properly allocate its operating costs, payroll, and accounting services to its other programs. It believed the amounts applicable to those other programs either could not be charged to those programs or were addressed through a fixed percentage reimbursement. A well-developed allocation plan would disperse the operating expenses to the programs managed by the Authority to correspond to the benefit received. As a result of the issues identified above, HUD had no assurance that Housing Choice Voucher Program funds of more than $1.9 million for overhead, an estimated $50,947 (of the more than $2.5 million) in general operating costs, $25,827 in personnel expenses, and up to $64,150 in potential accounting overcharges were appropriately used for the operation of the Program.[15] The questionable uses of Housing Choice Voucher funds left less funding available to effectively administer the program and will put future funding awarded to the Authority at risk.

Recommendations

We recommend that the Director of the Los Angeles Office of Public Housing require the Authority to

1A. Develop and implement a HUD-approved cost allocation plan(s) that appropriately represents the benefit received by the Authority from the City's HHS department and allocates overhead and operating costs to all programs managed by the Authority.

1B. Support the eligibility of the $1,965,990 in overhead allocations through the application of a HUD-approved allocation plan (including offsetting the amount by applicable reimbursements) or repay the Housing Choice Voucher Program from non-Federal funds.

1C. Determine the appropriate amount of general operating costs totaling $2,544,266 that applied to the Housing Choice Voucher Program in accordance with a HUD-approved cost allocation plan (including offsetting the amount by applicable reimbursements) and repay overcharges (estimated at $50,947) to the Program from the other applicable programs as appropriate[16] or from non-Federal funds.

1D. Support the eligibility of the $25,827 in personnel expenses from SPC (including offsetting the amount by applicable reimbursements) or repay its Housing Choice

[15] The Authority reimbursed the Housing Choice Voucher program $183,251 from the SPC and CoC program during the audit period. However, according to the Authority, the amount was a maximum fixed percentage of housing assistance payments allowed by the program for reimbursement, and not based on an appropriate allocation of costs. It was therefore not clear what amounts may be applicable to the various types of overhead and administrative costs. A cost allocation needs to be performed to determine what portion of the reimbursement may be applicable to the various questioned costs.

[16] Amounts applicable to closed prior-year grants may no longer be paid from those programs.

Voucher Program from the other applicable programs as appropriate or from non-Federal funds.

1E. Support the eligibility of the $64,150 for accounting services[17] charged to the Housing Choice Voucher Program that applied to other Authority programs (including offsetting the amount by applicable reimbursements) or repay the Program from the other applicable programs as appropriate[18] or from non-Federal funds.

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[17] The Casterline accounting services contract amounts were also questioned as part of finding 2, recommendation 2A.

[18] Amounts applicable to closed prior-year grants may no longer be paid from those programs.

Finding 2: The Authority Did Not Properly Procure for Accounting and Professional Consulting Services

The Authority did not properly procure for accounting and professional consulting service contracts in accordance with Program requirements under 2 CFR 200.320 and .323. (See appendix C.) It did not take sufficient corrective actions when it did not receive an adequate number of proper bids, improperly sole sourced without sufficient justification, and failed to develop and maintain all procurement documentation. This condition occurred because the Authority relied on City procurement policies, which did not consider all Program requirements, and the City's documentation retention policies to maintain its records. As a result, HUD had no assurance that the Authority obtained services costing $470,103 in a competitive manner and at a reasonable cost.

The Authority Did Not Adequately Procure Services

We identified procurement issues with two of four Authority contractors[19] selected for review, including Casterline Associates-BDO[20] accounting contracts over multiple years[21] and its Genesis Work, Inc., consulting contract.

Casterline-BDO Procurement

The Authority did not obtain an adequate number of bids from qualified vendors when selecting Casterline Associates-BDO for professional accounting services. It also did not complete the required independent cost estimates as required by 2 CFR 200.323(a) and City Administrative Regulation AR 23-3, issue 7, procurement policies and procedures (appendix C). The procurement and contracting files provided by the City and Authority did not include bids or proposals from other vendors or sufficient documentation. The Authority advertised for bids through a website as part of its two procurements in our audit period; however, when an inadequate number of bids were received to provide sufficient competition, the Authority took no remedial action.

