



Affordable Housing Consultant Services Audit - #779

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of a purchase order and contract between the city and a private vendor for affordable housing consultant services. The audit originated from a concern from a Council Member regarding the use of \$400,000 of his district bond funds.

What CAO Recommends

- The Administration should reimburse the district Council Member's bond account for the amount spent on the consultant services contract, which totaled \$317,873.28, and also return \$6,408.28 in unspent funds.
- The Administration should reach out to the Council Member to determine the best course of action in completing the Council Member's projects.
- The Administration should only authorize payments of council district bond funds for allowable uses.
- Sole source purchases should be made in accordance with the City Ordinance Code and only when a vendor is the only justifiable source.
- The City should review all invoices for accuracy and proper support before remitting payment. Requests for payment should have proper authorization. The City should also develop a checklist of minimum contract administration standards.

What CAO Found

Based on the audit work performed, we found the following:

- The Council Member requested \$400,000 in council district bond funds be spent on four different capital projects in his district (\$100,000 each). Instead, the funds were diverted at the request of two city departments to fund the fourth amendment of the consultant services contract. This was not an allowable use of the bond funds.
- One of the capital projects did not appear to be an eligible use of the funds given that it was on private property, although the Council Member's request form indicated it was on city property, and this request was approved by the Administration.
- Of the \$400,000, \$317,873.28 was spent on the consulting services contract, \$75,718.44 was returned to the Council District Discretionary Bond account, while \$6,408.28 remained in the account used to pay the consultant services contract as of March 4, 2016. Very little work has been done on the capital projects and they remain incomplete.
- The vendor was awarded a sole source purchase order, although we question whether this was appropriate for a variety of reasons, including the fact that when a new sole source purchase order was sought, it was rejected and an RFP (Request for Proposals) was issued, with six qualified firms responding.
- Over the term of the contract (less than three-and-a-half years), the maximum indebtedness grew more than eightfold (originally \$98,000 but finished at \$868,000), without any changes to the contract's scope of services.
- Issues with accuracy, proper approval and/or adequate support for payment requests submitted by the vendor were found on more than 50% of the payments made to the vendor.



Council Auditor's Office

Affordable Housing Consultant Services Audit

March 4, 2016

Report #779

Released on : June 21, 2016

EXECUTIVE SUMMARY

AUDIT REPORT #779

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OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



March 4, 2016

Report #779

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION/BACKGROUND

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of a purchase order and contract that the City entered into with a private vendor for affordable housing development technical assistance and consultant services (“consultant services”). The audit originated from a concern that was brought to our attention by a Council Member regarding the use of \$400,000 of his district bond funds.

Both the purchase order and contract were administered by the City’s Housing & Neighborhoods Department (currently known as the Housing & Community Development Division). The division is also known as the “using agency” elsewhere in this report.

The purchase order covered the time period of March 1, 2007 – September 30, 2008 and was amended once. It authorized a not to exceed amount of \$85,000 for “affordable housing development technical assistance and consultant services”. Of this amount, \$79,367 was actually spent. The contract had a term of April 7, 2009 – September 30, 2012 and was amended four times. It had a final maximum indebtedness of \$868,000. Of this amount, \$715,720 was actually spent. There was also an improper purchase that was made to the vendor totaling \$28,650 between the periods of the purchase order and contract. Combined, there was a total authority to spend \$953,000 between the purchase order and the contract. Among the purchase order, contract, and improper purchase, there were 57 payments made to the vendor totaling \$823,737.

For a chronology of events related to the consultant services purchase order and contract, see Exhibit A.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine what the City should have received for the \$400,000 in Council district bond funds that were appropriated for four capital projects, versus what the City actually received.
2. To determine whether the payments made with Council district bond funds were allowable based on the source of funding.

