



CHICAGO HOUSING AUTHORITY OFFICE OF INSPECTOR GENERAL CHICAGO, IL

OIG File #A2020-01-001 –Audit of Emergency Contract at Lake Parc Place

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ACRONYMS

- **ATP:** Authorization to Proceed
- **CCD:** Capital Construction Department
- **CDOB:** Chicago Department of Buildings
- **CFD:** Chicago Fire Department
- **CHA:** Chicago Housing Authority
- **DPC:** Department of Procurement and Contracts
- **ESOC:** Emergency Services Operation Center
- **HUD:** U.S. Department of Housing and Urban Development
- **LPP:** Lake Parc Place
- **NFPA:** National Fire Protection Association
- **OIG:** Office of the Inspector General
- **OSFM:** Office of the State Fire Marshal
- **PM:** Project Manager
- **P.O.:** Property and Asset Management Office
- **PPM:** Private Property Management
- **PS:** Procurement Specialist

A. Executive Summary

I. Authority and Role

The authority to perform this audit is pursuant to the Board approved *Inspector General Charter*, which states that the Office of the Inspector General (OIG) has the authority and duty to audit the administrative programs of the Chicago Housing Authority (CHA). The OIG is tasked with identifying inefficiencies, waste, fraud, abuse, misconduct and mismanagement, as well as promoting economy, efficiency, effectiveness, and integrity in the administration of CHA programs and operations. The role of the OIG is to conduct independent audits of CHA operations and programs and make recommendations for improvement when appropriate. CHA management is responsible for establishing and maintaining measurable processes to ensure that CHA programs operate economically, efficiently, effectively, and with integrity.

Standards

The OIG conducts audits of programs in accordance with *Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and Principles and Standards for Offices of the Inspector General*. Those standards apply to performance audits of government agencies, and require that we plan and perform the audit to provide objective analysis, findings and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.¹

Independence

The OIG auditors involved in this audit are free both in fact and appearance from personal, organizational, and external impairments to independence. All opinions judgments, conclusions, and recommendations are impartial and should be viewed as impartial by third parties.

II. Background

Based on a complaint received by the OIG and the concerns of the Chief Administration Officer, the OIG selected a performance audit of the CHA Emergency Contract procured in February 2019 at Lake Parc Place (LPP).

On February 1, 2019, a fire sprinkler head ruptured in the second basement (the boiler room) at the senior building of Lake Parc Place located at 3939 S. Lake Park Avenue, Chicago, IL. Maintenance staff turned off the water and drained the system to relieve the pressure. They forgot to close one of the drain valves before turning the sprinkler system back on. As a

¹ The U.S. Government Accountability Office, Comptroller General of the U.S. (2018). *Government Auditing Standards* (The Yellow Book). Washington, DC: GAO.

consequence, the boiler room was submerged with over 12 feet of water making the fire pump, boiler, domestic water pumps, and control panel nonoperational. All tenants were relocated to various hotels while emergency repairs were being performed by Anchor Mechanical Inc.

On February 4th, 2019, tenants were allowed back in the building after pumps and domestic water controls were replaced and an emergency boiler was installed.

The automatic fire alarm and sprinkler system was also out of service. CHA notified the Chicago Fire Department (CFD) and the building required fire watch until the sprinkler system returned to service on October 25, 2019.

III. Objective

1. To assess whether Property and Asset Management Office (P.O.) complied with CHA's and HUD's policies, procedures and protocols as it relates to an Emergency Contract procured for LPP.
2. To assess effectiveness of P.O. internal controls to monitor and manage services provided through Emergency Contract at LPP.
3. Review expenditures and payment of invoices associated with the LPP emergency project.
4. Assess the risk environment and determine whether the current internal controls are sufficient to minimize fraud, waste and abuse.

IV. Scope

The scope of this audit focused on the Emergency Contract for hot water, heating, and fire safety at 3939 South Lake Park Ave., Chicago, IL on February 1, 2019.

V. Approach and Methodology

The audit was performed by conducting interviews, reviewing documentation, inspections, testing and other measures deemed necessary. Other measures include, but are not limited to utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data.

For the purpose of this audit, the OIG reviewed all invoices, timesheets and additional supporting documents related to the LPP emergency project.

