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TO: Ann Roman, Director, Denver Office of Public Housing, 8APH

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FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: The Housing Authority of the City of Colorado Springs, Colorado, Improperly Managed Contracts and Improperly Maintained Its Section 8 Waiting List.

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Colorado Springs (Authority) in response to an anonymous complaint alleging that it improperly awarded all contracts for rehabilitation services to the same bidder, did not properly maintain its waiting list, and inappropriately awarded new Section 8 housing choice vouchers.

Our audit objectives were to determine whether the Authority followed federal procurement requirements and its own procurement policies in awarding two capital fund rehabilitation contracts, properly administered all work done by its contractor, and followed federal occupancy requirements and its own administrative plan in maintaining its Section 8 waiting list and selecting eligible applicants from its waiting list.

What We Found

The Authority did not follow applicable requirements while awarding and administering two capital fund rehabilitation contracts. It also violated applicable requirements while maintaining its Section 8 waiting list and selecting participants

from the waiting list. Specifically, the Authority had no assurance that it received the best price when awarding two contracts that eventually paid out more than \$2.2 million. In addition, it did not administer the contracts according to requirements when it paid more than \$570,000 to a contractor for services provided outside the scope of the statement of work on the contracts. Lastly, the Authority improperly maintained its waiting list and selected tenants without regard to the waiting list or appropriate support.

What We Recommend

We recommend that the Denver Office of Public Housing require the Authority to provide training, and implement controls to ensure written procedures are followed. In addition, we recommend that the Denver Office of Public Housing perform a post-monitoring review to ensure the Authority took recommended actions.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the discussion draft of the audit report to the Authority on October 18, 2007, and requested its comments by November 1, 2007, and extended the deadline until November 16, 2007. The Authority provided its written response on November 16, 2007, and generally agreed with the findings. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Colorado Springs (Authority) was organized under the laws of the State of Colorado as a political subdivision to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD) and other federal agencies. To accomplish this purpose, the Authority has entered into annual contributions contracts with HUD since June 1972 to be the administrator of low-income and Section 8 programs. The goal of the Authority is to assist low-to-moderate-income families and elderly and disabled persons in obtaining affordable housing that is safe, decent, and sanitary. The Authority is located at 831 South Nevada Avenue, Colorado Springs, Colorado.

As of January 1, 2007, the Authority had administered more than 700 public housing units and 2,000 Section 8 units. According to its 2005 and 2006 audited financial statements, HUD awarded the Authority more than \$15 million for its Section 8 Housing Choice Voucher program in both years and more than \$3 million in 2006 and more than \$2 million in 2005 for its capital fund program.

The objectives of our audit were to determine whether the Authority followed federal procurement requirements and its own procurement policies in awarding two capital fund rehabilitation contracts, properly administered all work done by its contractor, and followed federal occupancy requirements and its own administrative plan in maintaining its Section 8 waiting list and selecting eligible applicants for the program.

RESULTS OF AUDIT

Finding 1: The Authority Improperly Awarded Two Capital Fund Rehabilitation Contracts

The Authority violated federal procurement requirements while awarding two capital fund rehabilitation contracts. This violation occurred because management did not adequately train Authority personnel given the responsibility to oversee and award contracts, and Authority personnel did not follow written procedures. As a result, the Authority had no assurance that it received the best price for the services provided under the terms of the two contracts.

The Authority Violated Federal Procurement Requirements

During our audit period, January 1, 2005, through March 31, 2007, the Authority awarded two capital fund rehabilitation contracts to the same Contractor. It violated 24 CFR [*Code of Federal Regulations*] Part 85 when it awarded the two contracts. It did not perform an independent cost estimate before advertising the request for proposal for one of the contracts. It did perform an independent cost estimate for the other contract; however, it later modified the request for proposal and did not perform an independent cost estimate for the modifications. In addition, the Authority did not perform cost analyses after receiving proposals for either contract. Instead, it used previous bids by the winning contractor as a basis for determining the reasonableness of the current bids.

The Authority also initiated and approved several change orders without performing cost analyses in connection with the contract modifications as required by 24 CFR Part 85. It executed 20 change orders on one contract that caused the original contract amount to rise from more than \$657,000 to more than \$1.2 million, representing a 92 percent cost increase. For the second contract, it executed eight change orders that caused the original contract amount to rise from more than \$590,000 to more than \$1 million, representing a 79 percent cost increase.

Finally, in violation of requirements in HUD Handbook 7460.8, the Authority did not justify in writing why it was appropriate to award the contracts noncompetitively. Both contracts became non-competitive once they received only one bid from one source. According to 24 CFR Part 85, this means that competition is inadequate and procurement by non-competitive proposals requirements now apply.

