

Chicago Housing Authority
Office of the Inspector General



AUDIT OF PUBLIC HOUSING CAPITAL CONSTRUCTION CHANGE ORDERS AND SUPPLEMENTAL CONTRACTS

January 1, 2022, through December 31, 2023



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Definitions

Amendment – A written modification or clarification to a solicitation.

Change Order (CO) – A unilateral contract modification that authorizes a deviation from building according to plans and specifications or a request to alter the number of units of an item or any increase in the level of effort and is within the Scope of Work.[1]

Job Order Contracting (JOC) – The delivery of construction services through a competitive indefinite delivery, indefinite quantity Job Order Contracting program in which contractors are assigned an indefinite quantity of Task Orders but are only guaranteed a minimum amount of work, subject to the availability of funding.[2]

Purchase Order – For small purchases, the duly authorized Purchase Order is the written instrument that forms the contractual basis for the ordering of goods and services between the CHA and its vendors. For purchases that exceed the simplified acquisition threshold, the duly authorized Purchase Order is the written instrument that identifies a duly authorized contract and that is executed to process payments to the vendor.

Project – The collective improvements to be constructed by the Contractor pursuant to a Task Order or a series of related Task Orders.

Scope of Work – The short concise statement the CHA publishes within its formal solicitations that establishes the parameters of what work is being requested.

Supplemental – In interviews, CHA management has described a Supplemental as a Task Order or Purchase Order issued for work at a CHA property where a construction contractor has recently been awarded a Task Order or Purchase Order for work that does not encompass the work in the Supplemental. The Supplemental may or may not be assigned to the same contractor working on the prior PO.

Task Order – Means the order issued by the CHA that sets forth the description of a Project, scope of work, time frame for performance and fixed fee for GC's Services to be performed in accordance with the terms and conditions of the Contract Documents.[3]

Task Order Competitive Contracting (TOCC) – (also known as "IDIQ") – The delivery of general construction services through a competitive indefinite delivery, indefinite quantity task order program in which contractors are afforded opportunities to compete for Task Orders but are only guaranteed a minimum value of work.

Time and Materials Contract – A cost reimbursement contract wherein the CHA pays the contractors cost of materials as a straight reimbursement and labor is paid on a fixed rate.

Vendor – A firm or company that is currently, or might in the near future, provide CHA with any goods and/or services.

[1] Sample CHA Task Order Competitive Contracting Master Agreement dated July 2019.

[2] CHA Procurement Procedures Manual Revised 8/8/19.

[3] Job Order Contracting Standard Agreement between CHA and General Contractors, October 2020 – September 2022, (Article I. 1.2)

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Acronyms

CHA:	Chicago Housing Authority
DPC:	Department of Procurement and Contracts
HUD:	United States Department of Housing and Urban Development
GC:	General Contractor
JOC:	Job Order Construction
JSM:	Joint Scope Meeting
OIG:	Office of the Inspector General
PAM:	Property and Asset Management Division
PM:	Project Manager
PPM:	Private Property Management
PQP:	Pre-Qualified Pool

Note: On February 19, 2025, the OIG issued a revised report with corrections to Finding E and Appendix A.

Executive Summary

Summary Findings

The Chicago Housing Authority (CHA) Office of the Inspector General (OIG) conducted an audit of the CHA Building Operations Capital Construction Change Orders and “Supplemental” Contract Process. This audit was initiated in response to a complaint received in June 2023 regarding CHA’s Section 3 pre-qualified vendor pool and CHA capital construction management practices.

The OIG identified 54 capital construction projects, with either a change order or supplemental contract, completed during the two-year scope period. Of those, 28 properties--representing 85 unique projects with a total value of \$6,404,410--were randomly selected for testing.

The OIG identified several critical deficiencies in the CHA’s management of construction activities. As a result, CHA was billed for work not completed, and contractors were awarded contracts that exceeded their capacities and assigned tiers. The following findings highlight the mismanagement of CHA Building Operations construction activities.

I. CHA Failed to Monitor Capital Construction Projects

- 1 CHA Project Managers approved contractor labor hours that were unreasonable and excessive.
2. Contractors submitted duplicate charges for work listed under both the original Task Order and the Supplemental Task Order.
3. CHA PMs signed off on contractor invoices for unnecessary work and tasks that were not completed.
4. CHA unit costs in e-Builder were excessive, not reflective of Chicago market rates, and had no minimum specifications for quality.
5. Vendors were awarded contracts that exceeded the value allowed by their assigned JOC tiers in their master contract.
6. Vendors were awarded multiple smaller value contracts to circumvent the tier limits of the JOC Program.

