



Richmond Housing Authority, Richmond, CA

Public Housing Program – Procurement and Rent



To: Jesse Wu, Acting Director, San Francisco Office of Public Housing, 9CPH

//SIGNED//

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

Subject: The Richmond Housing Authority, Richmond, CA, Did Not Always Procure Services and Manage Rents 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 Richmond Housing Authority.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



Audit Report Number: 2016-LA-1004

Date: April 28, 2016

The Richmond Housing Authority, Richmond, CA, Did Not Always Procure Services and Manage Rents in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the Richmond Housing Authority due to a complaint alleging that the Authority violated procurement requirements related to legal and accounting services and wrote off tenant debts improperly. The objective of the audit was to determine whether the Authority procured goods and services and managed tenant rents for its public housing program in accordance with U.S. Department of Housing and Urban Development (HUD) requirements.

What We Found

The complaint allegations had merit. The Authority did not conduct procurement procedures for eviction legal and accounting services until October-November 2014. When it conducted procurement procedures, its procurements had deficiencies and its contracts omitted the mandatory Federal clauses. In addition, the Authority wrote off tenant accounts without using alternative methods of collection. These conditions occurred because the Authority disregarded HUD procurement requirements. Also, the Authority did not have adequate policies and procedures for rent collection. As a result, it could not support that the use of \$541,651 in HUD funds for legal and accounting services were best for the Authority. It also lost revenue by improperly managing its rent collection process, not collecting on debts owed, and improperly writing off \$109,770 in rents and other charges.

What We Recommend

We recommend that the Acting Director of the San Francisco Office of Public Housing require the Authority to (1) provide documentation showing that \$304,921 paid for eviction legal services and \$236,730 paid for accounting services were best for the Authority or repay its public housing program from non-Federal funds, (2) amend its eviction legal services contracts to include all required clauses, (3) submit a list of all procurement contracts over \$10,000 and its most recent 12-month vendor payment history to HUD for review annually for 3 years, and (4) develop and implement policies and procedures to address the deficiencies in rent collection.

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Background and Objective

The Richmond Housing Authority, Richmond, CA, was formed in 1941 as a separate legal entity under the provisions of the Housing Act of 1937. The Authority was established to rehabilitate local deteriorated housing and subsidize low-income families in obtaining decent, safe, and sanitary housing. Although the Authority is a separate legal entity from the City of Richmond, it is an integral part of the City. The City exercises significant financial and management control over the Authority. Members of the city council and two tenant commissioners serve as the governing board of the Authority. The financial statements of the Authority are included in the City's general-purpose financial statements.

The U.S. Department of Housing and Urban Development (HUD) established the public housing program to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. HUD provides funds to local housing agencies that manage housing for low-income residents at rents they can afford. The Public Housing Operating Fund provides operating subsidies to housing agencies to assist with operating and maintenance expenses. The Public Housing Capital Fund provides funds to housing agencies to modernize public housing developments.

HUD provides funds to housing agencies under the Housing Choice Voucher program to assist very low-income families, the elderly, and the disabled in obtaining decent, safe, and sanitary housing in the private market.

HUD authorized the Authority the following assistance for its Operating Fund, Capital Fund, and Housing Choice Voucher programs for fiscal years 2013, 2014, and 2015.

Fiscal year	Operating Fund	Capital Fund	Housing Choice Voucher program
2013	\$2,088,528	\$753,815	\$17,470,172
2014	2,180,254	782,201	17,879,201
2015	1,556,894	775,701	18,705,723
Total	\$5,825,676	\$2,311,717	\$54,055,096

Our objective was to determine whether the Authority procured goods and services and managed tenant rents for its public housing program in accordance with HUD requirements.

Results of Audit

Finding 1: The Authority Did Not Always Comply With HUD Procurement Requirements

The Authority did not always follow HUD requirements or its own procurement policy. Specifically, it did not perform procurement procedures for legal services (unlawful detainer-eviction) and financial consulting services until October-November 2014. When it conducted procurement procedures, its procurements had deficiencies. These conditions occurred because the Authority's executive director disregarded HUD procurement requirements and the Authority's procurement policy. As a result, the Authority paid \$304,921 for legal services and \$236,730 for financial consulting services without conducting procurement procedures. These deficiencies resulted in the Authority's misuse of \$541,651 in public housing funds.