The Authority paid $436,688 to Casterline for professional accounting services within our scope (October 1, 2015, to March 31, 2019), including $340,701 charged to the Housing Choice Voucher Program and $31,837 charged to HOPWA. Casterline had provided the Authority with comprehensive accounting services since 1999. It was responsible for all of the accounting for the Authority, including preparation of support for journal entries for all programs. Casterline entered information into HUD's systems and tracked and calculated information for monthly housing assistance payment revenue and expense worksheets. With the exception of the accounting costs not being allocated to other Authority programs (see finding 1), the expenditures reviewed generally appeared to be eligible.

[19] We identified no issues with the Authority's Emphasys Computer and building and land rental contracts.

[20] BDO USA, LLP, acquired Casterline Associates in March 2018. Under BDO, Casterline continued to provide the Authority accounting services as usual.

[21] Includes charges of $404,851 to the Housing Choice Voucher Program and $31,837 to HOPWA.

However, the Authority's two procurement actions for accounting services each only produced one bid for the services. This practice violated 2 CFR 200.320(d)(2), which states, "Proposals must be solicited from an adequate number of qualified sources." (See appendix C.)

- The City executed a 1-year contract with Casterline, effective February 11, 2014, with two 1-year renewal options. The 2014 Request for Proposal (RFP) HE14-021 was posted on December 13, 2013. Only one proposal was received, and it was from Casterline (December 31, 2013).
- A new contract was executed with an effective date of October 1, 2017, with a 1-year renewal option, which was in effect during our audit. The 2017 RFP HE14-050 was advertised in a local newspaper. Only Casterline showed a bid amount for the proposal in the City's electronic bid system. The Authority provided additional documentation with only partial bid information from Sotomayor & Associates, LLP, with no bid amount identified. In addition, a third bid was provided for Onisko & Scholz, LLP for an annual amount lower than Casterline's bid ($105,000 versus Casterline's $112,217). There was no analysis justifying why it went with the higher bid.

The Authority generally relied on the City's policies and procedures, which did not detail what should be done in cases in which an inadequate number of bids were obtained through an RFP. The Authority also lacked sufficient procedures and controls to ensure that independent cost estimates were prepared. In addition, it relied on the City to maintain its procurement records.

Genesis Work, Inc., Procurement

The Authority did not follow HUD requirements in its selection of Genesis Work, Inc. The Authority treated the procurement as a single-source vendor[22] rather than putting the contract out for bid. Its support to justify the single-source selection of Genesis included only the consultant's qualifications on City forms with corresponding City approvals, which was inadequate. It did not properly document that the selection met program requirements under 24 CFR 200.320(f), that the service was only available from a single source or that competition was determined to be inadequate. (See appendix C.) One document provided certified that the information stated was correct and in compliance with the City's procurement requirements in AR 23-3, Issue 7 IV. Procedures: D. Sole Source Selections. (See appendix C.) Although the Authority may have complied with City requirements, it did not necessarily comply with Federal requirements. In addition, the Authority did not complete an independent cost estimate or cost and price analysis as required by 2 CFR 200.323(a) and City requirements. (See appendix C.)

The Authority paid $33,415 to Genesis for consulting services within our scope (October 1, 2015, to March 31, 2019). Genesis is a California corporation that specializes in consulting and leadership coaching and had served other government entities. Genesis provided management coaching and team building assistance, which generally appeared to be an eligible activity. However, because the services were not obtained through a competitive process, it

[22] The procurement of a single-source vendor refers to the selection of a particular vendor without following a competitive process, even though other vendors may be available offering similar products and services.

was unclear whether the Authority chose the "lowest responsible or most qualified bidder" to provide services.

The Authority relied on the City's sole-source procurement policies and procedures, which did not in comply with Program requirements. The City's procurement policies required only a background, justification, and approval of the purchasing agent for the sole-source purchase. The Authority lack sufficient procedures and controls to ensure program requirements were met.

Conclusion

The Authority did not properly procure for accounting and professional consulting service contracts. It did not take sufficient corrective actions when it did not receive an adequate number of proper bids over multiple Casterline awards to ensure that there was sufficient competition. The Authority also improperly sole sourced for Genesis without sufficient justification and failed to develop and maintain all procurement documentation. It relied on City procurement policies, which did not comply with all Federal requirements. In addition, it generally relied on the City to maintain its procurement and contracting records, which were not adequately maintained. As a result, HUD had no assurance that the Authority obtained services in a competitive manner and at a reasonable cost. The Authority is also at risk of having overspent Housing Choice Voucher funds, leaving less funding available for the effective administration of the program and putting future funding awarded to the Authority at risk.