Interviews were conducted with the following:

1. P. O. to gain an understanding of their role and responsibility in the LPP emergency project
2. Department of Procurement and Contracts (DPC) for their role in approving the Authorization to Proceed (ATP)
3. Capital Construction Department (CCD) for their role, if any, in the LPP emergency project. Interviews determined that CCD's role was involved at the request of the Chief Administrative Officer after the project was allegedly completed.

4. Administrative Office to obtain an understanding of their functions and responsibilities with regards to CHA emergencies
5. Anchor Mechanical, Inc. and Stone Group to obtain the scope of service and agreements, if any, with CHA. (Interview Memos of Anchor Mechanical and Stone Group are available upon request)

Material deficiencies and/or relevant issues were discussed and communicated to CHA's Property and Asset Management Office (P.O.) and Administrative Office. The OIG provided CHA management with a draft report with observations and allowed CHA management time to respond. Management submitted written responses, which are incorporated in the report. The final report was presented to the Chief Executive Officer and the Audit Committee.

The OIG believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives to identify conditions and/or an environment that results in, or could result in, waste, fraud, abuse, misconduct or mismanagement.

VI. Summary of Results

The CHA abated the LPP emergency in three days, and the restoration works proceeded for nine months without:

- Documented contracts
- City of Chicago licensed fire guards in violation of city regulation
- Analysis of fire guard services cost
- Performance or payment bonds
- Adequate oversight and planning

The OIG determined that a thorough assessment of the project after the emergency was abated (including but not limited to, scope of service, independent cost estimate or an executed contract) would have avoided the excessive charges for fire watch services that was 70% of the total project cost. As of February 2020, the project was not yet completed, but the year-to-date cost was \$2,967,785.79.

All departments impacted by this audit cooperated fully with the OIG staff. We thank CHA management for its cooperation and willingness to better improve the program.

B. Findings and Recommendations

Finding 1: Contracts/Agreements Do Not Meet HUD/CHA Requirements

Risk Level: High

The CHA emergency contracts/agreements with Anchor Mechanical Inc. did not meet HUD/CHA requirements for Non-Competitive Procurement for public exigency or emergency contracts.

P.O. failed to comply with the CHA Procurement Procedures Manual revised in February 2018. Article IV, Paragraph D, Section 3 of the manual states:

“Non-Competitive Procurement for Public Exigency or Emergency

(i) Typical Uses:

- a) Emergency: An unforeseen or unpreventable event or occurrence which threatens the life, health and safety of the residents of the properties managed by the CHA.*
- b) Public Exigency: A sudden and unforeseen occurrence or condition; a perplexing contingency or complication of circumstances; or a sudden or unexpected occasion for action.*

To issue this type of procurement, the Senior Procurement Specialist / Procurement Specialist must ensure the requesting department follows the following steps:

- 1) Prepare and submit Authorization to Proceed (ATP) and Non-Compete memo and submit to e-procure@thecha.org.*
- 2) Create requisition in Lawson (flag “quote required – No”) (Item type Non-Compete).*
- 3) Obtain quote.*
- 4) Create and provide independent cost estimate and cost analysis.*
- 5) Submit Task Order/Contract or Modification.*
- 6) Non-Compete documentation is reviewed.*
- 7) Upon approval, work with legal to create contract, if applicable. DPC signs and approves ATP memo.*
- 8) PS will track the start dates for approved Emergency Contracts and will take appropriate actions if contract guidelines are not followed.”*

The above enumerated procedures align with the 24 CFR 85.36(d)(4) and HUD Handbook No. 7460.8 for Noncompetitive Proposals.

During the audit, the CHA was unable to provide any of the above listed documentation except for an Authorization to Proceed (ATP), which was not signed by the Department of Procurement and Contracts (DPC) as required in CHA’s Procurement Procedures Manual.

The OIG interviewed DPC staff. In an emergency situation, such as the one that occurred at LPP on February 1st 2019, DPC stated that it’s impractical to procure a contract before abating the condition. However, the user department has an obligation to generate the required “after-the-fact” documentation once the emergency has been abated. The P.O. stated they do not have a protocol for emergency situations, such as the LPP emergency.

The lack of documentation of the scope of services and of the cost of the work creates and allows for potential fraud, waste and/or abuse, and leaves CHA unprotected. It also makes it difficult to review or conduct quality control.

