



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

April 4, 2016

MEMORANDUM NO:
2016-PH-1801

Memorandum

TO: Christine Jenkins
Director, Office of Public Housing, Washington, DC, Field Office, 3GPH

//signed//

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

SUBJECT: The District of Columbia Housing Authority, Washington, DC, Did Not Always Make Payments for Outside Legal Services in Compliance With Applicable Requirements

INTRODUCTION

We conducted a review of the District of Columbia Housing Authority's payments for outside legal services in conjunction with an ongoing internal audit of the U.S. Department of Housing and Urban Development's (HUD) oversight of public housing agencies' expenditures for outside legal services. Our review objective was to determine whether the Authority made payments for outside legal services in compliance with applicable requirements.

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 review.

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

METHODOLOGY AND SCOPE

The Authority was one of three public housing agencies participating in HUD's Moving to Work Demonstration program that were selected for review as part of our ongoing internal audit. We conducted our review from October 2013 to January 2016 at our office in Philadelphia, PA. To accomplish our review objective, we determined that the Authority made 866 payments totaling

\$6.1 million for outside legal services provided during the review period. We statistically selected 80 payments totaling \$1.6 million and requested that the Authority provide documentation to support the payments. The sample was designed using a highly stratified random sample to control for variance. Therefore, the results of our review can be projected to the universe. In addition, we obtained and reviewed the following:

- Relevant HUD regulations and requirements.
- Invoices, canceled checks, contracts, and general journal entries related to payments that the Authority made to eight outside law firms.
- The Authority's record retention policy.
- The Authority's Moving to Work agreement, annual plans, and annual reports.

We also held discussions with HUD program officials and Authority officials.

We relied in part on computer-processed data provided by the Authority. These data consisted of a disbursements register listing payments related to outside legal services rendered during the review period. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The testing entailed matching information from the Authority's data to source documentation, including invoices and canceled checks.

We used statistical sampling procedures to estimate the potentially unsupported payments related to the universe of payments based on issues identified.

Our review covered transactions and events related to outside legal services rendered during the period October 1, 2007, through September 30, 2012. This was a limited scope review. Therefore, it was not performed in accordance with generally accepted government auditing standards. For example, we did not perform an assessment of internal controls as they related to the objective.

BACKGROUND

The District of Columbia Housing Authority operates the city's public housing. The Authority's main administrative office is located at 1133 North Capitol Street, NE, Washington, DC. The Authority is governed by an 11-member board of commissioners. The board is responsible for establishing goals, approving policy and budgets, and providing general direction to the Authority's executive director. The Authority manages approximately 8,700 public housing units and 12,900 housing choice vouchers.

The Authority is a participant in HUD's Moving to Work Demonstration program. In 1996, Congress authorized the Moving to Work Demonstration program as a HUD demonstration program. This program allowed certain public housing agencies to design and test ways to promote self-sufficiency among assisted families, achieve programmatic efficiency, reduce costs,

and increase housing choice for low-income households. Congress exempted participating agencies from much of the Housing Act of 1937 and associated regulations as outlined in the Moving to Work agreements. Participating agencies have considerable flexibility in determining how to use Federal funds. The Authority was accepted into the program on July 25, 2003, when HUD's Assistant Secretary for Public and Indian Housing signed the Authority's Moving to Work agreement. In September 2010, the Authority entered into a new Moving to Work agreement with HUD. The agreement expires in September 2018. The Authority's fiscal year begins on October 1.

RESULTS OF REVIEW

The Authority did not always make payments for outside legal services in compliance with applicable requirements. It did not always maintain documentation to support payments for legal services. It also paid for services (1) performed by unapproved personnel, (2) performed beyond the terms of the contract, and (3) that were block billed. These problems occurred because the Authority lacked controls to ensure that it adequately verified invoices before payment and followed Federal requirements and contract terms. As a result, the Authority made \$1 million¹ in unsupported payments for outside legal services.