Recommendations

We recommend that the Director of the Los Angeles Office of Public Housing require the Authority to

2A. Support the reasonableness of the $340,701[23] Casterline contracts or repay the Housing Choice Voucher Program any amount that cannot be supported using non-Federal funds.

2B. Support the reasonableness of the $33,415 Genesis contract or repay any amount that cannot be supported from non-Federal funds.

2C. Establish and implement additional procedures and controls to ensure that City personnel responsible for administering procurement on the Authority's behalf follow procurement and contracting requirements and maintain applicable supporting documentation in accordance with HUD requirements.

[23] $64,150 of the Casterline amounts was also questioned under finding 1 as part of the questioned allocation of accounting services, and was removed from the recommendation's total to avoid duplication of questioned costs. However, the reasonableness of the entire contract amount remains in question.

Finding 3: The Authority Paid for Unallowable Expenditures

The Authority paid $5,648 for unallowable food expenditures. This condition occurred because the Authority misinterpreted HUD rules and regulations under 2 CFR 200.403 and 24 CFR 982.152 (see appendix C) and lacked procedures and controls to prevent this violation. As a result, funds were not available for the operation of the Housing Choice Voucher Program.

Unallowable Food Costs

The Authority paid for unallowable food items totaling $5,648 with Housing Choice Voucher Program funds during our audit period of fiscal years 2015 to 2019. HUD requirements under 24 CFR 982.152(3) clarify that administrative fees may be used only to cover costs incurred to perform public housing agency administrative services for the Program. In addition, 2 CFR 200.403 states that, except where otherwise authorized by statute, cost must be necessary and reasonable for the performance of the Federal award, be allocable thereto under these principles, and be adequately documented. (See appendix C.)

According to review of the records and discussions with Authority staff, the food items were for Authority employees and, therefore, not a necessary Program expense. The Authority thought that the amounts were immaterial and the total was lower. Most of the charges were from the Authority's director, who responded that two examples were purchases for a residential advisory board meeting and a work lunch, during which the Authority's management discussed employee candidates' interviews, for which the Authority spent $228 and $71, respectively. The Authority believed the food expenditures were eligible Program costs.

Recommendations

We recommend that the Director of the Los Angeles Office of Public Housing require the Authority to

3A. Repay the Housing Choice Voucher Program $5,648 from non-Federal funds for the unallowable expenses.

3B. Develop and implement procedures and controls to ensure that ineligible food costs are not charged to the Program.

Scope and Methodology

We performed our onsite audit work at the Authority located at 521 East 4th Street, Long Beach, CA, from March 4 to August 15, 2019. Our review generally covered the period October 1, 2014, to March 31, 2019.

To accomplish our objective, we performed the following:

- Reviewed HUD regulations and requirements.
- Interviewed appropriate Authority staff personnel.
- Reviewed relevant Authority policies, procedures, and controls over the Program.
- Reviewed HUD reports.
- Reviewed the Authority's chart of accounts and general ledgers for fiscal years 2015, 2016, 2017, and 2018 and up to March 2019.
- Reviewed supporting documentation for sampled Program expenses.
- Reviewed the Authority's audited financial statements for fiscal years 2016, 2017, and 2018.
- Reviewed the Authority's sample procurement and contracting documentation.

The audit universe for the review totaled more than $7.5 million in expenditures specific to the Housing Choice Voucher Program within our audit scope between October 1, 2014 and March 31, 2019. We used a nonstatistical sample selection for our review to focus on the account line items with the largest disbursements and several small dollar items that were areas of concern from the universe. In total, we selected more than $4.9 million in expenditures for review, focusing on expenditures that were areas of concern identified in the survey. These areas included services, such as but not limited to accounting and security services, software maintenance and technical support, building and land rentals, employment agency services, and cost allocations. At the request of the Los Angeles Office of Public Housing, we reviewed issues and periods covered in the Departmental Enforcement Centers' prior review. (See the Background and Objective section.) The results from our review were limited to the expenses in our sample and cannot be projected to the universe.

