

Audit of Housing Assistance - Contracts and Change Orders



Report No. 2011 – 001

**City of West Palm Beach
Internal Auditor's Office**

*The
City
of
West Palm Beach*



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"The Capital City of the Palm Beaches"

TO: Honorable Mayor
and
Members of the City Commission

FROM: Carolyn Williams-Smith, Chairperson, Audit Committee

DATE: March 18, 2011

SUBJECT: Transmittal of Internal Audit Report No. 2011-001
**AUDIT OF HOUSING ASSISTANCE – CONTRACTS AND
CHANGE ORDERS**

Attached is the Internal Auditor's Office's report, **Audit of Housing Assistance – Contracts and Change Orders** approved by the Audit Committee at its regular meeting held March 18, 2011.

The recommendations, as outlined in the report, have been agreed to by Ms. Valmarie Turner, Director of Housing and Community Development. Ms. Turner, has created new positions, filled vacancies, acquired new construction cost estimating software and made other program documentation improvements.

Carolyn Williams-Smith, Chairperson, Audit Committee

"Equal Opportunity Employer"

AUDIT OF HOUSING ASSISTANCE - CONTRACTS AND CHANGE ORDERS

TABLE OF CONTENTS

Introduction	1
Conclusions and Summary of Issues	2
Background	6
Grant Funding - Federal	6
Grant Funding - State	7
Procedures and Guidelines	8
Staffing	10
Scope and Methodology	11
Issues, Recommendations, and HCD Responses	12
Issue One - Process for Assessing and Completing Rehabilitation Work	12
Home Inspections	14
Scope of Work	16
Internal Cost Estimates	18
Bids and Contractor Selection	20
Change Orders	22

Issue Two - Administrative Matters	24
City Commission Approval to Exceed Rehabilitation Cost Limits	25
Authority for the Mayor to Execute Rehabilitation Related Contracts and Mortgages	26
Mortgage Modifications	27
Contract Amendments	27
City Administration Approval of Change Orders Exceeding 50% of the Contract Amount	28
Establishing Rehabilitation Completion Dates	29
Schedule I - Comparison of Bid, Internal Cost, and Final Cost	31
Schedule II - Change Order Information	32
Attachments: Management Response	

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"The Capital City of the Palm Beaches"

To: Valmarie Turner, Director, Housing and Community Development
Department

A handwritten signature in blue ink that reads "Imogene Isaacs".

From: Imogene Isaacs, CIA, CGFM, Internal Auditor

Date: March 18, 2011

Subject: Report No. 2011-001
Audit of Housing Assistance - Contracts and Change Orders

Introduction

An audit of the Housing and Community Development (HCD) Department housing assistance contracts and change orders was completed. The purpose of this audit was to ensure existing processes were effective, efficient, and carried out within program guidelines. Our objectives to accomplish this were to determine whether:

- Specific phases of the rehabilitation process were timely;
- Inspections were detailed, comprehensive and documented the condition of the property;
- Work elements in the inspection and scope of work were included in the bid;

- Estimated pricing of the scope of work was comparable to pricing in the bid;
- Change orders were valid and processed accurately;
- Change orders did not duplicate original bid and scope of work; and
- Specific guidelines, procedures, and policies were followed.

Housing assistance reviewed included rehabilitation and replacement of single family owner occupied homes and rehabilitation of single family rental housing. HCD spent \$1,364,247.49 on these activities provided through five different grants.

Conclusions and Summary of Issues

An opportunity exists for HCD to streamline and enhance housing rehabilitation assistance by shortening the time it takes to complete individual projects and by serving a greater number of eligible participants. Inefficiencies and ineffectiveness in various processes including inspections, scopes of work, internal cost estimates, and change orders contribute to increased completion times and inflated project costs.

Accurate inspection reports must be maintained for each property as proof the inspection actually took place. Inspection reports are necessary to develop a comprehensive scope of work. Inspections were not documented in the project files.

Although HCD prepares and maintains internal cost estimates, they should also maintain a source and basis for those estimates. It is essential that accurate cost estimates are prepared to ensure the City selects the best-value contractor.

Numerous and large dollar change orders were incurred. This may contribute to delays in completion. Although some change order items may not be foreseen during initial inspection, most issues should be included in the

original scope of work. Some items appeared to be remodeling work rather than necessary rehabilitation.

The above concerns with time deficiencies, lack of documentation, and costs that may not have been necessary to meet appropriate property standards and correct code violations are further discussed in Issue One.

We recommended HCD staff:

- Create and require the use of a standard inspection report that documents the condition of all areas of the home;
- Prepare the scope of work based on the results of the inspection report;
- Explore employing specific trades to evaluate work items such as plumbing, electrical, A/C, prior to contractor selection;
- Consider incorporating language into the scope of work document that requires signatures that states all involved parties agree to the work;
- Revise their internal cost estimates to provide more detail and consider using a common method to estimate project costs;
- Reconsider their methodology for rental rehabilitation and housing replacement cost determination; and
- Revise their procedures for change orders to encompass documentations, and source for pricing.

Additionally, we observed certain administrative matters that need to be reviewed and addressed.

Although HCD established dollar limits for each project, these limits at times are exceeded due to change orders. To proceed with work, City Commission approval is necessary. Approval was not always obtained prior to work completion and payments.

Modifications and amendments to the contract, mortgage note, and loan agreement must be made to maintain the most current information.

Approved and executed change orders require the contract and loan documents to be modified or amended. Some of the documents were not updated when changes occurred.

Determining estimated completion dates based on project cost is not always the most accurate method, but it is the method used by HCD.

These and other concerns are further discussed in Issue Two.

We recommended HCD staff:

- Submit for approval amounts exceeding limits prior to contracting and expending funds and provide the City Commission with sufficient information in order for them to make a determination on the amount and necessity of proposed overage;
- Work with the Office of the City Attorney to develop a new resolution for execution authority;
- Revise procedures so that mortgage modifications are executed as soon as the change order items and amounts are agreed upon and ensure contract amendments are being executed; and
- Consider a different methodology for establishing completion dates.

HCD is currently revising the policies and procedures for its Housing Rehabilitation programs. Measures to implement the recommendations made by the City's Internal Audit Office as contained in this report and agreed upon by HCD shall be incorporated into the revised policies and procedures. All responses have been incorporated below.

* * * * *

This audit was performed 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 issues and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our conclusions based on the audit objectives.

The audit was conducted by Veronica Rodriguez, Assistant Internal Auditor.

We appreciate the cooperation and assistance during the audit process provided by the HCD Staff.

Background

Grant Funding

The HCD Department administers Federal and state grant programs that provide resources to create capital investment, job opportunities, and quality housing for individuals and families in need.