Procurement Activities Were Not Conducted for Legal Services (Unlawful Detainer-Eviction) and Financial Consulting Services Before October-November 2014

The Authority obtained legal services (unlawful detainer-eviction) from three law firms and financial consulting services from an accounting firm without conducting the required procurement procedures. It could not provide adequate documentation to support that it provided full and open competition and that the services were procured at a fair and reasonable price. Despite having attended a procurement and contract management training course in 2011, the executive director disregarded procurement requirements and continued to assign work to the three law firms under expired contracts¹ and hired the accounting firm without following required procedures for procurements totaling more than \$100,000. The Authority did not have valid contracts with the three law firms and the accounting firm and did not have adequate documentation to justify its selections. As a result, the Authority was unable to show that paying the law firms \$304,921 and the accounting firm \$236,730 from July 2012 to October-November 2014 was best for the Authority.

¹ The Authority previously procured for legal services in 2005, but the resulting contracts expired in 2006.

Period	Legal services	Financial consulting services
Fiscal year 2013 (July 2012 to June 2013)	\$178,072	\$126,482
Fiscal year 2014 (July 2013 to June 2014)	111,041	87,521
Fiscal year 2015 (July 2014 to October-November 2014)	15,808 ²	22,727 ³
Total	\$304,921	\$236,730

Procurements for Legal Services and Financial Consulting Services in October-November 2014 Had Deficiencies

The Authority conducted procurements for legal services and financial consulting services in October-November 2014. However, these procurements had a combination of deficiencies, which included discrepancies in contract term and price among procurement documents and the omission of mandatory Federal clauses from contracts. For example, the financial consulting services request for proposals stated that the contract would cover the current fiscal year with four annual renewals. However, the Authority awarded a 3-year contract with two optional 1-year extensions. For the legal services procurement, the Authority's independent cost estimate showed that it estimated the services to cost \$159,000 per year and specified in the request for proposals that it would enter into a 1-year contract, not to exceed \$150,000. Yet the Authority's board approved awarding contracts of \$200,000 per year to three law firms. In addition, the legal services contracts prepared by the city attorney's office were missing the mandatory Federal clauses.⁴

Conclusion

The Authority did not always comply with HUD requirements or its own procurement policy. This condition occurred because the Authority's executive director disregarded these requirements. As a result, the Authority was unable to support that \$304,921 paid for legal services and \$236,730 paid for financial consulting services without proper procurement were best for the Authority. These deficiencies resulted in the Authority's misuse of \$541,651 in public housing funds.

² The amount paid before the legal service contracts were signed. The legal service contracts were signed on November 18, 2014.

³ The amount paid before the financial consultant contract was signed. The financial consultant contract was signed on October 21, 2014.

⁴ 24 CFR 85.36(i)

Recommendations

We recommend that the Acting Director of the San Francisco Office of Public Housing require the Authority to

- 1A. Provide support to show that \$304,921 paid for unlawful detainer-eviction services from July 2012 through October 2014 without proper procurement were reasonable and best for the Authority or repay its public housing program from non-Federal funds.
- 1B. Amend the November 2014 contracts with the three law firms to include the mandatory Federal clauses.
- 1C. Establish policies and procedures to ensure that all future Authority contracts include mandatory Federal clauses.
- 1D. Provide support to show that \$236,730 paid for financial consulting services from July 2012 through October 2014 without proper procurement were reasonable and best for the Authority or repay its public housing program from non-Federal funds.
- 1E. Submit annually to HUD for the next 3 years, a list of all procurement contracts over \$10,000 (whether ongoing or recently procured contracts) listing the vendor name, contract service description or items purchased, and contract amount. HUD will perform a review and evaluation of selected contracts.
- 1F. Submit to HUD, on an annual basis, for the next 3 years, the Authority's last 12-month vendor payment history.

Finding 2: The Authority Did Not Effectively Manage Its Tenant Rents

The Authority did not effectively manage its tenant rents. This condition occurred because the Authority did not have adequate policies and procedures for rent collection. As a result, it lost revenue by improperly managing its rent collection process, was unable to collect tenant debts, and wrote off \$109,770 in rents and other charges.

The Authority Did Not Effectively Manage Its Tenant Rents

We selected a sample of 15 tenants representing \$130,756 (21 percent) of the \$620,282 in total writeoffs during our audit period to determine whether tenant accounts were written off in accordance with its policies and procedures. Although the Authority had policies and procedures for rent collection, they did not include policies and procedures for writing off tenant accounts. The Authority did not always take action to collect on delinquent tenant accounts, maintain adequate records on eviction cases, use alternative methods to collect debts from past tenants, maintain accurate tenant ledgers, and report debts owed by past tenants in HUD's Enterprise Income Verification (EIV) system. It also improperly reduced the balance owed by a tenant board commissioner. The following table identifies the deficiencies noted for each tenant account written off.

