

# **City of Detroit Office of Inspector General**

**Demolition Procurement Process**

**OIG Case No. 2015-CC-0179**

**December 19, 2018**



**Ellen Ha, ESQ.**

**INSPECTOR GENERAL**

## CITY OF DETROIT

### OFFICE OF INSPECTOR GENERAL

#### I. Introduction

On October 24, 2015, the City of Detroit Office of Inspector General (OIG) opened Case No. 2015-CC-0179 examining certain aspects of the demolition procurement process led by the Detroit Land Bank Authority (DLBA) and the Detroit Building Authority (DBA). It is important to note the focus of the investigation was Request for Qualifications (RFQ) No. 06172014A in which Adamo Demolition Company (Adamo), Homrich, and MCM Management Corporation (MCM) were awarded contracts following a contractor meeting (“large-unit contractor meeting”) held by the DLBA and DBA to which only the four (4) contractors were invited to attend.<sup>1</sup> On November 2, 2015, the OIG received additional citizen complaints regarding this issue. The OIG incorporated these complaints into its investigation. (See Appendix A- Issues Chart.)

In accordance with Section 7.5-301 of the 2012 Detroit City Charter, the OIG sought to determine whether the DBA and the DLBA engaged in waste, abuse, fraud, or corruption by holding a large-unit contractor meeting prior to the official release of the RFQ. (See Appendix B- Documents Reviewed and Appendix C- Interviews Conducted.)

Therefore, this report contains the OIG’s findings and conclusions that are limited only to the large-unit contractor meeting and are based solely on the evidence collected by the OIG during the course of this particular investigation.

Based on our review of documents and interviews conducted for this particular matter, we conclude the large-unit contractor meeting did not violate any existing DLBA policies pertaining to the use of the Hardest Hit Funds (HHF). However, engaging in a meeting that was not open to all contractors unnecessarily gave the appearance to the public that an improper activity was taking place behind the closed door. Therefore, while we find no evidence of waste, abuse, fraud or corruption in the demolition procurement process for the large-unit contractors, we find that the large-unit contractor meeting was improperly limited to select contractors, as we have a duty to conduct our business in the most open and transparent manner possible.

#### II. Background

Because there has been so much public interest in the City’s demolition process over the last several years, we are issuing a comprehensive report on this matter to provide more transparency in the process to the public. It is our hope that by sharing the details of events that transpired during the large-unit contractor meeting, we would dispel any misunderstanding of this complex process and enlighten the public of the process.

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<sup>1</sup> Reports have referred to this meeting as a “pre-bid meeting.” However, DBA and DLBA employees, demolition contractors and documentation reviewed by the OIG referred to this meeting as the “large-unit contractor meeting.” Bierlein Companies, Inc. also attended this meeting after being invited by DBA. Bierlein declined to submit qualifications for this contract.

### **a. Hardest Hit Funds**

In June 2013, the U.S. Department of Treasury through its Troubled Asset Relief Program (TARP) approved the Blight Elimination Program that allowed HHF to be used for the demolition and greening of vacant and abandoned single family and multifamily structures.<sup>2</sup> The program provides funding to cities, counties, land banks as well as non-profit and for profit organizations for demolition and other blight-remediation activities. The U.S. Treasury Department approved the Michigan State Housing Development Authority (MSHDA) to allocate funds under the Michigan Homeowner Assistance Non-Profit Housing Corporation (MHA) to eligible Michigan cities.<sup>3</sup>

On October 7, 2013, the City of Detroit and the State of Michigan entered into an agreement under which the MHA allocated \$52.3 million of HHF funds (hereinafter referred to as HHF1) to be used within the City for blight elimination.<sup>4</sup> The DLBA and DBA (the authorities) facilitate the demolition program on behalf of the City.<sup>5</sup> State oversight of the program for HHF1 was provided to the DLBA by MSHDA and the Michigan Land Bank Fast Track Authority (MLB). The MLB hired ADR Consultants (ADR) to provide technical assistance to Detroit and other cities undertaking the blight elimination programs.<sup>6</sup> (See Appendix D- Definitions.)

### **b. DLBA and DBA Relationship to the City of Detroit**

The DLBA is a public authority established pursuant to the Land Bank Fast Track Act<sup>7</sup> and an intergovernmental agreement (IGA) between the Michigan Land Bank Authority and the City of Detroit.<sup>8</sup> Therefore, the DLBA is not a City of Detroit department or agency. It is a separate legal entity, governed by its Board of Directors. The Board selects and retains an

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<sup>2</sup> In 2010, the U.S. Department of Treasury created the Troubled Asset Relief Program's (TARP) foreclosure prevention program known as the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets, or the Hardest Hit Fund (HHF). This program was created to assist homeowners in the 18 states and the District of Columbia most affected by the mortgage foreclosure crisis.

<sup>3</sup> [http://www.michigan.gov/documents/landbank/HHF\\_FAQs\\_9\\_5\\_13\\_External\\_435830\\_7.pdf](http://www.michigan.gov/documents/landbank/HHF_FAQs_9_5_13_External_435830_7.pdf).

<sup>4</sup> Detroit has been awarded 5 rounds of Hardest Hit Funds: HHF1 was initially \$52.3 million; HHF1 additional funds of \$5 million awarded in September 2014 totaling \$57.3 million for HHF1; HHF2 was \$49.9 million in total; HHF3 was \$21.25 million in total; HHF4 was \$41.9 million in total; and HHF5 was \$88.1 million in total.

<sup>5</sup> The DBA provided such services to the DLBA as reviewing requests for proposals; recommending the award of contracts; ensuring applicable permits are obtained by contractors; confirming utility disconnects and environmental clean-up; ensuring demolition completion and clearance and managing the performance of the contractors.

<sup>6</sup> The MLB and DLBA entered into an Intergovernmental Agreement (IGA) which provided that the MLB would provide the DLBA with project management assistance in carrying out its participation as a blight partner in MHA's blight elimination program. ADR assisted the MLB in providing this assistance.

<sup>7</sup> MCL 124.751

<sup>8</sup> On July 29, 2008, the Detroit City Council approved the adoption of the Intergovernmental Agreement between the Michigan Land Bank Fast Track Authority and the City of Detroit. On December 19, 2013, the Michigan Land Bank Fast Track Authority and the City of Detroit entered into a Second Amended and Restated Intergovernmental Agreement for the purpose of amending and reconstituting the Detroit Land Bank Authority. The agreement was signed by MLB Executive Director Kim Holman and City of Detroit Emergency Manager Kevyn Orr.

executive director.<sup>9</sup> The IGA expressly tasked the DLBA Board of Directors with several responsibilities which includes: 1) the implementation of day-to-day operations; 2) an annual audit in accordance with the Michigan Budget Act;<sup>10</sup> 3) the adaptation of DLBA's personnel policies and procedures; 4) the ability to contract with others for the provision of all or a portion of the services necessary for the management and operation of the DLBA; and 5) the adaptation of policies and procedures for contracting and procurement.<sup>11</sup>

Likewise, the DBA is another public authority established pursuant to the Michigan Building Authorities Act.<sup>12</sup> The DBA's Articles of Incorporation allow it to contract with the City of Detroit for maintenance and repair of any buildings owned or leased by the City, or owned or leased by a public entity created by the City in furtherance of any public purpose for the City. Therefore, DBA's relationship with the City of Detroit is that of a professional contractor. This relationship was formalized pursuant to the Demolition Management Agreement dated October 31, 2014.<sup>13</sup>

Though neither authority is a City of Detroit department nor agency, each receives funding from the City. In Fiscal Year 2016, the City allocated \$11.83 million from the general fund to DLBA for its operating expenses.<sup>14</sup> In Fiscal Year 2016, the City allocated \$1,513,100 to the DBA. The authorities also received HHF management fees for each structure demolished under the HHF program.<sup>15</sup>

On March 31, 2015, the DLBA and the City of Detroit entered into the Demolition Advance Funds Loan Agreement because MSHDA does not make progress payments to the DLBA and only reimburses the DLBA once a structure is completely demolished. The agreement authorized the City, with the approval of the Chief Financial Officer, to create a Demolition Advance Fund for the DLBA in an amount not to exceed \$20 million in outstanding advances at any time.<sup>16</sup> Therefore, while it may take several months before the DLBA receives HHF reimbursement funds for demolition costs, the loan agreement gives the DLBA the ability to pay outstanding bills from demolition contractors who cannot wait to receive payment for

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<sup>9</sup> The Board consists of 5 members. Four members are appointed by the Mayor with City Council approval. One member is appointed by the Executive Director of MSHDA.

<sup>10</sup> Budget Act means the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.421 to 141.440a.

<sup>11</sup> Unless specifically reserved or conditioned upon the approval of the City of Detroit or City Council in the Intergovernmental Agreement with the State, all powers granted under the Land Bank Act to the DLBA may be exercised by the DLBA without the approval of the City Council.

<sup>12</sup> MCL 123.951

<sup>13</sup> This agreement was signed on behalf of the DBA by Chairman Isaiah McKinnon and Treasurer Christopher T. Jackson; on behalf of the City of Detroit by F. Thomas Lewand. It was approved by the DBA Board of Commissioners on September 24, 2014.

<sup>14</sup> Memorandum Review of the Detroit Land Bank Authority's FY 2015 and FY 2016 Budgets to the Honorable Detroit City Council from David Whitaker, Director, Legislative Policy Division Staff dated May 5, 2015. The report stated on page 2 that the "DLBA is responsible for providing a major part of the blight remediation activities on behalf of the City of Detroit, and is responsible for providing residential services formerly provided by the Planning and Development Department, such as the maintenance of the city's residential property inventory, side lot sales, direct sales, auction sales, etc. Consequently, operating costs now loom largely for the DLBA, and without enough operating revenues being generated by the DLBA to operate self-sufficiently, there will be an ongoing need for a subsidy from the city for the DLBA to run sufficiently."

<sup>15</sup> The DBA stopped receiving HHF management fees for work performed after the fiscal year end of June 30, 2018.

<sup>16</sup> This agreement was signed by City of Detroit CFO John Hill, DLBA Executive Director Kevin Simowski, and DLBA Deputy General Counsel Kim Homan.

completed work. The loan agreement further requires the DLBA to repay the City the Demolition Advance Funds within 45 business days after receiving the final payments of HHF dollars from MHSDA.

The City of Detroit requested that DBA enter into an agreement with DLBA for the demolition of residential properties located in the City.<sup>17</sup> As a result, DLBA and DBA entered into a Demolition Management Agreement whereby the DLBA engaged the professional services of the DBA to coordinate and implement the demolition program. DBA serves as DLBA's program manager and oversees the demolition process. The DBA therefore reviews requests for proposals, recommends awarding of contracts, ensures applicable permits are obtained by the contractors, confirms utility disconnects and environmental clean-up, ensures demolition completion and clearance, and manages the performance of the contractors who are engaged by the DLBA to implement the annual demolition plan. DLBA paid the DBA a fee of \$250 for each structure demolished under the demolition program.<sup>18</sup> However DBA was already assisting the DLBA with the demolition process.

### **c. Land Transfer Agreements**

Between October 2013 and September 2014, the Detroit City Council transferred approximately 27,000 parcels with residential structures to the DLBA to carry out the Hardest Hit Program during the HHF1 round of funding.