The Authority Paid for Legal Services That Were Not Billed in Accordance With Federal Requirements and Contract Terms

The Authority made \$1 million in payments for legal services that were not billed in accordance with Federal requirements and contract terms. It lacked documentation to support some payments for outside legal services. It also paid for services (1) performed by unapproved personnel, (2) performed beyond the terms of the contract, and (3) that were block billed. Regulations at 2 CFR (Code of Federal Regulations) Part 225, appendix A, required that costs be necessary, reasonable, and adequately documented. Also, Office of Management and Budget (OMB) Circular A-133, subpart C.300(c), required the Authority to comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs. In addition, regulations at 24 CFR 85.36 required the Authority to ensure that contractors performed in accordance with the terms, conditions, and specifications of their contracts. The Authority lacked controls to ensure that it adequately verified invoices before payment and followed Federal requirements and contract terms and as a result, made \$1 million in payments for legal services that were not billed in accordance with Federal requirements or the contract. The following paragraphs provide details.

¹ Appendix C contains a summary of payments to law firms by deficiency identified.

The Authority Did Not Maintain Documentation To Support Payments for Outside Legal Services

The Authority made 50 payments totaling \$1.4 million that included \$764,377 in payments for outside legal services for which the Authority did not maintain documentation to support the payments. Regulations at 2 CFR Part 225 required that costs be necessary, reasonable, and adequately documented. Of the 50 payments reviewed, we could not determine the contract numbers on the related invoices for nine payments totaling \$324,897. The contract numbers listed on an invoice identify the contract associated with the invoice. The Authority was unable to provide contract numbers for these invoices. Since we could not identify which contracts were related to the invoices, we were unable to determine whether the payments complied with the provisions of the contracts. Appendix D provides a sample excerpt from an invoice that does not contain a contract number. In addition, three payments totaling \$382,127 included \$286,555 for legal services, however, the related contract did not identify the personnel authorized to provide services under the contract or their hourly billing rates. Also, 32 payments totaling more than \$1 million included \$109,256 in reimbursable direct costs that were not supported with documentation, such as receipts for reimbursable expenses or adequate descriptions of services. Lastly, the Authority did not provide documentation to support six payments totaling \$43,669. As a result, the Authority made \$764,377 in unsupported payments for outside legal services.

Outside Legal Services Were Not Always Performed by Approved Personnel

The Authority failed to comply with OMB regulations and its own contractual agreement when it paid for services that were performed by personnel not listed in the contract. It made 22 payments totaling \$406,975 showing that \$113,436 in legal services were performed by unapproved personnel. The personnel listed on the invoices were not listed in the contracts or the law firm's fee proposal submitted in response to the Authority's request for proposal. The Authority's contracts stated that replacements for key personnel were subject to the approval of the general counsel. However, the documentation provided by the Authority did not contain evidence of such approvals. OMB Circular A-133, subpart C.300(c), required the Authority to comply with contract provisions. Ensuring that personnel performing services were authorized to do so is an important control to safeguard funds spent in relation to the contract. Therefore, the Authority should have ensured that the services for which it paid were performed by authorized personnel. As a result, the Authority made \$113,436 in unsupported payments for outside legal services.

The Authority Paid for Legal Services That Were Beyond the Terms of the Contract

The Authority failed to comply with OMB regulations and its own contractual agreement when it paid for legal services that were beyond the terms of the contract. It made eight payments totaling \$112,039 for legal services that were performed outside the contract period. The Authority lacked documentation to show that it extended the contract terms. OMB Circular A-133, subpart C.300(c), required the Authority to comply with contract provisions. As a result, the Authority made \$112,039 in unsupported payments for outside legal services.

The Authority Paid for Legal Services Based on Block Billing

The Authority made one payment totaling \$13,645 that included \$13,626 in block-billed entries. Regulations at 2 CFR Part 225 required that costs be necessary, reasonable, and adequately documented. Block-billed entries do not identify the nature of the work performed; therefore, it was impossible to know how much time was spent on an activity to determine the necessity and reasonableness of the work performed and the accuracy of the billing. As a result, the Authority made \$13,626 in unsupported payments for outside legal services. Appendix E provides a sample excerpt from an invoice showing block billing.

Conclusion

The Authority did not always make payments for outside legal services in compliance with applicable requirements. It lacked controls to ensure that it adequately verified invoices before payment and followed Federal requirements and contract terms. As a result, it paid unsupported costs totaling \$1 million for outside legal services. However, based on our review, at least \$2.6 million of the \$6.1 million in payments for outside legal services could be unsupported.²

RECOMMENDATIONS

We recommend that the Director of HUD's District of Columbia Office of Public Housing require the Authority to

- 1A. Provide documentation to support the \$999,977³ in unsupported payments identified by the review or reimburse its program from non-Federal funds for costs that it cannot support.
- 1B. Develop and implement controls to ensure that invoices for legal services are adequately verified and its payments for outside legal services are made in accordance with the terms of the related contracts and other applicable requirements.

