

**CITY OF DETROIT**  
**OFFICE OF INSPECTOR GENERAL**  
**REQUEST TO CLOSE**

**DATE:**  
5/11/2021

TO: Ellen Ha  
Inspector General

Approved 

FROM: Edyth Porter-Stanley  
File Manager

CASE NAME: TSA and TSS  
OIG # 20-0009-INV  
COMPLAINANT INFORMATION: Anonymous

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**I. Summary**

Pursuant to the 2012 Charter of the City of Detroit (the Charter) and the Office of Inspector General (OIG)'s Administrative Hearing Rules (Hearing Rules), the OIG issued its draft memorandum for this investigation to HRD on April 5, 2021. The purpose of sharing a draft copy, under the Charter, is to provide the parties affected by the draft memorandum an opportunity to respond with new or additional evidence to correct any error or misrepresentation of facts, if any, in the draft memorandum.

On April 19, 2021, in accordance with the Hearing Rules, we timely received a three page written response to the OIG's draft memorandum for this matter from Julie Schneider, Deputy Director/Acting Director of the Housing and Revitalization Department (HRD)<sup>1</sup>. Ms. Schneider's response states that the investigation "turns on the allegations that the Housing and Revitalization Department (HRD) made payments to TSA Consultants, Inc. (TSA) and TSS Consultants, Inc. (TSS) as a result of HRD's failure to ensure the Housing Compliance Inspectors (HCI) strictly comply with HRD's procurement procedure." However, this is incorrect. As stated in the draft memorandum, the complaint alleged that TSA and TSS:

1. Use the same business address located in Detroit, which allegedly is vacant.
2. Submitted invoices to HRD that appear excessive.

As further stated in the draft memorandum:

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<sup>1</sup> See attached letter from Ms. Julie Schneider, Deputy Director/Acting Director, Housing and Revitalization Department.

“...the OIG found evidence to substantiate the allegations alleging invoices TSA Consulting, Inc. (TSA) and TSS Consulting, Inc. (TSS) submitted to Housing and Revitalization Department (HRD) are evidence of waste and/or fraud...”

Although this was not the allegation in the complaint, as stated in the response, the OIG found that the identified evidence of waste was the result of “HRD’s failure to ensure the Housing Compliance Inspectors (HCIs) strictly comply with HRD’s procurement procedure.” Although this does not constitute evidence of what the response calls “wrong doing,” it is evidence of practices that resulted in wasteful expenditures related to the CHIP and possibly other grant funds that HRD administers.

It is important to note the Charter provides to the Inspector General the power to investigate “in order to detect and prevent waste, abuse, fraud and corruption” in section 7.5-305(1). This means the Inspector General is not limited to issuing a memorandum or a report only when such allegations are substantiated through the investigation. Therefore, the Charter requires the OIG to identify vulnerabilities that could make the City susceptible to waste, fraud, abuse or corruption if those vulnerabilities were exploited. This memorandum is a clear example of the OIG providing recommendations as a preventative measure.

The OIG investigation did not substantiate the allegations against TSA and TSS that were alleged in the complaint. However, the OIG made several recommendations to the HRD, based on vulnerabilities identified by the OIG’s investigation that, if not corrected, could allow fraud, abuse, waste or corruption to prevail. Therefore, the OIG disagrees with HRD’s response to the OIG’s draft memorandum that the OIG’s recommendations are, as stated, “...unnecessary and improper.”

In order to fully comply with the purpose stated in the Charter, the OIG is required to identify gaps in established policies and procedures that could lead to fraud, abuse, waste and corruption, and make recommendations based on our assessment. However, the final decision on whether or not to implement the recommendations lies with the policy makers. It is the policy makers’ role to evaluate the recommendations made by the OIG and determine whether the recommendations are reasonable for their operations.

In this instance, we commend HRD for their thoughtful review of the OIG’s draft memorandum and its response to each of the OIG’s recommendation. The HRD’s response is an excellent example of how the process should work. Therefore, we appreciate the efforts Ms. Schneider and the Single Family Home staff have taken and is planning to take, that are in line with the recommendation in the draft memorandum, to ensure CHIP and other grant funds are used efficiently and effectively.

Lastly, we thank the HRD Single Family Home staff for their cooperation during the investigation. In addition, we appreciate their cooperation and openness regarding their ongoing efforts to efficiently and effectively ensure projects are completed for the welfare of qualified recipients. Specifically, in the HRD’s written response, Ms. Schneider indicated that they are initiating additional oversight to ensure HCI’s select bids that are no more than 15% higher than the ICEs. Furthermore, she stated that HRD is finalizing the development of a “Unit-Based

Pricing” policy to use in place of the Sealed Bid method. The OIG acknowledges and commends HRD for its dedication to continual improvement.