Sample item	No action to collect on delinquent accounts	Inadequate records on eviction cases	Alternative collection methods not used	Inaccurate tenant ledgers	Debts owed not reported in EIV	Total improper writeoffs	
						Not collected	Incorrect charges not reversed
1			X			14,170	-
2			X		X	18,749	-
3	X		X	X		9,261	176
4	X		X	X		8,905	433
5	X	X	X	X		8,752	200
6	X	X				769	-
7	X		X	X	X	4,315	248
8		X	X			4,394	-
9	X		X		X	4,112	-
10			X	X		4,011	-
11 and 14 ⁵				X		-	15,645
12				X		-	5,222
13				X		-	5,530
15				X		-	3,779
16		X				1,099	-
Total	6	4	9	9	3	78,537	31,233
Grand total						109,770	

⁵ Sample items 11 and 14 were the same tenant.

No Action Taken on Delinquent Tenant Accounts

The Authority failed to take action to collect on delinquent tenant accounts for 6 of the 15 tenant files reviewed. The Authority's Admissions and Continued Occupancy Policy states that if a family fails to pay rent by the fifth working day of the month, a 14-day notice to vacate will be issued to the resident for failure to pay rent, demanding payment in full or the surrender of the premises. The Authority's policy further requires a family that owes an amount to the Authority to repay the full amount or enter into a repayment agreement (appendix C). However, the 14-day notices to vacate could not be found in these six tenant files. Also, repayment agreements could not be found in five of the files. One tenant entered into a repayment agreement in an amount exceeding the threshold allowed by the Authority's policy,⁶ and the tenant failed to make payments. Not only did the Authority not attempt to collect on the repayment agreement or refer the tenant to a law firm for eviction, it later signed another repayment agreement with the tenant, which again exceeded the threshold allowed. The Authority could not explain why action was not taken on these cases.

Missing Records on Eviction Cases

We identified three tenants who appeared to have been referred to the law firms for eviction. We also identified one tenant who should have been referred for eviction for failing to make payments on a repayment agreement. However, the Authority did not maintain adequate records to show the details and results of these cases. This condition occurred because a former supervisor, who was responsible for handling all eviction cases, went on medical leave and then retired. Eviction cases were left at the former supervisor's desk and were overlooked. In addition, the executive director explained that other Authority staff members were unable to do what the former supervisor did because they were not trained to handle eviction cases.

Alternative Collection Methods Not Used

The Authority failed to use alternative methods to collect debts from nine tenants. According to its policy, if a family refuses to repay funds owed, the Authority will use other available collection alternatives, such as collection agencies, small claims court, a civil law suit, and the State income tax setoff program (appendix C). Instead of using alternative collection methods, the Authority wrote off these accounts because the tenants had vacated the unit. The Authority chose not to use alternative collection methods because it believed that these tenant accounts were uncollectible.

Inaccurate Tenant Ledgers

The Authority kept inaccurate tenant ledgers for 9 of the 15 tenants. It continued to charge rent after the tenants had moved out. For example, the Authority kept three separate tenant ledgers for one tenant who moved from one unit to another in November 2013. The Authority continued to charge rent for the old unit through October 2014 in one tenant ledger and through June 2015 in another. In this case, incorrect rent charges and late fees totaled \$15,645 for 28 months. The

⁶ The Authority's Executive Office Directive, Repayment Agreement Policy and Procedures Revisions, dated August 30, 2012

Authority improperly wrote off these amounts as uncollectible when it should have reversed them in its accounting system since these charges were inappropriate. The Authority could not explain why it continued to charge rent or why the accounts were written off as uncollectible instead of reversed in its accounting system.

Debts Owed Not Reported in EIV

The Authority failed to report debts owed by tenants in EIV in three cases. HUD's EIV System Tip Sheet TIPS 2013-3 requires public housing agencies to enter debt and termination information into EIV not later than 60 days from the end of participation date. The Authority's repayment agreement policy also requires that debts owed by tenants be reported to HUD (appendix C). Authority staff attributed this deficiency to the same former supervisor who went on medical leave and then retired. The former supervisor was assigned the task of entering debt and termination information into EIV. Other Authority staff members did not know why the information had not been entered. By the time this task was reassigned, the time allowed for entering the information into EIV had passed.

Improper Writeoffs

As a result of the deficiencies described above, the Authority improperly wrote off tenant accounts. These improper writeoffs included rents; work orders, damages, and cleaning costs; repayment agreements; late fees; and security or pet deposits. The Authority did not have adequate written policies and procedures for rent collection, which included policies and procedures for writing off tenant accounts. The Authority's executive director authorized writing off many of these tenant accounts at the end of a fiscal year because the tenants had vacated the units. The executive director also reduced the tenant-caused fire damage charge and back rent owed by a tenant board commissioner without reasonable justification. Other tenant accounts were written off when incorrect charges should have been reversed. All of the 15 tenant files reviewed contained improper writeoffs.