II. Use of Supplemental Contracts Violated CHA’s Procurement Policies

7. The Supplemental contract process did not comply with CHA’s Procurement Manual.
8. Building Operations lacked formal policies and procedures for managing change orders and supplemental contracts.

Summary Recommendations

The OIG recommends that CHA take the following actions:

1. Building Operations Project Managers (PMs) should thoroughly review contractors' detailed proposals for reasonableness.
2. Before approving contracts, CHA Building Operations should conduct Joint Scope Meetings (JSMs) to confirm that the proposed tasks are necessary.
3. PMs should ensure contractors' labor hours submitted for each task are appropriate and justified.
4. Before approving any invoices, Building Operations should ensure that all charges are thoroughly vetted for duplicates before payment.
5. CHA should review and adjust the unit costs listed in e-Builder to better reflect current Chicago market prices and include minimum specifications.
6. CHA should strictly adhere to the requirements of its existing contracts, including the tier limits for certain vendors.
7. CHA should implement independent quality control reviews of projects awarded through the Building Operations department to ensure program compliance and integrity.
8. CHA Building Operations should adhere to the requirements outlined in CHA's Procurement Manual and contractual agreements when procuring construction services.
9. Develop Standard Operating Procedures for Change Orders and construction management aligned with CHA's governing documents.

Authority and Role

The authority to perform this audit is pursuant to the CHA Board of Commissioners approved *Inspector General Charter*, which states that the OIG has the authority and duty to review CHA programs. The OIG is tasked with identifying any inefficiencies, waste, and potential for misconduct therein; and recommending policies and methods for the elimination of inefficiencies and waste, as well as for the prevention of misconduct. Accordingly, the OIG conducts independent audits of CHA operations and programs and makes recommendations for improvement when appropriate.

Standards

The OIG conducted this performance audit in accordance with generally accepted government auditing standards. See the U.S. Government Accountability Office, Comptroller General of the U.S. (2018), *Government Auditing Standards (The Yellow Book)*, Washington, DC. 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.

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.

Audit Objectives

1. Review Building Operations practices for compliance with HUD regulations, CHA’s Procurement Manual, and Building Operations Policies and Procedures with respect to capital construction projects, including change orders (COs) and Supplementals.
2. Evaluate the risk environment and controls to mitigate fraud, waste, and abuse.

Scope

The audit reviewed all capital construction contracts closed from January 1, 2022, through December 31, 2023, with either a CO or Supplemental. This included only task orders awarded under the CHA’s JOC Program during the scope period.

Sample Selection

For this Audit the OIG used a statistical sampling method. The OIG analyzed the “Section 3 PPsal Report” from the CHA’s e-Builder system for projects completed during the scope period. In total, there were 617 finished projects totaling \$38,473,175.47. From these, the OIG identified projects with the same addresses.

There were 54 CHA properties where more than one project was completed, totaling \$10,369,573.60 in work. The 54 were indexed, and using the Excel Random Number Function, 28 properties were randomly selected, representing 52% of the identified 54 sites. Collectively, these 28 sites included 85 unique project numbers with a total value of \$6,404,409.65, accounting for 62% of the overall population.

TOCC (IDIQ) Construction change orders population predated this audit scope period. Therefore, we did not test any change orders from TOCC program.

Methodology

The OIG performed this audit by conducting interviews, reviewing documentation, analyzing relevant CHA data, fieldwork inspections, and testing. Testing and analysis were performed on a sample of 28 properties. OIG audit staff interviewed employees in the CHA Building Operations department responsible for capital construction projects management. Audit staff requested and reviewed contractor receipts for materials and supplies.

The OIG provided Building Operations senior management a draft report with observations and allowed management time to provide written responses. CHA management submitted written responses, which are attached to this report. The OIG presents the final report to the Board of Commissioners Finance and Audit Committee.

Interviews were conducted with key personnel from CHA Building Operations, the Department of Procurement and Contracts, and CHA Investment Committee Members. The OIG reviewed the following relevant documents:

- Job Order Contracting Standard Agreement between CHA and General Contractors, October 2020 – September 2022
- HUD General Conditions for Construction Contracts – Public Housing Programs
- HUD General Contract Conditions for Small Construction/Development Contracts
- Local Government (50 ILCS 525/) Public Works Contract Change Order Act
- CHA Procurement Procedures Manual Revised 8/8/2019
- HUD Handbook No. 7460.8 Rev 2, Chap. 11. Contract Administration
- HUD Buying Right CDBG-DR and Procurement
- CHA Investment Committee Charter
- Contractor records, including project receipts for materials and supplies

Methodology (cont'd)

Testing and analysis involved review of construction projects with identical addresses to determine whether:

- Supplemental projects complied with established policy and procedures.
- Construction contractors were assigned projects according to their tier category.
- Duplicate tasks and/or items were included in the approved proposals.
- The hours required to complete identical tasks are relatively consistent.
- The task was completed as specified in the approved proposals.

