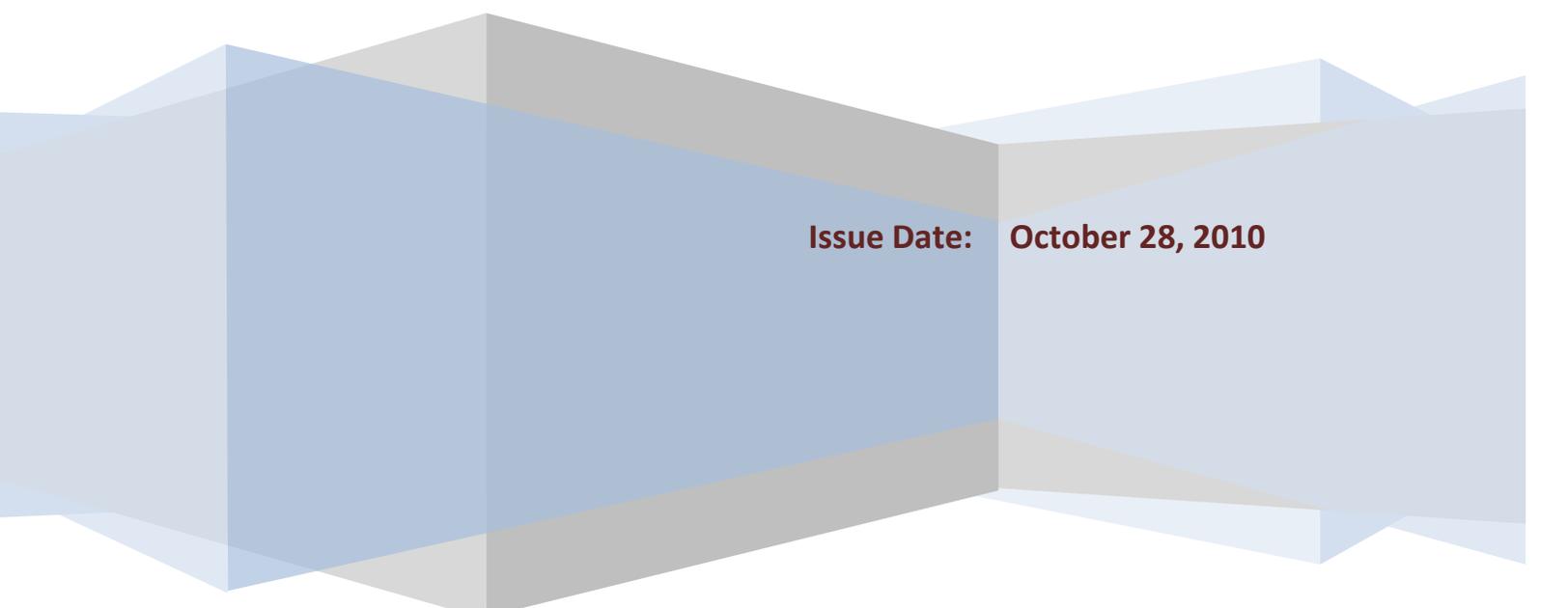


City of Baton Rouge, Parish of East Baton Rouge
Finance Department – Internal Auditing Division
Financial Accountability Section
P. O. Box 1471
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Office of Community Development Inspections Division Audit



Issue Date: October 28, 2010



Department of Finance

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October 28, 2010

MEMORANDUM

TO: Audit Committee Members

FROM: Carol Marcantel
Auditing Manager

SUBJECT: Office of Community Development – Inspections Division Audit

Enclosed is our report on the Office of Community Development's Inspections Division. The audit was conducted in accordance with our annual work program. This report presents all audit issues and the Office of Community Development's management action plan. Their written response to the report is included under the Audit Response section.

The Auditing Division will conduct a follow-up review with the auditee regarding implementation of corrective action. The results of the follow-up review will be reported to the Audit Committee.