Our review of the procurement of the vendors in the survey phase identified four significant vendors attributable to the period of September 30, 2016, through October 1, 2018. Based on concerns identified in the survey, we expanded the review period in the audit phase for these venders to October 1, 2014, through March 31, 2019. The cumulative total of the review of procurement invoices in the survey and audit phase combined was as follows: $945,495 in building and land rental, $436,688 for Casterline-BDO, $329,913 for Emphasys Computer, and $33,415 for Genesis Work, Inc. The expenditures associated with these procurement amounts were part of the $4.9 million in expenditures reviewed, as noted above. The results from our review were limited to the procurement contracts in our sample and cannot be projected to the universe

Data in the Authority's general ledger reconciled with the related source documentation in the sample selection, including building rentals, computer software invoices, security services, temporary employee services, personnel expenses, etc. We, therefore, assessed the computer data to be sufficiently reliable for our use during the audit.

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 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:

- Effectiveness and efficiency of program operations – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.

- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures.

- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure compliance with applicable HUD rules and 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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Authority did not have its own HUD-approved cost allocation plan in accordance with Program requirements, which appropriately represented the benefit the Authority received from the City (finding 1).

- The Authority did not have adequate policies and procedures to ensure that it properly procured for accounting and professional consulting service contracts (finding 2).

- The Authority did not have sufficient procedures and controls to ensure that it did not pay for unallowable expenditures (finding 3).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/	Ineligible 2/
1B	$1,965,990	
1C	50,947	
1D	25,827	
1E	64,150	
2A	340,701	
2B	33,415	
3A		$5,648
Totals	**2,481,030**	**5,648**

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. In this instance, the unsupported costs included more than $1.9 million in overhead allocations, $50,547 in general operating expenses, $25,827 in personnel expenses, $404,851 ($64,150 + $340,701) in accounting services, and $33,415 in consulting, for total of more than $2.4 million charged to the Housing Choice Voucher Program. The Authority did not follow proper allocation requirements for costs charged to the Program, nor did it follow procurement requirements in the selection of two contractors.

2/ 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. The Authority spent $5,648 on ineligible food-related costs.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

Department of Health and Human Services
HOUSING AUTHORITY OF THE CITY OF LONG BEACH
521 E. Fourth Street
Long Beach, CA 90802
Tel 562 570-6985
Fax 562 499-1052

HOUSING AUTHORITY
of the City of Long Beach

December 13, 2019

Tanya E. Schulze
Regional Inspector General for Audit
300 N. Los Angeles, Suite 4070
Los Angeles, CA 90012

SENT VIA ELECTRONIC CORRESPONDENCE

Dear Ms. Schulze:

Please find below the formal comments for inclusion in the report of the completed audit of the Housing Authority of the City of Long Beach:

Finding 1: The Authority Did Not Allocate Costs in Accordance with Program Requirements

Comment 1

The City of Long Beach Indirect Cost Plan (ICP) charges citywide overhead costs to all city fund accounts. Both the Housing Authority(HA) Bureau and Health and Human Services (HHS) Department have separate accounts and pay citywide overhead costs directly to the City. Additionally, to offset the administrative overhead costs of HHS, the HHS develops an annual Cost Allocation Plan (CAP) that is 2 CFR 200 compliant. This CAP determines the overhead rate to assess to the various bureaus it supports and is used to recover the indirect costs associated with administering grants.

Comment 2

The Housing Authority's HCV program did pay more than $1.9 million in overhead for FY15 to March 31, 2019 to the City and HHS combined, which is less than what would have been charged to the Authority had the HHS fully applied the 2 CFR 200 approved HHS CAP for its portion of overhead. For example, the attached CAP used for FY18 shows on page xviii an overhead composite rate of 22.28% and bureau rate of 19.85%. If applied, the overhead cost charged to the Authority would have resulted in $898K or $1 million respectively. This is significantly more than the $350,000 annual payment to HHS for overhead for FY18.

Ref to OIG Evaluation	Auditee Comments

Health & Human Services Department
521 E. Fourth Street
Long Beach, CA 90802
Tel 562 570-6985
Fax 562 499-1052

Comment 3

The report inaccurately reflects that the Continuum of Care/Shelter Plus Care (CoC/SPC) program did not allocate any of the expenses. A monthly journal entry (see ATT 1 FINDING 1) allocates administrative expenses from HCV to CoC/SPC which equals the amount allowed for these grants. The allowable amount is 7% of the total HAP expenses (6% from HCV and 1% from the HHS). The costs are not broken out, it is a straight percentage which reflects salaries, benefits, and all other costs. This grant will not allow charges in excess of 7% of the total HAP expenses for administrative.