² For the 866 payments totaling \$6.1 million, the weighted average per legal payment was \$3,427. Deducting for a statistical margin of error, we can say – with a one-sided confidence interval of 95 percent – that the average amount of unsupported funds paid per legal payment is \$2,958 based on the 80 sample legal payments reviewed. Extrapolating the \$2,958 average unsupported amount to the universe of 866 legal payments indicates that at least \$2.6 million of the \$6.1 million in payments for outside legal services could be unsupported.

³ Payments for services totaling \$3,501 had more than one deficiency. Although the sum of the amounts discussed in each section of the finding totals \$1,003,478, to avoid double-counting, we counted each payment only one time in our calculation of unsupported payments.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	\$999,977

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



District of Columbia Housing Authority
1133 North Capitol Street, NE Washington, DC 20002-7599
202-535-1000

Adrienne Todman, Executive Director

March 3, 2016

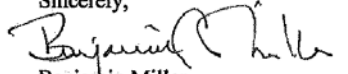
David Kasperowicz
Regional Inspector General
For Audit
U.S. Department of Urban Development
HUD Office of the Inspector General
Office of Audit Region 3AGA
The Wanamaker Building
100 Penn Square East, Suite 10205
Philadelphia, PA 19107-3380
DKasperowicz@hudoig.gov

Re: Memorandum No. 2016-PH-180X

Dear Mr. Kasperowicz:

Enclosed, please find the District of Columbia Housing Authority's ("DCHA") response and comments to the HUD OIG's Draft Audit Memorandum No. 2016-PH-180X ("Draft Findings") issued by your office on February 29, 2016, DCHA's February 22, 2015 Exit Conference and subsequent submissions and discussions regarding the Draft Findings of DCHA's legal services expenditures for the period of October 1, 2007 through September 30, 2012 (the "Audit Period"). Should you have any questions regarding this matter, please do not hesitate to contact me at (202)535-1899.

Sincerely,


Benjamin Miller
Director of Audit and Compliance

cc: Adrienne Todman
Executive Director

Ronald J. Lloyd
Assistant Regional Inspector General for Audit
Rlloyd@hudoig.gov

**District of Columbia Housing Authority's Response to HUD
Office of the Inspector General Audit of outside Legal Services**

INTRODUCTION

In December 2012, the U.S. Department of Housing and Urban Development's ("HUD") Office of Inspector General ("HUD OIG") began an internal audit of HUD's oversight of public housing authorities' expenditures for outside legal services and HUD's oversight of expenditures for lobbying the executive or legislative branches of the Federal Government. In February 2014, HUD OIG issued a Subpoena Duces Tecum requesting documents related to legal services expenditures for the period of October 1, 2007 through September 30, 2012 ("Audit Period").

Comment 1

In the February 29, 2016 Draft Finding, HUD OIG acknowledged that DCHA is a Moving to Work ("MTW") Public Housing Authority ("PHA") since 2003. It is DCHA's position that its MTW status had no impact and played no part in the audit review or the Draft Findings for the Audit Period. Even though DCHA's MTW authority permits DCHA to re-regulate its existing regulations, DCHA did not seek re-regulation of any of the audited items.

Comment 2

Overall, the audit review process for the Audit Period that required DCHA to look back almost a decade was onerous and inconsistent with the Federal government's own rules and regulations regarding the retention and maintenance of documents. However, despite the onerous nature of the review process and contrary to the Draft Findings, DCHA had controls in place that ensured that legal services costs were necessary, reasonable and adequately documented prior to approving legal services invoices for payment.

Comment 3

**Response to Finding No. 1: DCHA Maintained Documentation to Support Payments for
Outside Legal Services**

Comment 4

DCHA maintained documentation that supported payments of its outside legal services invoices. For example, in response to the Draft Finding that a number of DCHA's invoices did not have contract numbers, DCHA provided most of the contract numbers. HUD OIG revised its findings and made necessary adjustments for some but not to all of its findings as it related to this issue. In some cases, the HUD OIG acknowledged receipt of the information and still found the invoice unsupported because the work was performed by "personnel not listed in the contract." See Draft Findings p. 4. As demonstrated below, all invoice expenditures identified as unsupported due to the "personnel not listed in the contract" should have been deemed supported because all work performed by replacement personnel was approved by the General Counsel.