Management Did Not Adequately Train Authority Personnel and Authority Personnel Did Not Follow Written Procedures

Management did not adequately train Authority personnel given the responsibility to oversee and award contracts. In addition, personnel did not follow written Authority procedures.

The executive director was responsible for the capital grant contracting function for 15 years before becoming executive director. When he became executive director more than two years ago, he delegated all contracting duties to the assistant executive director and maintenance supervisor. The assistant executive director and maintenance supervisor had attended one procurement training session approximately six years earlier but, otherwise, had limited prior contracting experience. As a result, they were not aware of the independent cost estimate, cost analysis, or written justification requirements for all contracts awarded noncompetitively.

In addition, the Authority maintained a procurement policy which detailed required contracting procedures. However, Authority personnel did not follow the policy as required.

The Authority Had No Assurance That It Received the Best Price for the Services Provided

The Authority had no assurance that it received the best price for the services provided under the terms of the two contracts. The independent cost estimates give the Authority a fair market value basis for evaluating incoming proposals. The cost analyses ensure that the proposed price is reasonable for the services provided under the terms of the contract. In these cases, the Authority had no way of identifying the fair price concerning labor, indirect costs, and profits proposed. In addition, it did not have any assurance that the significant cost increases were reasonable based on the modified services provided.

Recommendations

We recommend that the Denver Office of Public Housing Director require that the Authority

- 1A. Train its contracting staff in HUD procurement procedures.
- 1B. Implement controls to ensure its contracting staff follow written procurement procedures.

We recommend that the Denver Office of Public Housing Director

- 1C. Perform a post monitoring review of the Authority's procurement function to ensure that management took actions necessary to train its contracting staff and that the Authority complies with federal procurement requirements.

Finding 2: The Authority Improperly Administered Two Capital Fund Rehabilitation Contracts

The Authority violated federal procurement requirements while administering two capital fund rehabilitation contracts. Specifically, it paid more than \$570,000 to a contractor for services provided outside the scope of the statement of work on the contracts. This violation occurred because the Authority's contracting staff lacked the experience and knowledge of federal procurement regulations needed to administer the contracts effectively and they did not follow written procedures. As a result, the Authority had no assurance that the contract services performed outside the scope of the statement of work for both contracts were reasonable or eligible.

The Authority Violated Federal Procurement Requirements

During our audit period, January 1, 2005, through March 31, 2007, the Authority awarded two capital fund rehabilitation contracts to the same Contractor. It violated 24 CFR [*Code of Federal Regulations*] Part 85 when it administered the two contracts. It failed to amend its contracts for more than \$570,000 in services provided by a contractor. It paid the contractor more than \$184,000 in costs for rehabilitation services that were not included in its contract statement of work for the modernization of 12 scattered site units in a capital fund project. It also paid the contractor more than \$186,000 in costs for rehabilitation services for five houses that it listed on several change orders but which were not included in the original contract. Finally, it paid the contractor more than \$201,000 in costs for rehabilitation services that were not included in its contract statement of work for the Acacia Park Apartments' kitchen remodeling capital fund project.

Contracting Staff Lacked Experience and Knowledge and Did Not Follow Written Procedures

The Authority's contracting staff lacked the experience and knowledge of federal procurement regulations needed to administer the contracts effectively. In addition, contracting staff did not follow written Authority procedures.

The contracting supervisor was also the maintenance supervisor and did not have sufficient experience to oversee large dollar contracts. In addition, both the contracting supervisor and the contracting officer had attended one procurement training session approximately six years earlier but, otherwise, had limited prior contracting experience. Further, the contracting supervisor did not understand the

contract modification process or requirements. For example, he did not amend the original statements of work when the contractor performed additional rehabilitation services. In addition, the Authority's contracting officer signed all contract modifications without verifying that the services were within the two contracts' statements of work.

Finally, the Authority maintained a procurement policy which detailed required contracting procedures. However, contracting staff did not follow the policy as required.

The Authority Had No Assurance That Contract Services Were Reasonable or Eligible

The Authority had no assurance that the contract services performed outside the scope of the statement of work for both capital fund rehabilitation contracts were reasonable or eligible. For example, the Authority did not know whether the significant cost increases associated with the services performed outside the statement of work for both contracts were reasonable. In addition, it did not know whether the extra rehabilitation work performed outside the statement of work for both contracts was eligible. By amending the original statements of work and following federal procurement requirements in 24 CFR Part 85, the Authority can demonstrate that the work is necessary and justify the increases in total contract sums.