The OIG believes 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.

The OIG omitted all contractor names and addresses of public housing units for privacy reasons.

Background

Building on previous CHA OIG audit observations, and as part of the 2024 CHA OIG Audit Plan, the OIG initiated a performance audit of the CHA Building Operations Department Capital Construction Change Orders and Supplemental Contracts Process. The projects reviewed involved public housing unit renovations and “unit turns,” which are intended to ready a unit for new occupancy. This work was procured and managed by the Building Operations department. In contrast, smaller, make-ready unit projects are procured directly by the PPM as part of their budgets

During the audit Building Operations staff reported that for capital construction projects managed by the Building Operations department, CHA had moved to a new procurement methodology to minimize the need for change orders. As explained by Building Operations management, because the CHA’s contracts establishing the JOC program and subsequent Pre-Qualified Pool of general contractors rely on fixed, line-item pricing, no COs are required when additional work is needed. Instead, Building Operations will issue a Supplemental for discovered conditions or unanticipated work at a particular site. The Supplemental may be issued to the same contractor already working at the site or it may be awarded to another contractor in the pool. There is no need to negotiate pricing given the fixed unit costs established in the CHA master contract.

Findings and Recommendations

I. CHA Building Operations Failed to Monitor Capital Construction Projects

A. Unreasonable and Excessive Labor Hours

The Audit revealed that contractors charged the CHA for unreasonable and excessive labor hours, which were subsequently approved by CHA Project Managers for payment.

The CHA Procurement Manual, Article 6 (cost estimates, price analysis and cost analysis) states: “A cost analysis is a review and evaluation of all of the elements of cost and price that make up a contractor’s proposal.”

Furthermore, the manual states that even if the proposed cost from a contractor is allowable, it must be reasonable as defined by HUD: (Reasonableness from HUD Handbook 7460.8 REV-1:)

a) “Even if otherwise allowable and allocable, a proposed cost from vendors must be reasonable. The standard for reasonableness that the Contracting Officer shall apply will be that of an ordinary prudent person in the conduct of competitive business in that industry.”

The OIG identified instances of approved costs that were unreasonable and excessive. As illustrated in Table 1 below, a contractor charged one hour (\$108.40 labor hour) to remove a single doorstop, resulting in a total of \$1,084 for removing 10 doorstops in one unit.

A contractor charged 30 labor hours (\$3,658.20) to install a 40 gallon hot water tank, after charging 2 hours (\$241.98) for removing the old tank.

Other examples include contractors that charged one hour (\$108.40) to remove a single toilet paper holder and one hour (\$123.55) to install a new one. Another contractor charged \$21 per square foot of floor tile installation (meaning every time the contractor placed a single tile, they charged \$21 for labor).

CHA Contract 12538, Article II, Section 2.3, Paragraph G. (Contract Administration) states: “CHA shall review Contractor’s Task Order Proposal and evaluate the appropriateness of Contractor’s approach and work plan, identified tasks and quantities proposed, and overall cost in comparison with CHA’s independent cost estimate.”

In awarding such contracts, CHA must exercise a high level of oversight to ensure that contractors employ efficient methods and maintain effective cost controls.