## **II. Recommendation**

I recommend the Office of Inspector General (OIG) close this investigation. Although the OIG found evidence to substantiate the allegations alleging invoices TSA Consulting, Inc. (TSA) and TSS Consulting, Inc. (TSS) submitted to Housing and Revitalization Department (HRD) are evidence of waste and/or fraud, the OIG has no recommendations directly related to TSA and TSS at this time. Based on the OIG’s observation, the payments to these contractors resulted from HRD’s failure to ensure the Housing Compliance Inspectors (HCIs) strictly comply with HRD’s procurement procedure. Therefore, the OIG recommends that HRD:

1. Ensure successful bids from contractors are reasonable, i.e.:
  - a. The overall bid is within 15% of the Housing Compliance Inspector’s Initial Cost Estimate as required by the HRD procurement policy; and
  - b. Individual line items are reasonable based on RSMMeans Data amounts.
2. Ensure contractors do not submit change orders for repairs that were included in the original bid.
3. Require contractors to separate labor and material costs as part of their bids for projects.
4. Ensure HRD HCIs adequately analyze the line item costs submitted in bids by:
  - a. Including square footage and other pertinent information on each line item of specifications; and
  - b. Preparing an estimate for change orders line items to ensure the costs of the added repairs are reasonable.

## **III. Complaint**

The Office of Inspector General (OIG) received an anonymous complaint alleging invoices from TSA and TSS submitted to HRD are evidence of waste and/or fraud because both companies:

1. Use the same business address located in Detroit, which allegedly is vacant.
2. Submitted invoices to HRD that appear excessive.

## **IV. OIG Findings**

Based on the investigation, the OIG identified evidence that substantiate the allegations that TSA and TSS share and office space and bids they submitted to HRD were not reasonable. However, the OIG did not find that these actions are evidence of fraud, waste, abuse or corruption by TSA and TSS. In spite of this, the OIG found evidence of waste that was not alleged in the complaint. Moreover, the OIG identified evidence of non-compliance with HRD’s procurement policy that resulted in the waste of CHIP grant funds.

A. The following findings are directly related to the allegations:

1. Both TSA and TSS report different addresses to HRD and LARA.
2. TSA and TSS share construction staff
3. TSA's and TSS' bids were not reasonable.
4. Change orders were not in compliance with HRDs Procurement Policy.

B. In addition to the findings directly related to the allegations contained in the complaint, the OIG identified weaknesses in HRD's policies and procedures that contributed to the waste of CHIP grant funds:

1. HRD's policies do not require contractors to provide sufficient information for bid evaluation.
2. HRD's policies do not require Housing Compliance Inspectors (HCIs) to include square footage in specification description.
3. HRD's policies and procedures do not require HCIs to prepare an estimate for change order repairs.

## V. Background

HRD establishes the amounts they pay contractors through their procurement process. HRD administers its procurement process independently and with the approval of the City of Detroit's Procurement Department.<sup>2</sup> The alleged excessive invoice amounts HRD paid to TSA and TSS resulted from HRD's Procurement Process. The HRD procurement policy requires the assigned HCIs to randomly select six contractors from their Qualified Contractor List (QCL) to walk-through each property. A "mandatory walk-through is the opportunity for general contractor and subcontractors [to] inspect the property to become familiar with the work to be done as detailed in the Work Specifications."<sup>3</sup>

Based on their training<sup>4</sup> and the condition of the property, the HCIs determine the repairs that can be made pursuant to the funding source for the repairs. Based on their observations, the HCI prepares an Initial Cost Estimate (ICE) for the project. The HRD procurement policy requires the HCI to use *Contractor's Pricing Guide: Residential Repair & Remolding Costs with RSMMeans data and knowledge of local markets*<sup>5</sup> and other industry information to estimate the cost of the repairs. The HCIs provide the contractors copies of the specifications, without the estimated cost.

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<sup>2</sup> HRD Single Family Home Repair Programs Procurement of Contractors for Qualified Homeowners, Dated August 13, 2019, signed and approved by Boysie Jackson, Deputy Chief Financial Officer/Chief Procurement Officer – Procurement.

<sup>3</sup> *Id.* at pg. 4 #3.

<sup>4</sup> HCIs possess a Lead Professional certification through the State of Michigan Department of Health and Human Services.

<sup>5</sup> A materials, labor, and equipment cost information database for contractors, facility owners and managers, architects, engineers, and anyone else that requires the latest localized construction cost information.

The HRD's policy, includes the following guidelines for HCIs to ensure repair costs are reasonable:

Confirming Cost Reasonableness, indicates “[c]osts are considered ‘reasonable’ if they do not exceed what a prudent person would incur under similar circumstances. All costs must pass the ‘rational person test’ by meeting all of the following criteria:

- The cost is recognized as ordinary and necessary for the operation of the project.
- The cost is in accordance with market prices for comparable goods and services as evidenced by cost estimates and documentation.
- The individuals responsible for incurring the cost acted with prudence and for the benefit of the organization and its activities.
- The cost has been incurred after following the established practices of the organization, in accordance with the terms and conditions of the award. <sup>6</sup>”

The HRD policy<sup>7</sup> also includes the following guidelines for selecting the contractor based on bids HRD received:

If only one bid is submitted, and it is within 15% of the initial cost estimate (ICE), HRD will accept the bid. If it does not fall within 15% of the ICE, or no bids were submitted/accepted, HRD will bid out a second time. If, after a second time, still no bids are received, HRD staff will request a bid directly from a contractor on the Qualified Contractors List. This bid will be evaluated by the Single Family Housing Director or designee and awarded ONLY after their review of the bid. If, after a second time, bids are still not within 15% ICE, HRD reserves the right to negotiate with the lowest most responsive bidder.<sup>8</sup>

As to the required documentation of costs related to projects, the HRD's procurement policy<sup>9</sup> requires that:

All costs secured via HRD's procurement process must be...adequately documented with all contracts and invoices providing:

- A complete description of goods/services to be delivered
- All technical specifications
- Specific dates when goods/services will be delivered

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<sup>6</sup> HRD Single Family Home Repair Programs Procurement of Contractors for Qualified Homeowners, Dated August 13, 2019, signed and approved by Boysie Jackson, Deputy Chief Financial Officer/Chief Procurement Officer – Procurement pg. 18 Exhibit D – Confirming Cost Reasonableness

<sup>7</sup> *Id* at pg. 6 # 13.

<sup>8</sup> *Id.* at pg. 6 #13

<sup>9</sup>*Id.* at pg. 18

- Specific locations where goods/services will be delivered.

### **A. CHIP Program**

The Single Family (SF) group coordinates the repairs for homeowners who qualify for local, state, and federal grant programs, such as Children Health Insurance Program (CHIP). HRD receives names and addresses of the eligible CHIP program recipients from the State while other homeowners apply for the program directly with HRD. Furthermore, in some cases, the State of Michigan provides the SF group with “Lead Inspection Risk Assessment” (LIRA) reports detailing the repairs HRD is to provide under CHIP. In the absence of LIRA reports from the State, an HRD Housing Compliance Inspector (HCI) visits the property to determine the eligible grant related repairs under the Michigan CHIP.

### **B. Melbourne and Manor Projects**

There are two CHIP program properties involved in the complaint. TSA was responsible for repairs to the property at 235 Melbourne (Melbourne project). According to TSA, the Melbourne project began on October 1, 2019 and ended on October 11, 2019<sup>10</sup>. TSS was responsible for repairs to the property at 11701 Manor (Manor project). According to TSS, the Manor project began on November 13, 2019 and ended on November 22, 2019<sup>11</sup>.

## **VI. Investigation**

On April 8, 2020, the OIG initiated investigation 20-0009 INV. In addition to investigating the complaint, the OIG investigation also sought to determine whether there was evidence of waste, fraud and/or abuse resulting from TSA and TSS using a Detroit address to receive priority consideration as a contractor with HRD and not fully disclosing the nature of their business relationship. The OIG also reviewed HRD’s policies and procedures governing HRD’s procurement process to determine whether they were followed and are efficient and effective to prevent waste, fraud abuse and corruption.

The OIG took the following investigative actions:

- A. Interviewed the following HRD employees:
  1. Donald Rencher, Esq. – Director
  2. Nicole Wyse – Associate Director, Community Development
  3. Anna Pinter – Single Family Home Repair Manager
  4. Adia Colon – Lead Program Manager - CHIP
  5. Faris Fakhouri – Chief of Housing Inspections
  6. Maurene Delgado – Housing Compliance Inspector
  7. Sharon Ray – Housing Compliance Inspector
  8. Connie Reno – Supervising Housing Rehab Specialist

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<sup>10</sup> Contractor Lead Control Activity Report prepared by Shikher Srivastava

<sup>11</sup> Contractor Lad Control activity Report prepared by Sandeep Shant

- B. Interviewed the following contractors:
1. Shikher Srivastava – Vice President, TSA
  2. Tulika Shant- President, TSS
- C. Reviewed the following documents:
1. Grant Agreement Between Michigan Department of Health and Human Services and City of Detroit for Medicaid CHIP Community Development Lead Hazard Control Program – 2020 Part I
  2. HRD Lead Safe Detroit Chip Projects
  3. Google Maps – 11685 Greenfield
  4. Wayne County Property & Tax Information
  5. BS&A Software, Inc. - City of Detroit Property Information
  6. RSMeans Online Database
  7. State of Michigan Department of License and Regulatory Affairs – Corporation Division Search results
  8. City of Detroit Housing and Revitalization Department Housing Service Division Residential Rehabilitation Project bidding Instructions/Work Specifications
  9. Contractor Performance Standard and Procurement Procedures for Single Family Home Repair Programs – City of Detroit Housing & Revitalization Department Community Development Division – Revised Date: May 20, 2020
  10. TSA Consultants, Inc. website
  11. City of Detroit Housing and Revitalization Department Housing Service Division – Bid Walk-Thru Sign-in Sheets
  12. City of Detroit Payment Processing Form
  13. Gordian Contractor’s Pricing Guide: Residential Repair & Remodeling Costs with RSMeans data 2019 Updated Version

## **VII. Discussion**

### **A. Business Information for TSA and TSS**

The complainant alleged that the business addresses used by both TSA and TSS when submitting bids to HRD are different than what was reported to the Michigan Department of Licensing and Regulatory Affairs (LARA). The OIG confirmed the following business ownership information for each company on the LARA database:

**Table A: Business Information from LARA database**

Description	TSA	TSS
President/Treasurer	Taru Srivastava	Tulika Shant
Secretary/Director	Shikher Srivastava	Sandeep Shant
Home Address	39304 Geneva Drive Farmington Hills, MI 48331	6071 Quaker Hill Dr. West Bloomfield, MI 48322
Resident Agent Address	39304 Geneva Drive Farmington Hills, MI 48331	11687 Greenfield Rd. Detroit, MI 48227
Registered Office Mailing Address	39304 Geneva Drive Farmington Hills, MI 48331	6071 Quaker Hill Dr. West Bloomfield, MI 48322

The OIG confirmed both TSA and TSS use 11687 Greenfield Road, Detroit, Michigan 48227 as the business address on their respective bid specifications. According to the Wayne County Property Tax database, Taru Srivastava, President of TSA, is the taxpayer for that address. Furthermore, the Wayne County Registrar of Deeds database documents Mr. Sandeep Shant, TSS's Vice President, as the owner of 11687 Greenfield Road. According to Ms. Schneider, in the attached response, HRD does not have access to the addresses contractors submit to the State of Michigan License and Regulatory Affairs Department. However, the information the OIG provided in the report is available as public information.

The documents reviewed by the OIG identifies Mr. Srivastava as the responsible party for the property taxes and the Mr. Shant as the owner of record for 11687 Greenfield Road. The records for the property suggests that both TSA and TSS share office space. It also confirms that both Mr. Taru Srivastava and Mr. Sandeep are financially responsible for the property located at 11687 Greenfield Road. The OIG acknowledges that the sharing workspaces between two companies alone is not evidence of a fraudulent activity. However, it does evidence that the two companies have a business relationship.

#### B. Business Relationship Between TSA and TSS

The OIG interviewed Shikher Srivastava<sup>12</sup> and Tulika Shant<sup>13</sup>. Mr. Srivastava indicated that he and Shikher Srivastava are the only employees of TSA. Furthermore, he indicated that TSA does not have any construction employees. Therefore, TSA subcontracts with TSS for all employees necessary to complete every the projects HRD awards them. Ms. Wyse indicated that it is common for the qualified contractors to subcontract with other qualified contractors. However, Mr. Srivastava indicated TSS is the only company that TSA uses as a subcontractor. Based on Mr. Srivastava and Mr. Shant's statements, every time HRD awards a project to TSA, Mr. Srivastava subcontracts the projects to TSS. Therefore, TSS technically gets all the projects HRD awards to TSA, including those awarded to TSS. This evidences a direct business relationship between the two companies.

<sup>12</sup> Telephone interview on December 2, 2020.

<sup>13</sup> Telephone interview on December 3, 2020.



Furthermore, TSA did not list TSS as a subcontractor on the HRD Contractor’s Application. The contractors are required to complete the HRD application annually. Contractors are also required to identify subcontractors used by the contractor when completing project payment packet.

As part of the same payment request documentation, TSA submitted a “Lead Clearance Report,”-“Visual and Dust Wipe Sample Results” & “Water Sample Results”, prepared by a third party to confirm remediation of lead at the Melbourne project site. The third party report for this service listed TSS Consulting as a subcontractor on the project. However, neither TSA nor TSS informed HRD that TSS would be or was a subcontractor to TSA on the project. HRD’s Chief of Housing Inspections, Faris Fakhouri, indicated that HRD requested additional information to confirm the business relationship between the two companies. Upon receipt of additional information, HRD will determine what, if any, action they will take. Ms. Schneider stated that HRD will collect additional information from contractors on subcontractors to monitor capacity and fairness of the contracting process<sup>14</sup>.

**C. Detroit Based Business (DBB) Designation**

Nicole Wyse, HRD Associate Director of Community Development stated HRD does not give Detroit Based Businesses (DBB) preferential treatment over other contractors. As such, there is no indication that TSA and TSS would benefit from having a Detroit address for their businesses related to HRD projects.

**D. Project Costs Were More than 15% Higher than HRD’s ICE**

The complaint alleged that the invoices TSA and TSS submitted to HRD for repairs at 235 Melbourne (Melbourne Project) and 11701 Manor (Manor Project) were excessive. Both Melbourne and Manor projects were funded by the CHIP grant funds<sup>15</sup>. HRD provided the following information about these projects:

**Table B: HRD Led Safe Detroit CHIP Projects Bid Information**

Description	TSA	TSS
	235 Melbourne	11701 Manor
HCI ICE	\$9,018	\$25,798
Number of Bids received	1	2
Original Bid	\$12,250	\$35,600
Amount Bid over/(under) ICE	\$3,232	\$9,802
Percentage over/(under) ICE	36%	38%
Change Order	\$5,300	\$4,800
Total Cost over HRD ICE	\$8,532	\$14,602

<sup>14</sup> See attached letter from Ms. Julie Schneider, Deputy Director/Acting Director, Housing and Revitalization Department.

<sup>15</sup> According to the grant agreement between the State of Michigan and the City of Detroit, the purpose of the program is to “provide support for local communities to support lead hazard control services for CHIP enrolled residents.