Federal

The U.S. Department of Housing and Urban Development (HUD) is the Federal department that administers most Federal programs dealing with better housing and urban renewal. HUD's mission is to create strong, sustainable, inclusive communities and quality affordable homes for all.

The City has been awarded or entitled several different grants by HUD, some include:

Community Development Block Grant (CDBG)

CDBG is a flexible program that provides communities with resources to address a wide range of unique community development needs. The CDBG program works to ensure decent affordable housing, provide services to the most vulnerable in our communities, and create jobs through the expansion and retention of businesses. West Palm Beach is an entitlement city under this program.

Every CDBG funded activity must qualify as meeting one of the three national objectives:

1. Benefit low and moderate income persons,
2. Prevent or eliminate slums or blight, or
3. Meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs.

HOME Investment Partnerships Program (HOME)

HOME provides formula grants to states and localities that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low income people.

Disaster Recovery Initiative (DRI)

DRI funds are from supplemental appropriations for recovery from major disasters declared by the President. Each supplemental appropriation specifies the disasters or time period of disaster declarations for which funding is available. These funds are provided through an agreement with Palm Beach County.

State

Florida Housing was created by the Florida Legislature more than 25 years ago to help Floridians obtain safe, decent, affordable housing that might otherwise be unavailable to them. Florida Housing continues its mission by increasing affordable housing opportunities and ensuring that its programs are well matched to the needs of those served.

The City has been awarded or entitled several different grants by the state, some include:

State Housing Initiatives Partnership (SHIP)

SHIP, administered by Florida Housing, is a program which provides funds to local governments as an incentive to create partnerships that produce and preserve affordable homeownership and multifamily housing. The program was designed to serve very low, low, and moderate income families.

Hurricane Housing Recovery Program (HHRP)

HHRP were one time funds approved by the governor to assist with damage related to the 2004 hurricanes.

The audit encompassed the following Programs. Detailed below are the amounts and number of projects for each Program.

Name of Program (Strategy)	No. of Projects	Amount
CDBG - Rehabilitation	6	\$23,630.65
DRI - Rehabilitation	14	\$554,535.94
HHRP - Rehabilitation	1	\$43,888.56
HHRP - Replacement	1	\$154,169.00
SHIP - Rehabilitation	16	\$332,847.05
SHIP - Replacement	1	\$159,213.89
HOME - Rental	2	\$95,962.40
TOTAL	41	\$1,364,247.49

Procedures and Guidelines

The City is required to prepare a five year consolidated plan and a one year action plan to meet the requirements of Federal regulations. Both plans identify strategies and specific uses of awarded or entitled funds for a specific time period.

State regulations require the City to prepare a Local Housing Assistance Plan (LHAP). The LHAP outlines the City's strategies for the use of SHIP funds in conjunction with funds from other sources for the delivery of decent and affordable housing for a three year period.

Both the Federal and state plans are approved by the City Commission. These plans provide for the administration of the grants through strategies. Each approved strategy (program) has specific criteria and requirements eligible participants must meet. One of the requirements established was limits for each housing assistance program. Set limits encompassing our testing period were:

Name of Program	Limit Amount
Rehabilitation	\$ 40,000 *
Rehabilitation (HHRP)	\$ 80,000
Rehabilitation (DRI)	\$ 80,000
Rental Housing	\$ 25,000 **
Replacement Housing	\$ 200,000

** Limit amount increased to \$60,000 in April 2010*

*** Limit amount increased to \$40,000 in September 2009*

HCD utilizes an in-house database to track and maintain all housing rehabilitation related work. Documents are scanned into the database and also kept in respective homeowner's files.

Applicants must be income certified where applicable. Once income certification has been completed, a rehabilitation inspector is assigned to the project. The inspector is required to perform a minimum housing standards and code inspection of the home. Based on the results of the inspection, a scope of work is prepared detailing the needs. The estimated cost of the project is determined by using various methods, e.g. online resources and estimating software.

HCD through the Procurement Office bids the rehabilitation work for owner occupied single family houses. Once the contractor is selected, a contract

between the Homeowner, the Contractor, and the City is executed. HCD is currently exploring the possibility of removing the City from the contractual arrangement.

The City contracts with one contractor for each type of expected emergency rehabilitation work, e.g. plumber, roofer. These contractors are then used whenever these types of emergency situations arise.

Replacement housing and rental housing rehabilitation requires the owner to obtain contractor quotes. Once the contractor is selected, a contract between the homeowner and contractor is executed.

Purchase orders are issued for each project. Emergency work, however, does not have individual purchase orders issued. The Procurement Office issues one purchase order for emergency rehabilitation related work and emergency work is paid using that purchase order.

With each contract, a mortgage note must be prepared and executed between the owner and the City. No payments are required from homeowner occupants unless they move or sell the property. Payments are required from owners of rental property and tenants of these properties must meet income eligibility requirements.

Staffing

The mission of the HCD Department is to improve the quality of life in our neighborhoods by employing Departmental resources and capabilities to create capital investment, job opportunities and quality housing for individuals and families.

Staff involved in housing rehabilitation assistance includes the Housing Construction Manager, who oversees three rehabilitation inspectors. The inspectors are responsible for conducting the inspection, preparing the scope of work and cost estimate, and managing the project from start to finish. Also involved in the process is the housing loan specialist. This person is

responsible for ensuring participants are eligible, maintaining project files, and updating the internal database as necessary.

Scope and Methodology

The audit encompassed a judgmental sample of 28 rehabilitation housing program participants that had a total of 41 contracts and related change orders executed between November 2007 and February 2010. In performing this audit, we:

Reviewed:

- HUD Guidelines
- SHIP Guidelines
- HCD's Local Housing Assistance Plans (2006-09 and 2009-12)
- HCD's Procedures and Guidelines

Examined and evaluated:

- Scope of Work Documents
- Internal Cost Estimates
- Bid Documents
- Construction Contracts
- Change Order Documents
- Purchase Orders
- Mortgage Related Documents

Performed the following tests:

- Verified the timeliness of the phases of the rehabilitation process;
- Reviewed scopes of work, cost estimates, and bid documents for essential detail;
- Reviewed change orders for reasonableness, accuracy, and documentation;
- Compared costs with established program limits;
- Reviewed contractor selection process;

- Compared scope of work documents with bid documents to ensure accuracy; and
- Analyzed differentials between cost estimates, contract amounts, and final costs.

Interviewed HCD staff regarding functions and procedures.

We did not test the income certification process. However, we reviewed participant files to assure staff had completed income certification forms and had determined participants were income eligible as required.