- On October 31, 2013, the Detroit City Council approved the transfer of 659 parcels.<sup>19</sup>
- On April 15, 2014, the Detroit City Council approved the transfer of 16,399 parcels.<sup>20</sup>
- On September 23, 2014, the Detroit City Council approved the transfer of 10,316 parcels.<sup>21</sup>

The transfer agreements stated that the DLBA was responsible for the demolition or the rehabilitation of the blighted properties. The terms of the transfer also required the DLBA to maintain the property after demolition and to work to redevelop the parcels. The October 31, 2013 agreement stated that all "demolition projects would be subject to the Hardest Hit Funds

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<sup>17</sup> Demolition Management Agreement By and Between the City of Detroit Building Authority and Detroit Land Bank Authority, February 2, 2015, pgs. 1.

<sup>18</sup> Demolition Management Agreement By and Between the City of Detroit Building Authority and Detroit Land Bank Authority, February 2, 2015, pgs. 1-4. It was signed by City of Detroit representatives Chairman Isaiah McKinnon and Treasurer Christopher T. Jackson, DBA General Counsel Lewis & Munday, P.C., and Detroit Land Bank Authority employees Executive Director Keven G. Simowski and DLBA General Counsel Michael Brady. This agreement was approved by the DBA Board of Commissioners by Resolution December 11, 2014. Resolution 02-04-2015 Concurrent Resolution Approving a Demolition Management Agreement By and Between the City of Detroit Building Authority and Detroit Land Bank Authority, attached to this Demolition Management Agreement, states that "pursuant to the Property Management Agreement between the City of Detroit and the Detroit Building Authority, dated October 31, 2014, the City has requested that the DBA enter into this Demolition Management Agreement by and between the City of Detroit Building Authority and the Detroit Land Bank Authority for the demolition of certain residential improvements situated on property in the City."

<sup>19</sup> City of Detroit Journal of the City Council from January 3, 2013 to December 6, 2013, pgs. 1759-1760.

<sup>20</sup> City of Detroit Journal of the City Council from January 6, 2014 to December 8, 2014, pgs. 638-644.

<sup>21</sup> City of Detroit Journal of the City Council from January 6, 2014 to December 8, 2014, pg. 1965.

policies and procedures and all other such regulations and/or statutes governing the demolition of property.”<sup>22</sup>

The April 15, 2014 transfer agreement stated that the City did not have the resources or the capacity required to undertake such a large demolition program and that the DLBA did not have title to enough properties to expend the HHF1 allocation. The agreement noted that the City held sufficient number of parcels that included residential structure for the DLBA to expend the HHF allocation if those parcels were owned by the DLBA. In addition, the Michigan Land Bank Fast Track Act<sup>23</sup> gave the DLBA authority to implement policies to provide for the disposition of acquired properties, including the demolition and deconstruction of properties that could not be reasonably rehabilitated.<sup>24</sup>

The agreements require the DLBA to report to the Mayor and the City Council every quarter which must include a listing of each residential parcel to which title was received from the City, along with the number of properties demolished, deconstructed and sold during that quarter. In addition, the agreement provides that the DLBA report on public health indicators.<sup>25</sup> None of the transfer agreements require the DLBA to adhere to City of Detroit procurement policies with respect to the selection of contractors.

#### **d. Procurement and Contracting**

The IGA between the MLB and the City of Detroit expressly tasked the DLBA Board of Directors with adopting policies and procedures for contracting and procurement.<sup>26</sup> DLBA’s *Contracting and Procurement Policy* relevant to this investigation was adopted in May 2014.<sup>27</sup> The policy states that DLBA must use a competitive procurement process for purchases of goods and services in excess of \$100,000. DLBA is required to issue a Request for Proposals (RFP) to at least 3 qualified sources. Adequate public notice of the RFP has to be given for a reasonable time, preferably at least 10 business days but no less than 5 business days for the opening of bids. The selection of the winning bidder is subject to the review and approval by the DLBA Board of Directors. In lieu of obtaining quotes, the DLBA Board of Directors may choose to issue a Request for Qualifications (RFQ) when purchasing professional services in an amount not to exceed \$100,000. Professional services are defined in the DLBA policy “as unique, technical or

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<sup>22</sup> City of Detroit Journal of the City Council from January 3, 2013 to December 6, 2013, pgs. 1759-1760.

<sup>23</sup> MCL 124.751

<sup>24</sup> City of Detroit Journal of the City Council from January 6, 2014 to December 8, 2014, pgs. 640.

<sup>25</sup> City of Detroit Journal of the City Council from January 6, 2014 to December 8, 2014, pg. 641.

<sup>26</sup> Second Amended and Restated Intergovernmental Agreement Between the Michigan Land Bank Fast Track Authority and the City of Detroit continued the Detroit Land Bank Authority which was created in 2008, dated December 19, 2013, pgs. 7-8.

Unless specifically reserved or conditioned upon the approval of the City of Detroit or City Council in the agreement, all powers granted under the Land Bank Act to the DLBA may be exercised by the DLBA without the approval of the City Council.

<sup>27</sup> On October 21, 2014, DLBA revised its *Contracting and Procurement Policy*. One of the revisions on page 1 states that “it is expected and required that DLBA staff make a good faith effort to obtain the lowest price offered when seeking to enter into any contract for or procurement of goods or services, based on the apparent needs of the DLBA. If the lowest price available amongst comparable goods or services is not chosen, there must be a documentable reason for choosing a higher price, which generally relates to the quality or unique nature of goods or services rendered. When contracting for or procuring goods and series rendered up to \$50,000, the DLBA can exercise the option to, but is not required, to obtain quotes. If quotes are obtained, they need not be solicited. It is expected that a good faith effort will be made by DLBA staff to obtain the lowest price for the good or service necessary.”

infrequent functions performed by an independent contractor by education, experience, and/or technical ability to provide services and may involve partnerships, corporations, limited liability companies or individuals.”<sup>28</sup>

However, on October 1, 2013, prior to the adoption of the revised *Contracting and Procurement Policy*, the DLBA Board passed a resolution authorizing the executive director to execute contracts and agreements under the HHF program.<sup>29</sup> The resolution essentially gave the DLBA executive director responsibility for HHF contracting.<sup>30</sup> As such, the DLBA executive director was not required to seek Board approval for contracts under the HHF program. As a result, none of the actual contracts awarded under RFQ No. 06172014A were brought before the Board.<sup>31</sup> Thereafter, on the June 17, 2014 DLBA Board of Directors meeting, Resolution 06-04-2014 was approved by the board. The resolution authorized the executive director to “enter into unit priced contracts for all activities associated with the Hardest Hit Fund Demolition Program including but not limited to demolition, asbestos survey, asbestos remediation, and any other related contract for the activities required to successfully complete the program.” Also, prior to the resolution approval, the DLBA had discussions with MSHDA regarding the question of whether the contemplated RFQ complied with program regulations.

Pursuant to the IGA, the DLBA contracts directly with contractors for all demolition work. Therefore, the DLBA has final authority over the awarding of the contracts. The agreement further provides that the MLB would:

Oversee the entire demolition process including requests for proposals, awarding the contracts, ensuring applicable permits are obtained by contractors, environmental clean-up, demolition, and project clearance and completion, in a manner to successfully and fully carry out the terms of the Blight Elimination Program agreement on behalf of the DLBA.

The MLB outsourced the management of HHF1 to ADR, which is owned and operated by Barry Ellentuck. Per the contract, Mr. Ellentuck developed the RFPs<sup>32</sup> for the procurement process as well as the scoring methodology for Detroit and other cities. HHF1 contracts were placed for bid on ADR’s website.<sup>33</sup> Once Mr. Ellentuck tabulated the HHF1 scoring, he forwarded the results to the authorities. Bid tabulations were typically reviewed by DLBA

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<sup>28</sup> DLBA Contracting and Procurement Policy, pgs. 7-8.

<sup>29</sup> HHF procurement has always been distinguished from other procurement at the DLBA. HHF procurement has been authorized in each respective HHF resolution.

<sup>30</sup> Juanita Jones was the managing DLBA Executive Director in October 2013. At the time of the execution of RFQ No. 06172014A the DLBA Executive Director was Richard Wiener.

<sup>31</sup> DLBA Resolution No. 10-01-2013 states: “ Resolution ratifying the managing Executive Director’s execution of the MSHDA Partnership Agreement for the Hardest Hit Fund program and any ancillary agreements and documents in connection therewith (including the acquisition of assets for the purpose of completing the program, whether publicly or privately held, and also including but not limited to demolition, asbestos survey, title, technology and any other related contract for the program management activities required under the funding) between the DLBA and MSHDA/ MHA in an amount not to exceed \$52.3 million for the program management and demolition of up to 4,000 structures in the DFC-6 target areas.”

<sup>32</sup> DLBA was responsible for bundling the properties that were bid on through the RFP process.

<sup>33</sup> ADR Consulting’s website is <http://www.mlbdemo.us/>. Currently, DLBA and DBA develop the RFPs which are placed on DLBA’s website for bid at <http://www.buildingdetroit.org/opportunities/open-rfps-and-rfqs/>

Deputy Director for Acquisition and Land Use Carrie Lewand-Monroe,<sup>34</sup> DBA Deputy Director James Wright, DBA Director of Special Projects Brian Farkas, and DBA Director David Manardo, who determined which contractor received the contract. Carrie Lewand-Monroe, James Wright and David Manardo have since taken other employment opportunities. ADR would then issue a notice of award to selected contractors. However, ADR's demolition management in Detroit was transitioned to the DBA in the fall of 2014 though ADR's contract with the MLB was not effectively terminated until April 2015.

#### e. **Spending Timeline**

The Blight Elimination Program has spending requirements that go into effect once an agreement is reached. Fully executed partner agreements require that each partner must spend 25% of all funds in the first 6 months, up to 70% of award within 12 months of executing the agreement, and the remaining award of up to 100% must be spent within 18 months. Awards to any community not reaching the 12 or 18 month benchmark may be reduced by the difference between the benchmark and the amount expended as of that date.<sup>35</sup>

On October 7, 2013 the MHA, DLBA and City of Detroit signed a Memorandum of Understanding (MOU) which required the DLBA to spend 70% of the \$52.3 million allocated to it by October 7, 2014. The MOU also stated that if the DLBA was unable to expend the funds within that time, MHA may, at its sole discretion, allocate the remaining funds to another city or for another program.<sup>36</sup> The MOU was signed by City of Detroit Emergency Manager Kevyn Orr, DLBA Managing Director Juanita R. Jones, and MHA Vice President Mary Townley. (See Appendix E- HHF1 Timeline)

### **III. Discussion**

#### **a. Overview RFQ No. 06172014A**

Pursuant to ADR's contract with the MLB, on June 17, 2014, ADR issued RFQ No. 06172014A for demolition and asbestos abatement of residential properties via a large scale unit pricing model for the Hardest Hit Fund project. Qualifications were due by June 19, 2014. On June 23, 2014, Mr. Ellentuck emailed Mr. Manardo, Mr. Wright, and ADR program manager Lyn Jordan and informed them that three qualified contractors had responded to the RFQ. Mr. Ellentuck identified the contractors as MCM, Adamo, and Homrich. On that same day, Mr. Manardo responded to Mr. Ellentuck and stated that he was "fine with moving forward with these three contractors for 'mega contract' award."<sup>37</sup> On June 27, 2014 at Mr. Ellentuck's direction, Ms. Jordan notified the contractors of their preliminary award via email. The contracts required companies to perform demolition and abatement work for a fixed fee of \$0.52 per cubic

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<sup>34</sup> In 2014, Carrie Lewand-Monroe was Deputy Director for Acquisition and Land Use. She served as the DLBA Acting Executive Director from September 2015 to December 2015. In December 2015 she became the DLBA Executive Director. Ms. Lewand-Monroe served in this capacity until May 2018.