Conclusion

The Authority did not effectively manage its tenant rents. It did not always take action to collect on delinquent tenant accounts, maintain adequate records on eviction cases, use alternative methods to collect debts from past tenants, maintain accurate tenant ledgers, and report debts owed by past tenants in HUD's EIV system. As a result, the Authority lost revenue by improperly managing its rent collection process, was unable to collect tenant debts, and wrote off \$109,770 in rents and other charges.

Recommendations

We recommend that the Acting Director of HUD's San Francisco Office of Public Housing require the Authority to

- 2A. Develop and implement written policies and procedures for administering its tenant rents, including but not limited to a rental collection policy that includes procedures to address delinquent accounts, eviction procedures for nonpayment of rents, procedures for writing off uncollectible tenant accounts, and procedures for reporting debts owed by past tenants in EIV.

Scope and Methodology

We performed our audit work at the Authority's finance office in Richmond, CA, from August 18, 2015, to February 26, 2016. Our audit generally covered July 1, 2012, through June 30, 2015. We expanded our scope as necessary. To accomplish our objective, we performed the following:

- Reviewed applicable HUD requirements,
- Reviewed relevant background information related to the Authority,
- Reviewed the Authority's policies and procedures for procurement and rent collection,
- Reviewed the Authority's audited financial statements,
- Interviewed HUD and Authority staff as appropriate,
- Reviewed the Authority's accounting records,
- Reviewed the Authority's procurement files and contracts, and
- Reviewed public housing tenant files.

We selected a nonstatistical sample of two procurements to review. We used a nonstatistical sample to ensure that we selected the procurements mentioned in the complaint. We reviewed the Authority's check registers for fiscal years 2013, 2014, and 2015 with payments totaling more than \$20 million to identify vendors who were paid more than \$100,000 which would have required the Authority to conduct procurement procedures. The complaint alleged inappropriate procurement practices related to accounting and legal services. We determined that three law firms were tied to one legal services procurement and that two accounting firms were tied to an accounting procurement. Therefore, we selected the accounting firms and law firms for review. Payments for the two procurements totaled \$680,582 during our audit period. The findings pertain to the sample only. Therefore, we did not project the results to the universe.

We selected a nonstatistical sample of 15 tenant files to review. We used a nonstatistical sample to ensure that we selected the tenant mentioned in the complaint and the tenants with the highest writeoff amounts. The findings pertain to the sample only. Therefore, we did not project the results to the universe. We selected our sample based on (1) information provided by the complainant and (2) the dollar amount and timing of the writeoffs. The 15 tenants selected for review had a total of \$130,756 in writeoffs (21 percent) from a total of \$620,282 in writeoffs during our audit period.

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

Internal Controls

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

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

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

Relevant Internal Controls

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

- Policies and procedures implemented to reasonably ensure that procurement activities were conducted in accordance with applicable requirements.
- Policies and procedures implemented to reasonably ensure that rents were collected from public housing tenants.

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's controls were ineffective to ensure that procurement activities were conducted with full and open competition, and contracts were awarded only to vendors with proposals that were best for the Authority (finding 1).
- The Authority lacked adequate controls to ensure that accurate tenant ledgers were maintained, appropriate actions were taken on delinquent tenant accounts, and debts owed by tenants were reported in EIV (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$304,921
1D	236,730
Totals	\$541,651


- 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 these instances, the Authority did not support the reasonableness of the contract awards.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

	CITY OF RICHMOND HOUSING AUTHORITY EXECUTIVE OFFICE 440 Civic Center Plaza Ste 200 Richmond, CA 94804 (510) 621-1310 Voice • (510) 237- 5230 FAX INTERNET: tjones@RHACA.ORG TDD: 1-800-545-1833, Ext. 563
Timothy Jones, Executive Director	
April 13, 2016	
Ms. Tanya E. Schulze Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of the Inspector General - Office of Audit (Region IX) 611 W. Sixth Street Suite 1160 Los Angeles, CA 90017	
Subject:	Response to Office of Inspector General (OIG) Draft Audit No. 2016-LA-100X The Richmond Housing Authority Did Not Always Procure Services and Manage Rents in Accordance With HUD Requirements.
Dear Ms. Schulze:	
The Housing Authority of the City of Richmond is in receipt of your letter dated March 29, 2016, and the abovementioned draft report with findings and recommendations.	
In response to the results of your staff's review, the Housing Authority wishes to clarify certain factual misunderstanding regarding the Housing Authority's procurement and tenant rent management activity identified in your draft report.	
BACKGROUND	
HUD OIG audited the Richmond Housing Authority due to a complaint alleging that the Authority violated procurement requirements related to legal and accounting services, and wrote off tenant debts improperly. The objective of the audit was to determine whether the Authority procured goods and services and managed public housing tenant rents in accordance with HUD requirements.	
HUD OIG determined that the complaint had merit, and that the Authority's procurement procedures for Unlawful Detainer legal services and accounting services had deficiencies, and the contracts omitted mandatory federal clause. Additionally, HUD OIG determined that the Authority wrote off tenant accounts without using alternative methods of collection, and did not have adequate policies and procedures in place for rent collection. As a result HUD OIG determined that the Authority could not support that the use of \$541,651 in HUD funds for legal and accounting services were best for the Authority. The Authority also lost revenue by improperly writing off \$109,620 in tenant rents and other charges.	