We did not evaluate the quality of the rehabilitation work. HCD staff is aware that dissatisfaction has been expressed by a few participants about some contractors. Of the 41 project files reviewed, we observed one minor complaint.

Issues, Recommendations, and HCD Responses

HCD has the opportunity to improve its housing assistance performance and provide more eligible participants with housing assistance. Furthermore, HCD should revise certain administrative matters. The following are concerns that resulted from our audit efforts and are set out as Issues. Recommendations and HCD responses on the implementation of the recommendations are included.

Issue One - Process for Assessing and Completing Rehabilitation Work

Housing rehabilitation assistance involves several phases that are critical to the success of each project. Timeliness in performing each phase is important as drawn out projects can not create good will among owners, contractors, and HCD personnel.

Of the 28 housing assistance projects containing sufficient data, the length of time from commencement to completion ranged from approximately two

and one-half months to over two years. Even in cases where special circumstances occurred, the length of time seemed excessive.

Successful completion of projects in a timely manner is important for the City and the homeowner. As mentioned earlier, there are several phases in the housing assistance process including inspection, scope of work, cost estimate, bid and selection of contractor, and change orders.

We reviewed the length of time taken between the different phases and determined there is room for improvement. We were unable to calculate the duration of each phase for all 41 projects because of missing documents and/or dates. We identified 28 projects that had both commencement (income certification) and completion (final inspection) dates and determined the length of time from commencement to completion ranged from 74 to 842 days.

Below is additional information on other specific phases of the process:

Description	Range
Income Certification to Scope of Work Preparation	6 - 316 days
Scope of Work and Bid Document Preparation	4 - 220 days
Bid Document Preparation and Contractor Award	1 - 99 days
Contract Document Request and Contract Execution	7 - 55 days

Note: Information does not encompass all 41 projects

Cost control measures provide the opportunity to better utilize funds and extend assistance to as many eligible participants as possible to bring their properties up to minimum property standards and correct code violations. Dollar limits on the type of housing assistance provide one method of cost control. Of 41 projects examined to determine dollar limits were not exceeded, five projects covering three participants exceeded the allowed limits, overages ranged from approximately \$12,000 to \$16,000.

Costs are also controlled by the quality of inspections and scope of work. Preparing a detailed and accurate inspection and scope of work will minimize the need for change orders. Although the contracts clearly require changes to be necessitated by problems found during the rehabilitation, this was not normally the case.

Of the 41 projects contracted to cost \$1,020,826.99, changes orders, representing almost 34 percent of the original contract costs, totaling \$343,420.50 were added.

Home Inspections

The initial home inspection is the basis for everything that follows. The inspection is used as evidence of the property's condition and grounds for all subsequent work. HCD did not maintain evidence to substantiate these inspections.

None of the 41 project files reviewed contained an inspection report. A detailed inspection should include photographic and written evidence to assess the needs to bring the home to minimum housing standards and correct code violations. A written inspection report from which a detailed scope of work can be prepared will validate the necessity of work and items. This may be one reason for numerous change orders with large dollar amounts as further discussed below.

HCD guidelines state inspections for minimum housing standards and code compliance must be performed. In the summer of 2006, we provided HCD with a copy of the inspection form HUD used when performing housing quality standards reviews. The HUD inspection form is designed to present the condition of each area of the home. We suggested HCD use the HUD form to prepare an HCD form to document their inspections and the conditions observed.

Not having proper documentation of the home inspection may cause difficulty in accurately assessing and detailing the scope of work of each property. We noted several projects where certain items and work completed may not have been necessary to bring the property to minimum property standards. In one case, a change order with the following language was approved: *"Remove and replace vinyl flooring in laundry room to match hallway"*. The memo accompanying the change order states the replacement was completed for consistency throughout the home. Consistency of flooring throughout the home is not a requisite of minimum property standards.

We recommend HCD create and require the use of a standard inspection report that documents the condition of all areas of the home.

Management's Response: During the initial inspection of a property, the Housing Rehabilitation Specialist shall utilize a standardized form similar in scope to form HUD-52580-A to assess and document improvements required in each area of the residence to correct code violations and meet minimum property standards. Photographs of these areas shall be taken to support this written assessment. The written and photographic assessment of the initial site visit shall be incorporated into the hard and electronic files developed for each property.

Prior to visiting the property, the Housing Rehabilitation Specialist shall examine all construction records related to the property on file in the City's Construction Services Department with respect to the original construction

and permitted improvements of the structure. This will help determine any unpermitted work, including illegal additions, that was performed prior to the City's involvement with the rehabilitation improvements.

Scope of Work

Rehabilitation inspectors prepare the scope of work based on their home inspection. This document is prepared in a standard format where each item is numbered and separated by the areas of the home needing work e.g. bedrooms, bathrooms, kitchen. These documents do not always provide sufficient detail about each particular item or need. Several items were listed as "*electric to code*", "*plumbing to code*". These types of explanations are not sufficient to satisfactorily complete a project.

Furthermore, as explained above there were no inspection reports to serve as the basis for the work to be performed.

Of the 41 projects reviewed, 32 had a scope of work. Nine of the 32 scopes of work did not reflect the name of the inspector that prepared the document.

Not having a detailed and itemized scope of work can:

- Prevent a contractor from providing a proper cost estimate,
- Incur further cost through unnecessary change orders, and
- Cause completion delays.

We reviewed all approved change orders to determine if any items or work submitted should have been included in the initial scope of work. We determined 21 change orders had items/work that should have been detected during the home inspection and included in the scope of work. Some examples include: kitchen appliances and bathroom fixtures, A/C units, water heaters, flooring, paint, smoke detectors, doors, and lighting.

We also noted that some items in the scope of work almost automatically result in a change order e.g. In one case, the scope of work was “evaluate for central A/C.” Cost in the bid was \$300. A change order resulted for \$9,800 to install central A/C.

We performed a comparison of scopes of work and bid documents to ensure there were no discrepancies. Of the 19 comparisons we were able to perform, we determined 12 discrepancies as follows:

Type of Discrepancy	Total
Scope of work items not included on bid document	5
Scope of work items listed on bid document under incorrect category	5
Additional items on bid document not included in Scope of Work	2

HCD staff must ensure all scopes of work are based on the initial inspection report. Each line item listed on the scope of work should be specific to avoid confusion with the contractor, eliminate errors and omissions, and avoid duplications or additional charges. Furthermore, obtaining agreement among the homeowner, contractor, and rehabilitation inspector may avoid conflicts or disagreements during project completion.

We recommend HCD prepare the scope of work based on the results of the inspection report, explore employing specific trades to evaluate work items such as plumbing, electrical, A/C, prior to contractor selection, and consider incorporating language into the scope of work document that requires signatures stating all involved parties agree to the work in the scope.