Table 1: Sample of Unreasonable Labor Charges by Contractors

Table 1: Sample of Unreasonable Hours Charged by Contractors							
Project #	Item #	Description	Qty	UoM	Unit Cost	Actuals Approved	Item #
684341 Unit G	041	Misc. Demo -Remove Doorstop labor	10	HR	\$108.40	\$1,084.00	10
	058	Misc. Demo -Remove Toilet Paper Holder labor	1	HR	\$108.40	\$108.40	2
	974	Plumbing/Kitchen/Baths - Furnish and Install Hot Water Tank labor	8	HR	\$121.94	\$975.52	1
	986	Plumbing/Kitchen/Baths - Remove Hot Water Tank labor	8	HR	\$120.99	\$967.92	1
	1002	Plumbing/Kitchen/Baths - Furnish & Install Faucet for Sink - Bathroom labor	8	HR	\$121.94	\$975.52	2
684617 Unit B	1570	Site Development - Grass Trimming labor	24	HR	\$116.60	\$2,798.40	
	099	Misc. Demo -Remove Wood Stair Tread labor	24	HR	\$108.40	\$2,601.60	
	100	Misc. Demo -Remove Wood Stair Riser labor	24	HR	\$108.40	\$2,601.60	
684906 Unit C Phase III	862	Specialties - Install Towel Bar labor	4	HR	\$123.55	\$494.20	3
	1223	HVAC - Install Thermostat labor	2	HR	\$122.68	\$245.36	1
	1504	Low Voltage - Furnish & Install Combo Smoke & Carbon (Hard wired) labor	6	HR	\$119.97	\$719.82	5
684867 Unit C Phase II	623	Finishes - Ceramic Tile Flooring labor	14	HR	\$102.67	\$1,437.38	\$20.53 /sf
	1036	Plumbing/Kitchen/Baths - Install Drain Covers or Caps labor	2	HR	\$121.94	\$243.88	2
684873 Unit E	558	Doors Frames & Hardware - Residential Passage Lockset With Levers labor	4	HR	\$123.55	\$494.20	1
684883	1506	Low Voltage - Furnish & Install Combo Smoke & Carbon (Battery) labor	5	HR	\$119.97	\$599.85	5
Unit 39	629	Finishes - Furnish & Install Ceramic Wall Tile labor	16	HR	\$102.67	\$1,642.72	\$21.33 S/f
684571	1311	"Electrical - Furnish & Install LED Light Round Fixture - 7.5" Dia. labor"	5	HR	\$119.97	\$599.85	5
684476 Unit A	974	Plumbing/Kitchen/Baths - Furnish and Install Hot Water Tank labor	30.00	HR	\$121.94	\$3,658.20	1
	684822	974	Plumbing/Kitchen/Baths - Furnish and Install Hot Water Tank labor	6.50	HR	\$121.94	
684911 Callner Office Unit 104	1016	Plumbing/Kitchen/Baths - Furnish & Install Sinks & Faucet labor	8.00	HR	\$121.94	\$975.52	1.0
685015	860	Specialties - Install Toilet Paper Holder labor	1.00	HR	\$123.55	\$123.55	1.0
684867 Unit C.	1600	Site Development - Bug and Rodent Control labor	8	HR	\$132.43	\$1,059.44	
684906	862	Specialties - Install Towel Bar labor	4	HR	\$123.55	\$494.20	3.0

Risk

- Waste of Resources
- Inefficient management of the program

Recommendations

1. Building Operations PMs should review the detailed proposals submitted by contractors for reasonableness.
2. Throughout the process, PMs must confirm that the labor hours reported for all tasks are appropriate and justified.
3. Establish regular quality control reviews of contractor invoices and PM approvals.

B. Duplicate Charges

The audit revealed multiple instances of duplicate charges for tasks listed on both an initial project and a supplemental project. For example, in two separate projects, related to the demolition and renovation of the same 3-bedroom, 1-bath unit, there were duplicate charges of \$4,393 for debris removal to a truck or dumpster, as well as repeated labor charges of \$1,951 for installing a hot water tank.

In other instances, the same tasks were split between two contractors. For example: at another unit, two contractors charged for the same tasks.

Contractor 1		Contractor 2	
HVAC - Remove Furnace labor	\$490.72	HVAC - Remove Furnace labor	\$306.70
Plumbing/Kitchen/Baths - Furnish and Install Hot Water Tank labor	\$3,658.20	Plumbing/Kitchen/Baths - Furnish and Install Hot Water Tank labor	\$792.60
Plumbing/Kitchen/Baths - Remove Hot Water Tank labor	\$241.98	Plumbing/Kitchen/Baths - Remove Hot Water Tank labor	\$120.99

When the same task is assigned to two different contractors, it raises the question of accountability, particularly for determining which contractor is responsible for addressing any deficiencies that are identified after the work has been completed.

Additionally, CHA did not adhere to the JOC contract, section 2.3, which required a “Joint Scope Meeting (JSM) with the contractor to jointly scope the work with the CHA and /or a CHA designee....” Following the JSM, the CHA was required to prepare a Detailed Scope of Work and request that the Contractor submit a Task Order Proposal. Had a JSM been conducted for each project, duplicate tasks would not have been included in the proposals. **Table 2: Sample Duplicate Charges Approved by CHA**