Comment 5

Comment 6

DCHA has determined that many challenged expenditures regarding the findings related to reimbursable direct costs that were adequately documented and approved for payment. For example, copying expenditures done in-house by the law firm and not by a third party do not require receipts. DCHA has also determined that many challenged expenditures regarding the findings related to conferences and legal research should be deemed supported. By the very nature of the legal services field, legal research is not only required, it is a necessity in the proper defense and representation of DCHA. Such expenses do not require pre-approval as legal research is an appropriate expenditure. In many cases, DCHA may specifically request as a legal services assignment that the legal services contractor conduct legal research on behalf of DCHA. DCHA also has the expectation that when its legal services contractors are assigned a legal

matter, the legal services contractor will do the necessary research to ensure that it provides competent counsel.

Response to Finding No. 2: Outside Legal Services Were Always Performed by Approved Personnel

Comment 5

DCHA disputes the Draft Audit Finding that DCHA made unsupported payments for legal services invoices in the amount of \$113,475. There are no applicable regulation requirements or cost principles that regulate the process through which personnel are approved. In support of the Draft Audit Findings, the HUD OIG stated that “the [DCHA’s] contracts state that replacements for key personnel were subject to the approval of the general counsel.” Draft Findings p. 4.

Comment 5

There were no requirements in DCHA’s contracts or solicitations that required pre-approval in writing of any changes, additions, replacement or substitution of staff. DCHA does have a process for approval. DCHA’s legal services contractors notified DCHA by phone or in person and advised the General Counsel of any staffing changes and formally introduced the new personnel to the General Counsel. It was during those meetings, that the General Counsel approved the replacement personnel. The General Counsel’s approval of the changes in personnel is further supported by the approved invoices.

Comment 7

Moreover, DCHA has not been disadvantaged or prejudiced by a change of personnel or by the General Counsel’s approval of replacement personnel. General Counsel’s verbal approval process was actually more efficient and ensured that DCHA maintained continuous and competent legal representation. Since DCHA’s contracts, applicable regulation requirements or cost principles do not require the written pre-approval of the General Counsel when personnel are replaced, that amount of \$113,475 is supported.

Comment 5

Comment 8

Finally, DCHA determined that a number of invoices that HUD OIG identified as legal services that were performed by unsupported personnel were identified in error because the HUD OIG did not thoroughly review and compare all of the invoices, contracts and solicitation responses. Had the HUD OIG done a more thorough review of the invoices and contract, the legal services would have been supported because the work was conducted during the contract term.

Response to Finding No. 3: DCHA Had Controls in Place to Ensure That it Did Not Pay for Legal Services That Were Beyond the Terms of the Contract

Comment 9

The HUD OIG found that DCHA paid for legal services that were beyond the terms of the contract in the amount of \$112,039. Contrary to the findings, many of the contracts that HUD OIG identified as being paid beyond the terms of the contract were in fact properly paid and paid consistent with the terms of the contract. To give one example, DCHA has determined that the finding that three (3) invoices identified by HUD OIG for legal services that were paid when the “invoice is outside of the contract terms” were incorrect. A simple reading of the invoices and contract established that the legal services expenditures were properly approved as the work was done during the contract term.

Response to Finding No. 4: There is No Regulatory Prohibition of "Block Billing" For Legal Services

Comment 10

There is no prohibition of regulations, cost principles, HUD policy, HUD procedure, DCHA contract or solicitation, or procurement policy that prohibits "Block Billing" for legal services contract invoices. DCHA was in compliance with Regulation 2 CFR Part 225 as the costs identified in the invoices were necessary, reasonable and adequately documented. Most invoice entries identified the nature of the work performed with detail and specificity. All invoices were reviewed and it was determined at the time of approval that based on the legal services provided, the work was reasonable.

CONCLUSION

Comment 11

We appreciate the cooperation and consideration we experienced with your audit team and their efforts. DCHA, however, respectfully requests that the HUD OIG reconsider parts of its analysis, findings and recommendations based upon our comments. DCHA has approved and paid for its legal services expenditures in accordance with federal requirement, regulations, HUD policy and procedure and DCHA's contract terms.