Management's Response: A detailed scope of work shall be developed for each property. The description for each item of repair shall be specific in order to avoid confusion with the homeowner and contractor. Vague terms such as noted in the Internal Auditor's report will not be utilized.

HCD is in the process of recruiting a Certified/Licensed General/Building Contractor for the Housing Construction Supervisor position. This position will administer the Department's Construction/Rehabilitation files as well as supervise and coordinate the bid specifications and work write-ups for bidding. Additionally, as a Certified/Licensed Contractor, this individual will ensure that the specific trade needs, such as, but not limited to, plumbing, electrical, A/C, are addressed within the scope of work assessment.

HCD staff will consult, if needed, with Construction Services Department staff in developing specifications related to the improvements to be performed as included in the scope of work for a property.

The detailed scope of work shall be reviewed, in detail, with the homeowner. Once consensus has been reached, the homeowner shall sign the scope of work to indicate his/her acceptance of the scope of work.

After a contractor has been procured, the scope of work shall be reviewed at a pre-construction conference attended by the homeowner, contractor and Housing Rehabilitation Specialist. All parties are to sign the scope of work to indicate their acceptance of the proposed improvements.

Internal Cost Estimates

Rehabilitation inspectors prepare a cost estimate of the project based on the scope of work. The rehabilitation inspectors stated they either use software or online resources to determine the most accurate pricing. Estimates are prepared on a standard form that is broken down into specific categories. E.g. plumbing, flooring, windows, etc. The numbering system in the scope of work is referenced in each respective category and then assigned a total cost per category.

The accuracy and detail of these estimates hold great value because they are used for multiple purposes throughout the completion of a project:

selecting the best value contractor, pricing comparisons, and evaluating the accuracy and reasonableness of contractor bids submitted.

Of the 41 projects reviewed, 12 did not contain cost estimates. None of the 41 projects contained evidence supporting how the pricing for each category or item was determined.

Cost estimates must be itemized and detailed in order to properly and accurately assess the most cost effective contractor for the project. Additionally, not having detailed information can make it difficult when there is a need for a credit or additional work. It is not possible to verify pricing of individual items without detail or itemization.

We compared bid document amounts, internal cost estimates, and final costs of the projects. When bids and internal costs are prepared correctly there should not be a large variance, according to HCD staff, this variance should not exceed 15%.

Schedule I shows each project in our testing sample with the respective bid amount, internal cost estimate, and final cost of the project.

We computed the following:

Comparison of bid and internal cost estimate

- There were 7 projects where the bid was greater than the internal cost estimate
- There were 22 projects where the bid amount was less than the internal cost estimate, these estimates exceeded the bids ranging from 5% - 139%

Comparison of bid and final cost

- There were 33 projects where the final cost was greater than the bid
- Final cost exceeded the bids for these 33 projects ranging from 2% - 247%

Comparison of internal cost estimate and final cost

- There were 26 projects where the final cost was greater than the internal cost estimate, final cost exceeded the internal cost estimates ranging from 1% - 124%
- There were 3 projects where the final cost was less than the internal cost estimate

We recommend HCD staff revise their internal cost estimates to provide more detail by grouping the items by number under the specific category of cost, as is the current method, and also provide the detailed description of work required.

We also recommend HCD staff consider using a common method to estimate project costs.

Management's Response: HCD shall utilize software that provides sufficient detail of the work items to be performed and a cost estimate of these improvements based on current market conditions specific to this area. This will provide a uniform system of developing internal cost estimates for the City's Housing Rehabilitation programs.

Bids and Contractor Selection

HCD guidelines state that housing rehabilitation work will be submitted to procurement for proper bidding and the lowest bidding qualified contractor will be awarded the job.

Different rules apply for emergencies, rental rehabilitation, and replacement housing. Guidelines for rental rehabilitation and housing replacement state the homeowner must obtain the quotes and select the contractor. Due to the time sensitivity of the situation, emergencies are not submitted to Procurement, instead they are handled by an approved contractor of the City under a master agreement.

The following chart provides procurement methods for the projects tested:

Description	# of Projects
Not Submitted to Procurement	19
<i>Emergencies</i>	10
<i>Quotes obtained by HCD</i>	5
<i>Replacement Housing</i>	2
<i>Rental Rehabilitation</i>	2
Submitted to Procurement	22
Total	41

Twenty-two of the 41 projects were submitted to Procurement for independently bidding the projects. The lowest bidding contractor was not chosen for three of the 22 projects that were submitted to procurement. Justification for not selecting the lowest bidding contractor was not documented in the files.

The remaining 19 projects were not submitted to Procurement and handled in different ways by HCD. Emergencies were properly completed using the City's master agreement for the particular work. Quotes were obtained by HCD for four small rehabilitation projects with cost under \$7,000 each and another for approximately \$21,000. While this was an allowable method, HCD will in the future submit these types of projects to Procurement to avoid any appearance of conflicts by HCD staff.

Rental rehabilitation and housing replacement project files were examined for quotes obtained by the homeowner. None of the files had evidence of more than one quote. The only documented quote was the one from the contractor performing the work. We reviewed two housing replacement projects, with cost of approximately \$154,000 and \$159,000. Since replacement housing has a much greater cost, competition and determination

of reasonableness should be reviewed by HCD and Procurement. It is in the City's best interest to validate competition in selecting proposals instead of allowing the homeowner to submit one cost proposal as the final decision.

We recommend HCD staff reconsider their methodology for rental rehabilitation and housing replacement cost determination.

Management's Response: All contractor solicitation for the City's Housing Rehabilitation programs, including owner-occupied and rental, shall be conducted by the City's Procurement Division. Scopes of work that have been approved by the property owner shall be provided to the Procurement Division for contractor solicitation via Invitation to Bid for general rehabilitation, Request for Quotes for emergencies, etc.

Change Orders

Of the 41 projects, 33 projects had associated change orders. Each of the 33 projects had between one and four change orders for a total of 65. Change orders by project ranged from \$85 to \$30,850 which is 2% to 247% of original contract amount.

Schedule II shows the original contract amount, change orders, and final cost of each project in our testing sample.

We examined each change order for the following:

- Evidence of work/items i.e. Pictures
- Explanation, description, and justification for work/items i.e. Memo
- Inspection Reports
- Internal Cost Estimates and Basis for Pricing
- Change Order Document
- Required Signatures

Six change orders totaling \$19,320 were not documented in the files. Four of these six change orders were related to emergencies. Although, the

emergency cases contained related invoices, they did not have the required change order form.

