



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

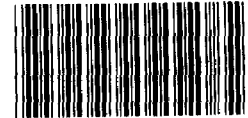
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April 28, 1983

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-211615

The Honorable Harold Washington
House of Representatives



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Dear Mr. Washington:

Subject: Examination of Allegations Concerning the Chicago
Housing Authority (GAO/RCED-83-144)

In response to your March 24, 1982, letter and subsequent discussions with your office, we examined three allegations concerning the Chicago Housing Authority's (1) limiting competition in insurance contracting, (2) paying unnecessary or excessive amounts for garbage removal, and (3) not receiving full value for modernization expenditures. As agreed, we did not address several other allegations you identified because of an ongoing Justice Department investigation of the Authority's elevator contracts and supply and equipment accountability or because of actions already underway at the Authority when you requested our review.

In summary, we found that:

- While the Authority obtained insurance bids, it limited the number of bidders. Further, the Authority did not, until January and February 1983, develop insurance specifications needed to encourage greater price competition and, as a result, may have paid higher insurance rates than necessary.
- The Authority obtains city garbage services to the extent available and is improving its garbage contract management. However, the Authority may not have always secured the low bidder for scavenger service due to inaccurate garbage volume estimates. Further, the Authority had not attempted to recoup potential overpayments to scavengers resulting from erroneous garbage volume counts.
- The Authority has received over \$138 million in modernization funds since 1968 and spent \$95 million. However, we could not readily verify that the modernization improvements were made because Authority recordkeeping made it difficult to trace the receipt and use of goods and services; the modernization improvements were for less

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noticeable type items which were dispersed throughout the Authority's projects; and in some cases, the modernization improvements were already vandalized.

The United States Housing Act of 1937, as amended (42 U.S.C. 1401 et seq.), authorizes the Department of Housing and Urban Development (HUD) to conduct a low-rent public housing program which provides decent, safe, and sanitary housing to families that cannot afford private housing. Through State legislation, local governments establish public housing agencies as independent legal entities to develop, own, and operate low-rent public housing projects.

HUD assists the agencies by making loans for developing new projects and by making annual contributions through contracts with the agencies. Annual contributions are primarily for paying the principal and interest (debt service) on bonds and notes sold by the agencies to obtain funds for developing projects and for physical and management improvement of the projects.

The Chicago Housing Authority is a municipal corporation organized in 1937 under the housing laws of Illinois to build and operate public housing in Chicago for persons whose incomes are insufficient to obtain decent, safe, and sanitary private housing. As of December 31, 1980, the Authority had 40,000 units in operation. The Chicago Housing Authority is the Nation's second largest public housing agency.

The information in this report is based on discussions with Chicago Housing Authority and HUD headquarters, regional, and area office officials. We reviewed and analyzed the Authority's insurance, garbage service, and modernization contract files, procurement records, reports, and correspondence at both the central office and four developments. We visited four of the Authority's larger projects--the Wells, Cabrini-Green, ABLA, and Taylor Homes--and their management offices to observe completed modernization work and determine the management practices used for monitoring garbage services. We also interviewed officials at the 10 other largest public housing authorities in the United States by telephone to determine their insurance and garbage contracting and management practices. We visited 2 of the 10 surveyed, the City of Detroit Housing Department and the Philadelphia Housing Authority, to obtain their policies and procedures for insurance and garbage service contracting and to discuss their management practices.

Our review was performed in accordance with generally accepted government audit standards. Our field work was performed between March 1982 and March 1983.

ADDITIONAL ACTIONS NEEDED TO OPENLY
COMPETE FOR AUTHORITY INSURANCE CONTRACTS

The Authority currently spends almost \$400,000 annually on fire, general liability, and workman's compensation insurance under a modified self-insurance program for protection against major losses. Prior to 1983, the Authority awarded its fire insurance contracts on a sole-source basis and obtained multiple bids for its general liability and workman's compensation insurance, but it did not comply with HUD's requirement for a fully open and competitive solicitation. Instead, the Authority limited its solicitation to a selected group of about six qualified insurance agents who expressed interest in the Authority's business. The Authority also did not develop specifications describing the insurance to be purchased and the factors to be used in evaluating the proposals until January and February 1983 when respective specifications for general liability and workman's compensation were completed.

HUD's annual contributions contracts with local federally assisted housing authorities require fire insurance on all dwellings. The contributions contract also requires the authorities to give full opportunity for open and competitive bidding on their insurance contracts. In defining open market procurement, HUD's procurement handbook provides that any supplier should have an opportunity to compete for the business. HUD's handbook also requires that the solicitation incorporate a clear and accurate description of the insurance to be purchased and include all of the factors to be used in evaluating the proposals.