Table 2: Sample of Duplicate Charges by Contractors						
Project #	Item #	Description	Qty	UoM	Unit Cost	Approved
<u>Contractor A - Unit A</u>						
684209	016	General Requirements - Collect Debris Load onto Truck Or Dumpster labor	8	CY	\$274.58	\$2,196.64
684353	016	General Requirements - Collect Debris Load onto Truck Or Dumpster labor	8	CY	\$274.58	\$2,196.64
684209	974	Plumbing/Kitchen/Baths - Furnish and Install Hot Water Tank labor	8	EA	\$121.94	\$975.52
684742	974	Plumbing/Kitchen/Baths - Furnish and Install Hot Water Tank labor	8	EA	\$121.94	\$975.52
<u>Contractor B - Unit B</u>						
684704	672	Finishes-Furnish Drywall Tape & Mud Joints (3 coats) Tape & Mud	5000	SF	\$0.83	\$4,150.00
684704	673	Finishes-Furnish Drywall Tape & Mud Joints (3 coats) Tape & Mud Labor	36	HR	\$123.55	\$4,447.80
685256	672	Finishes-Furnish & Install Drywall Tape & Mud Joints (3 coats) Tape & Mud	110	SF	\$0.83	\$91.30
685256	673	Finishes-Furnish & Install Drywall Tape & Mud Joints (3 coats) Tape & Mud labor	24	SF	\$123.55	\$2,965.20
<u>Contractor C - Unit C</u>						
684876	117	Concrete - Remove Concrete labor	96	SF	\$155.74	\$14,951.04
685012	117	Concrete - Remove Concrete labor	75	SF	\$155.74	\$11,680.50
<u>Contractor C – Unit D</u>						
684475	1312	"Electrical - Furnish & Install LED Light Round Fixture - 17" Dia."	14	EA	\$73.20	\$1,024.80
684371	1312	"Electrical - Furnish & Install LED Light Round Fixture - 17" Dia."	14	EA	\$73.20	\$1,024.80
<u>Contractor D – Unit E</u>						
684564	1203	HVAC - Remove Furnace labor	2	EA	\$122.68	\$245.36
684301	1203	HVAC - Remove Furnace labor	3	EA	\$122.68	\$368.04
684564	986	Plumbing/Kitchen/Baths - Remove Hot Water Tank labor	2	EA	\$120.99	\$241.98
684301	986	Plumbing/Kitchen/Baths - Remove Hot Water Tank labor	2	EA	\$120.99	\$241.98

Risk

- Waste of Resources
- Inefficient management of the program

Recommendations

1. Before approving any contracts, Building Operations should conduct a JSM to ensure that proposed tasks are necessary.
2. Before approving any invoices, Building Operations should ensure that all charges are thoroughly vetted for duplicates before payment.

C. Questionable Charges

The OIG identified multiple instances of questionable charges on contractor's invoices, which CHA paid in full. Below are some notable examples uncovered during the audit fieldwork.

The CHA JOC Program Contract, Article II, Section 2.3, Paragraph G. (Contract Administration), states: "CHA shall review Contractor's Task Order Proposal and evaluate the appropriateness of Contractor's approach and work plan, identified tasks and quantities proposed, and overall cost in comparison with CHA's independent cost estimate."

1. At a CHA laundry room renovation, project 685059:
 - CHA paid \$40,781 for 26 new washers and dryers; however, only 24 were installed for a total cost of \$35,900.
 - CHA's fixed price allowed the contractor to charge \$2,090.45, for two "Service Parts - Washer & Dryer" despite having paid \$1,239.66 for them.
 - Eleven utility slop sinks were furnished and installed, but CHA was billed for 41 sinks and associated labor.
 - The contractor invoiced \$1,900.50 for furnishing and installing window blinds in laundry rooms that do not have windows.
 - A charge of \$16,604 was submitted to CHA for installation of 1,300 linear feet (LF) of wood base with shoe, while only 496.6 LF was actually installed.

The CHA JOC Program Contract, Article II, Section 2.3, Paragraph C. (Contract Administration), states: "CHA will schedule a Joint Scope Meeting (JSM) with the contractor to jointly scope the work with the CHA and /or a CHA designee. At the joint Scope Meeting, CHA and the Contractor will discuss such details as the scope of work for the Project, site access, working hours, The CHA and/or a CHA designee will prepare a Detailed Scope of Work and request that the Contractor submit a Task Order Proposal."

Questionable Charges (cont'd)

Had CHA adhered to the aforementioned contract provision, questionable charges for items like window blinds in rooms that lack windows, could have been identified and excluded.

2. At a scattered site renovation, projects #474, and #685008, for roof replacement and exterior repairs:
 - o The contractor was paid \$31,035 for installation of new iron fence, gates and locks that were never installed. See photos below taken by auditors on August 21, 2024.



Visible rust on "new" chimney vents.