Of the 59 remaining change order documents reviewed, we determined the following:

Change Orders that included:	Total
Pictures (evidence)	11
Explanations/Justifications	54
Inspection Reports	0
Internal Cost Estimates	44
Basis for Pricing	1
Required Signatures	46

We examined the change orders to identify if there were duplications of work or items. We determined there were eight change order documents with possible duplications. These change orders are related to seven participants and include twelve line items in question. We were unable to determine the amount of the possible duplications because the scopes of work, bids, and change order documents did not have sufficient detail.

In one case, we observed a scope of work that indicated various rehabilitation work to one bathroom. This work included removal and replacement of: a shower pan, shower head and faucet, vanity, basin, faucet, spigot, and toilet. Contractors bid amount was \$1,920. A change order in the amount of \$4,000 was later submitted and approved for new plumbing materials and fixtures for two bathrooms and kitchen, etc. According to the Palm Beach County Property Appraiser this home has one bathroom. It is difficult to determine if the City paid twice for fixtures. This is an example of the importance of providing proper detail and documentation.

We recommend HCD staff revise their procedures for change orders to encompass the following:

- Documentation to support the need for the proposed work,
- Basis for the pricing of the cost estimates, and
- Supervisory review prior to work being completed.

Management's Response: All change orders shall be developed in the same manner as scopes of work as described above. The Housing Rehabilitation Specialist shall provide full documentation of the need and scope of all change orders to the original scope of work for a given housing rehabilitation activity. All proposed additional items of work not contained in the original scope of work shall be fully described in terms of detailed specifications and measurable quantity. A memorandum from HCD staff must provide justification of the proposed additional work, including photographs of the area(s) to be improved. In addition, a cost analysis based on the scope and measurements of the proposed work must support each change order request.

Change orders shall be limited to unforeseen repairs and hidden damage. Whenever possible, items shall be eliminated from the original scope of work - e.g. interior painting, etc. - to accommodate change order work items. No work on change order items shall commence until the change order has been approved in full.

Issue Two - Administrative Matters

Several administrative matters were observed where HCD needs to initiate and cause corrective action from other departments or needs to take action to improve its own performance of identified functions.

City Commission Approval to Exceed Rehabilitation Cost Limits

As reported in the background, the City Commission approves allowable limits for the costs for each type of rehabilitation project. If the cost of a project will exceed these established allowable limits, HCD must take the information before the City Commission to obtain approval to proceed with the work and payment.

As of April 27, 2010, five projects reviewed exceeded the allowable limits. These projects had not been brought before the City Commission for approval; however, the funds were already spent. HCD knows when the work will exceed the limits and should seek approval before funds are obligated.

Presently, City Commission is not provided with sufficient information about each project. Background on the individual project and explanation of additional funding is currently not being provided.

We recommend HCD staff submit for approval amounts exceeding limits prior to contracting and expending funds. Staff should provide the City Commission with sufficient information for them to make a determination on the amount and necessity of proposed overage.

Management's Response: City Commission approval is required for those projects exceeding the established allowable limits for assistance. HCD shall provide information on the background of the individual project and a complete explanation of the additional funding needed about the individual project in sufficient detail for them to make a determination on the amount and necessity of the proposed overage. Commission approval shall be required prior to the performance additional work or expenditure of any funds exceeding limits for assistance on the individual project.

Authority for the Mayor to Execute Rehabilitation Related Contracts and Mortgages

A resolution is referenced on each transmittal of rehabilitation related mortgages and contracts that provide assurance the Mayor has the authority to execute these documents. Of the 41 projects, we reviewed 29 for this authority citation. Of the 29 projects, 21 referenced Resolution 56-08 and 8 referenced Resolution 159-93.

Resolution 56-08 states "A Resolution of the City Commission of The City Of West Palm Beach, Florida, Authorizing the Department Of Housing And Community Development to utilize the Affordable Housing Trust Fund to implement The Community Housing Assistance Program; Assigning to The Department Of Housing And Community Development Administration Of The City's Affordable Housing And Workforce Housing Programs; Providing an effective date; And for other purposes"

Resolution 56-08 does not give the Mayor the authority to execute contracts and the subject matter is not related to these projects where the resolution is used.

Resolution 159-93 states "The Mayor is hereby authorized to execute on behalf of the City contracts..."

While Resolution 159-93 gives the Mayor the authority to execute these contracts, this Resolution was approved in 1993 and is outdated. For example, some of the current funding sources were not around when the resolution was approved. While some of the documents may be relatively the same, several important areas have changed, e.g. loan terms and conditions, repayment provisions. Resolutions are not intended to be long term and should be brought current every few years.

We recommend HCD staff work with the Office of the City Attorney to develop a new resolution for execution authority with new documents attached and submit to the City Commission for approval. HCD also needs to review each transmittal to the Mayor to verify the proper authorization is used.

Management's Response: HCD shall submit a Request for Legal Service for preparation of a new resolution to provide the Mayor with the authority to execute all construction related documents and mortgage related documents for the City's Housing Rehabilitation programs. An agenda item to include an agenda cover memorandum, resolution and related documents, shall be submitted by HCD for Commission approval.

Mortgage Modifications

Change orders cause an increase to the value of the project; therefore, mortgage notes must be modified. We reviewed projects with approved change orders to ensure a modification had been executed. Of the 33 projects with change orders, we found ten executed mortgage modifications and seven pending as of May 2010.

We recommend HCD staff revise procedures so that mortgage modifications are executed as soon as the change order items and amounts are agreed upon.

Management's Response: Mortgage modifications shall be prepared and executed at the time change orders and amounts have been fully approved.

Contract Amendments

Change orders as discussed in Issue One can be of substantial value. The construction contract contains no language that refers to change orders. We reviewed projects with change orders and were unable to locate amendments to the contract. Although change order documents reference the contract amount, there is no specific language that links it to the

construction contract. We did note one contractor had a reference to the contract being increased by the change order amount. Consequently, there is no legal document with the appropriate amendments.

We recommend HCD staff ensure contract amendments are being executed.

Management's Response: Construction contract amendments shall be prepared and executed at the time change orders are fully approved.

City Administration Approval of Change Orders Exceeding 50% of the Contract Amount

Resolution 159-93, under the section dealing with construction and rehabilitation contracts, provides that administration approve change orders when the total change order exceeds 50% of the contract.

Previous HCD staff members devised a form where change orders were added to the contract to arrive at a new contract amount. The percent of a new change order was thus calculated using the new contract amount making it rare that any one change order would exceed 50%. Notwithstanding, of 41 projects, 33 projects had change orders. Of the 33 projects, change orders exceeded 50% of the original contract for 14 projects.