OIG Evaluation of Auditee Comments

- Comment 1** The Authority stated that its Moving to Work status had no impact and played no part in the audit review for the audit period. It further stated that even though its Moving to Work authority permitted it to re-regulate its existing regulations, it did not seek re-regulation of any of the audited items. We did not state that the Authority's Moving to Work status had an impact in the audit review for the audit period. We noted the Authority's participation in the Moving to Work program and provided relevant background information because the Authority was one of three public housing agencies participating in the program that we selected for review as part of our ongoing internal audit.
- Comment 2** The Authority stated that the audit review process that required it to look back almost a decade was onerous and inconsistent with the Federal Government's own rules and regulations regarding the retention and maintenance of documents. We notified the Authority in December 2012 that we had selected it to be a source of data for use in our internal audit of HUD's oversight of public housing agencies' expenditures for outside legal services and that our audit period was October 1, 2007, through September 30, 2012. The Authority did not indicate that it would have a problem providing data or information. In July 2013 we decided to perform external reviews at three agencies participating in HUD's Moving to Work program, including the Authority, because it had already provided information related to our internal audit, and we planned to include the results of those external reviews in our internal audit. In February 2014 we issued a subpoena for the Authority to provide information and documentation supporting specific payments it made for outside legal services. The subpoena requested support for only two payments from 2007. The Authority made those payments in December 2007. Of the 80 payments we reviewed, the Authority fully supported 18 of them. The 18 included 1 payment from 2007, 2 payments from 2008, and 6 payments from 2009. The remaining nine payments were made between 2010 and 2012. As stated in this memorandum, the Authority did not provide documentation to support 6 of the 80 payments reviewed totaling \$43,669. Those six payments included two payments from 2008 and four payments from 2009.
- Comment 3** The Authority stated that contrary to our finding, it had controls in place that ensured that legal services costs were necessary, reasonable, and adequately documented prior to approving legal services invoices for payment. However, as shown in this memorandum, the review disclosed that the Authority made approximately \$1 million in unsupported payments because it did not adequately verify invoices before payment and did not follow Federal requirements and contract terms.
- Comment 4** The Authority stated that it maintained documentation that supported payments of its outside legal services invoices. It provided an example that it provided most of

the contract numbers that were not listed on the invoices. It further stated that we made necessary adjustments for some but not all of its findings as it related to this issue. We made necessary adjustments to this memorandum based on additional documentation the Authority provided after the exit conference. As stated in this memorandum, the Authority was unable to provide contract numbers for nine payments totaling \$324,897. As a result, we classified the related costs as unsupported.

Comment 5 The Authority stated that there were no applicable regulation requirements or cost principles that regulated the process through which personnel were approved. It also stated that there were no requirements in its contracts or solicitations that required pre-approval in writing for any changes, additions, replacement or substitution of staff. The Authority further stated that legal service contractors notified it by phone or in person to advise the General Counsel of any staffing changes and formally introduce the new personnel to the General Counsel. We agree that there were no regulation requirements or cost principles that regulated the process through which personnel were approved. We also agree that there were no requirements in the Authority's contracts or solicitations that required pre-approval in writing for any changes, additions, replacement or substitution of staff. However, OMB Circular A-133, subpart C.300(c), required the Authority to comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs. The Authority's contracts stated that replacements for key personnel were subject to the approval of the General Counsel. Regulations at 2 CFR Part 225 required that costs be adequately documented. Identifying the personnel who will perform services under a contract and ensuring that those authorized personnel were the ones that performed the services and that the rates billed for their services are accurate, are important controls to safeguard funds spent in relation to a contract. For 15 of the 16 contracts that we reviewed related to the 80 payments, the contract documentation identified the personnel that were authorized to work under the contract and their billing rates. Likewise, decisions regarding replacement and additional personnel and their billing rates should be documented as well to maintain the safeguard of funds. The documentation provided by the Authority did not contain evidence of such approvals. As a result, we classified the related costs as unsupported. After a subsequent review of our workpapers, we determined that a small adjustment was needed to the amount of unsupported costs and we corrected the amount reported in the final memorandum to \$113,436.