The original bids for both projects are in excess of 15% higher than the Housing Compliance Inspectors (HCIs) Initial Cost Estimate (ICE). As indicated in Table B, HRD awarded the Melbourne and Manor projects to TSA and TSS for \$3,232 or 36% and \$9,802 or 38% more than the HCI's ICEs respectively. HRD's Procurement Policy indicates that, "If after a second time, bids are still not within the 15% ICE, HRD reserves the right to negotiate with the lowest most responsive bidder<sup>16</sup>." Based on the HRD Procurement Policy, the Melbourne and Manor costs of the projects should have been limited to \$10,371 and \$29,668 respectively. HRD issued a written a reprimand to the HCI supervisor and initiated ongoing training for the HCI team in April of 2020 as well as requiring the team members to sign an acknowledgment form, in May of 2020, stating that they had received and understood the revised policy.<sup>17</sup>

The approved bid for the Melbourne project includes five line items that are at least two times higher than the amounts HRD included in its ICEs for those line items. The total line items are \$2,450 or 132% higher than the total HRD included in the ICE or the items. See Table C below.

**Table C: Melbourne Project - Line Items in Approved Bid in Excess of ICE**

Description	Approved TSA Bid	HRD ICE	Approved Bid over/(under) HRD ICE	Percentage Approved Bid over ICE
Interior Kitchen 1 <sup>st</sup> Floor Item #5 Wall B	\$400.00	\$150.00	\$ 250.00	167%
Dining Room Item #3 Celling	\$650.00	\$200.00	\$ 450.00	225%
Pantry #4 Wall A, B, &D	\$1,350.00	\$ 650.00	\$ 700.00	108%
Bedroom 1 Item #7 Wall A Window Stop	\$ 1,200.00	\$ 550.00	\$ 650.00	118%
Bedroom 2 Item #8 Wall D Closet Rail & Shelf	\$ 350.00	\$ 150.00	\$ 200.00	133%
Bedroom 3 Item # 10 Wall D. Door Jamb	\$ 350.00	\$ 150.00	\$ 200.00	133%
Total	\$ 4,300.00	\$ 1,850.00	\$ 2,450.00	132%

Ten line items in the approved bid for the Manor project, totaling \$13,300, range from 17% to 50% higher than the ICEs for those line items, which totaled \$10,700. The line items are \$2,600 (24%) higher than the HCI's ICE as follows:

<sup>16</sup> HRD Single Family Home Repair Programs Procurement of Contractors for Qualified Homeowners, Dated August 13, 2019, signed and approved by Boysie Jackson, Deputy Chief Financial Officer – Procurement.pg. 6 #13

<sup>17</sup> See attached letter from Ms. Julie Schneider, Deputy Director/Acting Director, Housing and Revitalization Department.

**Table D: Manor Project - Line Items in Approved Bid in Excess of ICE**

Description	Approved TSS Bid	HRD ICE	Approved Bid over HRD ICE	Percentage Approved Bid over ICE
Kitchen Item #7 Kitchen Faucet	\$ 700.00	\$ 600.00	\$ 100.00	17%
Stairwell 2-Item #13 Wall B	\$ 2,000.00	\$ 1,500.00	\$ 500.00	33%
Stairwell 2-Item #13 Baseboard	\$ 350.00	\$ 300.00	\$ 50.00	17%
Stairwell 2-Item #13 Wall C Door	\$ 850.00	\$ 700.00	\$ 150.00	21%
Basement Item #14 Wall C	\$ 300.00	\$ 200.00	\$ 100.00	50%
Basement Item #14 Drain Pipe	\$ 2,500.00	\$ 2,000.00	\$ 500.00	25%
Exterior Foundation Walls	\$ 1,500.00	\$ 1,200.00	\$ 300.00	25%
Exterior Wall A Door Casing	\$ 300.00	\$ 200.00	\$ 100.00	50%
Exterior Wall A Porch Ceiling Beam and Columns	\$ 1,800.00	\$ 1,500.00	\$ 300.00	20%
Exterior Garage	\$ 3,000.00	\$ 2,500.00	\$ 500.00	20%
Total	\$ 13,300.00	\$10,700.00	\$ 2,600.00	24%

Tables C and D clearly show that TSA and TSS's quotes are not reasonable when compared to HRD's ICE for repairs. According to the HRD Procurement policy, "If after a second time [bids are received for a project], bids are still not within the 15% [of the] ICE, HRD reserves the right to negotiate with the lowest most responsive bidder."<sup>18</sup> The bids for both projects were in excess of 15% over the ICE. Therefore, HCIs should have negotiated with TSA and TSS to reduce the excessive line items, as required by and to comply with the HRD procurement policy.

According to Ms. Schneider, in the attached response, HRD accepted the bids from TSA and TSS, which are referred to in this memorandum, due to emergency circumstances of the health impact on the residents of the houses<sup>19</sup>. This is the first mention of this explanation for the acceptance of these bids. Ms. Schneider indicated that HRD will update the policy to properly formally address emergency situations that result in HRD accepting bids that are in excess of 15% higher than the Housing Compliance Inspector's Initial Cost Estimate. Although this may be a reasonable addition to HRD's Procurement Policy, HRD must be careful to make sure this exception is used sparingly.