3. To determine if the City procured consultant services for community redevelopment with the vendor in accordance with legal requirements and that any amendments were properly requested and authorized.
4. To determine whether all payments made to the vendor under the community redevelopment consultant services purchase order and contract were properly supported, approved, and accurate.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of the audit was limited to the consulting services purchase order (effective March 1, 2007 – September 30, 2008), and the consulting services contract (effective April 7, 2009 – September 30, 2012). Both were associated with affordable housing and community redevelopment. Based on the nature of the concern that was brought to our attention by the district Council Member, the audit reviewed documentation authorizing the expenditure of \$400,000 in Council district bond funds, as well as the status of each capital project that the bond funds were supposed to pay for. Next, we tested the expenditure of the Council district bond funds in order to determine if the use of the funding source was allowable. We also tested the procurement of the purchase order and contract, and all amendments for each. Lastly, we conducted 100% testing of payments made associated with the purchase order and contract, as well as those improper payments made during the gap in time when neither a purchase order nor contract was in effect.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

STATEMENT OF AUDITING STANDARDS

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

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Mayor's Office, via Sam E. Mousa, Chief Administrative Officer, in a memorandum dated June 7, 2016.

AUDIT CONCLUSIONS

By Objective:

1. The appropriation of the \$400,000 in Council district bond funds should have resulted in the City receiving capital improvements for four different projects in the Council Member's district. Based on our review, no capital improvements were performed with this funding; instead these funds were diverted to the consultant services contract. In a memo sent to the Procurement Division, the former Director of the Housing & Neighborhoods Department, through the former Deputy Director of Public Works, requested that these dollars be used to fund the fourth and final amendment to the consultant services contract.
2. Diverting the Council district bond funds to pay for the consultant services contract was not a legally allowable use of the funds. We also noted other issues related to how the Council district bond fund expenditures were accounted for.
3. With regard to the consultant services purchase order, the award of the purchase order was not done in accordance with all legal requirements and we question whether these services were truly sole source in nature. It appears that the overall process for the procurement of the consultant services contract was done in accordance with legal requirements. However, some amendments contained issues, including substantial increases to the contract's maximum indebtedness without any corresponding changes to the scope of services rendered, as well as amendment timing issues.
4. Overall, we found issues with accuracy, proper approval and/or adequate support for payment requests submitted by the vendor on 29 of the 57 payments tested (50.87%).

AUDIT OBJECTIVE #1

To determine what the City should have received for the \$400,000 in Council district bond funds that were appropriated for four capital projects, versus what the City actually received.

Finding 1 – 1 *Council District Bond Funds Diverted to Unauthorized Use*

As part of our testing, we reviewed a request that was made by a district Council Member to appropriate \$400,000 from the Council Member’s district bond accounts to pay for four different capital projects (\$100,000 for each project). The Council Member submitted four separate forms for the following projects:

- Community Rehabilitation Center – Building Renovations
- Vacant Medical Building – Renovation Project (Scott Park)
- Forestview Community Center – Building Expansion Project
- Concrete Bleachers for Bob Hayes Sports Complex

The request forms were signed by the Council Member on May 18, 2011 and all of the forms indicated that each project was either a major renovation or for capital equipment. The City’s former Chief Administrative Officer signed the forms on May 27, 2011, indicating approval by the Mayor’s Office. The Housing & Neighborhoods Department was designated on the form to oversee the projects by the former Chief Administrative Officer.

Despite the Council Member’s approved request, a memo was found dated June 3, 2011 (seven days after the Council Member’s request form was approved) from the former Director of Housing & Neighborhoods that was sent through the former Deputy Director of Public Works to the Procurement Division requesting a fourth amendment to the consultant services contract. The memo did not copy or appear to notify the Council Member of this request. The proposed amendment increased the maximum indebtedness of the contract by \$400,000 and exercised the third and final renewal option. The memo also specified that the \$400,000 in additional funds would be provided by the Council Member’s discretionary bond account. It should be noted that of the \$400,000 that was added to the contract, \$317,873.28 was actually spent, while \$75,718.44 was returned to the Council district bond account, and \$6,408.28 remained in one of the accounts that the consultant services were paid out of as of March 4, 2016.

Recommendation to Finding 1 – 1

We recommend that the Administration reimburse the Council district bond account for the amount spent on the consultant services contract, which totaled \$317,873.28. We also recommend that the Administration reach out to the Council Member and both sides work together to determine the best course of action in regards to completing the Council Member’s projects.