We would like to thank the Office of Community Development's staff for their cooperation and assistance during the audit.

A handwritten signature in cursive script that reads "Carol Marcantel".

Carol Marcantel
Auditing Manager

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Introduction

The Office of Community Development provides housing opportunities, improved living environments, and expanded opportunities for people of low and moderate income. OCD's Inspections Division determines whether housing that is provided by OCD's various housing programs meets Housing Quality Standards as established and maintained by the federal Department of Housing and Urban Development.

The Inspections Division consists of one housing inspection manager, seven housing inspectors, and one clerical staff person. The related personnel costs are shown at the right.

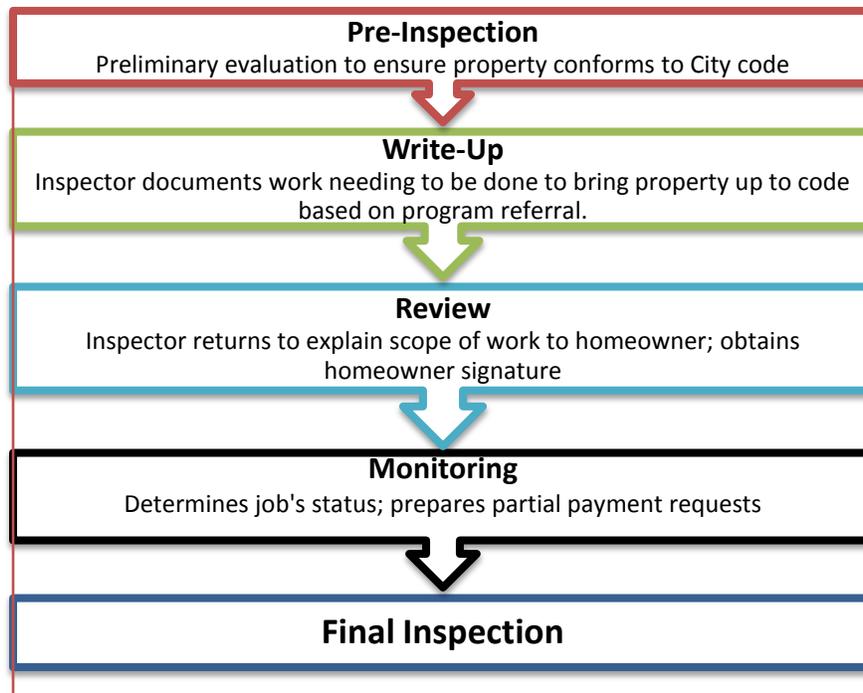
According to job descriptions, OCD housing inspectors are to inspect single- and multi-family housing to identify substandard conditions, prepare scope of work and establish cost estimates for repair or replacement. They then monitor rehabilitation work, usually done by private contractors, for compliance with building, electrical, and plumbing codes.

OCD Inspections Division Personnel Costs for 2009-2010 (Budgeted)	
Salaries	\$338,761
Benefits	125,490
Total Personnel Costs	\$464,251

OCD housing inspectors provide inspections for the following OCD housing programs:

- Emergency Repairs
- Emergency Shelter
- First-Time Homebuyers
- Handicap Adaptations
- Neighborhood Stabilization
- Rehabilitation grants
- Rental Loan
- Roofing
- Section 8
- Supportive Housing
- Weatherization

Depending on the program, OCD's inspections usually have five phases as shown in the graphic below:



The write-up and review phases of the inspection may require two or more housing inspectors to participate. Some OCD housing inspectors have a craft specialty such as plumbing, and can be part of a team of inspectors who determine what repairs are needed to bring qualified homes up to city codes.

During the monitoring phase, housing inspectors may visit a project (i.e., home being repaired or renovated) multiple times before the repair or renovation is complete. Each housing inspector manually records his activities on a daily inspections report, which is turned in to the housing inspections manager. The housing inspection manager compiles the daily inspections reports into a monthly performance report. According to the monthly performance reports dated January 2009 through April 2010, OCD housing inspectors performed 6,194 inspections. According to the housing inspections manager, the housing inspectors have been focusing more on the Weatherization program in 2010 than OCD's other housing programs.