Administration approval alone does not address the cause of having such large change orders. We discussed change orders above and believe some of the factors contributing to change orders are (1) elapsing time between various steps in the rehabilitation process and (2) commencing in a rehabilitation mode and ending in a remodeling mode. We believe if the recommendations under Issue One are implemented, changes orders will become less in number and amount. We also believe if contract amendments are completed, this may be unnecessary.

We recommend HCD staff evaluate the necessity of this approval process after implementing the recommendations under Issue One and Contract Amendments above.

Management's Response: HCD shall seek City Administration's approval of this recommendation. Measures to be implemented as previously noted under Issue One and Contract Amendments should all but eliminate the need for this procedure.

Establishing Rehabilitation Completion Dates

Rehabilitation contracts state "*The Work to be performed under this Contract shall commence on the date provided in the Notice to Proceed. The Work shall be substantially completed within XX calendar days of said date and fully completed no later than XX calendar days from said date, with such extensions of time, if any, as may be agreed to in writing by the City.*"

We examined the project files to ensure each had a Notice to Proceed (NTP) form. We located 17 NTPs. The information provided on these forms was compared against the final inspection date. Of the 17, we were able to report on 13 projects as four projects did not have final inspection dates. Four projects passed final inspection prior to the end date noted on the NTP and nine projects passed final inspection subsequent to the end date noted on the NTP.

HCD establishes a completion date based upon the amount of the estimated costs. We believe there are other factors that should be taken into consideration in determining the time it will take to complete the project.

Some of these are:

- Type of work e.g. roof, plumbing,
- Whether other contractors will simultaneously be working on the site, and
- Types of work that rely on other work being completed before it can start.

Since most projects were not completed within the contracted time period, we recommend that more realistic times be established using all the information available rather than solely the amount of the contract.

Management's Response: HCD staff shall re-examine the establishment of the completion date for an individual project to adjust for factors other than the amount of the estimated cost as provided in this report. For example, an adjustment should be made for certain emergency repairs that would require less time for completion, such as roof replacement, plumbing repairs, etc.

Audit of HCD Housing Assistance Contracts and Change Orders
Comparison of Bid, Internal Cost, and Final Cost

ORIGINAL INFORMATION				COMPARISONS					
Project #	Bid Amount	Internal Cost Estimate	Final Cost	(Internal - Bid)	Internal exceeds bid by %	(Final Cost - Bid)	Final Cost exceeds bid by %	(Final Cost - Internal)	Final Cost exceeds Internal by %
2	\$ 26,224.00	\$ 37,980.53	\$ 41,521.25	\$ 11,756.53	45%	\$ 15,297.25	58%	\$ 3,540.72	9%
2a	\$ 2,996.00	No estimate	\$ 2,996.00			\$ -			
3	\$ 300.00	No estimate	\$ 300.00			\$ -			
3a	\$ 4,422.75	\$ 3,000.00	\$ 4,422.75	\$ (1,422.75)	-32%	\$ -		\$ 1,422.75	47%
3b	\$ 2,555.00	\$ 3,000.00	\$ 6,726.40	\$ 445.00	17%	\$ 4,171.40	163%	\$ 3,726.40	124%
6	\$ 19,404.00	\$ 28,722.87	\$ 29,004.00	\$ 9,318.87	48%	\$ 9,600.00	49%	\$ 281.13	1%
7	\$ 13,084.00	\$ 17,365.50	\$ 25,634.00	\$ 4,281.50	33%	\$ 12,550.00	96%	\$ 8,268.50	48%
10	\$ 4,675.00	\$ 5,250.00	\$ 7,010.00	\$ 575.00	12%	\$ 2,335.00	50%	\$ 1,760.00	34%
10a	\$ 23,360.00	\$ 30,274.62	\$ 42,790.00	\$ 6,914.62	30%	\$ 19,430.00	83%	\$ 12,515.38	41%
11	\$ 29,554.35	\$ 40,097.70	\$ 37,939.35	\$ 10,543.35	36%	\$ 8,385.00	28%	\$ (2,158.35)	-5%
12	\$ 46,137.40	\$ 29,377.00	\$ 55,962.40	\$ (16,760.40)	-36%	\$ 9,825.00	21%	\$ 26,585.40	90%
13	\$ 4,538.25	No estimate	\$ 4,538.25			\$ -			
13a	\$ 10,055.00	\$ 16,320.00	\$ 21,090.00	\$ 6,265.00	62%	\$ 11,035.00	110%	\$ 4,770.00	29%
14	\$ 3,990.00	No estimate	\$ 4,082.00			\$ 92.00	2%		
14a	\$ 14,430.00	\$ 15,320.00	\$ 26,480.00	\$ 890.00	6%	\$ 12,050.00	84%	\$ 11,160.00	73%
20	\$ 38,160.00	No estimate	\$ 50,750.00			\$ 12,590.00	33%		
23	\$ 148,325.00	\$ 138,054.00	\$ 154,169.00	\$ (10,271.00)	-7%	\$ 5,844.00	4%	\$ 16,115.00	12%
24	\$ 8,400.00	\$ 11,500.00	\$ 21,741.25	\$ 3,100.00	37%	\$ 13,341.25	159%	\$ 10,241.25	89%
26	\$ 32,821.95	\$ 35,977.84	\$ 50,613.95	\$ 3,155.89	10%	\$ 17,792.00	54%	\$ 14,636.11	41%
26a	\$ 5,390.00	No estimate	\$ 5,390.00			\$ -			
27	\$ 1,777.50	No estimate	\$ 1,777.50			\$ -			
27a	\$ 17,147.75	\$ 28,528.50	\$ 26,254.75	\$ 11,380.75	66%	\$ 9,107.00	53%	\$ (2,273.75)	-8%
28	\$ 37,387.00	\$ 35,991.00	\$ 43,888.56	\$ (1,396.00)	-4%	\$ 6,501.56	17%	\$ 7,897.56	22%
28a	\$ 2,999.25	No estimate	\$ 4,689.25			\$ 1,690.00	56%		
34	\$ 45,323.00	\$ 66,039.59	\$ 76,856.55	\$ 20,716.59	46%	\$ 31,533.55	70%	\$ 10,816.96	16%
35	\$ 72,683.63	\$ 64,206.00	\$ 79,952.13	\$ (8,477.63)	-12%	\$ 7,268.50	10%	\$ 15,746.13	25%
37	\$ 11,161.50	\$ 19,137.24	\$ 16,696.50	\$ 7,975.74	71%	\$ 5,535.00	50%	\$ (2,440.74)	-13%
38	\$ 38,000.00	No estimate	\$ 40,000.00			\$ 2,000.00	5%		
41	\$ 1,585.75	No estimate	\$ 1,585.75			\$ -			
41a	\$ 14,050.00	\$ 22,623.60	\$ 28,765.00	\$ 8,573.60	61%	\$ 14,715.00	105%	\$ 6,141.40	27%
46	\$ 132,500.00	\$ 122,680.08	\$ 159,213.89	\$ (9,819.92)	-7%	\$ 26,713.89	20%	\$ 36,533.81	30%
48	\$ 51,530.00	\$ 54,358.24	\$ 60,085.00	\$ 2,828.24	5%	\$ 8,555.00	17%	\$ 5,726.76	11%
51	\$ 36,690.00	\$ 41,459.94	\$ 41,683.70	\$ 4,769.94	13%	\$ 4,993.70	14%	\$ 223.76	1%
51a	\$ 2,144.08	No estimate	\$ 2,144.08			\$ -			
57	\$ 2,108.25	No estimate	\$ 2,193.25			\$ 85.00	4%		
57a	\$ 1,525.00	\$ 3,650.00	\$ 5,299.00	\$ 2,125.00	139%	\$ 3,774.00	247%	\$ 1,649.00	45%
64	\$ 34,935.00	\$ 46,320.67	\$ 50,246.00	\$ 11,385.67	33%	\$ 15,311.00	44%	\$ 3,925.33	8%
67	\$ 48,365.03	\$ 60,446.36	\$ 64,859.98	\$ 12,081.33	25%	\$ 16,494.95	34%	\$ 4,413.62	7%
67a	\$ 9,225.00	\$ 9,750.00	\$ 11,900.00	\$ 525.00	6%	\$ 2,675.00	29%	\$ 2,150.00	22%
74	\$ 15,316.00	\$ 26,928.00	\$ 46,166.00	\$ 11,612.00	76%	\$ 30,850.00	201%	\$ 19,238.00	71%
74a	\$ 5,550.00	\$ 4,200.00	\$ 6,830.00	\$ (1,350.00)	-24%	\$ 1,280.00	23%	\$ 2,630.00	63%