Recommendations

We recommend that the Denver Office of Public Housing Director require that the Authority

- 2A. Train its contracting staff in HUD procurement procedures.
- 2B. Implement controls to ensure its contracting staff follow written procurement procedures.

We recommend that the Denver Office of Public Housing Director

- 2C. Perform a post monitoring review of the Authority's procurement function to ensure that management takes actions to train its contracting staff and properly supervises the procurement function.

Finding 3: The Authority Improperly Maintained Its Section 8 Waiting List and Improperly Selected Section 8 Housing Choice Voucher Recipients

The Authority violated federal occupancy requirements and its own policies and procedures while maintaining its Section 8 waiting list and selecting Section 8 housing choice voucher recipients. This violation occurred because management appointed eligibility department staff personnel who lacked the necessary knowledge of federal occupancy requirements and Authority policies and procedures. As a result, the Authority skipped over eligible families on the Section 8 waiting list to accommodate other families without proper justification. Therefore, the actions of the Authority denied some families Section 8 housing for several months.

The Authority Violated Federal Occupancy Requirements

We selected and reviewed 71 applicants involved in the Section 8 intake process during the period October 1, 2006, through June 13, 2007. The Authority placed more than 500 families into units during this period. It improperly maintained its Section 8 waiting list and improperly selected Section 8 housing choice voucher recipients. Specifically,

- The Authority did not maintain a periodic snapshot of its waiting list.
- The Authority provided vouchers to families with limited proof of their ever having applied for assistance, or ever having been on the waiting list prior to June 2004.
- The Authority provided vouchers to families that did not respond to a purge.
- The Authority provided vouchers to families for larger bedroom-size units than its policy allowed.
- The Authority provided vouchers to families before performing proper verification.
- Management overrode waiting list decisions.

These actions violated 24 CFR [*Code of Federal Regulations*] Parts 85 and 982, the Authority's own administrative plan, and HUD's Housing Choice Voucher Program Guidebook.

Management Appointed Staff Who Lacked Experience and Knowledge

Management appointed eligibility department staff personnel to oversee the maintenance of the Section 8 waiting list and to perform intake by selecting new Section 8 recipients from the waiting list. The staff personnel lacked the necessary knowledge of federal occupancy requirements and Authority policies and procedures to perform these duties. For example, one of the staff persons appointed had not been involved in the intake process for more than 15 years. Once appointed, the staff member received just over one-half day of informal training by other staff members. Further, the Authority never provided the staff person with formal policies and procedures related to the job function. Finally, the executive director ignored the Authority's policies and procedures when he overrode staff's waiting list decisions and granted exceptions to applicants.

The Authority Skipped Over Eligible Families

The Authority skipped over eligible families on the Section 8 waiting list to accommodate other families without proper justification. For example, it placed several applicants with no proof of having applied for Section 8 assistance until 2006 before it placed June 2004 applicants. The actions of the Authority denied the earlier applicants Section 8 housing for several months or longer and allowed other families to receive housing several years early.

Recommendations

We recommend that the Denver Office of Public Housing Director require that the Authority

- 3A. Train its eligibility staff in occupancy requirements, specifically in the areas of maintaining the waiting list and selecting applicants in the proper order.
- 3B. Implement controls to ensure its eligibility staff receive and follow written Section 8 waiting list procedures.

We recommend that the Denver Office of Public Housing Director

- 3C. Perform a post monitoring review of the Authority's occupancy function to ensure that it follows federal occupancy requirements and its own administrative plan, updates its administrative plan if necessary, and limit the executive director's ability power to override staff decisions.

SCOPE AND METHODOLOGY

Our review period generally covered January 1, 2005, through March 31, 2007. We expanded this period as necessary. We performed our on-site review at the Authority from April 23 through July 27, 2007. We performed additional work from our Denver office through September 2007.

In April 2007, we received an anonymous complaint alleging that the Authority improperly awarded all contracts for rehabilitation services to the same bidder, did not properly maintain its waiting list, and inappropriately awarded new Section 8 housing choice vouchers. To achieve our objectives, we reviewed HUD and Authority criteria and contracts, interviewed HUD and Authority staff, and looked at HUD and Authority records.

To determine whether the Authority awarded all rehabilitation contracts to the same bidder, we obtained a list of all contracts awarded for rehabilitation services. We conducted interviews with several general contractors, subcontractors, and the bidder awarded the contracts. We also reviewed all rehabilitation contracts (two) awarded during our audit period, which totaled more than \$1.2 million when awarded and more than \$2.2 million by completion. We did not find validity to this allegation. However, during this part of the review, we identified other problems with the Authority's award and administration of its capital fund rehabilitation contracts as discussed in findings 1 and 2, respectively.