Objective

This audit was conducted in accordance with our annual audit work program. The objective of the audit was to evaluate whether OCD is performing its inspection function efficiently and economically.

Scope and Methodology

The scope of the audit included OCD projects that required the services of the Inspections Division dated January 1, 2009 through April 30, 2010.

Our methodology included, but was not limited to, the following:

- Interviewed OCD's Director and staff and Purchasing Department staff
- Accompanied a housing inspector on an inspection write-up
- Reviewed federal regulations; state laws, rules, and regulations; and city ordinances, as applicable
- Reviewed and analyzed daily inspection reports and monthly performance reports. Note: The housing inspection manager only retained one month's worth of daily inspection reports. We could only obtain and analyze reports for April 2010.
- Reviewed selected project files for homeowners whose properties were repaired and/or renovated by an OCD contractor
- Traced inspectors' write-ups to scope of work to final project and payment
- Used Mapquest.com to analyze a sample of housing inspectors' daily routes

AUDIT ISSUES

We could not determine whether OCD's Inspections Division's functions were performed economically because budgeting data are not maintained in a fashion to readily identify all inspections related expenses. However, OCD's inspection processes could be performed more efficiently with the use of technology. Using the daily inspection reports that housing inspectors complete, we analyzed their workloads and the projects that were assigned to them or that they monitored. OCD housing inspectors do not have assigned areas of the parish. Also, one of OCD's inspectors may have a conflict of interest with one of the contractors who does renovation and repair work for the department. Furthermore, the initial project scope may differ from the final repairs and renovations with no documentation to support the changes.

Cost effectiveness not readily determinable

Because the Inspection Division's budget is included with other OCD housing-related functions, only the personnel portion of its budgeted operational costs for 2009-2010 could be readily determined. The costs of supplies, fuel, and other related costs are compiled into one program with no separate cost center to capture the cost of performing inspections. As a result, we could not determine whether OCD's inspections function is being performed economically when compared to the cost of obtaining these services through a private contractor.

Housing inspectors not assigned by areas of the parish

The distance OCD housing inspectors traveled per day could range from a low of 11 miles to a high of 60 miles. Assuming inspectors listed projects as they were completed, we examined a sample of daily inspection reports and entered this information into an online mapping program. Our observations were as follows:

- Housing inspectors could travel the length of East Baton Rouge Parish in one day. Some inspectors' assignments took them from north Baton Rouge to south Baton Rouge and back to north Baton Rouge in the same day covering more than 50 miles.
- The housing inspectors performed three to four inspections per day with the exception of one housing inspector whose daily inspections report showed nine inspections in one day.
- Most of the inspections shown on the daily inspection reports were to monitor ongoing repair projects.