Risk:

1. Inefficient administration of the program;
2. Potential waste due to CHA’s inability to effectively audit invoices and ascertain whether CHA is receiving services it has paid.

Recommendation 1:

- a) P.O. should generate a fully executed “after-the-fact” contract document to spell out the scope of the project, and the rights and obligations of all parties involved.
- b) P.O. needs to develop an emergency protocol for building mechanical failures and emergency abatement.

Management Response:		
<input type="checkbox"/> Concur with Finding and recommendations	<input type="checkbox"/> Do not concur with Finding and recommendations	<input checked="" type="checkbox"/> Concur with part of the Finding and recommendations
Management concurs in part with the finding and recommendations. CHA and HUD contract requirements will be followed. There are already an emergency procurement and a process for reporting and filing casualty claims for insurance coverage. Property and Asset Management proposes to train project managers and assign emergency procurement and casualty responsibilities for those project managers involved in emergency responses.		
Custodian:	Property Office	
Implementation Timeline:	In progress	

OIG’s Concluding Response:
Management’s response provides an action plan to address the findings and recommendations.

Finding 2: Unlicensed Fire Guards

Risk Level: High

Anchor Mechanical, Inc. (Anchor) did not fulfill their fiduciary duty to CHA. They failed to provide licensed fire guards, as required by city code and requested by CHA.

P.O. also failed to ensure that the fire guards provided by Anchor were licensed by the Bureau of Fire Prevention of the City of Chicago for the tasks they were contracted to perform.

Per the National Fire Protection Association (NFPA) 101-9.6.1.6:

*“Where a required fire alarm system is out of service for more than 4 hours in a 24-hour period, the authority having jurisdiction shall be notified, and the building shall be evacuated or an **approved fire watch shall be provided** for all parties left unprotected by the shutdown **until the fire alarm system has been returned to service.**”*

As stated by NFPA, LPP was required to have an approved fire watch for 24 hours a day from February 1, 2019 until the building’s fire alarm system was certified by CFD and returned in service on October 25, 2019. The P.O. placed reliance on Anchor to act in good faith and provide fire guards that meet the City of Chicago CFD conditions.

While the CHA made all efforts to comply with fire safety requirements and to protect residents, the OIG identified that the fire guards hired by Anchor to provide the fire watch services did not comply with the requirements of the City of Chicago Municipal Code:

“To fulfill the requirements of the Municipal Code, fire guards must be licensed by the Bureau of Fire Prevention. To receive a license as a fire guard a person must:

- a) Be of legal age (18 years), have temperate habits, and be mentally competent.*
- b) Not have been convicted of a felony.*
- c) Be able to speak and understand the English language.*
- d) Produce evidence of employment and residence for the two previous years.*
- e) Pass a written examination pertaining to the duties of a fire guard administered by the Fire Prevention Bureau.*
- f) Not have had a fire guard license previously revoked.*
- g) The Fire Guard’s certificate is required to be carried at all times while on duty.”**

From February 2019 to October 2019, a total of 25,096 hours were invoiced by Anchor for fire watch services at LPP. These services should have been performed using fire guards licensed by the Bureau of Fire Prevention. None of the 63 personnel recruited for the service held the required Fire Guard Certificate.

During an interview with Anchor, they stated they were not aware of the City of Chicago requirements to provide fire watch services, including the fire guard certification.

Anchor’s statement is contradicted by an email from the P.O. to Anchor, dated February 6, 2019, requesting four licensed fire guards per shift, which stated: “They must be licensed by the City of Chicago, specifically” (See Attachment).

Stone Group, a company subcontracted by Anchor to provide fire watches services, stated that Anchor specifically asked for engineering staff and no further qualifications or requirements were specified. CHA never requested engineers from Anchor and only requested licensed fire guards as noted above.

Anchor knowingly violated the City of Chicago Municipal Code (Chapter 15-4-680): “*No person shall employ anyone as a special fireguard whose license has been revoked or suspended.*”

Risk:

1. Regulatory non-compliance;
2. Potential for judicial action;
3. Inefficient administration of the program.

Recommendation 2:

- a) CHA should inform Anchor that they violated the City of Chicago Municipal Code.
- b) Anchor, at a minimum, should be placed on DPC’s “Vendor Watchlist.”