Auditee Response to Finding 1 – 1

Agree Disagree Partially Agree

Legislative action has been initiated to return the \$317,873.28 to a District 10 Capital Outlay Discretionary Account. In addition, the Administration will reach out to the district Council Member to determine the best course of action to completing the project(s). It should be noted however, it appears that funding is insufficient to complete the requested scope of work for all projects, and one of the projects appears to be private property that is ineligible for City funding.

Finding 1 – 2 *Council District Capital Projects Not Completed*

We reviewed the status of each of the four capital projects that the Council Member had originally requested be funded with Council district bond funds. As of March 4, 2016, the status of each project was as follows:

- Community Rehabilitation Center – Building Renovations – The consultant applied for a Northwest Jacksonville Economic Development Fund project loan, but the application was rejected. It does not appear that any other work has been done.
- Vacant Medical Building – Renovation Project (Scott Park) – Legislation was approved funding appraisals, surveys and assessments of a property adjacent to Scott Park. Legislation was also approved to purchase the adjacent property. The property was purchased by the City in 2012. A blighted building on Duval County School Board-owned property at Scott Park was demolished. However, it does not appear that any other work has been done.
- Forestview Community Center – Building Expansion Project – City Public Works completed various plans and a cost estimate for this project, but it does not appear that any other work has been done.
- Concrete Bleachers for Bob Hayes Sports Complex – A master plan was referenced in the consultant’s monthly status reports, but we were unable to locate one. It does not appear that any other work has been done.

As noted above, all four projects remained incomplete nearly five years after their funding was requested by the Council Member.

Recommendation to Finding 1 – 2

We recommend that the Administration reach out to the Council Member and both sides work together to determine the best course of action in regards to completing the Council Member’s projects.

Auditee Response to Finding 1 – 2

Agree Disagree Partially Agree

The Administration will reach out to the district Council Member to determine the best course of action to completing the project(s). It should be noted however, it appears that funding is insufficient to complete the requested scope of work for all projects, and one of the projects appears to be private property that is ineligible for City funding.

AUDIT OBJECTIVE #2

To determine whether the payments made with Council district bond funds were allowable based on the source of funding.

Finding 2 – 1 *Diverted Bond Funds Used to Pay for Non-Allowable Expenditures*

Based on our review of the \$400,000 in Council district bond funds that were spent on the consultant services contract, this was not a legally allowable use of the funds:

- The source of the discretionary funds (the 2004 “autumn bond” issuance) required that the funds be spent on capital projects. However, this was not done as the funding was spent on consulting services, which were not capital in nature. Spending bond funds on non-allowable uses can jeopardize the tax-exempt status of the bonds.
- The autumn bond issuance legislation also required expenditures to have a useful life of more than five years. Because the funding was spent on consulting services and nothing else, this requirement was also not met.
- Autumn bond issuance legislation required discretionary projects to be located on municipal property in Duval County. The request form filled out by the district Council Member for the Community Rehab Center Renovation project represented that the project was located on city property. Although the request was approved by the Administration, we confirmed that the project was not located on property that was either city owned, leased by the city or subject to a joint-use agreement. A total of \$100,000 was spent on consulting services under this project.

Recommendation to Finding 2 – 1

In order to ensure that the City is compliant with all of the bond requirements, we recommend that the Administration reimburse the district Council Member’s discretionary bond account for the amount spent on the consultant services contract, which totaled \$317,873.28. The Administration should also ensure in the future that Council district bond accounts are only used to pay for allowable costs.

Auditee Response to Finding 2 – 1

Agree Disagree Partially Agree

Legislative action has been initiated to return the \$317,873.28 to a District 10 Capital Outlay Discretionary Account. In addition, the current Administration understands the allowable use of capital outlay funds.