The experience of other large public housing authorities suggests that the use of specifications and open, competitive solicitations could encourage bids responsive to the Authority's needs at a potential savings. We interviewed officials by telephone from the 10 other largest housing authorities on their insurance contracting procedures and found that all of them were openly soliciting insurance bids for most of their insurance needs on the basis of predetermined specifications. The Detroit public housing authority, for example, in 1981, developed a 14-page solicitation outlining the specifications for its fire and extended coverage insurance. It received seven bids from four insurance agents and one insurance company with premiums ranging from \$192,000 to \$83,753 per year. Although Detroit's insurance manager believed that this approach was effective in reducing insurance costs, he was not able to estimate the exact savings relative to openly competing the procurement.

The Chicago Housing Authority's Chairman of the Board said that during the period covered by our review, competitive bidding was not interpreted by the Authority as necessitating public advertising. In his opinion, the advertising requirement would not lower insurance costs but would impede direct solicitation of

minority insurance agents. To clarify this matter, the Authority on October 18, 1982, requested a waiver of section 305(e) of the annual contributions contract to permit it to procure its insurance using limited bidding through a restricted number of brokers and direct-insurance firms.

However, on November 18, 1982, the Authority's proposal was denied. According to HUD's Assistant Secretary for Housing - Federal Housing Commissioner, the Authority's proposal fell short of the standards applicable for open and competitive bidding because of the pre-selection of agents, brokers, and insurance companies deemed eligible to bid. He further stated that in order to be a bona fide competitive bidding process, the procurement must be advertised publicly and must be open to all interested, responsible bidders. If desired, the Authority may establish reasonable standards as to what would constitute a responsible bidder, but according to the Assistant Secretary, these standards must be included in the specifications.

At the conclusion of our review in March 1983, the Insurance Risk Manager the Authority hired in September 1982 was developing specifications for fire and auto insurance. However, the matter of fully open and competitive bidding was still under review by HUD. Although the Chicago Housing Authority's Chairman of the Board believes the Authority's procurement of general liability and auto insurance meets HUD's standards for open and competitive bidding, the Assistant Secretary for Housing - Federal Housing Commissioner, in a memo dated March 10, 1983, advised the Acting Regional Administrator, region V, and the Manager, Chicago Area Office, that the Authority's proposal was still unacceptable and that they should continue to require the Authority to fully meet the standards applicable for open and competitive bidding of insurance contracts.

NEED TO OBTAIN ACCURATE GARBAGE VOLUME
COUNTS AND RECOUP ANY OVERPAYMENTS

The Authority obtains city garbage services to the extent available and is improving its garbage contract management. However, the Authority had not attempted to recoup potential overpayments to scavengers resulting from tests it made showing erroneous garbage volume counts.

The Authority contracts with private scavengers for most of its garbage collection. The City of Chicago provides this service for only 85 of the Authority's 1,300 buildings because municipal code restrictions limit city services to buildings with four units or less. In 1982, its most recent contract year, the Authority competitively awarded 65 contracts with 14 scavengers. Total contract costs were \$2.1 million.

The Authority has not assured the accuracy of garbage volume estimates used in the solicitation and evaluation of bids for scavenger services. This situation can distort the bid evaluation process and may not result in the selection of the low bidder. For example, we found that the estimates for 33 of the Authority's 58 contracts for 1981, or 57 percent, varied by 20 percent or more from the actual costs for the year. The largest variance was at Washington Park Homes where the projected garbage collection costs were \$107,887, but actual costs were \$271,431, or 152 percent higher than estimated.

The Authority uses these estimates to evaluate the contractor's bids and select the low bidder. This evaluation is made by applying the prices quoted for each type of service (type of garbage, i.e., incinerator refuse, compacted garbage, etc.) to the estimated volume for that service to arrive at the total annual cost. In some circumstances a more accurate estimate could have resulted in another contractor's selection at lower cost. At Cabrini-Green, for example, the estimated garbage volume was 25 percent higher than actual volume with a mix of services in different proportions than estimated. If actual volumes were used, a different contractor would have been selected with an annual savings of \$19,000.

The Authority's individual development managers are responsible for monitoring scavenger service and for reporting problems. They also are responsible for verifying the volume counts and billings submitted by the scavengers to assure that the Authority is not overcharged. The Authority said that guidelines for monitoring the scavenger service are outlined in each individual contract and are distributed to each local housing manager. The Authority is currently studying a development-by-development formalization and improvement approach to contract monitoring procedures.

Also, in this regard, the Authority, prompted by recommendations from HUD auditors and in an effort to improve its contract management, hired an individual in 1980 to monitor contractor performance by onsite inspection. It used this performance information to eliminate one poorly performing contractor. The Authority's contract compliance officer made annual inspections at each of the developments to determine if the contractor's volume counts were accurate. In 1981, for example, he found overcounts on 12 of the Authority's 58 scavenger contracts resulting in \$2,600 in potential overcharges.

We visited three of the sites where overcounts had been identified by the Authority's contract compliance officer. No action had been taken on the potential overcharges found by the Authority's compliance officer. At the Wells development, for example, the compliance officer found that the scavenger had overstated the amount of garbage collected on the inspection date

by 34 compactor containers, 152 yards of rubbish, and 57 drums. We calculated that this resulted in a \$652 potential overcharge. The facts were reported to the project manager by the compliance officer, but the Authority paid the bill. At the time of our visit, almost a year later, no action had been taken to recover the potential overpayment.