Management Response:		
<input checked="" type="checkbox"/> Concur with Finding and recommendations	<input type="checkbox"/> Do not concur with Finding and recommendations	<input type="checkbox"/> Concur with part of the Finding and recommendations
Management concurs with the finding and recommendations and defers to DPC regarding placing the vendor on DPC’s vendor watchlist. Management will initiate more frequent monitoring of vendor performance.		
Custodian:	Property Office	
Implementation Timeline:	DPC does not maintain a watchlist. DPC is reviewing this matter to determine what, if any, other sanctions are appropriate.	

Finding 3: Fire Guard Rate Above Average Hourly Rate

Risk Level: High

Anchor charged CHA \$82.30 per hour for each fire watcher, which is more than three times the average hourly rate of \$25², for a total amount of \$2,065,400.80 for fire watch services provided at LPP. As stated in Finding 2, Anchor was charging an engineering rate, although no engineering tasks were required.

According to the Municipal Code of Chicago, the most important duty of a fire guard is to call the Fire Department (9-1-1) and to begin an orderly evacuation in the event of a fire. This duty does not require an engineering degree or a post-secondary education. The Code goes on to state:

“In buildings where an automatic sprinkler system is required by this code, it shall be unlawful to occupy any portion of a building or structure until the automatic sprinkler system installation has been tested and accepted by the fire code official, except as provided in Chapter 7 of the Chicago Construction Codes Administrative Provisions. 14B-33-3312.1”

Fire Watch is a provisional arrangement in which a person or patrol physically checks buildings and/or other property for extreme fire hazard situations. Fire Watch is normally conducted for vulnerable properties.

In the Chicago metropolitan area, a fire guard hourly salary ranges from \$17.95 to \$29, for an average amount of \$25². The following table analyzes the estimated reasonable fire guard costs for 25,096 hours.

Analysis of Estimated Fire Guard Cost			
Fire Guard Costs	Total Fire Guard Hours Per Invoices	Total Cost	Total Cost Plus Overhead @6% and Profit @5%
Industry Average @ \$25 Hr.²	25,096.00	\$ 627,400.00	\$ 696,414.00
Anchors Mechanical @ \$82.3 Hr.	25,096.00	\$2,065,400.80	-
Difference Industry Average Vs. Anchors	-	-	\$ 1,368,986.80

Anchor recruited a total of 63 guards to conduct fire watch during the nine months of service. This amounted to 25,096 total hours for fire guard services. At the average rate of \$25/hour, the service should have cost approximately \$627,400, plus 11% overhead and profit, for a total of \$696,414. Instead, Anchor recruited unlicensed fire guards and charged \$82.30/hour, totaling \$2,065,400.80. This is three times the reasonable amount for fire watch services in the Chicago metropolitan area, or a difference of \$1,368,986.80.

P.O. cannot confirm whether the contractor provided four people for three shifts for 261 days 25,096 hours (2/06/2019 to 10/25/2019).

² The OIG used open source information to identify the average hourly rates for fire guards, including the following: The Fast Fire Watch Company \$29, Zip Recruiter \$17, and Salary Data \$27.

Risk:

- 1. Waste and abuse of resources;
- 2. Regulatory non-compliance;
- 3. Inefficient administration of the program.

Recommendation 3:

- a) CHA should work with Anchor to agree on a reasonable settlement amount for the fire guard services, taking into account the nature of the work and the excessive rate of an engineer.
- b) CHA should consider using residents, private security, Section 3 businesses, or a specialized fire watch company when a CHA building requires fire watch services.

Management Response:		
<input checked="" type="checkbox"/> Concur with Finding and recommendations	<input type="checkbox"/> Do not concur with Finding and recommendations	<input type="checkbox"/> Concur with part of the Finding and recommendations
<p>Management concurs with the finding and recommendations. CHA negotiated a lower hourly rate with Anchor for fire watch services. Although Anchor originally billed \$82.30 an hour, CHA negotiated a rate of \$45 per hour for individuals who did not have engineering licenses and \$65 an hour for individuals with engineering licenses. This resulted in a reduction of \$385,185.20. Of the 9 months of billing, only 2 months were paid at the original rate of \$82.30 an hour. Further, Property and Asset Management will adopt National Fire Protection Association (NFPA) guidance to establish a well-organized fire watch which keeps a close eye on structures while fire protection impairments are corrected. Property and Asset Management will prioritize using residents, private security, Section 3 businesses or specialized fire watch vendors when CHA requires fire watch services. Finally, Management will initiate more frequent monitoring of vendor performance.</p>		
Custodian:	Property Office	
Implementation Timeline:	In progress	

Finding 4: No Performance or Payment Bonds

Risk Level: High

There is no proof that the contractor obtained performance and payment bonds for the protection of the CHA for the work performed at LPP.