HUD OIG recommended that Acting Director of the HUD San Francisco Office of Public Housing require the Authority to (1) provide documentation showing that \$304,921 paid for eviction legal services and 236,730 paid for accounting services were best for the Authority or repay its public housing programs from non-federal funds. HUD OIG further recommended that the Housing Authority amend its contracts, submit future procurements to HUD for review and develop and implement rent collection policies and procedures.

DISCUSSION

In regards to the unlawful detainer legal services and accounting services, the OIG audit indicated that the authority did not conduct procurements for these services before October-November 2014. However, the Authority did in fact conduct procurements for both unlawful detainer services and accounting services. Attached to this response is a copy of the RFP for unlawful detainer legal services released September 15, 2015 and copies of the award letters sent to the successful bidders; also attached to this response is the Authority's procurement process justification memo to the file outlining the procurement rationale for the accounting services provider, which includes fee schedules for the other two firms contacted.

The OIG audit specifically indicated that the 2014 procurement for unlawful detainer legal services was deficient in that the Independent Cost Estimate (ICE) anticipated unlawful detainer legal services costs to be approximately \$159,000 per year, but the RHA Board approved contracts for amounts not to exceed \$200,000. It should be noted that during the end of 2014 when these services were being procured, RHA was addressing some serious tenant concerns the majority of which alleged habitability issues at the Hacienda, a mid-rise public housing senior/disabled development. Multiple law suits were filed on behalf of most of the residents and we anticipated a spike in unlawful detainer costs, and therefore recommended the increased contract amounts.

However, HUD's swift approval in January 2015 of RHA's Hacienda demolition-disposition application and the even more expeditious approval of RHA's Section 8 Tenant Protection Voucher Application in February 2015 helped to curb the anticipated spike in unlawful detainer legal fees, because we were able to commence with relocating the residents. As a result the following legal fees were paid to the contracted firms with actual cost coming in nowhere near the contracted not to exceed amount of \$200,000 per firm per year for the years audited by OIG.

RICHMOND HOUSING AUTHORITY					
SUMMARY OF LEGAL SERVICES - PUBLIC HOUSING: MURPHY/BOLDEN/RAMSEY					
FY 12/13 - 15/16					
LEGAL FIRM	FY 12/13	FY 13/14	FY 14/15	FY 15/16	TOTALS
EDRINGTON, SCHIRMER & MURPHY	94,740.02	22,299.79	8,553.76	15,782.73	\$ 141,376.30
JUDONDI BOLDEN	58,784.50	26,984.60	2,010.00	8,682.25	\$ 96,461.35
CHARLES T RAMSEY	13,075.00	1,165.00	5,185.00	820.00	\$ 20,245.00
TOTALS	\$ 166,599.52	\$ 50,449.39	\$ 15,748.76	\$ 25,284.98	\$258,082.65

I've also attached information from neighboring Housing Authorities that used the same firms for unlawful detainer legal services that RHA used as a point of comparison. Their federally procured

Comment 1

Comment 2

Comment 3

Comment 4

Comment 5

contract costs, per year for these services were well above the actual amounts paid to these firms by RHA. One Housing Authority's contract costs, with one of the same firms used by RHA, were \$113,000 per year; another Housing Authority's contract costs with two of the firms used by RHA were \$340,000 over a four year period and \$282,700 over a four year period. This information would support that the \$304,921, paid to three separate firms over a three year period, were reasonable and best for RHA.

Comment 6

In regards to the financial consulting services procurement; the OIG audit specifically indicated that the financial consulting services procurement was deficient, because the RFP stated that the contract would cover the current fiscal year with four annual renewals. However, the contract was let for a three year term with two optional one-year extensions. After further consideration was given, it was determined that one year plus four renewals might be too long of a term, and we therefore opted for a three-year term plus two optional one-year extensions.