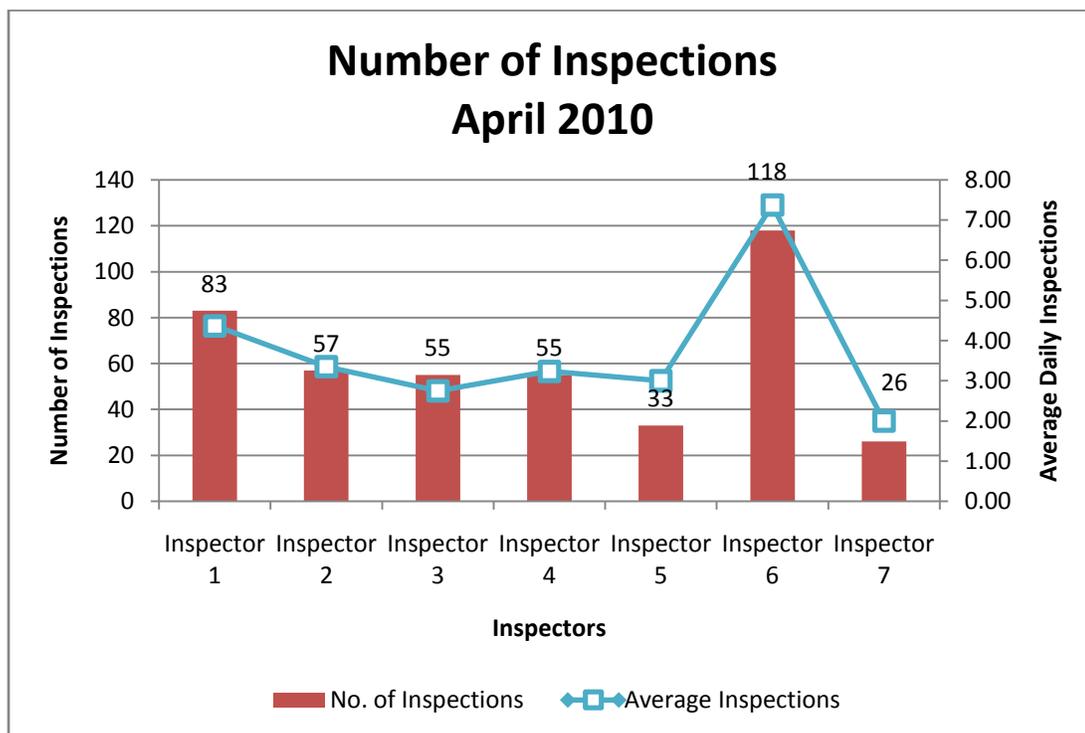
According to the housing inspection manager, inspectors may be needed at anytime and he does not see the need to assign them by area or region of the parish. OCD's housing inspectors could save time and fuel by concentrating their monitoring efforts in certain areas of the parish. However, when a housing inspector with a specialty craft is needed during the write-up phase, he could then be sent to that specific location.

Different OCD inspectors' monitoring projects on the same street

On four different days in April 2010, two inspectors were monitoring different projects located on the same street. Two projects were on Adams Street and two projects were on Colorado Street. The housing inspection manager said he assigns jobs by specialty and does not consider the project's location. Without a plan to assign housing inspectors, OCD is not using its limited number of housing inspectors efficiently.

Daily workloads varied by inspector

Based on our analysis of the April 2010 daily inspection report for the seven inspectors, the average number of inspections per day ranged from a low of 2 to a high of 7. The project's phase and type would affect the amount of time inspectors would spend at each location. According to the housing inspection manager, OCD does not have a policy for how often an inspector should visit the projects assigned to him. The chart below shows the distribution.



Some of the daily inspections reports may not be accurate. Inspector 6, who only works four days per week, showed a disproportionately high number of inspections on his daily inspections reports for the month when compared to the other inspectors. The housing inspections manager said this inspector is a “specialized” plumber and usually checks on all of OCD’s plumbing projects. However, upon further review, we found that this housing inspector’s daily inspection reports showed him going to three different project locations up to 14 consecutive days **after** the project was accepted as complete.

Some inspection write-ups differ from final projects

The inspector's write-up of needed repairs did not always match the scope of work, which is sent to contractors for bidding purposes. OCD housing inspectors document the repairs needed to bring deficient properties up to the city's building code once the applicant has been qualified for the program. Afterwards, an OCD clerical staff member converts the write-up to a scope of work document, which is used by potential contractors to develop and submit bids. However, in some cases, the final work done differed from what the inspector originally identified as needed repairs.