Note: "Final Cost" may not necessarily be final for all projects. Information is as of 5/1/2010.

Audit of HCD Housing Assistance Contracts and Change Orders
Change Order Information

#	Original Amount of Contract	Change Order #1	Change Order #2	Change Order #3	Change Order #4	Total Change Orders	Original Contract Amount plus CO's	% Change
2a	\$ 2,996.00						\$ 2,996.00	0%
3	\$ 300.00						\$ 300.00	0%
3a	\$ 4,422.75						\$ 4,422.75	0%
13	\$ 4,538.25						\$ 4,538.25	0%
26a	\$ 5,390.00						\$ 5,390.00	0%
27	\$ 1,777.50						\$ 1,777.50	0%
41	\$ 1,585.75						\$ 1,585.75	0%
51a	\$ 2,144.08						\$ 2,144.08	0%
14	\$ 3,990.00	\$ 92.00				\$ 92.00	\$ 4,082.00	2%
23	\$ 148,325.00	\$ 2,189.00	\$ 3,655.00			\$ 5,844.00	\$ 154,169.00	4%
57	\$ 2,108.25	\$ 85.00				\$ 85.00	\$ 2,193.25	4%
38	\$ 38,000.00	\$ 2,000.00				\$ 2,000.00	\$ 40,000.00	5%
35	\$ 72,683.63	\$ 4,518.50	\$ 2,750.00			\$ 7,268.50	\$ 79,952.13	10%
51	\$ 36,690.00	\$ 2,517.20	\$ 2,088.00	\$ 388.50		\$ 4,993.70	\$ 41,683.70	14%
48	\$ 51,530.00	\$ 4,105.00	\$ 4,450.00			\$ 8,555.00	\$ 60,085.00	17%
28	\$ 37,387.00	\$ 1,500.68	\$ 5,000.88			\$ 6,501.56	\$ 43,888.56	17%
46	\$ 132,500.00	\$ 3,769.84	\$ 1,573.05	\$ 5,548.34	\$ 15,822.66	\$ 26,713.89	\$ 159,213.89	20%
12	\$ 46,137.40	\$ 5,225.00	\$ 4,600.00			\$ 9,825.00	\$ 55,962.40	21%
74a	\$ 5,550.00	\$ 1,280.00				\$ 1,280.00	\$ 6,830.00	23%
11	\$ 29,554.35	\$ 2,825.00	\$ 4,470.00	\$ 1,090.00		\$ 8,385.00	\$ 37,939.35	28%
67a	\$ 9,225.00	\$ 2,675.00				\$ 2,675.00	\$ 11,900.00	29%
20	\$ 38,160.00	\$ 8,315.00	\$ 2,560.00	\$ 1,715.00		\$ 12,590.00	\$ 50,750.00	33%
67	\$ 48,365.03	\$ 4,744.45	\$ 11,750.50			\$ 16,494.95	\$ 64,859.98	34%
64	\$ 34,935.00	\$ 8,501.00	\$ 6,810.00			\$ 15,311.00	\$ 50,246.00	44%
6	\$ 19,404.00	\$ 9,600.00				\$ 9,600.00	\$ 29,004.00	49%
37	\$ 11,161.50	\$ 5,535.00				\$ 5,535.00	\$ 16,696.50	50%
10	\$ 4,675.00	\$ 2,335.00				\$ 2,335.00	\$ 7,010.00	50%
27a	\$ 17,147.75	\$ 3,707.00	\$ 5,400.00			\$ 9,107.00	\$ 26,254.75	53%
26	\$ 32,821.95	\$ 13,892.00	\$ 3,900.00			\$ 17,792.00	\$ 50,613.95	54%
28a	\$ 2,999.25	\$ 1,425.00	\$ 265.00			\$ 1,690.00	\$ 4,689.25	56%
2	\$ 26,224.00	\$ 12,395.00	\$ 2,321.00	\$ 581.25		\$ 15,297.25	\$ 41,521.25	58%
34	\$ 45,323.55	\$ 13,279.00	\$ 8,864.00	\$ 2,450.00	\$ 6,940.00	\$ 31,533.00	\$ 76,856.55	70%
10a	\$ 23,360.00	\$ 11,390.00	\$ 5,235.00	\$ 2,805.00		\$ 19,430.00	\$ 42,790.00	83%
14a	\$ 14,430.00	\$ 6,875.00	\$ 3,875.00	\$ 1,300.00		\$ 12,050.00	\$ 26,480.00	84%
7	\$ 13,084.00	\$ 4,650.00	\$ 7,900.00			\$ 12,550.00	\$ 25,634.00	96%
41a	\$ 14,050.00	\$ 13,015.00	\$ 1,700.00			\$ 14,715.00	\$ 28,765.00	105%
13a	\$ 10,055.00	\$ 4,090.00	\$ 6,945.00			\$ 11,035.00	\$ 21,090.00	110%
24	\$ 8,400.00	\$ 13,341.25				\$ 13,341.25	\$ 21,741.25	159%
3b	\$ 2,555.00	\$ 4,171.40				\$ 4,171.40	\$ 6,726.40	163%
74	\$ 15,316.00	\$ 1,750.00	\$ 29,100.00			\$ 30,850.00	\$ 46,166.00	201%
57a	\$ 1,525.00	\$ 3,774.00				\$ 3,774.00	\$ 5,299.00	247%
	\$ 1,020,826.99					\$ 343,420.50		

Note: "Original Contract Amount plus CO's" may not necessarily be the final cost for all projects. Information is as of 5/1/2010.