For our review of the Section 8 waiting list, we selected and reviewed 71 applicants involved in the Section 8 intake process during the period October 1, 2006, through June 13, 2007. The Authority placed more than 500 families into units during this period. We determined that the Authority improperly maintained its Section 8 waiting list and improperly selected Section 8 housing choice voucher recipients.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- The Authority's policies and procedures for procurement activities.
- The Authority's policies and procedures for its Section 8 waiting list maintenance and selection activities.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

- Management lacked controls to ensure that it implemented its written contract award procedures properly (finding 1).
- Management lacked controls to ensure that it administered contracts properly (finding 2).
- Management lacked controls to ensure that it implemented written Section 8 waiting list procedures properly (finding 3).

APPENDIX

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

The Housing Authority of Colorado Springs (the "Housing Authority") cooperated fully and openly in the audit conducted by the Regional Inspector General. In reviewing the Inspector General's findings, the Housing Authority recognizes the need to improve its staff knowledge and training in order to assure that it fully complies with HUD procedures and regulations.

In connection with the audit's procurement findings, the Housing Authority notes that both of the capital fund projects and the work involved were approved by a Housing Authority Board of Commissioners resolution and planning process and were deemed necessary to providing services to Housing Authority clients and the elderly of Colorado Springs.

Both contracts audited were awarded through a bidding process that was conducted as a competitive process. The Housing Authority properly advertised both contracts to all potential bidders who were interested, conducted "walk-throughs" with interested potential bidders, and made specification packets available to multiple potential bidders. While the Housing Authority now appreciates that according to the audit findings its processes only partially complied with HUD requirements for capital fund projects, the Housing Authority notes that the competitive bidding process it initiated (the sole bid was offered in the context of a competitive process), and the architect cost estimate on one contract and the internal pre-solicitation cost estimate on the second contract, were all intended to assure that the process produced a fair and market competitive bid and that Housing Authority funds were responsibly spent.

Comment 2

In connection with the Section 8 waiting list, it is important to note that a number of months prior to notice of the audit, the Housing Authority management recognized and began to address the need to update and improve its waiting list information and processes. At the time of the audit, the Housing Authority was involved in an ongoing internal review of its waiting list and modification of its waiting list procedures. The overriding goal of these efforts was to improve and update the quality of the waiting list information, and to improve internal controls and processes.

The Housing Authority strongly believes that it was proceeding, and continues to proceed, in good faith to improve and assure the fairness of its waiting list processes for all involved. Staff were reassigned to assist with these efforts and management provided appropriate guidance. The Housing Authority does not agree that these new staff should be held responsible for historical problems with the waiting list information. The Housing Authority has engaged in a process of updating its policies and procedures and internal controls. In conjunction with this process, the Housing Authority has implemented training and also plans further training for staff on its internal policies and procedures and HUD requirements.

OIG Evaluation of Auditee Comments

The Authority's response indicated general agreement with the findings and recommendations.

Comment 1

The Authority initiated both procurement actions through the competitive proposal process from a number of sources. The process became non-competitive once it received only one bid from one source for both contracts. According to 24 CFR 85.36(d)(4), when one bid is received, competition is inadequate and procurement by non-competitive proposals requirements apply.

The Authority did not perform an independent cost estimate before advertising the request for proposal for one of the contracts. It did perform an independent cost estimate for the other contract; however, it later modified the request for proposal and did not perform an independent cost estimate for the modifications. In addition, the Authority did not perform cost analyses after receiving proposals for either contract. Instead, it used previous bids by the winning contractor as a basis for determining the reasonableness of the current bids. These are violations of 24 CFR Part 85, and because of these violations, the Authority had no assurance that it received the best price for the services provided under the terms of the two contracts.

Comment 2

The OIG knew of the Authority's internal review of its waiting list and modification of its waiting list procedures. The Executive Director gave OIG a complete and accurate picture of the history of the events leading up to the Section 8 waiting list problems. In addition, the Executive Director informed the OIG of the Authority's efforts to improve and update the quality of the waiting list information, and to improve internal controls and processes. These claims were the primary reason OIG focused on the current intake process of Section 8 applicants from its waiting list to test the most current procedures in place to determine if the Authority made improvements. OIG determined that the Authority continued to improperly maintain its Section 8 waiting list and improperly select Section 8 housing choice voucher recipients, and we recommended that the Authority train its eligibility staff and implement controls to ensure its eligibility staff receive and follow written Section 8 waiting list procedures. OIG believes that if the Authority proceeds with its efforts to provide guidance and training for its eligibility department staff on its internal policies and procedures and HUD requirements, then the Authority will correct its waiting list problems.