Comment 7

Additionally, regarding the financial consulting services procurement, while I was unable to obtain actual contracts from the two other Hosing Authorities that use the same financial consulting service provider as RHA, I did ascertain that San Buenaventura uses the same firm and in the past 12 months they have been charged \$94,569 for year-end close work, general consulting, operating subsidy, and audit assistance. This Housing Authority has 5 AMPs with 2 converting under RAD (1 partial), a HCV Section 8 Program, Business Activities and a Component Unit so they are very similar to RHA.

Comment 8

While the Santa Barbara Housing Authority is a little smaller in that is has been converting AMPs to RAD and is down to 2 AMPs from 5; they have about 15 properties that they manage and this same firm helps with their general financial consulting and their operating subsidy submissions. In the past six months they have been charged \$40,554. They also run HCV Section 8 Program and have a few component units. They are also very similar to RHA. Between the two other Housing Authorities, the same financial consulting firm used by RHA has charged them a total of \$135,123 for 18 months of services. This information would support that the \$236,730 over a 36-month period were reasonable and best for RHA.

Comment 9

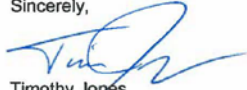
In regards to the tenant rents, the OIG audit indicated that because the Authority did not have adequate rent collection policies and procedures it was unable to collect tenant debts and wrote off \$109,620. It should be noted that eight (8) of the files reviewed had charges that were inappropriately assessed. These amounts were not collectable and should have been reversed and not written off, but they were included in the total. The total amount inappropriately charged was \$31,208. This amount should be identified but not included in the total amount of rent that the Authority was unable to collect (\$31,208 – inappropriately charged / \$78,412 – uncollected). The OIG audit also indicated that the Authority reduced the balance of damages caused by a fire for a senior resident and member of the Housing Authority Commission. The Richmond Fire Department (RFD) concluded that the cause of the fire was an accident. The reduction of the balance owed for the damages was not an abuse of discretion. A copy of the RFD report is attached to this response.

Comment 10

In closing, while the initial findings of this audit indicate that the Housing Authority may have not always complied with HUD procurement requirements, in relation to the procurement of unlawful detainer legal services and financial consulting services, the information submitted in this response provides tangible evidence to the contrary and substantial information to determine that the amounts paid for these services were reasonable and best for the Housing Authority. The Housing Authority agrees with the recommendations to amend these contracts, submit future procurements in excess of \$10,000 to HUD for review and to develop and implement rent collection policies and procedures.

If you have any questions regarding any of this information please do not hesitate to contact me at (510) 621-1310. Thank you very much to you and your staff for conducting this audit with limited disruption to our ongoing operations.

Sincerely,



Timothy Jones
Executive Director

Attachments

Comment 11



OIG Evaluation of Auditee Comments

- Comment 1 We disagree. The Request for Proposals (RFP) for unlawful detainer-eviction legal services issued in 2005 stated that the Authority will “enter into a one-year agreement...which may be extended for an additional year at the option of the Authority.” During the audit, the Authority provided the contracts with the same three law firms that were effective October 15, 2005. All three contracts had a 1-year term with no renewal option. However, after the expiration of these contracts, the Authority did not conduct a new procurement for unlawful detainer-eviction legal services.
- Comment 2 The documents provided with the response were inadequate to justify the Authority’s selection of the accounting firm to provide financial consulting services. The Authority’s executive director explained in the justification memo that Oakland Housing Authority (OHA) recently completed an RFP process for a consultant to provide similar services and he calculated that contract to cost \$125,000 per year. However, we noted that OHA entered into a 2-year contract with two 1-year option terms in an amount not to exceed \$500,000. OHA anticipated the cost of the contract to be higher during the initial year of the contract and the cost to be less in subsequent years. The Authority’s justification memo stated that it did not anticipate spending as much as OHA, but did not specify an estimated amount. Instead of using a more complex procurement method as required, the Authority opted to select a firm based on two fee schedules. One fee schedule showed hourly rates for the firm’s staff positions and their job descriptions. Another fee schedule showed hourly rates for the firm’s staff positions and a quote of \$3,800 for preparing two HUD forms for four asset management projects. These hourly rates and one quote obtained were insufficient for comparison to justify the Authority’s selection.
- Comment 3 The explanation the Authority provided in its response differs from what was in its procurement file; therefore, we did not make any changes to the report.
- Comment 4 The payment amounts shown in this table were less than the payment amounts we obtained from the Authority’s accounting records during the audit; therefore, we did not make any adjustments to the report.
- Comment 5 The additional documents provided were insufficient to show that the \$304,921 paid for unlawful detainer-eviction services from July 2012 through October 2014 without proper procurement were reasonable and best for the Authority. The Authority’s executive director asserted that one housing authority’s contract costs were \$113,000 per year. His assertion appeared to be incorrect. The supporting document provided showed that the housing authority requested its board to approve increasing the contract to an amount not to exceed \$113,000 and extending the contract term through June 30, 2012. It appeared that the contract term was more than 1 year, because the document mentioned that the board had authorized a contract amendment last November that increased contract authority