<sup>18</sup> HRD Single Family Home Repair Programs Procurement of Contractors for Qualified Homeowners, Dated August 13, 2019, signed and approved by Boysie Jackson, Deputy Chief Financial Officer – Procurement.pg. 6 #13

<sup>19</sup> See attached letter from Ms. Julie Schneider, Deputy Director/Acting Director, Housing and Revitalization Department.

E. Change Orders Issues

The HRD HCIs and the contractors agreed to additional repairs for each project which are included in change orders totaling \$10,100. These change orders increased the cost of the projects by an additional 43% and 13% over the original bids for repairs that were already included in the original bid specifications. HRD’s Procurement Policy does not require the HCIs to prepare cost estimates for change orders. However, HRD’s procurement policy specifically requires that all costs be reasonable.

The HRD procurement policy states that the change order must include unforeseen repairs that are necessary to complete a work item.<sup>20</sup> According to the policy the HCI has to approve the items included in the change order before they are added to the projects. However, in this instance the change order increased the cost of the Melbourne project by \$3,800 from the original bid. The original specifications included cleaning the entire house for \$1,500. The change order included the same repairs for an additional \$1,500, as follows:

**Table E: Additional Duplicate Line Items in Approved Bid and Change Order**

Description	Bid	HRD ICE
<b>Original Bid</b>		
<u>Entire House-Final Cleaning for Lead</u> Clean entire house including all floors (including main basement floor), window sills & troughs according to the established lead safety regulations (i.e., HEPA vacuum and wet cleaning procedures.) Exterior: Perimeter paint chips/debris & other work areas. Note this includes Paint Chips Prior to the start of work, and any highly variable area of paint chip debris. General Debris-House Perimeter Only Note: this would include other debris such as generic trash, bottles, etc. along the perimeter of House or other work areas.	\$ 1,500.00	\$ 2,100.00
<b>Change Order</b>		
Clean entire house including all floors (include main basement floor), window sills & troughs according to the established lead safety regulations (i.e., HEPA vacuum and wet cleaning procedures). Exterior: Perimeter paint chips/debris & other work areas. Note: this includes Paint Chips Prior to the start of work, and any highly visible areas of paint chip debris. General debris-House Perimeter Only Note: this would include other debris such as generic trash, bottles, etc. along the Perimeter of House or other work areas.	\$ 1,500.00	No estimate

The change order increased the cost of this line item to \$3,000 which is \$900 (43%) higher than the amount the HCI estimated. However, the policy does not require the HCIs to

<sup>20</sup> HRD Single Family Home Repair Programs Procurement of Contractors for Qualified Homeowners, Dated August 13, 2019, signed and approved by Boysie Jackson, Deputy Chief Financial Officer – Pg. 21 Exhibit G – Change Order Policy.

prepare cost estimates for repairs included in change orders. Therefore, the HCIs cannot and do not determine whether the change order costs added to the projects are reasonable before they approve them.

Furthermore, since cleaning around the perimeter of the house is an obvious task that would be necessary for every project of this type, it is possible that the contractor purposefully underbid on this line item. It is the OIG’s understanding that TSA has completed other projects funded through the CHIP grant. Therefore, it is questionable that they would underestimate the cost of this common task to the extent of \$1,500.

F. Comparison of RSMeans Data to the Approved Bid – Melbourne and Manor

The HRD procurement policy states the HCI should use RSMeans and other industry standards (i.e., their historical experiences) as a criteria to determine whether a bid is reasonable. HRD provided the OIG with a copy of the RSMeans 2019 catalog. The OIG used the RSMeans catalog to analyze the amounts in the HCI’s ICE and the bids to determine whether they are reasonable.

Based on the OIG’s analysis, a repair included in the Melbourne project specifications exceeded the cost based on RSMeans data as shown below.

**Table F: Melbourne Project Approved Bid vs. RSMeans Data**

Description	Bid	RSMeans Data w/Adjustment Factor	RS Means over/(under) Approved Bid	% RSMeans over/(under) Approved Bid
Kitchen 1st floor item #5 Faucet-Kitchen Remove the existing faucet/fixture and replace with new. Install lead free Delta Kitchen Sink Faucet model number 100 DST or 100 BH-DST for non sprayer locations. Or model number 400 DST, 400 BH-DST, 400 DST-A or 400 DST-L for sprayer equipped locations the shut off valves. Components to be from Lead Free product lines or non-metal. (Must meet minimum NSF/ANSI 61-G and NSF/ANSI 372). Faucet document/paperwork to be presented to RFC for verification of proper components. All aerator keys/wrenches to be provided to homeowner. Contractor responsible to ensure proper drainage as a job completion - verify before starting work.	\$ 650.00	\$ 222.36	\$ 427.64	192%

As indicated above TSA bid \$650 for the Kitchen repair. However, RSMeans Data documents the cost of the repair should be \$427.64, which makes TSA’s bid 192% more than the amount RSMeans documented.