Comment 6 The Authority stated that reimbursable direct costs were adequately documented and approved for payment. It provided an example of how copying expenditures done in-house by the law firms and not by a third party did not require receipts. In addition, the Authority stated that the findings related to conferences and legal research should be deemed supported. The Authority also stated that legal research was a necessity and does not require pre-approval. We did not question in-house copying expenditures because they lacked a receipt. We questioned the

in-house copying expenditures because the invoices did not show the number of pages printed and the price the firm billed per printed page. We did not question any costs related to conferences. We only questioned legal research when it was provided by a third party as a reimbursable direct cost and the invoice lacked additional information or documentation to support the reimbursable expense. We agree that legal research performed under the Authority's contracts did not require prior approval. As stated in this memorandum, the reimbursable costs were not supported with documentation, such as receipts or adequate description of services. Regulations at 2 CFR Part 225 required that costs be necessary, reasonable, and adequately documented. The Authority did not provide documentation to demonstrate that these costs were adequately supported.

Comment 7 The Authority stated it had not been disadvantaged or prejudiced by a change of personnel or by the General Counsel's approval of replacement personnel. It further stated that the General Counsel's verbal approval process was more efficient and ensured that the Authority maintained continuous and competent legal representation. However, regulations at 2 CFR Part 225 required that costs be adequately documented. Without adequate documentation, the necessity and reasonableness of the cost cannot be determined. Ensuring that personnel performing services were authorized to do so and that the rates billed for their services are accurate, are important controls to safeguard funds spent in relation to the contract.

Comment 8 The Authority stated a number of invoices identified in the memorandum as legal services performed by unapproved personnel were identified in error because we did not thoroughly review and compare all invoices, contracts and solicitation responses. In addition, the Authority stated that had we done a more thorough review of the invoices and contract, the legal services would have been supported because the work was conducted during the contract term. We disagree. We reviewed all invoices, contracts, and solicitation responses provided by the Authority during our review to identify the personnel that were approved to perform legal services. Regulations at 2 CFR Part 225 required that costs be necessary, reasonable, and adequately documented. Further, OMB Circular A-133, subpart C.300(c), required the Authority to comply with contract provisions. Ensuring that personnel performing services were authorized to do so is an important control to safeguard funds spent in relation to the contract. The contracts between the Authority and the law firms listed the names and rates of attorneys who were approved to perform legal services. Therefore, if an invoice contained a name that was not listed in the contract and there was no additional documentation showing approval, we classified the related cost as unsupported. The Authority did not identify the invoices and contracts that it claimed would have been supported because the work was conducted during the contract term. We did not question any payments as unsupported costs because the legal services were performed by unapproved personnel and they were performed outside the contract period.

Comment 9 The Authority stated that it properly paid for legal services consistent with the terms of the contracts. As an example, the Authority stated that it determined that three invoices that we identified as being paid when the invoice was outside of the contract terms were incorrect and that a simple reading of the invoices and contract established that the expenditures were properly approved as the work was done during the contract term. We disagree with the Authority's assertion. Although the Authority did not identify the three invoices to which it referenced in its comments, we closely reviewed all of the invoices, contracts, and related contract documentation the Authority provided and determined that for eight payments, it paid for legal services that were performed outside of the contract period. As part of the audit resolution process, the Authority can provide additional documentation to HUD and HUD will determine whether the documentation is adequate to satisfy recommendation 1A.

Comment 10 The Authority stated that there were no regulations, cost principles, HUD policies, HUD procedures, Authority contracts or solicitations, or procurement policies that prohibited block billing. It also stated that most invoice entries identified the nature of the work performed with detail and specificity. We agree that block billing was not expressly prohibited. However, as discussed in this memorandum, regulations at 2 CFR Part 225 required that costs be necessary, reasonable, and adequately documented. Based on a subsequent review of the invoices in question, we reduced the amount of unsupported costs related to block-billed entries to \$13,626. The block-billed entries on the three related invoices did not identify the date the service was provided, the amount of time the service was provided, and a description of the actual legal service performed; therefore, it was impossible to know how much time was spent on an activity to determine the necessity and reasonableness of the work performed and the accuracy of the billing. We provided an example of block billing in Appendix E. As a result, we classified the related costs as unsupported.

Comment 11 The Authority stated that it approved and paid for its legal services expenditures in accordance with Federal requirements, regulations, HUD policies and procedures, and its contract terms. However, as discussed in this memorandum, it did not always make payments for outside legal services in compliance with Federal requirements and contract terms. It did not always maintain documentation to support payments for outside legal services. It also paid for services (1) performed by unapproved personnel, (2) performed beyond the terms of the contract, and (3) that were block billed.