Our review of four client files showed various problems with inspectors' documentation:

- In one project costing \$5,000, the inspector's write up was done almost two years (May 2008) before the actual repairs were completed (February 2010). The inspector's write-up shows repairs needed to the homeowner's kitchen and bathroom floors, a bedroom light fixture, and the installation of two smoke detectors. However, the scope of work shows all plumbing repairs including repairs to the kitchen sink and water closet (toilet) in the bathroom. The inspector's write-up was never updated.
- In a second project costing \$7,370, the inspector's write-up was not in the file. As a result, we could not trace the inspector's report to the scope of work.
- In a third project costing \$5,925, the scope of work required installing weather-stripping on doors, caulking windows, installing smoke/carbon monoxide detectors, pipe insulation, and an insulation jacket on the hot water heater. However, the client's file contained a DPW permit for installing a hot water heater. The scope of work did not include a hot water heater purchase.

Contractor may not possess proper state licenses

OCD uses private contractors to perform some of the repairs and renovations done to low- to moderate-income housing. OCD only requires that contractors complete an application to be put on its contractors' list. According to OCD's staff, they verify that the contractor has a valid license via the Louisiana State Licensing Board of Contractors website. As long as the contractor has a valid license, he or she is allowed to submit a bid on repair and renovation projects.

We checked the licensing and registration status of OCD's top four contractors. Three of the four contractors were properly licensed and registered as required by state law. However, we found that the contractor who had the most contracts was not properly registered with the Secretary of State's Office from August 16, 2007 through November 19, 2009 and did not have the proper license as required by the State Licensing Board of Contractors. According to the Parish Attorney's Office, a limited liability company must be registered with the Secretary of State and be in good standing in order to do business in the state. The company's owners can file the proper paperwork and be reinstated retroactively to the period of revocation.

The state contractor's licensing law requires a home improvement contractor's license of any person who reconstructs, alters, repairs, renovates, modernizes, converts, improves, removes, or demolishes a pre-existing owner occupied residence for an amount greater than \$7,500, but less than \$75,000. Neither the Purchasing Department nor OCD staff were

aware of this change. As a result, some OCD repairs and renovations projects are not being done by properly licensed businesses.

Potential conflict of interest

One OCD housing inspector is licensed by the Louisiana State Plumbing Board as a master plumber. According to the state board's online roster, this housing inspector's employing entity is also one of OCD's most used repair and renovation contractors. State law [LA-R.S. 37:1367(B) and (C)] requires a master plumber to designate an employing entity such as a corporation, partnership, or sole proprietorship. In addition, no employing entity can engage in the business of plumbing unless it employs a master plumber. The statute defines *employment* as "employment on a regular **paid** basis for actual services performed supervising journeyman plumbers."

This housing inspector conducted the write-up, developed the scope of work, and monitored many repair and renovation projects that were awarded to this contractor, which could be a state ethics code violation. Between January 2009 and May 30, 2010, this contractor was awarded the following number of projects that appeared on OCD's Contractors' Daily Status Report:

- 14 of the 45 (31%) emergency repair projects;
- 13 of the 94 (14%) handicap and rehabilitation grants projects; and
- 10 of the 75 (13%) weatherization projects.

Of the projects awarded to this contractor, the housing inspector approved the work on:

- 9 of the 14 (64%) emergency repair projects and
- 4 of the 13 (31%) handicap and rehabilitation projects.

At least three provisions of the state ethics code may have been violated by this housing inspector's relationship with a contractor whose work he monitors. First, LA-R.S. 42:1112(A) says no public servant...shall participate in a transaction in which he has a personal substantial economic interest of which he may be reasonably expected to know involving the governmental entity. In addition, LA-R.S. 42:1113 prohibits public servants from bidding on or entering into any contract, subcontract, or other transaction that is under the supervision or jurisdiction of the public servant's agency. Furthermore, LA-R.S. 42:1116 prohibits a regulatory employee (an employee who performs the function of regulating, monitoring, or enforcing regulations of any agency) from participating in any way in the sale of goods or services to persons regulated by his agency...if a business enterprise in which the regulatory employee...owns in excess of 25%, receives or will receive a thing of economic value by virtue of the sale. We do not know whether the inspector actually owns any part of the enterprise.