The OIG also performed an analysis of eleven bid lines for the Manor project. The OIG notes line items in the bid for the Manor project totaling \$17,600 in excess of the ICEs for the related line items. According to RSMeans data, the total should be \$10,138.95. Therefore, the total approved bid for these line items is higher than the RSMeans total by \$7,461.05 (an increase of 74%). Of the line items, the one related to removing and replacing the door had the highest variance as follows:

**Table G: Manor Project Approved Bid vs. RSMeans Data**

Description	Approved TSS Bid	RSMeans Data w/Adjustment Factor	RS Means over/(under) Approved Bid	% RSMeans over/(under) Approved Bid
<b>Bedroom 1, item #3</b>				
Exterior Wall A Door Casing Remove and dispose of existing door casing. Install new equivalent casing. Homeowner responsible for finish painting. Caulk all seems with low VOC caulk.	\$ 300.00	\$ 89.66	\$ 210.34	235%

According to the HRD Procurement Policy the bid should be “reasonable.” Mr. Fakhouri, Chief of Housing Inspections, confirmed the OIG’s calculation of the repair costs were correct. These amounts however are not “reasonable” based on RSMeans data. Therefore, the OIG finds that HRD violated Procurement Policy in the Melbourne and Manor Projects, resulting in the waste of federal grant funds.

**G. Absence of Material and Labor Breakdown and Square Footage for Repairs**

According to Ms. Wyse, neither the CHIP grant requirement nor the HRD procurement policy mandate that contractors break out the costs of supplies and labor for each line item in the specification. The OIG confirmed this by reviewing the agreement between the State and HRD. Therefore, HRD does not require contractors to break out the cost of materials and labor. However, according to RSMeans factors in the costs of material and labor costs to calculate repair costs.

Furthermore, repairs such as painting, drywall, etc. are based on the square footage of the area being repaired. The specifications for the projects did not include square footage for any of the line items. Unfortunately, the HCI responsible for the projects were working remotely, at the time of this investigation and HRD did not require its HCIs to upload a digital copy of the hard copies of documentation for the projects. Therefore, the HCIs were not able to provide the square footage for line items. Ms. Wyse indicated the department will ensure HCIs consistently include the information going forward. According to Ms. Schneider, HRD will address the issues of

listing unit quantities such as Sq. Ft. and Linear Foot [measurements] in bid specifications, to ensure bids are more accurate, will be addressed through training.<sup>21</sup>

However, since “it is not [a] common practice for programs the size of [HRDs] to ask for a break down in labor and materials per line item” they will not implement the recommendation to break down items by labor and materials. As it is the responsibility of the policy makers to determine which OIG recommendations are feasible for their program, the OIG hopes HRD’s implementation of the other recommendations will ensure CHIP and other grant funds are expended efficiently and effectively.

### **VIII. Conclusion**

The OIG concludes that although TSA and TSS use the same Detroit building as their official business address for HRD purposes, it does not amount to fraud in this instance. The OIG also concludes that the amounts HRD paid TSA and TSS for the Melbourne and the Manor projects are not in compliance with HRD’s Procurement Policy, and therefore were not reasonable. The inefficient, wasteful use of the grant funds reduces the availability of funds that could have financed repairs for other eligible CHIP grant applicants. As such, the OIG believes there is a risk that these issues are not isolated to these two projects. However, based on the OIG’s review of HRD’s written response to the OIG’s draft memorandum, dated April 19, 2021, it is our understanding that HRD will consider and make any reasonable changes recommended by the OIG.

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<sup>21</sup> See attached letter from Ms. Julie Schneider, Deputy Director/Acting Director, Housing and Revitalization Department.

## ATTACHMENT

April 19, 2021

Ellen Ha  
Inspector General, City of Detroit  
65 Cadillac Square, Suite 3210  
Detroit, MI 48226

RE: OIG Complaint #20-0009-INV

Dear Ms. Ha:

Thank you for providing us the opportunity to respond to your draft report from the investigation related to OIG Complaint #20-0009-INV. The OIG investigation turns on the allegation that the Housing and Revitalization Department (HRD) made payments to TSS Consulting, Inc. (TSS) and TSA Consulting, Inc. (TSA) as a result of HRD's failure to ensure that Housing Compliance Inspectors (HCIs) strictly comply with HRD's procurement procedure. That allegation has not been substantiated as revealing fraud, abuse, corruption or waste. Therefore, a "report" of recommendations, that discusses best practices and/or opportunities for improvement, is both unnecessary and improper.

In the alternative that you publish the draft report of recommendations, despite the absence of any substantiated wrongdoing, the additional responsive information contained in this writing should demonstrate that HRD is dedicated to continual improvement.

HRD is not requesting an administrative hearing.