Comment 4

The Housing Opportunities for persons With AIDS/HIV (HOPWA) program currently does not allow indirect charges or an allocation of expenses that are not direct to the program with documentation of a cost allocation plan. We will negotiate this as soon as the cost allocation plan is finalized and approved.

Comment 5

The accounting costs were properly coded on the invoices for the above programs and were billed to HCV and the HOPWA program.

Comment 6

Based on actuals we further believe that the report inaccurately depicts the level of support provided by HHS to the Authority. There are also services rendered to the Housing Authority that include:

- Personnel support such as liaison to city wide Human Resources for investigations, policy development and management;
- Process personnel requisitions, civil service negotiations and recruitment assistance;
- Procurement process review and assistance;
- City budget development, monitoring and compliance for City policies and procedures;
- Financial support of year end closing process;
- Administrative support to process Housing Authority Commission actions;
- Department leadership and support in City discussions and negotiations.

Comment 7

We appreciate OIG's acknowledgement that the ICP and CAP methodologies appeared logical, and agree that it could be improved. The Housing Authority is in the process of finalizing its' own Cost Allocation Plan that will be submitted to HUD for review and approval. The projected submission to HUD is March 2020.

Finding 2: The Authority Did Not Properly Procure for Accounting and Professional Consulting Services

Ref to OIG Evaluation

Auditee Comments

Health & Human Services Department
521 E. Fourth Street
Long Beach, CA 90802
Tel 562 570-6985
Fax 562 499-1052

Comment 8

An adequate number of proper bids was received when selecting Casterline Associates – BDO (see ATT 2 FINDING 2A). The information provided to the onsite auditors was incomplete and later supplied by the department buyer. Two additional bids, cost estimates and other required documentation will be attached in the electronic response.

Comment 9

The Genesis Work, Inc. selection was made after reviewing reasonable costs for city contracted consulting services. These negotiated contract rates are attached (see ATT 3 FINDING 2B).

Finding 3: The Authority Paid for Unallowable Expenditures

Comment 10

The food costs determined unallowable were directly related to administrative services for the program. They include landlord focus groups and outreach efforts, industry association trainings that contractually require the purchase of food to reduce training costs by hosting, Resident Advisory Board (RAB) meetings that are mandated but generally not well attended where dinner is the incentive for participation and professional development trainings. Food was only purchased for the purpose of increasing landlord or participant feedback or participation, employee knowledge and capacity, compliance with regulations and policies.

If you have any questions, please contact me at (562) 570-6153.

Sincerely,

Alison King
Deputy Executive Director
Housing Authority of the City of Long Beach

Cc: Rex Richardson, Housing Authority of the City of Long Beach Commission Chair
Tom Modica, Acting City Manager of the City of Long Beach
Kelly Colopy, Director of Health and Human Services Department (DHHS)
Nerissa Mojica, Financial Services Officer (DHHS)
Nida Watkins, Housing Operations Program Officer (DHHS – HA)

Marcy P. Chavez, Director, HUD Los Angeles Office of Public Housing, 9DPH
Alicia E. Salcido, Portfolio Management Specialist, Los Angeles Office of Public Housing, 9DPH

Attachments available upon request.

OIG Evaluation of Auditee Comments

Comment 1 We disagree with the Authority. As discussed in the finding, the City and HHS cost allocation plans were not 2 CFR 200 compliant. Both allocation plans included amounts that should either have been excluded or were based on an inappropriate methodology.

Comment 2 We disagree with the Authority. The City initially inappropriately calculated HHS overhead to be $799,316 and $839,201 for fiscal years 2017 and 2018, respectively. The Authority's overhead rate of 19.85 percent and the composite rate average of 22.28 percent for all five HHS departments (from page xviii of the HHS cost allocation plan) used improperly determined rates, the majority of which was based on a $1/5^{th}$ allocation of HHS costs to each of its five departments. Without proper support or explanation, it charged the Authority $350,000 for each of the last four fiscal years. While we recognize this is lower than the initial amount determined by the flawed allocation plan, it was still not supported.

Comment 3 We disagree with the Authority. It did not properly allocate SPC and CoC administrative expenses to the program. In the response, the Authority stated that it recovered a fixed 6 percent of the total HAP expense for the month (with another 1 percent going to HHS), which does not reconcile the actual expenses for the program.