Questionable Charges (cont'd)

3. At a single unit renovation, project #684526:
 - o The contractor charged for furnishing and installation of 10 screen doors, 20 door kickplates, 10 entrance door mortise locksets, and 6 one-way door viewers. However, only 2 locksets were installed; none of the other items were installed. Additionally, concrete work for project #684617 was improperly charged to this project. The total cost for these non-existent items and work amounted to over \$9,62.21 in materials and labor.

The CHA Building Operations standard operating procedure (SOP) Section 4.C. Conducting Joint Scope Meeting (Team Lead: Project Lead) states:

“C. Measurements and photos should be taken by the GC. The GC is responsible for the accuracy of all measurements and cabinet layouts. It is the responsibility of the GC to rectify any errors. The Project Lead should verify measurements and counts to have an accurate count of items to be repaired or replaced.”

Section 12 of the SOP, titled “Construction Ends (Team Lead: Project Lead),” specifies that the Project Lead is responsible for scheduling a final walk-through with the GC, PPM, and Portfolio Manager. The SOP also states that PPM, Portfolio Manager, Project Lead and Contractor must all sign off on project sign-off sheet.

Additionally, as detailed above, the OIG observed instances where the renovation of the one unit, was assigned to two contractors. Contractor #1 was responsible for demolition to the stud and mold remediation, while Contractor #2 was assigned unit renovation, however:

1. Both contractors invoiced CHA for the removal of the furnace from the unit.
2. Both contractors invoiced CHA for the removal of the hot water tank from the unit.
3. Both companies charged CHA for the labor to “furnish and install” hot water tank.
4. Both contractors were paid for these tasks.

Had CHA Building Operations adhered to contract requirements and to its SOP, these instances could have been avoided.

Risk

- Waste of Resources
- Potential fraud
- Inefficient management of the program

Recommendations

1. CHA Building Operations should adhere to the quality control and construction management terms of its construction contracts including:
 - Review all contractors' task order proposal costs in comparison with CHA's independent cost estimates
 - Review all contractors' detailed proposals for reasonableness
 - Review all contractor invoices, confirm work is completed, and when in doubt require proof or receipts

D. Unreasonable CHA Fixed Unit Costs with No Minimum Specifications

CHA unit costs in e-Builder were found to be excessive, unreasonable, and not reflective of the current Chicago market rates. The OIG assessed the reasonableness of cost proposals in task orders. We observed that the unit cost of certain items appeared disproportionate.

To verify, OIG contacted suppliers directly and/or reviewed their prices online. For example, CHA set the unit price for a 30-yard dumpster at \$2,000 and a 20-yard dumpster at \$1,500. Quotes obtained from two major dumpster companies provided monthly estimates ranging from \$796 and \$660 for a 30-yards, and \$625 for a 20-yard dumpster. The rates set by CHA are more than double the current market prices.

The CHA JOC Contract, Article II, Section 2.3, Paragraph G. (Contract Administration) states: "CHA shall review Contractor's Task Order Proposal and evaluate the appropriateness of Contractor's approach and work plan, identified tasks and quantities pro-posed, and overall cost in comparison with CHA's independent cost estimate."

Moreover, CHA established unit prices without providing specifications. CHA did not give any specifications for materials and appliances, which led contractors to supply materials of the lowest available quality and price on the market.

For example, the following material prices were set by CHA as follows:

- Unit item #931 (Medicine Cabinet with Mirror) -- \$300
- Unit item #973 (Hot Water Tank) -- \$1,000
- Unit item #996 (Bathtub) -- \$1,150
- Unit item #1195 (Furnace) -- \$2,000
- Unit item #1602 (Washer & Dryer) -- \$1,045.23

In contrast, OIG’s review of market rate prices and CHA vendor receipts for items actually purchased for CHA units identified substantially lower market rate costs.

Table 3: Examples of CHA Set Unit Prices vs. Market Unit Prices

Material & Supply	Material Price Set by CHA	Store Unit Price/Vendor Receipt	Difference	Percentage Difference CHA vs. Store
Unit item #931 (Medicine Cabinet with Mirror)	\$300	\$134	\$166	124%
Unit item #973 (Hot Water Tank)	\$1,000	\$529	\$471	89%
Unit item #996 (Bathtub)	\$1,150	\$329	\$821	250%
Unit item #1195 (Furnace)	\$2,000	\$1,141	\$859	75%
Unit item #1602 (Washer & Dryer)	\$1,045	\$620	\$425	69%

When the Senior Director of Construction Management was asked about the basis for the material price structure in e-Builder, he provided the following response:

The original pricing guide and combined pricing guide, which we are currently utilizing, were created by others several years ago before I became involved in the program or in 2023 when I took over the program. The sheets from my understanding were based on the consultant Gordian's Catalog.