24 CFR Part 85.36 Section (h). 2&3 states the minimum bonding requirement for construction or facility improvement contracts or subcontracts exceeding the simplified acquisition threshold (\$100,000) as:

“(2) A performance bond on the part of the contractor for 100 percent of the contract price. A performance bond is one executed in connection with a contract to secure fulfillment of all the contractor's obligations under such contract.

“(3) A payment bond on the part of the contractor for 100 percent of the contract price. A payment bond is one executed in connection with a contract to assure payment as required by law of all persons supplying labor and material in the execution of the work provided for in the contract.”

The invoices submitted by Anchor for the emergency contract at LPP is \$2,967,785.79, which is above the threshold of \$100,000, and therefore requires a payment and performance bond. Of the invoice total amount submitted by Anchor Mechanical, only 30% is related to building mechanicals.

During the audit, the OIG asked the Risk Management Department and P.O. staff managing the project for proof of performance and payment bonds. CHA did not have any bond documents from Anchor.

Risk:

1. There is no assurance that the CHA is protected against financial loss if the contractor defaults.
2. No assurance that laborers, material suppliers and subcontractors have a remedy if they are not paid, without consequence to the Authority.

Recommendation 4:

- a) Ensure that bonding requirements are met, and that bond and insurance documents are included within the LPP emergency contract files and records.

Management Response:		
<input checked="" type="checkbox"/> Concur with Finding and recommendations	<input type="checkbox"/> Do not concur with Finding and recommendations	<input type="checkbox"/> Concur with part of the Finding and recommendations
Management concurs with this finding and recommendation. This requirement will be part of the standardized new training for emergency and casualty procurements.		
Custodian:	Property Office	
Implementation Timeline:	Completed	

Finding 5: Lack of Adequate Oversight and Planning

Risk Level: High

CHA did not reassess the situation at LPP once the emergency was stabilized and failed to provide adequate oversight over the project, which led to the conditions described in Findings 2, 3, and 4.

Typically, after an emergency situation is abated, there is an evaluation of the work to be performed, how it should be managed and by whom. There should also be a dedicated Project Manager (PM) assigned at the beginning of the project to coordinate the work. The PM should have full authority to assess the quality of the work, keep track of supplies, monitor the spending, ensure all regulations are met, document all aspects of the project, oversee the personnel onsite and collaborate with the contractor and any subcontractors.

In the case of LPP, a PM was not assigned until late April 2019. The PM was never given a scope or any description of each task required at LPP, was not able to get cooperation from the contractor and could not attest to the number of fire guards present at LPP on any given day. In fact, during the nine months of the project, no one from CHA closely monitored the fire watch services.

If CHA had reassessed the situation and adequately planned and monitored the project once the residents were allowed back into the building, the excessive costs and amount of time it took to complete the project would have been mitigated.

Risk:

1. Inefficient administration of the program;
2. Waste and abuse of resources.

Recommendation 5:

- a) Develop a comprehensive emergency fire protection plan for CHA buildings, including fire watch components for impairment of sprinklers and fire alarm systems.

- b) Assign a dedicated PM to an emergency project with full authority and control over the project.

Management Response:		
<input checked="" type="checkbox"/> Concur with Finding and recommendations	<input type="checkbox"/> Do not concur with Finding and recommendations	<input type="checkbox"/> Concur with part of the Finding and recommendations
<p>Management concurs with the finding and recommendations. As noted in the response to Finding 1 and Finding 3, Property and Asset Management is proposing to train project managers and assign emergency procurement and casualty responsibilities for those project managers involved in emergency responses. Further, Property and Asset Management will adopt NFPA guidance to establish a well-organized fire watch which keeps close eye on structures while fire protection impairments are corrected.</p>		
Custodian:	Property Office	
Implementation Timeline:	In progress	