We reviewed the documentation showing administrative amounts were paid from SPC and CoC to the Housing Choice Voucher program. For the audit review period, October 2014 to March 2019, the Authority reimbursed the Housing Choice Voucher program $183,251 from the SPC and CoC programs. Although amounts were reimbursed, they represented the maximum amounts that can be charged to SPC and CoC and were not based on a reasonable allocation of administrative costs. Since the Authority did not properly track and allocate the applicable SPC and CoC administrative costs, the Housing Choice Voucher program may have unduly incurred costs applicable to another program. We continue to recommend the Authority implement policies and procedures to ensure SPC and CoC administrative costs are charged to those programs and not to the Housing Choice Voucher program.

The Authority provided only general ledger entries to support the reimbursement, with no additional supporting detail, allocation, or reconciliation. As a result, we were unable match the reimbursement amounts to the various overhead and administrative questioned costs and therefore, were unable to appropriately offset any questioned costs. The Authority will have the opportunity to reconcile the program expenses to the reimbursements and credit can be applied when it provides HUD with an appropriate allocation plan during the audit resolution process.

We adjusted finding 1 to address the reimbursement and made minor adjustments to the recommendations. We also revised aspects of the finding's cause to include the information provided by the Authority.

Comment 4 We acknowledge the Authority's plans to address this item. The Authority should track and allocate administrative costs to the applicable programs, assuring that each program is allocated the proper expense. HOPWA allows up to 3 percent for administrative costs and the Housing Choice Voucher program should not be absorbing any HOPWA program expenses.

Comment 5 We disagree with the Authority. The accounting costs were attributed to the Housing Choice Voucher and HOPWA programs, which was noted in the report. However, no costs were applied to the SPC – CoC program even though activities were identified on the invoices as being applicable to those programs.

Comment 6 We disagree with the Authority about the level of support provided by HHS. As we discussed in the finding, the Authority's operations have been practically autonomous and independent from HHS, requiring only minimal assistance. For example timesheets and invoices were processed and approved by the Authority, and went to HHS only for final approval.

Comment 7 We acknowledge the Authority is in the process of developing its own cost allocation plan by March 2020. The issues identified in the report should be considered as it develops the allocation plan.

Comment 8 We disagree with the Authority. On multiple occasions throughout the audit we requested the procurement file for the professional accounting services for the Authority. The City's website indicated there were three bidders, Casterline Associates, PC; Onisko & Scholz, LLP; and Sotomayor & Associates, LLP. However, the last two bidders did not provide a dollar amount for their bid, making their bid incomplete. The Authority provided bid documentation only for Casterline Associates, LLP.

As part of its response to the draft report, the Authority provided us with the bid for Onisko & Scholz, LLP and an incomplete bid for Sotomayor & Associates, LLP. Onisko & Shcolz, LLP submitted a bid for $105,000 (lower than the bid submitted by Casterline) and the bid from Sotomayor & Associates, LLP still had no amount. Due to the lack of documentation and analysis justifying why the Authority selected the higher bid, the procurement for accounting services is still questionable.

We added information to the finding to address the additional documentation provided.

Comment 9 We disagree with the Authority. The documentation provided with HHS' approved vendor list for executive coaching was not sufficient to show that proper procurement practices were followed, nor did it provide justification for use of a single source vendor. In addition, Genesis Work Inc. was not included in the approved vendor list for executive coaching.

The Authority's policies and procedures related to the use of sole sourcing vendors were silent on negotiated rates. Neither the documents provided in the response, nor the Authority's policies and procedures supported its position on the procurement of Genesis Work Inc.

Comment 10 We disagree with the Authority. Even though the food items may have been used for tenant outreach, management meetings, and landlord and training purposes, such food costs are not allowed under current program rules and regulations.

Appendix C

Criteria

<u>2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</u>

- 2 CFR 200.4 Allocation. *Allocation* means the process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

- 2 CFR 200.318 General procurement standards. (i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contact type, contractor selection or rejection, and the basis for the contract price.

- 2 CFR 200.319 Competition. (a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section.

- 2 CFR 200.320. Methods of procurement to be followed.

  (d) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:
  (2) Proposals must be solicited from an adequate number of qualified sources…..
  (f) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply:
  1) The item is available only from a single source;
  2) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
  3) The Federal awarding agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-Federal entity; or
  4) After solicitation of a number of sources, competition is determined inadequate.