When we discussed this matter with the Chicago Housing Authority's Chairman of the Board in March 1983, he told us that the garbage contracting problems are now under review and will be resolved by (1) carefully controlling the type and number of containers available in any one development, (2) issuing procedures for managers with regard to performance monitoring and billing verification, (3) further defining and enforcing procedures for recovering overpayments, (4) developing volume standards, (5) exploring alternative methods of garbage collection (i.e., an in-house collection service), (6) improving compactor maintenance contracts and recordkeeping, and (7) requesting HUD approval for conversion to what the Authority believes to be a more sufficient 6-cubic-yard container/compaction system.

EFFECTS OF MODERNIZATION EXPENDITURES DIFFICULT TO VERIFY

The Authority has received over \$138 million in modernization funds since 1968 and spent \$95 million. The \$43 million remaining, as of January 1982, was invested in local banks earning interest at rates ranging from 9.5 to 15.63 percent.

Lack of basic procurement management information which we reported in April 1980,¹ and which were again reported by a HUD consultant in February 1982, made it difficult to trace purchase orders through the system in order to verify past individual modernization expenditures. We were, however, able to use the Authority's records to analyze the type of expenditures made for modernization since 1977.

Our analysis of the Authority's modernization spending shows that 70 percent of \$31 million spent since 1977 was for work with limited visibility such as electrical improvements, plumbing, and heating. Since the Authority made these improvements throughout its 103 developments, the improvements were difficult to verify. We observed modernization projects at four developments in an attempt to test that the work had been done. We saw, however, that some of the improvements made a year earlier were already badly vandalized. For example, when we visited Taylor Homes in October 1982, we saw that exit signs and gallery lighting which were installed in the spring of 1982 had been destroyed by vandals.

¹"The Chicago Housing Authority Needs To Improve Its Management and Controls Over Purchasing" (CED-80-93, Apr. 28, 1980).

In November 1982 a Department of Justice investigation implicated members of the Authority's Central Maintenance staff in fraudulent activities. These individuals allegedly diverted Authority supplies and equipment to private use and did outside work on the Authority's time. The investigation did not identify the extent to which modernization funds were involved. We did not attempt to assess the impact of these activities, since the Justice Department is continuing its investigation.

According to the Chicago Housing Authority's Chairman of the Board, recent modernization improvements addressed urgent structural needs which by their nature were less visible. He said that the Authority has tried to preserve the impact of modernization funds by using vandal-proof equipment and fixtures in, for example, its elevator rehabilitation. The Chairman also stated that a complete overhaul of the Authority's information system is planned which should eliminate future problems in tracking modernization program purchases.

CONCLUSIONS AND RECOMMENDATION

Actions are being taken or are planned in each of the three areas we reviewed. We agree that HUD should continue to monitor the development and implementation of Authority competitive bidding procedures and specifications for insurance contracts and ensure that insurance procurements are advertised publicly, open to all interested, responsible bidders. Any standards further defining responsible bidders need to be set forth in specifications which are advertised publicly. HUD also needs to monitor the Authority's plans for computerizing its purchasing activities, and ensure that, once implemented, the computerized procurement system be used by the Authority to trace the receipt and use of goods and services purchased with modernization funds. Because of HUD's monitoring activities already underway, we are making no recommendations on these two matters at this time.

Regarding paying potentially unnecessary or excessive amounts for garbage removal, we recommend that the Secretary of HUD monitor the Authority's efforts to overcome the garbage volume count problem as discussed on page 6 and ensure that the Authority develops an acceptable method for recouping any identified overpayments.

AGENCY COMMENTS

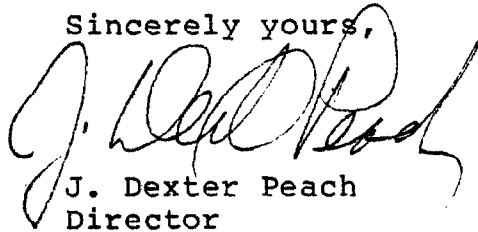
The Chicago Housing Authority's Chairman of the Board concurred with our findings and conclusions and said he has no difficulty in accepting our recommendation for continued HUD monitoring. He stated that he is confident that most of the Authority's problems can and will be quickly addressed and such overall scrutiny from HUD and the public is welcome.

In commenting on our draft report, HUD officials agreed with our conclusions and recommendation. They said that upon issuance of our report, HUD's Office of Public Housing plans to incorporate our findings and recommendation into the Authority's Financial Workout Plan. Through this document, HUD expects to effectively monitor the Authority's performance and progress in the areas of insurance contract bidding, garbage collection services, and modernization. In the event the Authority fails to perform satisfactorily under the Financial Workout Plan, the HUD officials said that appropriate corrective action would be taken by HUD.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from its issue date. At that time we will send copies to the Secretary of Housing and Urban Development and the Director, Office of Management and Budget, and make copies available to other interested parties.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. Dexter Peach".

J. Dexter Peach
Director