Finding 2 – 2 *Capital Project Accounting Issues*

During our review of the expenditure activity of the Council district bond funds, we found the following issues:

- The only expenses made as of March 4, 2016 with the Council district bond funds were payments for the consultant services contract (which expired September 30, 2012). The funds were not spent on any other purpose.
- Despite all of the expenditures being payments for consultant services, each payment was accounted for under the subobject (budgetary line item) “Other Construction Costs” in the City accounting system. It appears that this was per the request of the Housing & Neighborhoods Department, based on a memo the Department sent through Public

Works. Such a practice was misleading and created the appearance that the funds were being expended on capital items.

- One of the capital project accounts set up with the Council district bond funds still had an unencumbered balance residing in it of \$6,408.28 as of March 4, 2016, although the consultant services contract expired on September 30, 2012 and the unspent balance in two of the other capital project accounts was returned to the fund of origin (Council district bond account).

Recommendation to Finding 2 – 2

The Administration should ensure in the future that Council district bond accounts are only used to pay for allowable costs. We also recommend that the Accounting Division return the remaining balance of \$6,408.28 to the account of origin (Council district bond account).

Auditee Response to Finding 2 – 2

Agree Disagree Partially Agree

The current Administration understands the allowable use of capital outlay funds. In addition, action has been concluded in returning the remaining balance of \$6,408.28 to its account of origin.

AUDIT OBJECTIVE #3

To determine if the City procured consultant services for community redevelopment with the vendor in accordance with legal requirements and that any amendments were properly requested and authorized.

Finding 3 – 1 *Sole Source Purchase Inappropriate*

We question whether awarding the consultant services purchase order as a sole source was appropriate for the following reasons:

- The using agency did not include all information required by the City Ordinance Code in its justification of the original sole source award. See Finding 3-2 below for more information.
- Shortly after the initial purchase order expired, the using agency requested a second sole source purchase order for a continuation of the affordable housing consultant services with the vendor. The Professional Service Evaluation Committee (PSEC) instead voted to withdraw the sole source request and had the services competitively procured via an RFP (Request for Proposal).
- After the RFP was issued, responses were received from six firms. The PSEC determined that all six firms were qualified to perform the affordable housing consultant services. The fact that six qualified firms responded to the RFP would indicate that there was more than one source that could satisfactorily provide the services.

Recommendation to Finding 3 – 1

We recommend that sole source purchases be made in accordance with the City Ordinance Code, and only when a vendor is the only justifiable source that can provide the product or service.

Auditee Response to Finding 3 – 1

Agree Disagree Partially Agree

Sole Source Purchase Orders shall only be used as appropriate and in accordance with established laws.

Finding 3 – 2 *Missing Information in Sole Source Justification*

Based on our detail testing, we discovered the following issues associated with the sole source award purchase order process:

- City Ordinance Code Section 126.312(a) required the using agency to provide a written justification for the sole source purchase and explain why only the proposed services would satisfactorily fulfill the needs of the using agency. While the using agency’s justification letter explains why they identified the consultant services vendor for this work, the letter does not explain why only that particular vendor could satisfactorily provide the services.
- Per Procurement’s internal policies, the using agency was required to include assertions in their justification letter that they had researched the availability of the requested services from other sources in applicable markets and had discussed and evaluated the same with Procurement and EBO (Equal Business Opportunity office). There was no mention of this in the justification letter, and we found no other evidence that this research and discussion had taken place.
- Procurement internal policies also required the justification letter to include a scope of services, cost summary, and proposal letter from the vendor detailing additional information. While the first two were attached to the letter, no proposal letter from the vendor was attached.

Recommendation to Finding 3 – 2

We recommend that sole source justifications submitted by using agencies contain all required information, and that if incomplete information is submitted, procurement and/or PSEC reject the sole source proposal.

Auditee Response to Finding 3 – 2

Agree Disagree Partially Agree

Action will be taken to ensure the Procurement Division and all applicable review/recommending committees understand this process and diligently adhere thereto.