Appendix C

SUMMARY OF PAYMENTS TO LAW FIRMS BY DEFICIENCY IDENTIFIED

Law firm	Number of payments reviewed ⁴	Total dollar amount	Unsupported amount	Number of payments with insufficient documentation (1)	Number of payments with unapproved personnel (2)	Number of payments with services performed beyond the terms of the contract (3)	Number of payments with block billing (4)
Ballard Spahr, LLP	33	\$655,697	\$472,841	19	7	2	0
Venable LLP	11	316,256	252,199	10	6	0	0
Musolino & Dessel	13	310,318	104,885	9	0	0	0
Douglas Boykin	16	232,571	60,886	8	9	3	0
Holland & Knight	1	66,266	62,364	1	0	1	0
Nixon Peabody, LLP	4	41,428	33,051	1	0	2	0
Hawkins Delafield & Wood, LLP	1	13,645	13,645	1	0	0	1
Reno & Cavanaugh	1	1,189	106	1	0	0	0
Totals	80	\$1,637,370	\$999,977	50	22	8	1

⁴ Some payments had more than one deficiency.

(1) Insufficient Documentation:

1. An invoice was provided, but the invoice lacked a contract number;
2. An invoice was provided, but the related contract did not identify the personnel authorized to perform services under the contract and their hourly billing rates;
3. An invoice was provided, but there was no documentation to support reimbursable direct costs listed on the invoice; or
4. No documentation was provided to support a payment.

(2) Unapproved Personnel

Lack of supporting documentation to show that a law firm's staff was authorized (approved) to perform legal services according to the contract

(3) Services Performed Beyond the Terms of the Contract:

Charges for legal services that were performed outside the contract terms and lacked supporting documentation to show that the contract terms were extended

(4) Block Billing:

A single-time charge for multiple activities performed

Appendix D

EXAMPLE OF AN INVOICE WITHOUT A CONTRACT NUMBER

MUSOLINO & DESSEL PLLC
1615 L Street, N.W.
Suite 440
20036
Washington, D.C. 20036

Invoice submitted to:
[REDACTED]
District of Columbia Housing Authority
1133 North Capitol Street, N.E.
Washington, DC 20002-2759

May 03, 2011
in Reference To: P.O. #11368659
Invoiced #21472

Professional Services

		Hrs/Rate
2/28/2011	[REDACTED] Review and sign Applications to Terminate Stay. LT - General	0.40 150.00/hr
3/1/2011	[REDACTED] Defendant appeared to request stay on writ. Conference with [REDACTED] from [REDACTED] Defendant to get ERAP. Writ stayed through 3/11/11.	0.30 150.00/hr
	[REDACTED] Conference with defendant and defendant's counsel. Case contested. Bench trial scheduled.	0.20 150.00/hr
	[REDACTED] Appearance for further initial return date. Conference with defendant. Review recertification information. Case settled per Consent Judgment Precept.	0.30 150.00/hr
	[REDACTED] Case dismissed at client request. Defendant recertified.	0.20 150.00/hr
	[REDACTED] Case contested. Answer and jury demand filed. IFP granted.	0.20 150.00/hr

DCHA01789

The example above represented an invoice that did not have a contract number listed on the invoice.

Appendix E

EXAMPLE OF BLOCK BILLING

09/12/2008 10:12 [REDACTED] HAWKINS DELAFIELD & WOOD LLP FROM: WAF/OU

Hawkins Delafield & Wood LLP

501 THIRTEENTH STREET, N.W.
SUITE 400 SOUTH
WASHINGTON, DC 20003
WWW.HAWKINS.COM

Office of the General Counsel
District of Columbia Housing Authority
1133 North Capitol Street, N.E., Suite 210
Washington, DC 20002-7599

September 11, 2008
5433-028614

For services rendered May 16 through August 31, 2008, for work in connection with OPERA initiative; and related matters:

[REDACTED] 12.5 hours @ \$350*/hour:	\$4,375	
[REDACTED] 4.2 hours @ \$220/hour:	924	\$5,299
Less credit due (incorrect hourly rate on previous statements)		- 745
Amount due this invoice:		\$4,554
Prior outstanding invoice (dated May 20, 2008)		4,392
Prior outstanding invoice (dated April 22, 2008)		4,680
TOTAL AMOUNT DUE:		\$13,626

312855.7 028614.LTR

09/12/08 FRI 10:22 [TX/RX NO 5338] [REDACTED]

The example above represented multiple activities billed as a single-time charge.