<sup>35</sup> *Blight Elimination Program Operations Manual*, page 6.

<sup>36</sup> Memorandum of Understanding City of Detroit and Michigan Homeowner Assistance Nonprofit Housing Corporation Help for the Hardest Hit Blight Program.

<sup>37</sup> James Wright, Lyn Jordan, Carrie Lewand-Monroe, Martha Delgado, Brian Farkas, and Rebecca Christensen were copied on this email.



foot as computed by LIDAR<sup>38</sup> and compiled by the DLBA. It also required bidders to demonstrate the capacity to complete a minimum of 800 demolition and abatements within 60 days (400 per month).

The traditional bid process allows for demolition contractors to submit a bid for the property bundle identified in the RFP. These traditional or non-unit price bids are typically opened in between 5-10 days.<sup>39</sup> Contractors must be pre-qualified to submit a bid. Traditional bids include a set property list with an asbestos survey which allows contractors to base their bid on estimated abatement and demolition costs. The bids are tabulated and awarded to the lowest qualified contractor. See Appendix F for a comparison between traditional bids and RFQ No. 06172014A.

#### **b. Purpose of RFQ No. 06172014A**

According to the DLBA and the DBA officials, RFQ No. 06172014A was devised to increase the speed and capacity of demolitions.<sup>40</sup> They believed if the DLBA failed to spend 70% of the \$52.3 million allocated to it by October 7, 2014 as required by the Blight Elimination Program, the authorities would lose the unspent funds to another city or program. In an email dated August 14, 2014, Mr. Farkas stated that DLBA had to get maximum capacity for the demolition contractors.<sup>41</sup>

DLBA worked with MSHDA and the US Treasury to create a unit price system of large volume contracts with a price per square foot based on the competitively bid houses. MSHDA and the US Treasury approved of the unit price system. The unit price contractors were offered to all contractors; three contractors opted in. Once the deadline is met or the DLBA is otherwise relieved of it, the HHF demolition program will stop the unit price system.

When the RFQ was issued in June 2014, no HHF dollars had been drawn down and only \$421,000 had been paid out to contractors. MHA considered funds spent once they were drawn down. However, due to the length of time it took to get funds from MHA, the DLBA paid contractors prior to receiving the funds.

Then DBA Deputy Director James Wright stated that the demolition process started more slowly than the authorities had hoped because of lack of staff and immediate title access to the properties. Demolitions did not begin until April 2014, six months after the Emergency Manager signed the agreement for the first distribution of HHF1 to the DLBA. The authorities stated that

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<sup>38</sup> LIDAR is Light Detection and Ranging. It is a remote sensing method used to determine the cubic feet of each property.

<sup>39</sup> DLBA Procurement Policy

<sup>40</sup> OIG interviews included DLBA Executive Director Carrie Lewand-Monroe, DBA Director of Special Projects Brian Farkas, and DBA Deputy Director James Wright. Ms. Lewand-Monroe became DLBA Acting Executive Director in October 2015 and became DLBA Executive Director in December 2015. Prior to that time and during the relevant dates of the OIG investigation, Ms. Lewand-Monroe was Deputy Director of Acquisitions and Land Reuse. Richard Wiener was the DLBA Executive Director from January 2014 through October 2014. Kevin Simowski was the DLBA Executive Director from November 2014 until October 2015.

<sup>41</sup> Brian Farkas sent this email to Tom Ouvry and copied Rebecca Christensen, David Manardo, and James Wright.

they were put at a disadvantage because the Emergency Manager signed the agreement before the DLBA had the resources necessary to meet the spending timeline established by MSHDA. Ms. Lewand-Monroe said that from the time the agreement was signed in October 2013 until March 2014, the DLBA had approximately 500 properties and 4-5 employees for the entire organization which was not enough staff to manage the necessary demolition progress. Therefore, speed and capacity had to be increased to meet program deadlines. During that time, the DLBA hired the needed staff and on April 15, 2014, the Detroit City Council approved the transfer of 16,399 properties to DLBA. The DLBA currently has over 140 employees.

The authorities needed to ramp up production to meet the program goals. Mr. Wright explained that to accomplish the 70% spend down requirement, the authorities needed to contract with large contractors and give them a large number of properties to demolish in a short amount of time. The authorities maintained that they hoped that offering a large-unit contract would attract large regional and national demolition contractors to Detroit.

Therefore, the authorities, in consultation with ADR owner Barry Ellentuck, released a large RFP in June 2014 in an attempt to attract new large contractors to the city demolition program. Mr. Ellentuck met weekly with DLBA and DBA officials, emailed meeting minutes and actions items to the attendees. His minutes from the May 30, 2014 meeting stated that a 100 unit RFP was going to be released on June 2, 2014 to “support Bierlein site visit and attract MCM.”<sup>42</sup> Prior to the release of this RFP, DLBA had contracted with eight (8) contractors, including Adamo and Homrich.

Mr. Wright stated that the RFQ set the demolition goal at 800 properties to achieve the 70% spend down. Based on the average cost of demolitions that were done prior to the issuance of the RFQ and the demolitions already under contract set to be performed, an additional 800 properties needed to be demolished to achieve the spend down goal.<sup>43</sup>

### **c. Large-Unit Contractor Meeting**

On June 10, 2014 and June 11, 2014, the DBA held a meeting with Adamo, Bierlein, Homrich, and MCM prior to the release of RFQ No. 06172014A.<sup>44</sup> Though the DBA typically met with contractors on a bi-weekly basis to discuss the demolition process, only these select contractors were invited by DBA officials to attend this meeting. The DBA noted that they were attempting to bring in additional contractors who were not already doing demolitions in the City of Detroit. However, of the four contractors invited to attend the meeting, only Bierlein was a potential new contractor to the city’s demolition program. Adamo and Homrich were already completing demolitions within the City of Detroit and on June 17, 2014 MCM signed a contract to demolish 100 properties. Mr. Ellentuck’s meeting minutes from June 6, 2014 indicate that the unit pricing meeting with contractors would provide the basis for the new large volume RFP. He

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<sup>42</sup> This was RFP No. HHF06022014A. It was a competitively bid RFP for 100 properties. Able, Adamo, Blue Star, MCM and Homrich submitted bids and MCM was awarded the contract.

<sup>43</sup> Mr. Farkas stated that the City of Detroit needed 800 total demolitions. The purpose of the large-unit contract was not for each participant to do 800 demolitions but all who participated to total that number of demolitions. He stated that the RFQ required 800 demolitions because they were unsure how many contractors would submit their qualifications.

<sup>44</sup> One DLBA representative attended the large-unit contractor meeting. DLBA Data and Asset Manager Greg Holman presented information to the attendees.

estimated 3-5 companies would bid.<sup>45</sup> The meeting notes did not indicate that the participants discussed how to attract even more large demolition contractors despite that being a stated goal of the large unit RFQ.

Mr. Wright stated that DBA chose the contractors primarily based upon DBA's knowledge of the demolition market. The contractors were invited to the meeting based on their perceived capacity to demolish 75-100 properties per week. DBA requires that all contractors submit information regarding firm capacity when bidding on a project. The information includes a list of all of mechanized equipment as well as the number of complete crews that the firm proposes to commit to the assigned project. Mr. Wright stated that DBA used this data to help determine which contractors to invite to the large-unit contractor meeting. In addition, he stated that DBA conducted research using the National Demolition Association website; however, he was unable to provide details concerning this research.

It is not clear exactly when the authorities first began discussing the idea of the large unit RFQ. An email dated May 9, 2014 indicates that Mr. Wright emailed Building, Safety, Engineering, and Environmental Department (BSEED) Director Dave Bell and Office of Contracting and Procurement (OCP) Chief Procurement Officer Boysie Jackson asking if either of them "had packaged up demo RFP's in the past using unit pricing." Additionally, email communication from one of the contractors invited to the meeting makes it clear that some discussions began prior to the large unit contractor meeting. Nick Straub discussed the idea in an email to Mr. Manardo on May 28, 2014.

At this time Roger Homrich and I would like to sit down with you and discuss putting together a unit price contract for future work. It is important to put together a go forward plan very soon as we do not want to assign these House Demolition crews to other projects.

It is likely that DBA was discussing the concept of a unit price contract with at least one contractor prior to the large-unit contractor meeting. The OIG does not know the content of the discussions and it is possible that it was discussed who should be invited to the meeting. No articulable rationale was given for who was excluded from the meeting which leads to potential questions regarding these conversations.

Mr. Wright explained that contractors were invited by email to discuss the procurement plan for cubic foot pricing which was a different way of establishing price than was previously used. The OIG requested the invitation email but DBA was unable to produce it. Mr. Wright also noted that Adamo and Homrich had been doing demolitions in the City of Detroit and he had prior conversations with MCM and Bierlein about bidding on demolitions in the City. However, there is no evidence that anyone at the authorities contacted any other large regional and national contractors to alert them of the opportunity to bid on the large unit contract. Records indicate the following individuals attended the large-unit contractor meeting: John Adamo (Adamo), Barry Ellentuck (ADR), Ray Passeno (Bierlein), Greg Holman (DLBA), Rebecca Christensen (DBA), Brian Farkas (DBA), David Manardo (DBA), Tom Ouvry (DBA),

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<sup>45</sup> Mr. Ellentuck met weekly with officials from DBA and DLBA to discuss the demolition program and bids.

James Wright (DBA), Anthony Abela (Homrich), Nick Straub (Homrich), Roger Homrich (Homrich), Elisabeth Williams (MCM), Leon Bunch (MCM) and Rob Mardigan (MCM).<sup>46</sup>

Mr. Wright stated that the purpose of the meeting was to discuss the proposed RFQ. DBA wanted to gauge contractor capacity, interest and qualifications. DBA also wanted to discuss contractor concerns. Mr. Wright said that this type of contract had not been done before, and that he was trying to identify potential problems that might arise. DBA also wanted to make sure that the price was competitive and would result in contractors submitting qualifications. Once it became apparent that these contractors were interested in the large scale unit pricing model, the authorities did not take any other steps to inform other potential large contractors of the upcoming RFQ.

Participants claim that DBA described the concept of the large-unit contract to attendees and that contractor capacity was a major focus. Homrich employee Nick Straub recalled that contractors were told that the City of Detroit needed to demolish a set number of properties by the end of September 2014 and the plan was for each company to demolish approximately 600 properties. Mr. Straub also indicated that DBA officials stressed the importance of submitting invoices in on time. He said that Mr. Ellentuck gave a presentation to the contractors regarding the administrative side of the demolition project proposal as well as invoicing requirements.

Authority officials stated that attendees negotiated the concept and structure of the contract. Attendees discussed how to most effectively distribute properties to contractors and decided that properties would be disbursed in batches. Contractors also voiced their concerns regarding taking the properties sight unseen. Traditional RFPs allowed contractors to examine properties and obtain an asbestos survey prior to submitting a bid. The contractors were concerned that \$0.52 per cubic foot would not be adequate to cover properties that contained asbestos, debris, tires, and trees that were outside the norm. Mr. Straub stated that contractors were able to negotiate for the provision that any property could be returned for any reason to eliminate the risk of contractors being required to demolish a home whose cost far exceeded \$0.52 per cubic foot.