Finding 3 – 3 *Issues with Amendments*

Based on our testing, we found the following issues related to amendments made to the consultant services purchase order and contract:

- Overall, the consultant services contract was amended four times. The funding sources used to increase the maximum indebtedness of the contract varied by amendment. By the conclusion of the contract, the maximum indebtedness (\$868,000) was more than eight times larger than the original contract (\$98,000). Despite the substantial increase, no changes to the contract's scope of services were made on any of the amendments. Specific examples include:
 - The third amendment increased the maximum indebtedness by \$180,000, using funding from the Planning & Development Department. In addition, the amendment request memo stated that the vendor would be able to increase their activities to incorporate the other department. However, no change was made to the contract's scope of services as part of the amendment.
 - The fourth amendment increased the maximum indebtedness by \$400,000, using funding from a Council district bond account. According to documentation, these funds were requested by the district Council Member to be used for capital equipment purchases and major renovations. Despite this, the request memo from the using agency stated that the scope of services would remain the same, although the contract's scope did not contemplate using funds for capital project purposes at this time. As a result, no change was made to the contract's scope of services for the fourth amendment.

If the reason for the funding increases was to expand the scope of the consultant services contract, then this practice was misleading and a violation of the contract as work was performed that was outside of the contract scope. If the reason for the funding increases was not to expand the contract's scope of services, then we question the value to the taxpayer of a contract that grew more than eightfold in less than three-and-a-half years, without any increase in the scope of services performed.

- Procurement's internal policies require that the exercise of all renewal options be requested prior to the current expiration date; however, we noted two instances where amendments were not requested by the using agency until after expiration of the purchase order and contract:
 - The first amendment to extend the term of the purchase order was not requested by the using agency until April 8, 2008, although the purchase order expired on March 1, 2008.
 - The first amendment to extend the term of the contract and increase the maximum indebtedness by \$95,000 was not requested by the using agency until December 16, 2009, even though the initial term of the contract expired on September 30, 2009. A total of \$24,121.35 was paid to the consultant services vendor between the contract expiration and the date of the extension request. Of this amount,

\$11,416.35 was paid to the vendor for services rendered while there was no valid contract in place.

Recommendation to Finding 3 – 3

We recommend that if a contract amendment request appears to change the scope of the contract, those scope changes be memorialized in the amendment to ensure that funds are legally spent. Also, we recommend that all requests for the exercise of renewal options be made by the using agency prior to expiration of the purchase order or contract, in accordance with Procurement policy.

Auditee Response to Finding 3 – 3

Agree Disagree Partially Agree

Amendments will ensure all scope modifications, additions or deletions are properly memorialized, and that contract expiration dates are monitored to ensure renewal options are adopted before contract expiration dates.

Opportunity for Improvement 3 – 1 *PSEC Subcommittee Approval Process*

Per Procurement’s internal policies and actual practice, only two of the five members of PSEC actually score RFP (Request for Proposal) responses. These two members represent the using agency and make up what is called the “PSEC Subcommittee”. It should be noted that all five PSEC members receive and review the RFP responses and the scoring offered by the subcommittee is voted on by PSEC as a whole.

After expiration of the consultant services sole source purchase order, the using agency advocated for the consultant to be awarded another sole source purchase order. This was rejected by PSEC as a whole and the services were competitively solicited via an RFP. The consultant was one of the firms that responded to the RFP.

The PSEC subcommittee scored the RFP responses, giving the highest score to the original consultant, who was ultimately awarded the contract. We question the appearance of impartiality in this instance, as the responses were exclusively scored by representatives from an agency that had previously advocated for one of the respondents to be awarded the purchase as a sole source.

Recommendation to Opportunity for Improvement 3 - 1

We recommend that Procurement consider other options for the evaluation of RFP responses of this nature. An example could include requiring all members of PSEC to score the RFP responses.

Auditee Response to Opportunity for Improvement 3 – 1

Agree Disagree Partially Agree

The current Administration will consider this recommendation, but it is unlikely we will adopt this procedure. For many years, the structure and process of the PSEC Committee has proven to be quite satisfactory and sufficient to ensure the best qualified firms are recommended for contracting with the City, as well as ensuring the grading criteria and grades are objectively scored and reviewed. The responses to proposals require subject matter experts (Subcommittee) to review same, and not all members of the PSEC Committee are subject matter experts. We will however, take action to ensuring the remaining (non-grading) PSEC Members become more diligent and thorough in evaluating the scope of work and scoring matrix as presented by the Subcommittee.