"The Capital City of the Palm Beaches"

MEMORANDUM

To: Imogene Isaacs, CIA, CGFM, Internal Auditor

From: Valmarie H. Turner, Director, Housing and Community Development

Date: December 10, 2010

Subject: Response to Internal Audit Report – Housing Assistance – Contracts and Change Orders

The Housing and Community Development Department is in receipt of the Internal Auditor's "draft" audit report "Housing Assistance – Contracts and Change Orders". We value the time and efforts of the Internal Auditor's Office and offer the following response for your consideration and review:

**RESPONSE TO INTERNAL AUDIT REPORT OF HOUSING ASSISTANCE –
CONTRACTS AND CHANGE ORDERS**

Issue One – Process for Assessing and Completing Rehabilitation Work

Home Inspections: Concur

During the initial inspection of a property, the Housing Rehabilitation Specialist shall utilize a standardized form similar in scope to form HUD-52580-A to assess and document improvements required in each area of the residence to correct code violations and meet minimum property standards. Photographs of these areas shall be taken to support this written assessment. The written and photographic assessment of the initial site visit shall be incorporated into the hard and electronic files developed for each property.

Prior to visiting the property, the Housing Rehabilitation Specialist shall examine all construction records related to the property on file in the City's Construction Services Department with respect to the original construction and permitted improvements of the structure. This will help determine any unpermitted work, including illegal additions, that was performed prior to the City's involvement with the rehabilitation improvements.

Scope of Work: Concur, in part

A detailed scope of work shall be developed for each property. The description for each item of repair shall be specific in order to avoid confusion with the homeowner and contractor. Vague terms such as noted in the Internal Auditor's report will not be utilized.

HCD is in the process of recruiting a Certified/Licensed General/Building Contractor for the Housing Construction Supervisor position. This position will administer the Department's Construction/Rehabilitation files as well as supervise and coordinate the bid specifications and work write-ups for bidding. Additionally, as a Certified/Licensed Contractor, this individual will ensure that the specific trade needs, such as, but not limited to, plumbing, electrical, A/C, are addressed within the scope of work assessment.

HCD staff will consult, if needed, with Construction Services Department staff in developing specifications related to the improvements to be performed as included in the scope of work for a property.

The detailed scope of work shall be reviewed, in detail, with the homeowner. Once consensus has been reached, the homeowner shall sign the scope of work to indicate his/her acceptance of the scope of work.

After a contractor has been procured, the scope of work shall be reviewed at a pre-construction conference attended by the homeowner, contractor and Housing Rehabilitation Specialist. All parties are to sign the scope of work to indicate their acceptance of the proposed improvements.

Internal Cost Estimates: Concur

HCD shall utilize software that provides sufficient detail of the work items to be performed and a cost estimate of these improvements based on current market conditions specific to this area. This will provide a uniform system of developing internal cost estimates for the City's Housing Rehabilitation programs.

Bids and Contractor Selection: Concur

All contractor solicitation for the City's Housing Rehabilitation programs, including owner-occupied and rental, shall be conducted by the City's Procurement Division. Scopes of work that have been approved by the property owner shall be provided to the Procurement Division for contractor solicitation via Invitation to Bid for general rehabilitation, Request for Quotes for emergencies, etc.

Change Orders: Concur

All change orders shall be developed in the same manner as scopes of work as described above. The Housing Rehabilitation Specialist shall provide full documentation of the need and scope of all change orders to the original scope of work for a given housing rehabilitation activity. All proposed additional items of work not contained in the original scope of work shall be fully described in terms of detailed specifications and measurable quantity. A memorandum from HCD staff must provide justification of the proposed additional work, including photographs of the area(s) to be improved. In addition, a cost analysis based on the scope and measurements of the proposed work must support each change order request.

Change orders shall be limited to unforeseen repairs and hidden damage. Whenever possible, items shall be eliminated from the original scope of work – e.g. interior painting, etc. – to accommodate change order work items. No work on change order items shall commence until the change order has been approved in full.

Issue Two – Administrative Matters

City Commission Approval to Exceed Rehabilitation Cost Limits: Concur

City Commission approval is required for those projects exceeding the established allowable limits for assistance. HCD shall provide information on the background of the individual project and a complete explanation of the additional funding needed about the individual project in sufficient detail for them to make a determination on the amount and necessity of the proposed overage. Commission approval shall be required prior to the performance additional work or expenditure of any funds exceeding limits for assistance on the individual project.

Authority for the Mayor to Execute Rehabilitation Related Contracts and Mortgages: Concur

HCD shall submit a Request for Legal Service for preparation of a new resolution to provide the Mayor with the authority to execute all construction related documents and mortgage related documents for the City's Housing Rehabilitation programs. An agenda item to include an agenda cover memorandum, resolution and related documents, shall be submitted by HCD for Commission approval.

Mortgage Modifications: Concur

Mortgage modifications shall be prepared and executed at the time change orders and amounts have been fully approved.

Contract Amendments: Concur

Construction contract amendments shall be prepared and executed at the time change orders are fully approved.

City Administration Approval of Change Orders Exceeding 50% of the Contract Amount: Concur

HCD shall seek City Administration's approval of this recommendation. Measures to be implemented as previously noted under Issue One and Contract Amendments should all but eliminate the need for this procedure.

Establishing Rehabilitation Completion Dates: Concur

HCD staff shall re-examine the establishment of the completion date for an individual project to adjust for factors other than the amount of the estimated cost as provided in this

report. For example, an adjustment should be made for certain emergency repairs that would require less time for completion, such as roof replacement, plumbing repairs, etc.

Summary

HCD is currently revising the policies and procedures for its Housing Rehabilitation programs. Measures to implement those recommendations made by the City's Internal Audit Office as contained in this report and agreed upon by HCD via this response shall be incorporated into the revised policies and procedures.