The unit cost spreadsheet was created from the original Gordian spreadsheet several years ago. The basis for the values was US Means. The current excel spreadsheet is also a spreadsheet that was created off of Gordian several years ago and combined the material costs, labor rates and labor hours into one line for each item. This also utilized the US Means as the basis. Recently, with the new pool, a couple dozen material costs were adjusted to current costs as the values were way off. For example, luxury vinyl tile (LVT) was \$7 a square foot previously the previous MRO specified LVT had an actual cost of less than \$2 a square foot. The price has been lowered to \$5 per square foot to closely match the actual cost of the current MRO specified material.

Since 2020, CHA has had Maintenance, Repair and Operations (MRO) Supplies contracts with Home Depot U.S.A, Lowe’s, and W.W. Grainger to order appliances and equipment for CHA public housing units and PPM maintenance. Periodically, CHA received reports and invoices from Lowe’s for review and approval. Based on the data provided by Lowe’s, the CHA Building Operations department should have been aware of the average price of the supplied items.

The OIG’s review of data received from Lowe’s in 2020 and 2021 revealed that the cost of 193 units of 40-gallon hot water tanks ranged from \$330 to \$704, depending on the brand and model, with an average price of \$527.98. Instead of reaching out to MRO suppliers to obtain average material costs and develop an independent cost estimate, it appears the CHA has relied on a unit cost list based on costs from outside the Chicago market to its detriment.

Risk

- Waste of resources
- Potential fraud
- Inefficient management of the program

Recommendations

1. CHA should re-assess unit costs recorded in e-Builder to ensure they align with the prevailing market prices in Chicago and consider adding minimum quality specifications.
2. CHA Building Operations should evaluate the detailed proposals submitted by contractors for reasonableness.

E. Award of Contracts Exceeding Tier Limits

Vendors were awarded contracts exceeding their tier limits, in violation of the CHA JOC Agreement regarding assigned contractor tiers.

The 2020 Section 3 JOC Program Contract created 3 tiers:

“Tier 1 will be for contractors who have the ability to complete projects valued up to \$50,000. Tier 2 will be for contractors who have the ability to complete projects valued up to \$100,000. Tier 3 will be for contractors who have the ability to bid on, secure bonding for, and complete projects valued up to \$250,000.”

Six (6) contractors were assigned projects with values exceeding the limits of their designated Tiers, which surpassed their contractual capacity. For 9 out of 85 projects reviewed (11%), the contract values were allocated to contractors beyond the thresholds outlined in their agreements. As shown in the table below, one project exceeded the contractor’s assigned Tier 1 limit of \$50,000 by 178%.

Table 4 : Projects that exceeded the contractors’ assigned Tiers

Tier	Project Value	Tier Limit	Overage
1	\$138,948	\$50,000	178%
1	\$50,308	\$50,000	1%
1	\$52,361	\$50,000	5%
1	\$83,801	\$50,000	68%
1	\$83,801	\$50,000	68%
1	\$87,731	\$50,000	75%
1	\$57,526	\$50,000	15%
2	\$114,760	\$100,000	15%
3	\$252,376	\$250,000	1%

Risk

- Inconsistency in issuing construction contracts
- Inefficient administration of the program

Recommendation

1. Conduct a comprehensive review of all active capital construct contracts to ensure that contractor assignments adhere to the designated contractual tiers. Reinforce compliance through training and clear communication of tier requirements.

F. Award of Multiple Smaller Projects to Circumvent Tier Limits

The CHA Building Operations Department regularly divided what should have been a single project into multiple smaller projects, each falling below the required threshold, to bypass the tier requirement of the JOC program. In these instances, multiple POs were issued for the same project and assigned to the same contractor, with amounts just below or at the tier thresholds.

As noted above, the 2020 Section 3 JOC Program Contract established three tiers:
Tier 1 - contractors who have the ability to complete projects valued up to \$50,000.
Tier 2 - contractors who have the ability to complete projects valued up to \$100,000.
Tier 3 - contractors who have the ability to bid on, secure bonding for, and complete projects valued up to \$250,000.

In OIG interviews, Building Operations staff identified two reasons for contract splitting. The first is to bypass the bonding requirement, which can be a hurdle for some contractors. Secondly, staff suggested that dividing a project into smaller components is, functionally, the only way to allocate work to Tier 1 contractors. However, the total value of these combined tasks often exceeds the contractor's qualifying tier. In some cases, the project value is as much as 340% above the Tier 3 limit.