AUDIT OBJECTIVE #4

To determine whether all payments made to the vendor under the community redevelopment consultant services purchase order and contract were properly supported, approved and accurate.

We found an issue or combination of issues related to support, approval, and/or accuracy on 29 of the 57 payments (50.87%), as detailed below.

Finding 4 – 1 *Improper Purchase Issues*

During our detail testing of payments made to the vendor, we discovered that a payment totaling \$28,649.78 was made to the vendor for invoices dated October 1, 2008, November 1, 2008 and December 1, 2008, even though there was no purchasing instrument in place at the time, as the amended purchase order expired on September 30, 2008. Because of this, the payment is considered an improper purchase. We noted the following surrounding this improper purchase:

- Based on a memo dated December 17, 2008, the justification for the improper purchase per the former Deputy Chief Administrative Officer was that there were renewal clauses that were not picked up due to circumstances beyond anyone’s control. However, after our review, we determined that there were no renewal clauses attached to this purchase order, as PSEC voted to remove them at the time of the award, which was typical for a sole source award. It should be noted that at the meeting in which the renewal clauses were removed by PSEC (held on February 27, 2007), the former Deputy Chief Administrative Officer was the Director of Housing & Neighborhoods and representing the purchase order at that PSEC meeting. Per a recording of the meeting that our office obtained, the Director (as a voting member of PSEC for this purchase order) voted to remove the renewals.

Recommendation to Finding 4 – 1

We recommend that the requirements of Ordinance Code Chapter 126 be followed, which includes only making purchases when a valid purchasing instrument is in place.

Auditee Response to Finding 4 – 1

Agree Disagree Partially Agree

Adherence to the Procurement Code shall be standard operating procedure.

Finding 4 – 2 *Payments Made for Out of Scope Projects*

During our detail testing, we found that 3 of the 57 payments tested (5.26%) included compensation for work performed on projects that were outside of the project scope. The three payments that included out of scope services totaled \$61,334.90. We cannot determine how much of this amount was an overpayment for costs that were outside the scope of the contract based on the fact that the hours of work were not broken out by project in the payment support.

Invoice support for all three payments indicated that work was performed on a project called the “Brooklyn Retail Center Project”. Two of these payments also indicated work was performed on a project called “Water/Sewer Extension”. The portion of the invoice associated with these two projects was disallowed by the City in the following month’s payment. Per supporting documentation, the payments were disallowed because these projects were “not defined projects within the scope of this award and contract.” Although the projects were disallowed, they had been paid for in previous invoices, and we could find no evidence indicating that the payments were recouped by the City.

Recommendation to Finding 4 – 2

We recommend that no payments be made for services outside of the scope of the contract. The City should also determine the amount that was paid to the vendor for the out of scope services and request that the amount be returned by the vendor.

Auditee Response to Finding 4 – 2

Agree Disagree Partially Agree

The Administration will attempt to seek recovery of funds expended for out of scope work. However, as outlined in the audit report, it may be difficult to determine exactly how much work was out of scope due to the conditions of invoices received, and in some cases the lack of details included therein. Every effort will be made to recover fees as applicable.

Finding 4 – 3 *Recalculated Payments Do Not Agree to Actual Payments Made*

As part of our detail testing, we recalculated all payments based on the terms of the applicable purchase order/contract and compared the recalculations to the amounts that were actually paid.

- We found that 20 of the 57 payments tested (35.09%) were not accurately paid in accordance with the terms of the purchase order/contract. These were due to two main reasons: 1) mathematical billing errors on the invoices submitted by the vendor and 2) invoices that included charges for items that were not permitted in the fee exhibits attached to the purchase order and contract.

The mathematical errors occurred in 18 of the 57 payments tested (31.58%) and were primarily due to the vendor calculating overhead charges at a smaller percentage (75%, in one case 50%) than the rate called for in the fee exhibits (85%). In one case, profit was charged at a lower percentage as well (should have been charged at 10%). These errors resulted in the City underpaying the vendor by a total of \$9,031.55.