The attendees also discussed the potential for change orders to cover the cost of backfill. The \$0.52 per cubic foot pricing did not take into consideration the price of dirt because there was enough free dirt to fill the holes left by the properties that were demolished prior to the implementation of the large-unit contract. All attendees agreed that with a much higher number of properties being demolished, there would not be enough free dirt to fill in the holes left by the demolition process.

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<sup>46</sup> On June 10, 2014, Rebecca Christensen sent an email to John Adamo, Barry Ellentuck, Ray Passeno, Greg Holman, Rebecca Christensen, Brian Farkas, David Manardo, Tom Ouvry, James Wright, Anthony Abela, Nick Straub, Roger Homrich, Elisabeth Williams, Leon Bunch, and Rob Mardigan. The subject was Wednesday Meeting. It stated "Thank you all for attending this afternoon- we will see you tomorrow at 11:00 am in the same location." On June 11, 2014, Greg Holman sent an email to "everyone on the sign in sheet." The email contained a spreadsheet that was used at the meeting containing all bid package prices. The email was sent to Rebecca Christensen, John Adamo, Barry Ellentuck, Ray Passeno, Brian Farkas, David Manardo, Thomas Ouvry, James Wright, Anthony Abela, Nick Straub, Roger Homrich, Elisabeth Williams, Leon Bunch, and Rob Mardigan.

#### **d. Price Discussions at the Large-Unit Contractor Meeting**

All of the individuals interviewed by the OIG stated that the attendees discussed pricing for the large unit contract. The authorities contend that the purpose of discussing price was to make sure that the rates were competitive and would result in contractors submitting qualifications.

On June 10, 2014, DLBA Data and Asset Manager Greg Holman presented the price model to contractors. Mr. Holman provided a spreadsheet to participants that detailed prior demolition bids and the LIDAR data for each of these properties. The spreadsheet detailed the average low bids and average bids submitted for prior demolitions. The average low bid was \$0.47 per cubic foot and the average bid was \$0.52 per cubic foot.

Mr. Farkas stated that the contractors advocated for the average bid amount as opposed to the average low bid amount. One contractor advocated for an even higher price which the authorities were unwilling to consider. Mr. Wright stated that the price did not change because of the meeting. He indicated that he thought going into the meeting that \$0.52 per cubic foot was a fair price. He said that it better reflected the cost of demolition at this level and pace as opposed to the low bid average of \$0.47 per cubic foot.

Homrich employees Nick Straub and Anthony Abela stated during their interview that on June 10, 2014 contractors were presented with a spreadsheet that indicated where the pricing average came from for the large-unit contract but no actual price was given on that day. They said that it was presented that the price could potentially come from the average low bid or the average bid. On June 11, 2014 contractors returned after having a chance to review their data and consider the pricing model. It was communicated to contractors that \$0.52 per cubic foot would be the price. Mr. Straub stated that contractors were given the option of taking that price or not participating in the RFQ. Bierlein chose not to participate.

#### **e. MSHDA Approval**

While DBA was holding the large-unit contractor meeting, Ms. Lewand-Monroe was discussing the concept with Michele Wildman at MSHDA. Ms. Wildman was the Executive Director of the MLB and an Executive Team Member of MSHDA. Therefore, Ms. Lewand-Monroe believed she was getting assurances from both MLB and MSHDA that the proposed large-unit contract procurement process complied with both agencies' regulations. Ms. Wildman also oversaw the contract with ADR for the state. Ms. Lewand-Monroe explained the concept of the large-unit contract to Ms. Wildman over the phone and their conversation was documented in an email.

On June 10, 2014, Ms. Wildman sent an email to Ms. Lewand-Monroe which described their phone conversation. Ms. Wildman wrote that Ms. Lewand-Monroe explained that:

Given the volume of demolition in Detroit coupled with current contractor capacity- the DLBA needs to proceed with some 'super

bid packs' including a high volume of property. It was my understanding that your review of contractor capacity including a review of bonding, crew capacity and equipment- there are only two firms in the area that meet the qualifications for the 'super bid packs.' The methodology that you described included

1. Calculating a unit price based on data from competitively bid HHF RFP's already completed
2. Using that unit price to set the pricing for these 'super bid packs'
3. Offering contracts to all Michigan firms who respond and can demonstrate they meet the contractor requirements for these 'super bid packs'

It was also our understanding that you intend to continue to issue RFP's of smaller size to other HHF contractors. This methodology as it is described appears to comply with requirements.

On June 10, 2014, after receiving Ms. Wildman's email, Ms. Lewand-Monroe sent an email to Mr. Manardo.

I received this 'compliance' email from Michele Wildman. This is not the process as I described it to her on the phone and want to discuss with you before I respond in writing. I explained to her that there would not be a bid process but that we would engage in direct negotiations with the contractors. Therefore step 3 is inaccurate. We would not be offering contracts to 'all Michigan firms who respond' as there will not be an RFP to respond to. Rather we will be directly negotiating with Michigan firms whose capacity we know to be such that can fulfill the requirements of a large-scale unit price contract. In essence it will be two sole-source contracts. I will wait to respond until you've had your meeting tomorrow afternoon but I'd like to get your thoughts on this as soon as possible.

On June 10, 2014, Mr. Manardo responded to Ms. Lewand-Monroe via email. He stated "I think we will put out a bid but it will be stipulated unit pricing for packages greater than 275 units/ month and bonded. This will be open to anyone who can qualify but will tend to be self-limiting. Therefore #3 is ok.<sup>47</sup>" He continued:

The concern now is that we cannot get the largest contractors (those capable of meeting those constraints) to accept the [cost per cubic foot] based upon the historical lowest bid pricing. Their claim is that packages of this magnitude require significant

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<sup>47</sup> #3 refers to Ms. Wildman's June 10, 2014 email to Ms. Lewand-Monroe which stated "3. Offering contracts to all Michigan firms who respond and can demonstrate they meet the contractor requirements for these "super bid packs."

resources both in the field and in the office as well as commitments for extended work weeks etc. In addition, the vast majority of the packages let to date have gone to smaller contractors who have less overhead (manpower, equipment, etc.) and can take the work for a lower price. These firms however don't have the capacity to take on the 'mega work' within the timeframes required... 275-400 structures/month. The ability to take on work of that capacity within that timeframe requires significant infrastructure (synonym cost). We are going to have to increase the cost to get them to commit. I'm not sure where we will end up but we will continue to apply downward pressure. Will this pricing arrangement be acceptable? Without a unit pricing arrangement like this our only option is to go back to bid packs which will limit our ability to get anywhere near where we need to be by October 1<sup>st</sup>.

On June 11, 2014, Ms. Lewand-Monroe sent an email to Ms. Wildman clarifying that the DLBA will be calculating a unit price based on data from competitively bid HHF1 RFPs already completed and that unit price will be roughly based on the average bid response received from those completed RFPs. She also stated that the DLBA will also establish written qualification criteria that the firms must meet to be awarded one of the bid packages. The emails provided to the OIG did not contain a response from Ms. Wildman on the clarification and Ms. Lewand-Monroe stated that no such written response was sent.

During her interview with the OIG, Ms. Lewand-Monroe stated that she relayed the concept of the contract to Ms. Wildman as it was explained to her by Mr. Manardo. She stated that the email exchange with Ms. Wildman in which it was stated that they were "negotiating with contractors" meant that DBA was describing the RFQ to the contractors along with the details of capacity but were not negotiating price. She indicated that they were negotiating: 1) the concept of the contract itself including how to get properties to contractors; and 2) the structure of the contract. She stated that it was DLBA and DBA's first experience with large-unit contracts so they wanted to make sure it was something contractors would be willing to take part in. The contractors interviewed by the OIG also maintained price was not negotiated.

#### **f. Awarding of the Contract**

RFQ No. 06172014A was issued on June 17, 2014 and closed on June 19, 2014. The RFQ was drafted by ADR and posted on ADR's website which was how prior demolition bids were typically posted at that time. DBA officials stated that the RFQ was open to all contractors.<sup>48</sup> However, the price and parameters for capacity limited the number of contractors that would qualify for the contract. Adamo, Homrich, and MCM were the only contractors who submitted the bids, and all three were awarded large-unit contracts which were executed on July 10, 2014.<sup>49</sup>

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<sup>48</sup> <http://mlbdemo.us/>

<sup>49</sup> On June 23, 2014, Barry Ellentuck sent an email stating that three contractors had responded and all three are qualified. They are: MCM, Adamo, and Homrich. Mr. Manardo responded that "I'm fine with moving forward with these three contractors for

Demolition requests for bid are typically open for five to ten days.<sup>50</sup> However, this request for qualifications was only held open for three days. Mr. Wright stated that the RFQ was unique as compared to the traditional RFPs usually held open for bid. The RFQ required contractors to submit only qualifications whereas RFPs require contractors to submit qualifications as well as a price proposal which includes abatement and demolition costs. The RFP process typically requires contractors to get quotes from subcontractors, usually for abatement, and thus takes longer than 3 days. Also, this timeframe is different from DLBA's normal procurement policy which requires adequate public notice, preferably at least 10 business days but no less than 5 business days for the opening of bids.

The contract required contractors to demolish a large number of properties in a short amount of time.<sup>51</sup> Adamo, Homrich, and MCM were each given properties to demolish in batches or bundles.<sup>52</sup> Mr. Ellentuck sent out a notice to proceed to each contractor listing the properties as they became available.<sup>53</sup> The contract specified a timeline for demolition. The contractor was required to begin work within 15 days after receiving a notice to proceed. Contractors were also required to complete clean-up within 48 hours after knockdown, backfill<sup>54</sup> open holes within 48 hours after open hole inspection by inspector, and complete all demolition activities including clean-up by the scheduled date.<sup>55</sup>

Ms. Lewand-Monroe stated that the contract was not open to smaller contractors at \$0.52 per cubic foot because there was a concern that it would take the smaller contractors too long to complete a bundle of properties. She stated that would defeat the goal of the RFQ which was to demolish a large number of properties in a short amount of time. However, during this time, RFPs were still being issued under the traditional RFP method so all contractors could competitively bid on them.

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'mega contract' award. Please give them preliminary authorization to proceed pursuant to executing signed contracts through DLBA Legal."

<sup>50</sup> City of Detroit Standard Operating Procedure (SOP) Manual (April 2016), Chapter 3: Making a Purchase Section 3.5: Creating, Advertising, and Managing Solicitations (G) Approving and Releasing Bid Solicitations, pg. 24, states that the bid must be published for a "sufficient duration in order to give all suppliers a chance to receive the bid opportunity and formulate a quality response. The length of time a bid should be active depends on the goods or services being procured." No specific timeframe is given.

<sup>51</sup> Before a property could be given to contractors, DTE had to complete the required gas and electric shut-offs.

<sup>52</sup> Detroit Land Bank Authority Demolition of Residential Properties Agreement (Agreement), July 10, 2014, Section 4: Performance Requirements.