Tables 5 a-c below illustrates examples of contract splitting.

Table 5a - Company A - Property A, Unit A Renovation and Exterior Repairs

Tier	Project #	Project Value	Tier Limit
1	684717	\$52,361	\$50,000
1	474	\$83,801	\$50,000
1	685008	\$83,801	\$50,000
	Projects Total	\$219,963	
	Percentage above tier limit		340%

Table 5b - Company B - Property B Fin-tube Radiators Replacement, Phases 1, 2, & 3

Tier	Project #	Project Value	Tier Limit
3	685105	\$227,203	\$250,000
3	685108	\$226,406	\$250,000
3	685110	\$197,220	\$250,000
	Projects Total	\$650,828	
	Percentage above tier limit		160%

Table 5c - Company C - Property C Roof Repairs/Replacement

Tier	Project #	Project Value	Tier Limit
3	684547	\$136,200	\$250,000
3	684546	\$133,979	\$250,000
3	684471	\$252,376	\$250,000
	684593	\$79,686	\$250,000
	Projects Total	\$602,242	\$250,000
	Percentage above tier limit		141%

Risk

- Inconsistency in issuing construction contracts
- Inefficient administration of the program
- Legal contract liability

Recommendations

1. CHA Building Operations should adhere to the requirements of its contracts, and discontinue the practice of splitting projects.
2. CHA should implement independent quality control reviews of projects awarded through the Building Operations department to ensure program compliance.

II. Use of Supplemental Contracts Violated CHA’s Procurement Policies

A. The Supplemental Contract Process Did Not Comply with CHA’s Procurement Manual

The audit revealed that the “Supplemental” process does not comply with the requirements outlined in the CHA’s Procurement Manual, which defines all contract modifications as change orders.

CHA’s DPC Procurement Procedures Manual, Section V. Alternative Procurement Methods, paragraph D. Construction Change Orders states:

“All CHA construction contracts will contain a changes clause that gives the CHA a unilateral right to authorize deviations from the plans and specifications that are within the Scope of Work. The changes clause is for the benefit of the CHA to assure that when construction or rehabilitation is complete, that the CHA has a portfolio of public housing stock that complies with its stated goals. The changes clause does not confer any right to the additional work by the current contractor.”

CHA’s Job Order Contracting (JOC) agreements do not specify individual tasks but state that, “The work of this Contract will be set forth in the Detailed Scopes of Work referenced in the individual Task Orders.” The agreement defined a Task Order as “A written order issued by the CHA, such as a Purchase Order, requiring the Contractor to complete the Detailed Scope of Work within the Task Order Completion Time for the Task Order Price.”

During the audit, CHA management reported that a “Supplemental” is not a “Change Order”; rather, it is treated as an additional contract, with a PO serving as executable document.

However, Supplementals issued to the same contractor at the same property, appear indistinguishable from a CO. Such use of Supplementals further raise concerns that the project was not properly scoped and increases the risk of delays or waste. Moreover, there is no reference to a Supplemental in the CHA’s contracts or CHA Procurement Procedures Manual.

Risk

- Inefficient program management
- Inconsistency in the processing and issuance of construction contracts
- Public procurement compliance violations
- Fraud or favoritism in the award of construction contracts

Recommendation

1. CHA Building Operations should adhere to the requirements in CHA's Procurement Manual and applicable contractual agreements when acquiring construction services.

B. No Documented Policies and Procedures for Change Orders or Supplemental Contracts

Building Operations did not have formal written policies and procedures for COs or Supplementals. Instead, Building Operations utilizes an e-Builder User Training Manual, which simply instructs users how to enter projects. The lack of formal guidance regarding COs and Supplementals limits the organization's ability to ensure consistency, accountability, and compliance with applicable public procurement regulations and CHA's own master contract terms. Without established policies and procedures, there is an increased risk of non-competitive procurements, mismanagement, and inefficiencies, which may adversely impact operations and decision-making processes.

During the audit, the OIG requested documentation from the CHA's Department of Procurement and Contracts (DPC) and the Building Operations Department that referenced or defined the term "Supplemental." Neither department was able to provide any such documentation. The term "Supplemental" is not mentioned or defined in any CHA policy, procedures manual, procurement manual, or contracts with construction companies.

Risk

- Inconsistent processing of COs and Supplementals
- Inefficiency and poor compliance with applicable standards
- Fraud, waste, and abuse

Recommendation

1. Building Operations should create a comprehensive standard operating procedure to ensure clarity and consistency in procedures surrounding construction management, change orders, and discovered conditions.