In 2 of the 57 payments tested (3.51%), invoices included charges for items that were not in the fee exhibits. One involved time charged by a vendor employee at an hourly rate (\$17.50) that was not contemplated in the fee exhibits (\$110 and \$60 per hour were the only options). The second item was an invoice that included \$5,600 in “billable expenses”, which was also not contemplated in the fee exhibits, nor was there any support found that indicated what these expenses were. These items resulted in City overpayments to the vendor of \$5,689.04.

When the twenty payments were netted, the City underpaid the vendor by a total of \$3,342.51 overall.

- The timeframe of these under/overpayments occurred between April 2007 – March 2010. It appears that these errors and ineligible charges could have been avoided if there had been appropriate review on the part of the purchase order/contract administrator. A simple recalculation of the invoice amounts would have detected the mathematical errors. The ineligible charges were clearly listed on the invoices, and would have easily been caught by someone who had an understanding of the fee exhibit attached to the purchase order and contract.

Recommendation to Finding 4 – 3

We recommend that contract administrators thoroughly review all vendor billings for mathematical accuracy and compliance with the scope of services/fee summary, and if any errors are detected, they should be corrected by the vendor with an amended invoice before payment is authorized.

Auditee Response to Finding 4 – 3

Agree Disagree Partially Agree

This recommended process is typically standard operating procedure, but actions will be taken to ensure a complete and comprehensive understanding of the requirements.

Finding 4 – 4 *Payment Supporting Documentation Issues*

As part of our detail testing of payments made to the vendor, we noted the following issues with supporting documentation:

- For 4 of the 57 payments tested (7.02%), no supporting documentation other than the invoice could be found. These payments totaled \$42,368.88. The invoices only provided a summary of the total hours worked by each consultant and did not specify what type of service had actually been provided by the consultant (i.e. description of the redevelopment project, meetings held, status of any legislation, etc.).
- For 13 of the 57 payments tested (22.81%), both the invoice and supporting documentation were found, but there were issues regarding the sufficiency of the supporting documentation. These issues included support in which hours did not agree to the invoice, hours that were not broken down by consultant in the support, support that was nearly identical to the previous month, as well as support that was missing referenced attachments. Some support had a combination of these issues. The payments that had these issues totaled \$227,803.69.

Despite these issues, the City paid the exact amount billed in all but two instances, indicating a lack of adequate administrative review. While no administrator was specifically listed on the purchase order, the contract administrator was designated as the former Director of Housing & Neighborhoods.

Recommendation to Finding 4 – 4

We recommend that no payments to vendors be made until adequate billing support has been received from the vendor and sufficiently reviewed and approved by the contract administrator. We also recommend that the City develop a checklist for minimum contract administration standards that should be adopted City-wide.

Auditee Response to Finding 4 – 4

Agree Disagree Partially Agree

Agree with the recommendation.

Finding 4 – 5 *Payment Approval Issues*

As part of our detail testing of payments made to the vendor, we noted the following in regards to the approval of vendor payments:

- For 2 of the 57 payments tested (3.51%), the payment was approved by an individual other than the designated contract administrator or other appropriate individual. Specifically, in one instance a purchase order payment was approved by an Administrative Assistant Senior. In the other instance, a contract payment was approved by the Department’s Finance Chief, although the consultant services contract listed the Department Director as the contract administrator. These payments totaled \$27,639.43.

- For 1 of the 57 payments tested (1.75%), no supporting documentation could be located that indicated approval of the payment by the administering Department. This payment totaled \$533.50.

Recommendation to Finding 4 – 5

We recommend that all vendor payment requests be reviewed and approved in writing by the designated contract administrator prior to payment being made. We also recommend that the City develop a checklist for minimum contract administration standards that should be adopted City-wide.

Auditee Response to Finding 4 – 5

Agree Disagree Partially Agree

Agree with the recommendation.