<sup>53</sup> For example, on July 7, 2014, Mr. Ellentuck sent an email to Richard Adamo and copied Lyn Jordan, David Manardo, James Wright, and Carrie Lewand-Monroe. It stated "per our conversation earlier, attached is the first release of properties under the large volume unit pricing contract. This initial 154 properties count against your commitment of 800 demolished and invoiced in 60 days. Per previous, contracts are in process and you will need to supply a \$2M Performance Bond and Proof of Insurance naming both DLBA and ADR as Certificate Holders."

<sup>54</sup> Backfill means filling the open hole left after removal of the foundation to final grade level, with approved backfill material according to the specifications.

<sup>55</sup> Agreement, Section 4: Performance Requirements.



## **g. Contract Provisions**

### **i. Change Orders**

Authority officials allowed for change orders and for the return of properties under RFQ No. 06172014A. Ms. Lewand-Monroe stated that change orders were not seen as an issue. She explained that MSHDA typically allows for change orders and other HHF demolition RFP's state that change orders are permissible.<sup>56</sup>

The contract between the DLBA and the large-unit contractors provided that “the services required consist of demolition and clearance of structures and contents, whether above or below ground on each site as directed by the DLBA. Modifications may be made by subsequent change orders authorized by DLBA or its representatives.”<sup>57</sup> The contract also stated that the contractor has the

Right to request that properties be deleted from its assigned list and returned to the DLBA if, as mutually agreed to by the contractor and the DLBA, or its authorized representative, the subject property contains quantities of asbestos containing material (ACM), regulated or hazardous materials or excess debris at the locations exceeding quantities that normally exist in similar structures.<sup>58</sup>

During the large-unit contractor meeting, contractors voiced their concerns regarding the cost of transite and plaster removal because under the proposed contract, contractors received properties without seeing them and without completing an asbestos survey. Therefore, it was agreed that contractors could submit change orders for an atypical amount of abatement. The contract price of \$0.52 per cubic foot included approximately \$0.10 for abatement. Properties typically have some asbestos in various forms that include pipe wrap and caulking. Contractors were not permitted to submit a change order to cover that cost because it was already factored in to the set price. However, plaster and transite is separate from typical asbestos removal and was not factored into the \$0.52 per cubic foot. Therefore, contractors were allowed to submit change orders to cover the cost of that removal.

The contractors proposed prices for the transite and plaster removal that were not inclusive in the unit price of the contract.<sup>59</sup> This proposal was reviewed by third party consultant Atwell, LLC and DCR Services & Construction, LLC (Atwell) and determined to be fair and reasonable based on market conditions and capacity. After speaking with Atwell regarding their

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<sup>56</sup> For example, RFP No. HHF06022014A Demolition of Residential and Commercial Properties for the Detroit Land Bank Hardest Hit Fund Group HHF6R, Section 3, Scope of Work and for Residential and Commercial Buildings states “modifications may be made by subsequent change orders authorized by ADR.”

<sup>57</sup> Agreement, Exhibit A, Scope of Services.

<sup>58</sup> Agreement, Amendments, 13.02.

<sup>59</sup> On July 25, 2014, Eric Dovas from MCM sent Mr. Ellentuck, Mr. Manardo, and Mr. Wright an email stating “each contractor performed an independent analysis of their historical costs for transite and plaster removal. Upon discussion an average (fair market price) cost is being submitted which includes the standard labor and disposal; along with inclusions to maintain the schedule on this endeavor. Transite: \$2.35/ square foot; Plaster: \$4.10/ square foot.”

analysis, Mr. Manardo approved the prices for transite and plaster change orders on August 1, 2014 via email to the contractors.<sup>60</sup> He approved the prices after receiving verbal assurances and did not wait for the written report because of time constraints.

On August 21, 2014, Mr. Manardo received Atwell's final written analysis. It stated that:

Based on the current market conditions and the various economic conditions discussed below, the unit price of \$4.10 per square foot for plaster and \$2.35 per square foot for transite abatement being proposed by the contractors is reasonable given contract and schedule conditions. In a normal market environment, plaster abatement would average approximately \$3.50 per square foot and transite abatement would average \$1.70 per square foot. However, the time of our project and the pace of abatement required to stay ahead of the demolition contractors has stressed the infrastructure of our local abatement contractors, causing the market prices to increase.

It further stated that "given the requirement to accommodate for the unknown scenarios, overtime required to maintain demolition schedules, and a reasonable markup to manage the abatement contracts the rates are reasonable given contract and schedule conditions."

The price of \$0.52 per cubic foot did not include backfill. Prior to this time, contractors were able to get the necessary dirt to fill the holes left by the demolition of properties for free. However, with the large number of demolitions being completed each week, it was likely that contractors would run out of free backfill and need to purchase it. Therefore change orders were necessary to accommodate this additional cost.

On July 7, 2014, the DLBA engaged Atwell to provide backfill program management, compliance and administration services for the demolition program. Atwell's analysis stated:

The HHF demolition program requires the DLBA to demolish approximately 3,000 structures prior to October 1, 2014. This monumental task has created opportunities unique to normal demolition process because of the volume of structures that need backfill in a short time frame of 2-3 months.

Historically, demolition contractors would typically provide backfill material through their various known resources and relationships that would virtually add very little cost to the demolition budget. All of the contractors have indicated during the

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<sup>60</sup> On July 26, 2014, Mr. Manardo sent an email to Barry Ellentuck asking if he felt the plaster/ transite charge is reasonable (market) given the timeline and 7 day operational requirements to make schedule." Also on July 26, 2014, Mr. Ellentuck responded that "an argument could be made that costs are representative of both total regional capacity in use as well as the extra timing demands being placed upon the contractors. So, in a word- yes."

bid for this project that one of their most anticipated sources of backfill material was to be the I-96 project, which produced upward of 1 million tons of backfill material. However, due to high chloride levels in the soil, the material was not approved for use in the DLBA project. This created a shortage of available backfill material for the HHF program.

The market conditions and the clean fill compliance have made it virtually impossible to obtain free fill at the volumes required for this phase of the HHF project. This has resulted in a need to purchase backfill material during the peak season for trucking, which has driven up the cost of delivered material to the site.

Thus, change orders for backfill were necessary for contractors to complete the demolition process. If contractors waited to secure free backfill, large holes where properties had been demolished would have been left open, creating a hazard to the community. Approximately 96% of the properties had a change order associated with it for backfill totaling \$4,183,736.22

## **ii. Bond Requirements**

The executed contract relating to RFQ No. 06172014A provided that the DLBA would identify structures for demolition and provide this list to contractors on a routine basis normally in groups of 100 to 200 structures.<sup>61</sup> The contract also provided that the contractor must secure a performance bond, in an amount equal to 100% of the total contract amount or \$2 million.<sup>62</sup>

Contractors are typically required to secure bonding for the entire contract value. For example, if a contract was awarded to a contractor with a value of \$100,000, the contractor must provide DBA with documentation showing they have secured a bond for \$100,000. However, Mr. Wright explained that this contract was atypical because when the contractors were awarded the contract they did not have a value attached as contractors did not have a list of properties to demolish. Value was established by the notice to proceed contractors received with actual property bundles attached. In other words, the contracts were not awarded to Adamo, Homrich, and MCM for a predetermined value or a predetermined property bundle. These contractors received a notice to proceed with a list of properties as they became available to be demolished. Value was attached to these bundles based on the cubic feet for each property. Mr. Wright and Mr. Farkas stated that the bonding was set at \$2 million because that reflected the approximate price of the property bundles contractors received for the contract. Mr. Farkas explained that if production was healthy, the contractor was given another bundle of properties provided that DTE had completed the required gas and electric shut-offs.

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<sup>61</sup> Agreement, Section 4: Performance Requirements.

<sup>62</sup> Agreement, Insurance and Fidelity Bonding, 8.01 (d).

#### **IV. Analysis**

Authority officials stated that the large-unit contract was successful in reaching its goals. The Blight Elimination Program required the DLBA to spend 70% of the \$52.3 million, or \$36.61 million, awarded under the HHF1 program by October 2014. If this goal was not met, the MHA could, at its sole discretion, allocate the remaining funds of \$15.69 million to another city or program.

When RFQ No. 06172014A was issued the DLBA had not drawn down any HHF1 dollars and only \$421,000 had been paid out to contractors. As of October 7, 2014, less than 2 months after Adamo, Homrich, and MCM were awarded large-unit contracts, \$3,057,109.21 had been drawn down and \$7,778,376 had been paid out to contractors. MSHDA had a backlog of payment documents to review and approve before the DLBA could draw down the funds. During this time, MSHDA acknowledged that the 70% spending goal was unattainable for the City of Detroit. However, MSHDA was satisfied with the authorities' production levels and progress. Thus, in September 2014, MSHDA awarded the City of Detroit an additional \$5 million and eventually extended the deadline to December 1, 2015 so the city could have time to spend those funds.

The average cost per demolition under the large-unit contract was \$13,748 whereas the average price of traditionally bid demolitions was \$14,543 during that same timeframe.<sup>63</sup> Under the large-unit contract, 1,453 structures were demolished. Specifically, Adamo demolished 607 properties for \$8,103,863, Homrich demolished 593 properties for \$8,399,002, and MCM<sup>64</sup> demolished 253 properties for \$3,562,330.<sup>65</sup>

The large-unit contract was discontinued in October 2014. Mr. Wright stated that this pilot was never intended to be a long-term program. It was implemented to increase the speed and capacity of demolitions as well as attract regional and national contractors. Ms. Lewand-Monroe stated that the program met its first goal of demolishing a large number of properties in a short amount of time. However, it failed to attract regional and national contractors. Also, the authorities determined that 125 to 150 demolitions per week is the ideal pace. They estimate that pace will allow them to reach their blight elimination goal within six years. However, doing more typically results in inefficiencies such as requiring contractors to work overtime leading to higher costs. Therefore, the authorities decided to continue with traditional bids only.

##### **a. Invitation to Participate in Large-Unit Contractor Meeting**

The OIG investigation suggests that the contractors invited to attend this meeting were selected through an arbitrary process. Mr. Wright explained that the DBA chose the contractors to be invited based primarily on DBA's knowledge of the demolition market. He also stated that

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<sup>63</sup> On January 5, 2016, Brian Farkas and Carrie Lewand-Monroe gave a presentation to City Council regarding the HHF demolition program. They stated that the average price for traditional bids was \$14,543. This price was for 4,774 structures through 109 bid packages ranging in sizes for all contractors.

<sup>64</sup> MCM failed to satisfactorily perform under its contract obligations. As a result, MCM had its contract terminated.

<sup>65</sup> Detroit Demolition Program statistics including total number of demolitions and average price per house can be found at <http://www.detroitmi.gov/demolition>. This statistics are updated on an ongoing basis.

the DBA conducted research using the National Demolition Association website. Contractors were allegedly invited by email.

However, Mr. Wright and the other authority officials interviewed by the OIG were unable to articulate specific details of their selection process including the criteria used for their internet search. Authority officials were also unable to provide the email invitation sent out to contractors inviting them to attend the meeting.

The DBA and DLBA should have a more clear and articulable process by which contractors are invited to take part in meetings and bids. To ensure a fair, open, and transparent process, all HHF pre-qualified contractors should have been permitted to attend meetings to determine if they met the qualifications necessary to bid.