and extended the term through June 30, 2011. The exact contract term was not mentioned, but it appeared to be more than 1 year.

The Authority's executive director stated that another housing authority's contract costs with two firms were \$340,000 and \$282,700, both over a 4-year period. This information would not support that the \$304,921 that the Authority paid for unlawful detainer-eviction services from July 2012 through October 2014 were reasonable. The contract costs were not comparable because the other housing authority had more than double the Authority's public housing units. The other housing authority had more than 1,600 public housing units, while the Authority had 715 public housing units.

- Comment 6 The explanation the Authority provided in its response differs from the explanation documented in its procurement file; therefore, we did not make any changes to the report.
- Comment 7 The Authority will need to provide support to HUD during the audit resolution process to show that the \$236,730 it paid for financial consulting services from July 2012 through October 2014 without proper procurement was reasonable and best for the Authority or repay its public housing program from non-Federal funds.
- Comment 8 The Authority will need to provide support to HUD during the audit resolution process to show that the \$236,730 it paid for financial consulting services from July 2012 through October 2014 without proper procurement was reasonable and best for the Authority or repay its public housing program from non-Federal funds.
- Comment 9 We agreed with the Authority. Accordingly, we have revised the table in the report to show improper writeoffs separated into two categories: not collected and incorrect charges not reversed.
- Comment 10 The fire investigation report concluded that the fire was an accident, but it was caused by the tenant who left incense burning inside a flower pot. During the audit, the executive director explained that he reduced the cost of the fire damage for painting the one-bedroom unit by more than \$1,000 because the unit had not be repainted since the tenant moved in. We disagreed that the reduction was reasonable.
- Comment 11 The Authority provided attachments with its response. We did not include the attachments in the report because they were too voluminous; however, they are available upon request.

Appendix C

Criteria

Procurement Criteria

Regulations at 24 CFR 85.36(b)(8) state, “Grantees and subgrantees will make awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.”

Regulations at 24 CFR 85.36(b)(9) state, “Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”

Regulations at 24 CFR 85.36(c)(1) state, “All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of §85.36.”

Regulations at 24 CFR 85.36(i) state that the following provisions must be included in a grantee’s contract:

- (1) Administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. (Contracts more than the simplified acquisition threshold)
- (2) Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement. (All contracts in excess of \$10,000)
- (3) Compliance with Executive Order 11246 of September 24, 1965, entitled “Equal Employment Opportunity,” as amended by Executive Order 11375 of October 13, 1967, and as supplemented in Department of Labor regulations (41 CFR chapter 60). (All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees)
- (4) Compliance with the Copeland “Anti-Kickback” Act (18 U.S.C. [United States Code] 874) as supplemented in Department of Labor regulations (29 CFR part 3). (All contracts and subgrants for construction or repair)
- (5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2000 awarded by grantees and subgrantees when required by Federal grant program legislation)

- (6) Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts awarded by grantees and subgrantees in excess of \$2000, and in excess of \$2500 for other contracts which involve the employment of mechanics or laborers)
- (7) Notice of awarding agency requirements and regulations pertaining to reporting.
- (8) Notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract.
- (9) Awarding agency requirements and regulations pertaining to copyrights and rights in data.
- (10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.
- (11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.
- (12) Compliance with all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act (42 U.S.C. 1857(h)), section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000).
- (13) Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Pub. L. 94-163, 89 Stat. 871).

HUD Handbook 7460.8, REV-2, section 10.3, states, "PHAs should always compare the prices offered with the ICE [independent cost estimate]. While this initial cost estimate may not be sufficient for price reasonableness, it can assist the Contracting Officer in determining the extent to which the offerors understand the PHA's requirements. Sometimes, the comparison of prices may point out the need for verification of bids (in sealed bid procurements) or negotiations (in the competitive proposals methods) if prices of the different offerors vary widely or seem unusually high (or low) compared to the ICE."