We appreciate the assistance and cooperation we received from the Procurement Division as well as the Housing and Community Development Division throughout the course of this audit.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor

Audit Performed By:

Kim Taylor, CPA
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Council Auditor's Office
Affordable Housing Consultant Services Audit
Summary of Purchase Order, Contract & Amendments
Exhibit A

<u>Purchase Order</u>	<u>Date</u>	<u>Chronology of Events</u>	<u>Amount</u>	<u>Total Cumulative Authorization</u>	<u>Initiated by</u>
PO 077607	3/14/2007	Affordable housing development technical assistance and consultant services for term of March 1, 2007 - March 1, 2008.	\$ 85,000	\$ 85,000	Director of Housing & Neighborhoods ⁱ
Amendment #1	5/7/2008	Ratify period of service from March 1, 2008 - April 15, 2008. Extend purchase order to September 30, 2008.	\$ -	\$ 85,000	Director of Housing & Neighborhoods ⁱⁱ
<u>Contract</u>	<u>Date</u>	<u>Chronology of Events</u>	<u>Amount</u>	<u>Total Cumulative Authorization</u>	<u>Initiated by</u>
Contract	4/7/2009	Consultant services and technical assistance regarding affordable housing development for term of April 7, 2009 - September 30, 2009.	\$ 98,000	\$ 183,000	Director of Housing & Neighborhoods ⁱⁱ
Amendment #1	12/17/2009	Ratify period of service from September 30, 2009 - December 17, 2009 and exercise first one-year renewal option to extend agreement to September 30, 2010.	\$ 95,000	\$ 278,000	Director of Housing & Neighborhoods ⁱⁱ
Amendment #2	9/3/2010	Exercise second one-year renewal option to extend agreement to September 30, 2011.	\$ 25,000	\$ 303,000	Director of Housing & Neighborhoods ⁱⁱ
Amendment #3	10/20/2010	No reason listed in amendment. Per request memo from the Housing & Neighborhoods Department, the vendor would be able to increase their activities of the original scope to incorporate the Planning & Development Department. The funds would come from the Planning & Development Department.	\$ 180,000	\$ 483,000	Director of Housing & Neighborhoods ⁱⁱ through the Director of Planning & Development
Amendment #4	7/1/2011	Exercise the third and final one-year renewal option to extend the agreement until September 30, 2012. Per request memo from the Housing & Neighborhoods Department through Public Works, the additional funds were provided by Council District Discretionary Bond Accounts for four projects. The four projects were each funded at \$100,000 and are listed below: 1. Community Rehabilitation Center Building Renovations 2. Scott Park - Vacant Medical Building Renovation 3. Forestview Community Center - Building Expansion 4. Bob Hayes Sports Complex - Concrete Bleachers The remaining \$70,000 was an unencumbered amount that was not for the Council district projects.	\$ 470,000	\$ 953,000	Director of Housing & Neighborhoods ⁱⁱ through the Deputy Director of Public Works

Grand Total Authorized Per Purchase Order & Contract Combined **\$ 953,000**

ⁱ = This individual served as the Director of Housing & Neighborhoods from March 27, 2006 - September 30, 2007. After serving in other positions, her City employment ended on September 3, 2011, and she was hired that same month by the consultant services vendor as a senior vice president.

ⁱⁱ = This individual served as the Director of Housing & Neighborhoods from December 8, 2007 - October 11, 2011, when her City employment ended. That same month, the employee became self-employed as a redevelopment consultant. One of her clients was the consultant services vendor.

Status of Four Council District Projects (as of March 4, 2016):

Community Rehabilitation Center – Building Renovations – The consultant applied for a Northwest Jacksonville Economic Development Fund project loan, but the application was rejected. It does not appear that any other work has been done.

Vacant Medical Building – Renovation Project (Scott Park) – Legislation was approved funding appraisals, surveys and assessments of a property adjacent to Scott Park. Legislation was also approved to purchase the adjacent property. The property was purchased by the City in 2012. A blighted building on Duval County School Board-owned property at Scott Park was demolished. However, it does not appear that any other work has been done.

Forestview Community Center – Building Expansion Project – City Public Works completed various plans and a cost estimate for this project, but it does not appear that any other work has been done.

Concrete Bleachers for Bob Hayes Sports Complex – A master plan was referenced in the vendor’s monthly status reports, but we were unable to locate one. It does not appear that any other work has been done.