#### **b. Large-Unit Contractor Meeting**

The large-unit contractor meeting did not violate any existing DLBA or Blight Elimination Program written policies. However, City of Detroit policies and procedures as well as conversations with State of Michigan employees indicate that it is not best practice to meet with only select contractors prior to a bid being released to the public. Though no definition was provided for the term best practice, the generally accepted definition is a “procedure that has been shown by research and experience to produce optimal results and that is established or proposed as a standard suitable for widespread adoption.”<sup>66</sup> By limiting the number of meeting attendees, it unnecessarily invited the appearance of an unfair process.<sup>67</sup>

Mr. Farkas explained that he and other DBA officials regularly meet bi-weekly with contractors to discuss the demolition program. They typically discuss how to improve the process and try to solve any issues that are slowing capacity and speed. However, what was unique about the large-unit contractor meeting was that it was not open to all contractors. Adamo, Bierlein, Homrich, and MCM attended because they were specifically selected to discuss the potential large-unit contract.

Other contractors were not informed of the meeting nor given an opportunity to provide input. Mr. Wright and Mr. Farkas stated that if they could do the meeting all over again they would still not open it up to smaller contractors. They explained that it would have wasted the other contractors’ time because they could not meet the capacity requirements. Mr. Farkas noted that the contractors not invited to the meeting continued to work on demolitions and had the opportunity to bid on other projects. If smaller contractors were unable to meet the required capacity it would have been a time consuming process to take those properties back from the contractors. Moreover, he believed including smaller contractors in the meeting would have resulted in slowing the demolition process, as the available properties that were ready to be demolished would be locked up in the process. The authorities had a looming deadline and feared that if contractors could not keep the required pace, DLBA would lose the hardest hit funding.

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<sup>66</sup> <http://www.merriam-webster.com/dictionary/best%20practice>

<sup>67</sup> The OIG interviewed the following individuals from the State of Michigan: MHA Director of Homeownership and Vice President of Hardest Hit Program Mary Townley and MSHDA Executive Team Member Michele Wildman.

## i. Policies and Procedures

No City of Detroit policy directly addresses the use of an RFQ that establishes a fixed fee for services as was done in RFQ No. 06172014A. However, the City of Detroit Office of Contracting and Procurement's (OCP) *General Conditions Procurement Policy* and its *Standard Operating Procedure (SOP) Manual* provides guidance to City departments that need to secure goods and/or services.<sup>68</sup> These policies and procedures mainly focus on the competitive bid process and the sole source non-competitive purchase process.

The OCP's policies and procedures seek to maintain purchasing processes that support principles that include supplier competition and negotiation as the foundation of city purchases and purchases that are made based on the highest standards of ethics and integrity.<sup>69</sup> The *General Conditions Procurement Policy* states that procurement for the City of Detroit shall be "carried out in a manner which provides a transparent, open, and fair opportunity to all eligible bidders to participate. This bid shall be made without collusion with any other person, firm or corporation making any bid or proposal, or who otherwise make a bid or proposal."<sup>70</sup>

The City of Detroit's *SOP Manual* states that a citywide understanding of appropriate behavior protects the integrity of the purchasing process. It identifies the following four standards that must be upheld by the departments and staff:

(1) **Responsibility** – taking ownership for decisions that are made or failed to be made, and the consequences that result; (2) **Respect** – showing a high regard for oneself, the department, and resources entrusted to it and supporting an environment where diverse perspectives and views are encouraged and valued; (3) **Fairness** – the requesting department has a duty to make fair decisions and act impartially and objectively in order to make ethical and cost effective purchases; and (4) **Honesty** – acting in a truthful manner both in conduct and communications.<sup>71</sup>

Additionally, the City of Detroit has a process for gathering information that may be used to inform further solicitations called a Request for Information (RFI) as opposed to having the type of meeting that was held by the authorities. An RFI is a tool used to collect market data about a specific purchasing need. The results of an RFI may be used to inform future solicitations, validate pricing received from a future supplier bid, or make longer term procurement decisions. RFIs are information collection tools only and never result in supplier selection.<sup>72</sup>

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<sup>68</sup> These procurement policies pertain only to City of Detroit departments and do not extend to quasi-government agencies such as the DLBA and DBA.

<sup>69</sup> City of Detroit SOP Manual (April 2016), Chapter 1: General Procurement Information, pg. 4

<sup>70</sup> City of Detroit General Conditions, Revised July 2015.

<sup>71</sup> City of Detroit SOP Manual (April 2016), Chapter 1 General Procurement Information, Section 1.2: Transparency and Ethics, pg. 9.

<sup>72</sup> City of Detroit SOP Manual, Chapter 2: Procurement Planning, D. Request for Information (RFI), pg. 8.

However, instead of using this established purchasing tool that may be used to provide information, the authorities used a different approach by holding a large-unit contractor meeting to inform future solicitations by explaining how the per cubic foot pricing model was determined and to gauge contractor interest. This led directly to RFQ No. 06172014A in which contractors were selected and awarded contracts. The process used by the authorities was not best practice as established by the OCP.

Further, the OCP *SOP Manual* states that communication between bidders and the City is prohibited except with the established City of Detroit point of contact and in the course of conducting normal business with the City.<sup>73</sup> Adamo, Homrich, and MCM had communications with numerous employees from the authorities and these communications were not directed through an established point of contact. This is an atypical practice that could be perceived as lacking openness and transparency as well as giving these contractors an unfair advantage.

On May 9, 2014, David Manardo emailed BSEED Director David Bell and OCP Chief Procurement Officer Boysie Jackson and copied James Wright. He inquired if Mr. Bell or Mr. Jackson had “packaged up demolition RFP’s in the past using unit pricing.” Mr. Manardo stated he was exploring the possibility of moving in that direction for some of their demolition work. On June 2, 2014, Boysie Jackson emailed James Wright. It stated “one major thing that I need to make sure you and David Manardo keep in mind. HUD did not like the unit pricing done in an RFQ and hence approved the RFP which included more than just price. If you are contemplating on this method, let’s get everyone on board, especially the state and HUD.”<sup>74</sup> Prior to the release of RFQ No. 06172014A, Ms. Lewand-Monroe discussed the large unit contract with MSHDA and was told this plan was in compliance with the rules and regulations. However, no mention was made of the large-unit contractor meeting that occurred before the issuance of the RFQ.

Also, in May 2014, though the DLBA was authorized to establish its own procurement policies and procedures, DBA employees James Wright, David Manardo and Tim Palazzolo met with OCP employees.<sup>75</sup> During this meeting, Elizabeth Johnson, OCP’s HUD Section 3 Compliance Officer, explained the City of Detroit’s procurement process and provided them with forms that the city uses in its procurement process.

The City of Detroit’s Chief Procurement Officer, Boysie Jackson believes that it is not best practice to discuss a potential RFQ with select contractors while the bid is in process. This practice could place those in attendance in an advantageous position.

However, requesting capacity information with the RFQ/RFP is appropriate and may limit the number of contractors that would attend the meeting. Small Contractors could use this

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<sup>73</sup> City of Detroit SOP Manual, Chapter 3: Making a Purchase, pg. 26.

<sup>74</sup> The HHF program was established by Treasury as part of TARP and is therefore not a HUD program. Thus, it was not necessary to notify HUD of the potential unit pricing model as HUD funds were not used to pay for this contract.

<sup>75</sup> On November 24, 2015, the OIG met with Chief Procurement Officer Boysie Jackson and OCP Section 3 Compliance manager Elizabeth Ayana Johnson. During the meeting Ms. Johnson stated that she met with Mr. Wright, Mr. Manardo, and Mr. Palazzolo to explain the City’s procurement process. *However, Mr. Palazzolo, who worked for Planning and Development at that time, does not recall attending the meeting.*

capacity requirement to create partnership(s) with another smaller contractor or even partnering with a larger contractor in order to meet the requirements of the solicitation.

Success to any project requires the contractor's ability to meet the stated timelines. As such it is permissible to ask a contractor to verify their capacity before a selection is made for the project. If it is determined that the contractor does not have the necessary capacity to complete the job, the agency has the authority not to award the contract to that contractor.

Mr. Jackson reviewed the information provided regarding the large-unit contractor meeting. This meeting included the concept of the RFQ/RFP, negotiating concept and structure of the contract, negotiating for the return of properties, and change orders. He believes that all contractors small and large should be invited to these meetings to hear the scope of the projects. He also noted that the DLBA has its own procurement policy that is separate from the City of Detroit.

MSHDA Executive Team Member Michele Wildman stated that contractor meetings are permissible but not required. However, the meetings should be open to everyone. She stated that RFPs are typically drafted with the best information that an agency has but by having such a meeting officials are able to ensure that the RFP includes everything that is needed thus saving time. She believes inviting only certain contractors to a meeting is not best practice and the meeting should have been publicized and opened to the public. She also noted that at the time of the large-unit contractor meeting, MSHDA was not providing much guidance for the Blight Elimination Program.

The OIG also spoke with MHA Director of Homeownership and Vice President of Hardest Hit Program Mary Townley. She stated that the only guidance provided to the DLBA and DBA in June of 2014 was the Blight Elimination Program operations manual which did not provide a detailed procurement policy. Ms. Townley explained that no state or federal policies prohibit agencies from meeting with contractors prior to a bid being released. However, she indicated that although it is not best practice to meet with only select contractors and not open it up to all contractors, she reiterated that no written policy prohibits this action.

Based on the evidence gathered, the OIG concludes that the large-unit contractor meeting lacked fairness, openness, and transparency. Though the authorities did not violate any of their written policies, this process unnecessarily gave the impression that Adamo, Bierlein, Homrich, and MCM were given preferential treatment. Because we (the City of Detroit) have endured a history in which select contractors were being favored and contracts were issued without a competitive bidding process, it is all the more important now that we, as a public body, have an open and transparent contracting process.

Again, to be clear, there is no evidence that this meeting resulted in an unfair awarding of the large-unit contract at an inflated price nor is there any evidence to suggest that any City of Detroit employee, contractor or anyone else involved in the demolition program received any kickback. However, it is imperative that all city business is conducted in the most transparent way possible to ensure the public's confidence in the City's procurement process.



Although we are mindful that the DLBA and the DBA were under a strict time-frame and slowing the process would have potentially resulted in losing the funding, smaller contractors should have been given the opportunity to attend the meeting. The meeting would have allowed the small contractors to hear the plan for demolitions using a per cubic foot pricing model based on LIDAR calculations and draw their own conclusion on whether their respective companies would be able to meet such stringent requirements. An open meeting would have prevented many of the criticisms and questions surrounding the large-unit contractor meeting. By excluding the smaller contractors, it left the small contractors to speculate as to what transpired in the meeting and whether some type of impermissible deal was negotiated in the meeting.

### **c. Shortened Bid Period**

The large-unit contractor meeting was held on June 10, 2014 and June 11, 2014. At this meeting, contractors were made aware that the large-unit bid would soon be posted as well as what it would likely contain. The contractors who attended this meeting were able to provide input which were incorporated into the bid. Additionally, these select contractors knew about the \$0.52 per cubic foot pricing model which gave them time to determine if this would be economically feasible for their companies.

The bid was put out on the morning of June 17, 2014 and closed just three days later at the end of the business day on June 19, 2014. The potential contractors who were not a part of this meeting had a shortened amount of time to submit an RFQ. This time period is contrary to DLBA procurement rules which require adequate public notice, preferably at least 10 business days but no less than 5 business days for the opening of bids. This provided an unfair advantage to Adamo, Bierlein, Homrich, and MCM. These companies essentially had 9 days to decide if they wanted to submit qualifications in response to this bid and had additional time to prepare their response.