- 2 CFR 200.323 Contract cost and price. (a) The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals.

- 2 CFR 200.403 Factors affecting allowability of costs. Except where otherwise authorized by statute, cost must meet the following general criteria in order to be allowable under Federal awards:
  - (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
  - (g) Be adequately documented.

- 2 CFR 200.404 Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

- 2 CFR 200.405 Allocable costs.

  (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
  (1) Is incurred specifically for the Federal award;
  (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
  (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart...
  (b) All activities which benefit from the non-Federal entity's indirect (F&A [facilities and administrative]) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
  (d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit.

24 CFR Part 982, Section 8, Tenant-Based Assistance: Housing Choice Voucher Program

- 24 CFR 982.152 Administrative fee. (a) *Purposes of administrative fee.* (3) PHA [public housing agency] administrative fees may only be used to cover costs incurred to perform PHA administrative responsibilities for the program in accordance with HUD regulations and requirements.

City of Long Beach Administrative Regulation AR 23-3, Issue 7
IV. Procedures:

A. Combined Purchases:
It is the responsibility of the Purchasing Agent to combine purchases whenever practical, and when the total purchase price exceeds $50,000, secure procurement through the formal contract process.

B. Formal Contracts for Purchases Exceeding $50,000
The requesting department shall request that the Purchasing Agent prepare a Formal Bid, which must be approved by the City Council before it is sent to potential bidders. The Purchasing Agent will make an affirmative effort to include local, minority and women owned businesses on the bidder's list, whenever possible, and will place the notice for bid in at least one daily newspaper of general circulation in the City.

The contract shall be awarded to the lowest responsible bidder whose bid is in regular form, and whose bid contains all of the requirements specified in the Formal Bid Document. Increases to contracts will be limited to 10% of the original contract award, as allowed in the standard contract language, unless a greater percentage increase is specified in the "Special Conditions" section of the bid, and approved by the City Council. All increases must also be approved by the City Manager or designee.

C. Informal Bids
(1) Purchases Greater than $20.000 but not exceeding $50.000
The Purchasing Agent shall solicit written requests for quotation from a minimum of three vendors for all purchases greater than $20,000, but not exceeding $50,000. Records of those written bids shall be retained with the Purchase Requisition.

In the event that less than three vendors exist which supply similar materials, equipment, supplies and services, all known vendors will be requested to submit quotations. All purchase agreements greater than $20, 000 but not exceeding $50,000, with the exception of personal services agreements (see subsection (5) below), must be accompanied by a written and signed bid quotation.

Increases to Purchase Orders with original amounts greater than $20,000, but not exceeding $50,000, will be allowed for up to 10% of the original amount of the Purchase Order, if approved by the City Manager or designee, providing the increase does not result in expenditures in excess of $50,000…

D. Sole Source Selections
When a planned purchase is expected to exceed $5,000 and the requesting department determines that there is only one source for the equipment, materials or supplies sought, a sole source memorandum, which includes background and justification, must be prepared. For purchases between $5,000 and $50,000, the memo is submitted to the Purchasing Agent for approval.

For purchases in excess of $50,000, the memo must be submitted to the City Manager for approval, and then sent to the Purchasing Agent. The Purchasing Agent will request the City

Attorney to prepare the required Resolution for a sole source purchase. In this instance, the justification memo to the City Manager must include the following:

> (1) Identification of the sources with information on the type of services sought.
> (2) Number of those sources contacted.
> (3) Identification of the unique feature or emergency or reason it is impossible to advertise for bids.
> (4) Name of City employee who can testify regarding all of the above.
> This memo will be forwarded to the City Attorney along with the request for a sole source Resolution.

City of Long Beach Administrative Regulation AR8-4, Issue 3
VI. METHOD OF SELECTING A PROFESSIONAL CONSULTANT
NOTE: When a department intends to charge the consulting cost to a grant, it must do the following:

Verify that consulting work is approved for the grant and determine the grantor's requirements for such selections. The department is to adhere to the grantor's procedures or to the City's procedures (whichever are more stringent).

A. Major Projects - Anticipated Fee of Over $50,000

1. The appropriate department head and/or lead manager shall appoint a selection board of qualified individuals. The size of the selection board is at the discretion of the department head or lead manager. When an unusual project poses special problems beyond the experience of City staff, the selection board may be augmented by an unbiased, qualified member of the profession being considered, as long as that person is not a proposer for the work to be performed.