Richmond Housing Authority Procurement Policy, revised July 19, 2000, section III, part C, states, "For purchases and contracts in excess of \$100,000, the Executive Director or designee shall invite bids by (1) advertisement in at least one newspaper of general circulation, or (2) mailing 'invitations to bid' to all available dealers and notices posted in public places; or a combination of such methods."

Tenant Rents Management Criteria

The Authority's consolidated annual contributions contract, dated March 8, 1996, section 4 – Mission of the HA [housing agency] states, "The HA shall at all times develop and operate each project solely for the purpose of providing decent, safe, sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects, and the economic and social well-being of the tenants."

Regulations at 24 CFR 5.233, Mandated Use of HUD's Enterprise Income Verification (EIV) System, state:

(b) Penalties for noncompliance. Failure to use the EIV system in its entirety may result in the imposition of sanctions and/or the assessment of disallowed costs associated with any resulting incorrect subsidy or tenant rent calculations, or both.

Notice PIH 2010-19 (HA), Administrative Guidance for Effective and Mandated Use of the Enterprise Income Verification (EIV) System, states:

EIV System Tip Sheets (ETS). PHAs are required to comply with guidance provided via ETS ... ETS is designed to explain effective use of the EIV system to ensure PHAs' compliance with the third party verification requirements and reduce administrative and subsidy payment errors, so that PHAs may avoid penalties for failure to use the EIV system in its entirety.

EIV System Tip Sheet TIPS 2013-3 states:

Effective April 26, 2010, PHAs are required to:

- ENTER Debt and Termination information into EIV not later than 60 days from the End of Participation (EOP) date

The Authority's Admissions and Continued Occupancy Policy, chapter 13, paragraph 13-III.B, states:

The PHA will terminate the lease for the following violations of tenant obligations under the lease:

Failure to make payments due under the lease, including nonpayment of rent;

Repeated late payment of rent or other charges. Four late payments within a 12 month period shall constitute a repeated late payment.

The Authority's Admissions and Continued Occupancy Policy, chapter 13, paragraph 13-III.D, states:

If a family owes amounts to the PHA, as a condition of continued occupancy, the PHA will require the family to repay the full amount or to enter into a repayment agreement, within 30 days of receiving notice from the PHA of the amount owed.

The Authority's Admissions and Continued Occupancy Policy, chapter 13, paragraph 13-IV.D, states:

The PHA will give written notice of 14 calendar days for nonpayment of rent. For all other lease terminations the PHA will give 30 days written notice or, if state or local law allows less than 30 days, such shorter notice will be given.

The Authority's Admissions and Continued Occupancy Policy, chapter 16, paragraph 16-III.A, states:

When a family refuses to repay monies owed to the PHA, the PHA will utilize other available collection alternatives including, but not limited to, the following:

- Collection agencies
- Small claims court
- Civil law suit
- State income tax set-off program

The Authority's Admissions and Continued Occupancy Policy, chapter 16, paragraph 16-III.B, states:

Any amount due to the PHA by a public housing family must be repaid. If the family is unable to repay the debt within 30 days, the PHA will offer to enter into a repayment agreement in accordance with the policies below.

If the family refuses to repay the debt, enter into a repayment agreement, or breaches a repayment agreement, the PHA will terminate the family's tenancy in accordance with the policies in Chapter 13. The PHA will also pursue other modes of collection.

The PHA will not enter into a repayment agreement if there is already a repayment agreement in place with the family, or the amounts owed by the family exceed the Federal or State threshold for criminal prosecution.

The Authority's Executive Office Directive, Repayment Agreement Policy and Procedures Revisions, dated August 30, 2012, states:

As required by 24 CFR 792.103 if a LIPH (Low Income Public Housing) or HCV (Housing Choice Voucher) family incurs a debt to the Housing Authority, enters into a repayment agreement to repay that debt and breaches the repayment agreement, the RHA [Authority] will terminate the assistance upon notification to the family and pursue other means of collection which may include but is not limited to:

- collection agencies
- small claims court
- civil lawsuit
- State income tax set-off programs
- And as required this debt will be reported to the United States Department of Housing and Urban Development.

There will be some minor revisions to the current policies to bring them more in line with federal requirements. The repayment amount ceiling will be reduced from \$3,000 to \$2,500. Families will no longer be given three opportunities within a 12-month period to miss a payment. One missed payment will constitute the issuance of a Notice of Proposed Termination. The repayment agreement form has also been modified.

Other repayment agreement terms have been modified as follows:

Payment Thresholds

Amounts between \$2,000 and \$2,500 must be repaid within 30 months.

Amounts between \$1,000 and \$1,999 must be repaid within 20 months.

Amounts under \$1,000 must be repaid within 12 months.