### **d. Meeting Discussions**

Pricing was discussed at the large-unit contractor meeting. However, the evidence gathered by the OIG suggests that price was not negotiated. Mr. Holman presented the price model to contractors that explained how the price per cubic foot was calculated. DBA officials stated that they told contractors the price would be \$0.52 per cubic foot based on LIDAR data compiled by the DLBA, a statement reiterated by Homrich employees. Adamo, Bierlein, Homrich, and MCM representatives were given an opportunity to express their thoughts on the information presented but it did not change DBA's price which remained at \$0.52 per cubic foot.

Based on our review of the record, the OIG finds those discussions did not constitute a negotiation.<sup>76</sup> The purpose of the price discussions at the meeting was not to reach an

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<sup>76</sup> The City of Detroit SOP, Chapter 3: Making a Purchase, pg. 33 and 41 states that cost negotiation is standard for all procurements. Whether purchasing goods or services through a sole source contract, a blanket contract, RFQ, or RFP, price negotiation is a key. Even in a competitive bidding process, sourcing is not a simple auction, but rather a collaborative, give-and-take negotiation. The price negotiation process is managed by the Office of Contracting and Procurement (OCP) staff. The OCP must seek and negotiate the lowest possible price for all purchases, while maintaining the supplier's ability to meet technical and operational requirements. However, the negotiation process occurs after all interested bidders have submitted their proposals.

agreement; it was to inform contractors on how the price would be determined because per cubic foot pricing model was a new concept within the City of Detroit's demolition program.

However, discussions were held that impacted the contractors' bottom line. Adamo, Homrich, and MCM were able to negotiate the ability to submit change orders for transite, plaster, and backfill as well as to return properties that contained quantities of RACM, regulated or hazardous materials or excess debris at the locations that exceeded quantities that normally existed in similar structures.<sup>77</sup> Thus it is likely that contractors did not have to bear the cost for any property that was greater than \$0.52 per cubic foot. However, this was not a violation of any existing polices.

Contractors were also permitted to return properties for any reason. Mr. Wright stated that if they did not allow change orders for transite and plaster removal, most, if not all, of these properties would have been returned. If these properties were returned, they would have been put out for bid in a traditional bid process. Therefore, DBA felt approving change orders to keep up the pace of demolition was necessary to demonstrate to MSHDA that the city was making progress on demolishing houses and spending the HHF1 allocation. Additionally, by traditionally bidding these properties, the authorities would have likely paid the same price if not more for the demolitions based on a comparison of prices between RFQ demolished properties and RFP demolished properties during the relevant timeframe.

Approximately 37% of the properties that were demolished as a part of the large-unit pricing model contract had a change order associated with abatement of transite and/or plaster and about 96% of the properties had a change order associated with it for backfill. To receive payment for change orders, contractors submitted the change order documentation along with their billing information. The billing information contained the amount owed for demolition at \$0.52 per cubic foot, backfill costs supported by a load ticket and property address, and the invoice for transite and plaster based on an attached asbestos survey. Mr. Wright stated that he reviewed the billing information and approved it. Contractors did not have to get prior approval to submit a change order.<sup>78</sup> However, to receive payment, they had to attach the proper supporting documentation that justified the additional cost.

Though MSHDA does not have specific regulations for change orders, the Blight Elimination Program allows for the DLBA to be reimbursed once per address. The program requires all invoices for each property to be loaded into its system. Reimbursement is granted after all documents are obtained and reviewed. A maximum of \$25,000 is allowable per structure. Therefore, all documentation, including change order information, must be submitted at the same time or the DLBA will not receive reimbursement for that portion of funds.

Additionally, some property bundles had a higher rate of change orders than others. Often houses in a given neighborhood were constructed with the same materials so if one house

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<sup>77</sup> The \$0.52 per cubic foot did not include the cost of backfill. Contractors that completed prior demolitions were able to find enough free dirt to fill holes. However, due to the volume of demolitions during this time as well as the high chloride levels in the soil from the I-96 project which prohibited its use, contractors had to pay for the dirt and trucking costs.

<sup>78</sup> Today, DLBA and DBA use a separate change order form. This practice was not yet implemented at the start of the large-unit contract.

had a lot of transite or plaster, other houses in that neighborhood were likely to have the same problem. This occasionally resulted in a high number of change orders for a particular bundle of properties.

## **V. Conclusion**

Based on the OIG investigation, the large-unit contractor meeting did not violate any existing written DLBA, State or Federal Blight Elimination Program policies, or obligations to the City. However, the meeting lacked fairness, openness, and transparency because it excluded smaller contractors and by doing so, it portrayed the notion that select contractors were given preferential treatment. This exclusion left those not invited to attend to speculate as to what occurred and if some type of impermissible deal was negotiated. Therefore the OIG recommends that the DLBA and DBA allow all potential contractors to attend meetings involving discussions of potential contracts in the future.

Additionally, many of the properties being demolished were transferred to the DLBA by the Detroit City Council. Further, City Council approved a \$20 million advance fund to allow the DLBA to pay its demolition contractors while waiting for reimbursement from MSHDA. In short, City Council transferred the properties and the funds to the DLBA without any requirements in place including requiring the DLBA to use established city procurement policies to ensure an open, fair, and transparent procurement process.

## Appendix A- Issues Chart

Issued Questions	Answer	Explanation
<b>Hardest Hit Funds (HHF)</b>		
Did the DLBA have a deadline to spend the HHF?	Yes	The city was awarded \$52.3 million of HHF on October 7, 2013 and was required to spend at least 70% in 12 months, with the remaining balance to be spent in the last 6 months. The total amount of HHF had to be spent within 18 months or be returned to MSHDA.
<b>Procurement and Contracting</b>		
Did the DLBA violate any City procurement policy concerning the Large-Unit Price Contract involving HHF?	No	The DLBA is a separate legal entity from the City of Detroit. The DLBA's board of directors is responsible for adopting policies and procedures for contracting and procurement.
Did the DLBA violate any State <sup>1</sup> policy concerning the unit price contract involving HHF?	No	MSHDA and MLB provided state oversight to the DLBA for HHF1. The MLB hired ADR Consultants to provide technical assistance for the DLBA's HHF 1 Demolition Program.
Did the DBA invite all contractors to the meeting held on June 10-11, 2014?	No	The DBA invited contractors that had the capacity to demolish 75 to 100 properties per week.
Was RFQ No. 6172014A open to all contractors?	Yes	RFQ No. 6172014A was open to all contractors that met the qualifications.
Did the contractors negotiate the large-unit contract price with DBA at the meeting held June 10-11, 2014?	No	The OIG did not find any evidence of price negotiation between contractors and the DBA. The OIG concluded that the DBA informed the contractors the fixed price at \$0.52 per cubic foot at the June 11, 2014 meeting.

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<sup>1</sup> TARP, HHF, MHA and MSHDA

## Appendix B- Documents Reviewed

1. Approximately 4,767 pages of emails containing about 1,146 email messages from DLBA and DBA officials from City of Detroit, DLBA, and personal email accounts.
2. Property Management Agreement between the City of Detroit and the City of Detroit Building Authority dated October 31, 2014
3. Concurrent Resolution Approving a Demolition Management Agreement by and between the City of Detroit Building Authority and the City of Detroit dated October 31, 2014
4. Demolition Management Agreement by and between the City of Detroit Building Authority and Detroit Land Bank Authority dated February 2, 2015
5. Concurrent Resolution Approving a Demolition Management Agreement by and between the City of Detroit Building Authority and Detroit Land Bank Authority dated February 4, 2015
6. Detroit Building Authority Financial Statements and Supplementary Schedules Year Ended June 30, 2014
7. Demolition and Abatement Protocol dated October 27, 2015
8. Bid Tabulation Template
9. Detroit Building Authority Targeted Commercial Blight Elimination Restructuring/ Reinvestment Initiative Business Case dated October 30, 2015
10. Detroit Building Authority Residential and Fire Insurance Escrow Fund Demolition Restructuring/ Reinvestment Initiative Business Case dated November 2, 2015
11. DLBA's Demolition List
12. DBA Documentation of Suspended and Reprimanded Demolition Contractors
13. Memorandum re: Compliance with NESHAP Regulations to Demolition Contractors from Rebecca Christensen, DBA Director, Commercial Project Planning; CC'd David Manardo, DBA; James Wright, DBA; Aradondo Haskins, DBA; Gerald Borders, PDD; Will Griffin, PDD; Tammy Bell, MDEQ; and Joseph Goeddeke, MDEQ, dated April 30, 2015
14. City Council Meeting Presentation dated October 12, 2015
15. City Council Meeting Presentation dated January 5, 2016
16. DBA Answers to Questions for the Administration on Demolitions directed to the DBA by Richard Drum, Fiscal Analyst, Legislative Policy Division dated November 10, 2015
17. MSHDA Review of Detroit Land Bank's Bid Selection Process Relating to Hardest Hit Funds dated October 26, 2015
18. Detroit Land Bank Authority's Response to the October 14 & 15 2015 Review of Detroit's Land Bank's Selection Process Related to Hardest Hit funds dated November 24, 2015
19. Michigan Homeowner Assistance Nonprofit Housing Corporation Help for the Hardest Hit Blight Elimination Program Blight Partner Participation Agreement dated October 1, 2013
20. Memorandum of Understanding City of Detroit and Michigan Homeowner Assistance Nonprofit Housing Corporation Help for the Hardest Hit Blight Program dated October 7, 2013
21. Detroit Hardest Hit Fund Strategic Plan

22. Intergovernmental Agreement between the State of Michigan Land Bank Fast Track Authority and the Detroit Land Bank Authority for implementation of the Help for the Hardest Hit Blight Program dated November 26, 2013
23. RFQ No. 06172014A Demolition and Asbestos Abatement of Residential Properties via Large Scale Unit Pricing Model for the Detroit Land Bank Hardest Hit Fund Project
24. Large-Unit Contract between DLBA and Adamo Demolition Company dated July 10, 2014.
25. Large-Unit Contract between DLBA and Homrich dated July 10, 2014.
26. Large-Unit Contract between DLBA and MCM Management Corporation dated July 10, 2014.
27. Adamo Demolition Company Change Orders related to the HHF Unit Price Contract
28. Homrich Change Orders related to the HHF Unit Price Contract
29. MCM Management Corporation Change Orders related to the HHF Unit Price Contract
30. DLBA Contracting and Procurement Policy
31. Blight Elimination Program Operations Manual
32. Notice of Termination of Demolition of Residential Properties Agreement between Detroit Land Bank Authority and MCM Management Corporation dated October 16, 2014
33. Contractor Minimum Qualifications
34. Emergency Manager City of Detroit Order No. 38: Order Modifying Planning and Development Department and Establishing Housing and Revitalization Department dated September 25, 2014
35. Michigan Occupational Safety and Health Administration (MIOSHA) Demolition License and Accreditations and Various Demolition Activities
36. Demolition Management Agreement by and between the City of Detroit Building Authority and the City of Detroit dated August 11, 2015
37. Detroit Building Authority Organizational Chart
38. RFP No. HHF06022014A Demolition of Residential and Commercial Properties for the Detroit Land Bank Hardest Hit Fund Group HHF6R
39. Spreadsheet of all unit-price contract properties detailing address, knockdown date, demolition RFP group, demolition contractor, cost: demolition only, cost: abatement, demolition change order amount, demolition change order description, demolition change order amount, description, and total demolition contractor amount
40. Atwell, LLC and DCR Services & Construction, LLC report re: Detroit Blight Removal-Backfill Method and Material Analysis Detroit, Michigan dated August 6, 2014
41. Atwell, LLC and DCR Services & Construction, LLC report re: Detroit Blight Removal-Transite and Plaster Pricing Analysis dated August 21, 2014
42. Spreadsheet detailing Detroit Blight Removal Backfill Program Management- Cost Breakdown
43. Adamo Demolition Company RFQ No. 06172014A Demolition and Abatement Unit Price Model Demolition Contractor Qualification dated June 19, 2014
44. Homrich RFQ No. 06172014A Demolition and Abatement Unit Price Model Demolition Contractor Qualification dated June 18, 2014
45. MCM Management Corporation RFQ No. 06172014A Demolition and Abatement Unit Price Model Demolition Contractor Qualification dated June 18, 2014
46. Spreadsheet of large-unit Change Order Summary