### **OIG Findings in Draft Report:**

- A(1) Both TSA and TSS report different addresses to HRD and LARA**
- A(2) TSA and TSS share construction staff**
- A(3) TSA and TSS bids were not reasonable**
- A(4) Change Orders were not in compliance with HRD's procurement policy**
- B(1) HRD's policies do not require contractors to provide sufficient information for bid evaluation**
- B(2) HRD's policies do not require HCI's to include square footage in specification description**
- B(3) HRD's policies and procedures do not require HCI's to prepare an estimate for change order repairs**

### **HRD Response:**

#### **Finding A:**

(1) HRD has an extensive contractor application that requires contractors to provide many sources of documentation in order to be placed on the HRD Pre-Qualified Contractor's list. While HRD does check the LARA site to confirm that the contractor's license is currently active with the State of Michigan, HRD does not currently have the ability to view the address provided to LARA. HRD will look into getting



additional access to the site to monitor these discrepancies, and if necessary, HRD will seek to develop alternate means of verifying address information.

(2) There are contractors on the pre-qualified list that subcontract their work to other contractors on the list. This is a common occurrence and does not currently prevent any of the contractors from bidding on any of our projects. However, HRD understands the OIG's concerns about how this state of affairs could impact competitive bidding, and HRD will collect additional information on subcontractor use to monitor capacity and fairness of the process.

(3) HRD Home Repair programs serve many households with children and seniors whose health is directly impacted by the condition of their home, either due to lead-based paint poisoning or other health and safety hazards. This can sometimes result in HRD needing to waive its policy and make quick decisions to address an immediate need. In this instance, a decision was made to proceed with the bids received in order to address an immediate need (children with elevated blood lead levels). HRD will update its policy to properly and formally address when this is an appropriate step to take for emergencies.

(4) When HRD leadership were informed that the procurement policy had not been followed, a written reprimand was issued to the HCI supervisor immediately, and the HCI team was required to attend a training in April 2020 regarding the department policy. On May 20, 2020 each inspector signed an acknowledgement form stating that they had received, read and understood the policy, and steps to take when clarity of the policy was necessary. HRD will continue to hold these trainings, at least once a year, to go over the policy with the team and to ensure team members are consistently trained and are following the policy. In addition, HRD added a Chief of Housing Inspections position in September 2020 to provide additional oversight of the program and staff.

**Finding B:** (1,2,3) HRD is currently updating its procurement policy to address concerns about the listing on unit quantities such as Sq.Ft. and Linear Foot to ensure bids are more accurate. While HRD does require HCI's to include these units in the specifications, some HCI work reviewed in this investigation did not follow proper protocols. This will be addressed through training of the HCI's in question and through the updated procurement procedures described above. In addition, language about providing an Initial Cost Estimate (ICE) for change orders will be added and implemented immediately.

**OIG Recommendations:**

- 1. Ensure successful bids from contractors are reasonable, i.e:**
  - a. The overall bid is within 15% of the Housing Compliance Inspector's Initial Cost Estimate as required by HRD's procurement policy
  - b. Individual line items are reasonable based on RS Means Data amounts
- 2. Ensure contractors do not submit change orders for repairs that were included in the original bid**
- 3. Require contractors to separate labor and material costs as part of their bids for projects**
- 4. Ensure HRD HCI's adequately analyze the line item costs submitted in bids by:**

- a. Including square footage and other pertinent information on each line item of specifications
- b. Preparing an estimate for change orders line items to ensure the costs of the added repairs are reasonable.

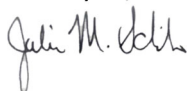
**HRD Response:**

HRD's current policy prohibits going above 15% of the ICE, and so additional oversight has been put in place to ensure this does not occur without proper review. In addition, it is important to note that HRD does not use just the RS Means data for cost estimates for construction. RS Means is only one of many forms of data analysis used to inform our cost estimates, but many other factors must be considered when determining cost reasonableness. HRD also uses live market pricing of supplies, materials and availability of those materials in Detroit and the SE Michigan region. HRD takes into account the cost of labor in Detroit and the SE Michigan region since there is a local shortage of construction labor. In addition, there is a nationwide shortage of general contractors, which affects pricing for all of our home repair programs. HRD programs require additional administrative work from the contractors in order to comply with federal funding regulations, which also impacts pricing.

HRD is actively working to improve and streamline its procurement procedures for its Single Family Home Repair Programs. Currently, HRD is finalizing the development of a "Unit-Based Pricing" policy versus its current Sealed Bid method. This will allow HRD to procure more competitive pricing across all of the contractors on its pre-qualified contractors list. At least annually, HRD will request quotes from all of its qualified contractors for pricing of materials and labor for all components addressed in our Single Family Home Repair programs. Those quotes will then be collected and averaged, and compared. HRD believes this will address all of the recommendations proposed by the OIG to include square footage and other pertinent information into the specifications, and prepare estimates for change orders to ensure cost reasonableness. However, HRD will not be implementing the recommendation to break down items by labor and materials. It is not common practice for programs the size of ours to ask for a breakdown in labor and materials per line item. That is something seen frequently with new and large-scale development, but not in single family residential owner occupied rehab programs. This would align with many other surrounding municipalities who operate programs similar to HRD's.

Should you have any questions or concerns related to this response, you may reach me at [schneiderju@detroitmi.gov](mailto:schneiderju@detroitmi.gov).

Thank you,



Julie Schneider  
Deputy Director/Acting Director  
Housing and Revitalization Department

CC: Edyth Porter-Stanley, Detroit OIG