24 CFR 85.36(b)(3) says no employee shall participate in the administration of a contract supported by federal funds if a conflict of interest, real or apparent, would be involved. This regulation also requires grantees to maintain a written code of conduct governing their employees engaged in the award and administration of contracts.

OCD's Director was misinformed that the arrangement between the contractor and housing inspector had the Parish Attorney's Office approval. The OCD Director issued a directive to the employee, through his supervisors, that he was to disassociate himself from the contractor

and to not be allowed to monitor any jobs assigned to this contractor until the situation was rectified.

Excessive change orders

Because of the potential conflict of interest, we examined 37 projects awarded to this contractor ranging in value from \$1,100 to \$24,000. Of these, 15 projects (40%) required a change order. This housing inspector monitored eight, or 22%, of the 37 projects. Six of the eight projects had change orders. As we examined the change orders, we observed the following:

- Some elements of one change order appear to be very similar—if not identical—to items in the original scope of work. For example, the scope of work includes an item to “rout out all waste lines.” An item on the change order also says “rout out all waste lines.”
- One change order added work that was not included in the original scope of work and nearly doubled the contract amount (from \$1,600 to \$3,000). The original scope of work called for repairs to the kitchen sink and washing machine drain and for cleaning out the sewer line. The change order added a new hot water heater, and bath tub repairs. A change this significant should probably have been re-bid.
- At least five of the change orders were not signed by the homeowner and OCD’s Director. There were also instances where the housing inspection manager signed the Director’s initials. One change order notes that the homeowner refused to sign it.

According to the Inspector’s Manual, change orders can occur anytime a contractor or inspector finds unexpected problems outside the scope of work that are detrimental to the completion of a portion of the project, the discovery of omission in the original write-up, or unforeseen structural deficiencies. The manual also says the change order must be signed by the inspector, the contractor, and the homeowner.

OCD allows contractors to attest for subcontractors

One OCD contractor signed a subcontractor’s name to a *Release of Liens* document. This document attests that the subcontractor, by signing the document, is releasing all liens and claims to which they are entitled for work performed or materials provided on the rehabilitation project. When asked if this practice is acceptable, OCD’s housing manager stated it is acceptable for the general contractor to sign for the subcontractor. By allowing this practice, the effect of the document is lost and could potentially be non-binding.

Management Action Plan

The Office of Community Development should take the following actions to address the audit issues outlined above:

1. Use more technology to improve efficiency. Most of OCD's inspections process is paper-based with little or no electronic technology being used. Incorporating technology into its inspector write-ups would improve efficiency and save time.

Once inspectors electronically capture data for needed repairs, this data could be quickly and easily converted to the scope of work without the need for a clerical person to re-type the data. The final inspection results could also be maintained in a centralized database and forwarded to the appropriate OCD program manager to be used as required by the respective programs. From there, the scope of work could be easily submitted to Purchasing or sent to potential contractors electronically without additional work.

Other areas that could benefit from increased technology would be planning routes; scheduling and mapping systems that could assign inspectors by area of the parish, minimize overlap in assignments, and ensure all inspections requests are prioritized and handled.

2. Work with the Purchasing Department to develop formal procedures for oversight of contractors including, but not limited to, ensuring that contractors are properly licensed and registered. Procedures should also be included to require contractors to certify their licensing status at least annually.
3. Develop and provide a formal written policy to all potential contractors specifying all licensing and business registration requirements, according to state law. This policy should also include a conflict of interest statement to ensure the contractor has no undisclosed affiliation with OCD employees or clients.
4. Develop and distribute a conflict of interest policy based on the state ethics code to all of its employees. The policy should direct all employees to disclose any potential conflicts of interest with contractors, homeowners, or other persons or entities doing business with the department. Employees should be required to certify, at least annually, that they are aware of the policy's provisions.
5. Amend and communicate the change order policy to include:
 - a. ensure change orders are not duplicative of the original scope of work
 - b. establish a change order maximum limit
 - c. require the Housing Inspection Manager to require photographs or other visual evidence for change order requests that increase the project's cost by 25% or more.
 - d. establish and adhere to a change order threshold at which the OCD Director's signature is required; for example, a 10% increase.
6. Discontinue the practice of allowing general contractors to sign the Release of Liens on behalf of a subcontractor. The general contractor should provide separate Release of Liens from each subcontractor.