47. City of Detroit General Conditions, Revised July 2015
48. City of Detroit Standard Operating Procedure (SOP) Manual, April 2016
49. Memorandum from David Whitaker, Director of the Legislative Policy Division, to the Honorable Detroit City Council dated May 5, 2015 regarding “Review of the Detroit Land Bank Authority’s FY 2015 and FY 2015 Budgets.”
50. City of Detroit Journal of the City Council from January 3, 2013 to December 6, 2013.
51. City of Detroit Journal of the City Council from January 6, 2014 to December 8, 2014.
52. Minutes from the DLBA Board of Directors Meeting on June 17, 2014.

## **Appendix C- Interviews Conducted**

1. DLBA Executive Director Carrie Lewand-Monroe
2. DBA Deputy Director James Wright
3. DBA Director of Special Projects Brian Farkas
4. MHA Director of Homeownership and Vice President of Hardest Hit Program Mary Townley
5. MSHDA Executive Team Member Michele Wildman
6. Executive Director, Operations Rebecca Christensen
7. Homrich Project Manager Anthony Abela
8. Homrich General Manager Nick Straub
9. DLBA Director of Public Affairs Craig Fahle
10. Chief Procurement Officer Boysie Jackson
11. Deputy Director of Purchasing Lena Willis
12. Contracting and Procurement Specialist Iva Patterson

The Office of Inspector General (OIG) contacted Barry Ellentuck, owner of ADR Consulting as well as Rob Mardigan, owner of MCM Management Corporation. Neither individual responded to our requests for an interview. The OIG's jurisdiction extends to the conduct of any Public Servant and city agency, program or official act, contractors and subcontractors providing goods and services to the city, business entities seeking contracts or certification of eligibility for city contracts and persons seeking certification of eligibility for participation in any city program. At the time of the investigation, Mr. Ellentuck and Mr. Mardigan were outside of the OIG's jurisdiction because neither was a current contractor nor are they currently seeking city contracts.



## Appendix D- Definitions

**ADR Consulting (ADR)** – A private company contracted by the Michigan Land Bank to provide demolition technical assistance.<sup>1</sup>

**Blight Elimination Program** – This program allows **Hardest Hit Funds (HHF)** to be used for the demolition and greening of vacant and abandoned single family and multifamily structures. It provides funding to cities, counties, land banks as well as non-profit and for profit organizations for demolition and other blight-related activities.

**Detroit Building Authority (DBA)** – An organization that implements and coordinates the City of Detroit demolition program.

**Detroit Land Bank Authority (DLBA)** - An organization with a mission of stimulating neighborhood stabilization and economic growth through the acquisition, management, and disposition of tax-reverted and acquired properties.<sup>2</sup>

**Michigan Homeowner Assistance Non-Profit Housing Corporation (MHA)** – An organization, acting through MSHDA, which received federal funds from the TARP Hardest Hit Funds which it allocated to the City of Detroit for blight elimination.

**Michigan Land Bank Fast Track Authority (MLB)** – The mission of the Michigan Land Bank is to promote economic growth in this state through the acquisition, assembly and disposal of public property, including tax reverted property, in a coordinated manner to foster the development of that property, and to promote and support land bank operations at the county and local levels.<sup>3</sup>

**Michigan State Housing Development Authority (MSHDA)** – An organization that provides financial and technical assistance through public and private partnerships to create and preserve safe and decent affordable housing. MSHDA was approved for the State of Michigan to administer the HHF to eligible cities.

**Office of Inspector General (OIG)** – The OIG investigates complaints involving waste, abuse, fraud, and corruption. The OIG’s powers and duties extend to “any Public Servant and City agency, program or official act, contractors and subcontractors providing goods and services to the City, business entities seeking contracts or certification of eligibility for city contracts and persons seeking certification of eligibility for participation in any city program, either in response to a complaint or on the Inspector General’s own initiative in order to detect and prevent waste, abuse, fraud and corruption.”

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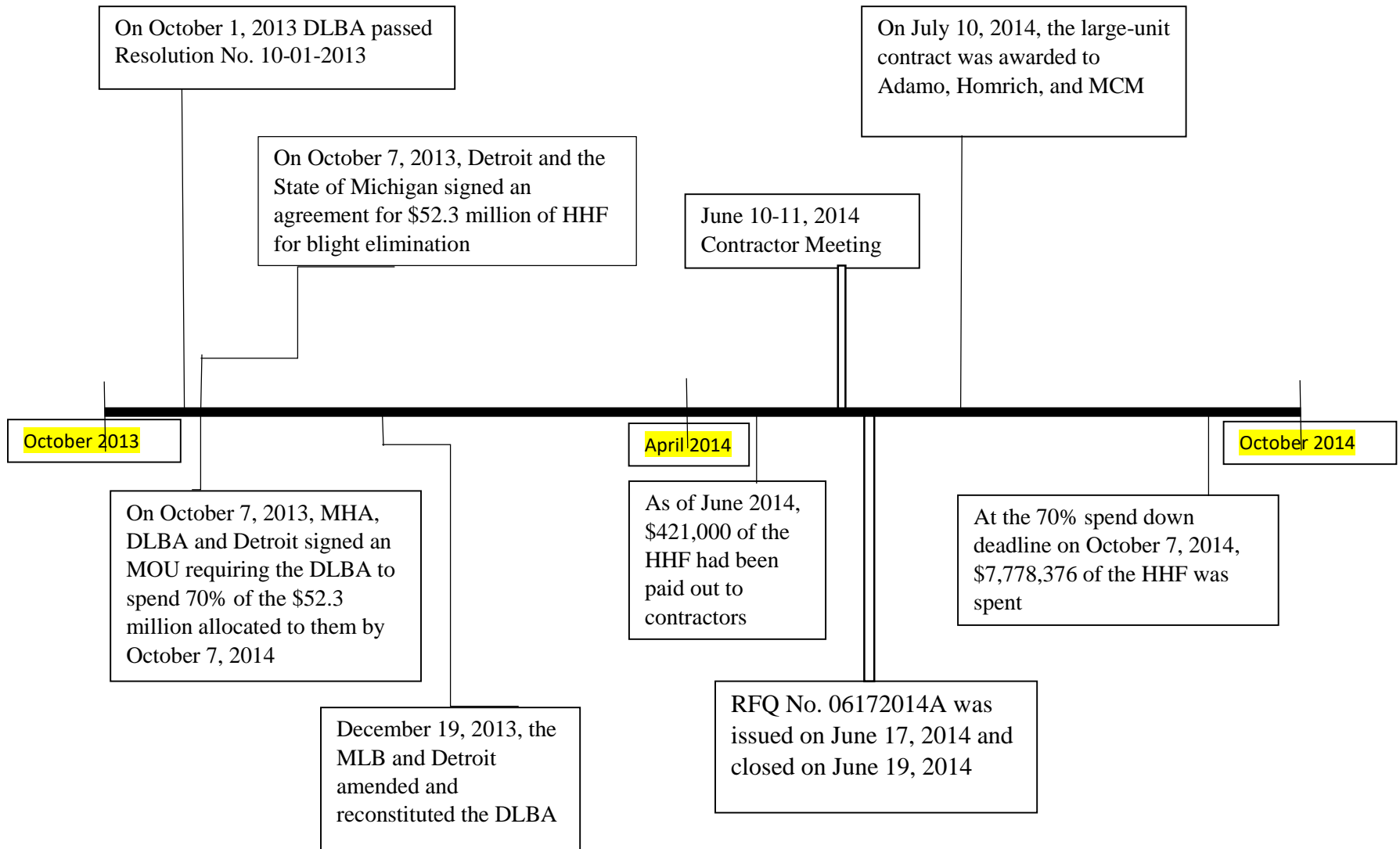
<sup>1</sup> Request for Qualifications No. 06172014A for Demolition and Asbestos Abatement or Residential Properties via Large Scale Unit Pricing Model for the Detroit Land Bank Hardest Hit Fund Project. Appendix A Definitions, pg. 22.

<sup>2</sup> Id.

<sup>3</sup> Id.

**U.S. Department of Treasury's Troubled Asset Relief Program (TARP)** – A group of programs created by the U.S. Government to stabilize the financial system during the financial crisis of 2008, restore economic growth, and prevent foreclosures.

## Appendix E- HHF1 Timeline



**Appendix F- Traditional RFP v. RFQ Comparison Chart\***

<b>Traditional RFP</b>	<b>RFQ</b>
<ul style="list-style-type: none"> <li>• Open 5-10 days</li> <li>• Must be pre-qualified</li> </ul>	<ul style="list-style-type: none"> <li>• Open 3 days</li> <li>• Must submit qualifications- Must demonstrate ability to complete 800 demolitions within 60 days (400 per month)—mandatory requirements</li> </ul>
<ul style="list-style-type: none"> <li>• Property list with asbestos survey—bid based on abatement cost and demolition cost</li> <li>• Scoring: ability to meet production goals within timelines (45); HUD § 3 Compliance Plan (5); Price (50)</li> </ul>	<ul style="list-style-type: none"> <li>• No contract was awarded as a result of the RFQ. Contracts and work awarded based on future RGF's to be issued to Qualified Pool Firms with property specific information.</li> </ul>
<ul style="list-style-type: none"> <li>• Modifications allowed by subsequent change orders</li> </ul>	<ul style="list-style-type: none"> <li>• Modifications allowed by subsequent change orders</li> </ul>
<ul style="list-style-type: none"> <li>• No consideration of additional time or compensation allowed for asbestos issues</li> </ul>	<ul style="list-style-type: none"> <li>• No consideration of additional time or compensation allowed for asbestos issues</li> </ul>
<ul style="list-style-type: none"> <li>• Price Proposal based on a property list</li> </ul>	<ul style="list-style-type: none"> <li>• Pricing is \$0.52 per cubic foot as computed by DLBA LIDAR calculations</li> </ul>

\*Based on a comparison of RFP No. 0602214A Demolition of Residential and Commercial Properties for the Detroit Land Bank Hardest Hit Fund Group HHF6R and RFQ No. 06172014A Demolition and Asbestos Abatement of Residential Properties via Large Scale Unit Pricing Model for the Detroit Land Bank Hardest Hit Fund Project.