2. The selection board will identify not fewer than five (5) consulting firms or individuals who are professionally and financially qualified to undertake the proposed project. Departments are encouraged to contact the Purchasing Division of the Department of General Services as a source of interested firms and individuals.

Purchasing has access to directories and lists of consultants in particular specialties. When five (5) potential consultants are unavailable, or when a department wishes to hire a professional consultant without searching for and evaluating proposals, City Manager approval shall be obtained to solicit from a smaller selected list. Every effort should be made to solicit proposals from minority and women owned businesses, as well as business enterprises located within the City of Long Beach, whenever possible.

3. The department head or designee(s) shall develop a letter of interest, a request for qualifications, or a request for proposal of the City's proposed project. The letter should include a general description of the project and request the consultant to respond by indicating qualification, capability and interest in the project.

A request for proposal may include, but not be limited to:

a) A cover letter which summarizes the project;

b) A request for information about the consultant, including background information about the individuals who would be assigned to the project;

c) Scope of service requirements;

d) A request that proprietary information in the proposal be identified as such;

e) A copy of a sample agreement for consulting services which would be the basis for agreement with the selected consultant; (Note: The consultant may be asked to provide this)

f) A statement that the request for proposal shall be the basis for negotiation of terms and conditions of a contract;

g) The time, date and place of delivery for proposals;

h) The name, title and telephone number of the City employee who shall serve as contact for all proposers;

i) A request for a proposed fee;

j) The proposer's Taxpayer Identification Number, Employer Identification Number, or Social Security Number.

4. The department head or designee(s) shall develop a standard to pre-screen and evaluate all proposals. Weighted values should be assigned for each criterion of evaluation. These values may be weighted differently depending on the project. The department head will review and concur with the weighted values.

Criteria for evaluation may include, but need not be limited to, the following:

a) Experience in performing the type of work required;

b) Record of the firm in accomplishing work assignments or other projects in the agreed upon time;

c) Quality of work previously performed by the firm;

d) Recent experience showing accuracy of cost estimates and the ability to meet deadlines;

e) Community relations, including evidence of sensitivity to citizen concerns;

f) Financial stability of the firm;

g) Completeness in answering request for proposal;

h) The proposed fee relative to the services to be provided.

After this initial pre-screening, the selection board shall interview those consulting firms which appear to be most qualified. Late or untimely responses by prospective candidates should not be considered further. The ability to respond to a request for proposal or letter in a timely and responsible manner is essential to a satisfactory contractual relationship.

5. Before conducting oral interviews, the selection board shall meet to determine a list of questions to be asked of all proposers. Additional questions may be asked, as appropriate, during the interview. The fees discussed with one proposer should not be disclosed to any other proposer.

6. Immediately upon conclusion of interviews, the selection board should evaluate the qualifications of the finalists and rank the candidates in order of preference. The lead manager shall then prepare a statement of justification for the selection. This statement shall include a history of the proposal process, the number of proposals requested, the number submitted, and any additional information unique to the process. The statement of justification shall be submitted to the department head for review and concurrence, and should be retained for at least two years after the selection. It is not necessary to retain evaluation sheets or interview notes.

7. The department head and/or lead manager designated by the City Manager negotiates a professional services contract with the firm(s) selected by the selection board for the service to be rendered and the method and amount of compensation. The City Attorney must review the terms of the contract before approval is sought from the City Council.

8. The department then prepares the Council Letter for all contract awards, which is then presented to the City Manager and City Council for approval of the consultant and terms of the proposed contract. In the transmittal letter to the City Council, background information on the consultant selection process including number of respondents, and a request for the City Attorney to prepare the contract must be included.

9. The department then forwards the executed contract to the City's Purchasing Agent, who will execute the purchase order.

B. Intermediate Projects - Fee of $10,000 to $50,000

1. Follow all procedures under major projects above utilizing a selection board composed of qualified individuals, and consider no fewer than three (3) qualified firms or individuals. When three potential consultants are unavailable, or when a department wishes to hire a professional consultant without searching for and evaluating proposals, City Manager (or designee) approval shall be sought to solicit from a smaller selected list. Every effort should be made to solicit proposals from minority and women owned business enterprises.

2. The department head forwards the selection, terms of the proposed contract/purchase order and background information on the consultant selection process to the Director of General Services, or designee, for approval.

3. The final contract/purchase order is then executed by the City Purchasing Agent.