Exit Conference

We held an exit conference with the Office of Community Development on Thursday, October 14, 2010 with the following persons in attendance:

- Chip Boyles, OCD Director
- Carol Marcantel, Auditing Manager
- Sharon Robinson, Chief Auditor

The contents of this report were fully discussed.

All parties are in agreement and the OCD Director has begun implementing the management action plan. OCD's written response is included at the end of this report.

Audit Response



City of Baton Rouge-Parish of East Baton Rouge
Office of the Mayor-President
Office of Community Development

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OCT 27 2010

FINANCE AUDITING

MEMORANDUM

TO: Carol Marcantel, Auditing Manager, Department of Finance

FROM: Chip Boyles, Urban Development Director 

DATE: October 20, 2010

RE: OCD Inspections Division Performance Audit Report

Carol,

I want to thank you for you and your staff's assistance with reviewing the Office of Community Development's Inspection Division upon our request. I felt your staff did an excellent job in trying to get a thorough understanding of our inspections operations and making suggestions of methods of improvements.

I am in agreement with your final draft report of the findings and suggestions and would like to respond with several actions that have taken place during your review.

1. We have had a positive turn over in staff within the inspections division. Two long term employees, one inspector and one inspection manager, retired during this review. The inspections manager position was replaced through an open recruiting process with an internal candidate. The selection committee included me and the Grants Administrator Supervisor. This allowed us to hire two completely new inspectors from outside agencies that both have had experience in inspecting federally funded construction projects. Positive changes have already begun to occur within the division, to include record keeping and maintenance of all inspection visits and reports.
2. Approximately, three months ago, OCD required that all vehicles within our fleet be equipped with a 24 hour/ 7 days a week global positioning system (gps) tracking device and program. I, the Grants Administrator and Inspections Manager have immediate access to vehicle movement and use that includes location, interval of stops, speed, time and idle/off/on.
3. Approximately one month ago, the Inspections Division was equipped with laptop computers with internet hot spot access. Training is occurring along with software selection that will allow

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(Title VIII of the Civil Rights Act of 1968)



EQUAL HOUSING

reports to be completed in the field and submitted immediately to the office. Reports will include change order requests with pictures, client work estimates, work write-up reports, etc.

4. The new Inspections Manager has taken on the role of supervisor for our Home Maintenance and Improvement Program (HMIP). Prior, there was a lack of communication between the two groups resulting in lost time in having smaller jobs completed and having HMIP assist with a portion of larger jobs. Now, the Inspections Manager can make direct and immediate requests to have work completed by HMIP.
5. OCD has initiated a rewrite of our Departmental Personnel Policies. Included in this rewrite is a Conflict of Interest clause that will confirm that all OCD employees are aware of the local, state and federal regulations of conflict of interest, provide access to these regulations and require a signed certification that each employee will follow these policies and notify us of any potential financial or other conflict of interest.
6. OCD has this past month contracted with a software company that provides an on-line access data base management system that is customized for OCD use. The system is provided by Smartsheet. The DMS will track each individual project that OCD administers including each individual inspection or construction project. The DMS allows attachments to each project and inspections will be able to attach pdf copies of all reports and pictures taken at inspections sites. These files will be available for supervisors and other OCD sections to view at any time. The software allows a password protected right for an unlimited number of viewers available through internet access.
7. Other items that are mentioned in the report will be submitted to the Grants Housing Section and Inspections Division to review and begin to make policy changes. We anticipate that all recommendations will be implemented within six months.

Again, I thank you for your assistance with this request and know that this report will help us to provide a better service to our recipients.

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7 2010

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