Issue Date January 12, 2007
Audit Report Number 2007-KC-1004

TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Housing Authority of East St. Louis, Illinois, Improperly Used Public Housing Funds

HIGHLIGHTS

What We Audited and Why

We audited the East St. Louis Housing Authority (Authority) because of a hotline complaint alleging that Authority's management misused U.S. Department of Housing and Urban Development (HUD) funds. Our audit objective was to determine whether the Authority followed HUD's regulations and its own policies when procuring goods and services, granting leave, and managing vehicle operations.

What We Found

The Authority improperly procured goods and services by not following HUD regulations or its own procurement policy and has no assurance that it received the best value or paid a reasonable amount on procurement actions totaling $705,764.

The Authority also improperly granted leave to employees in exchange for contributions to the United Way, spending $147,934 that should have gone toward ensuring decent, safe, and sanitary housing for its residents.

In addition, the Authority poorly managed its general vehicle operations, incurring excess vehicle costs totaling $36,554.

What We Recommend

We recommend that HUD require the Authority to improve its procurement controls by developing clearly written policies and procedures and repay from nonfederal sources the $147,934 improperly spent for employee leave.

We also recommend that HUD require the Authority to improve its controls over vehicle operations, dispose of unnecessary vehicles, and repay from nonfederal sources the $29,095 improperly spent on vehicle allowances.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the draft report to the Authority on December 8, 2006, and requested a written response. We received its response on December 27, 2006. The Authority generally agreed with our findings and recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

BACKGROUND AND OBJECTIVES

The U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. The East St. Louis Housing Authority (Authority) is a nonprofit entity with 2,137 low-income units and 583 Section 8 units. During fiscal year 2005, the Authority expended the following HUD grant funds:

Program	Expenditures
Low-rent program	$6,826,136
Development	$1,239,228
Housing Choice Voucher	$3,862,263
Resident Opportunities and Self-Sufficiency	$352,839
Public Housing Capital Fund	$4,557,438
Revitalization	$79,252
Total	$16,917,156

A HUD representative, as well as a four-member advisory board of East St. Louis citizens, provides oversight of the Authority, while the executive director manages its day-to-day operations.

We received a hotline complaint alleging that the Authority's management misused HUD funds by compensating employees with paid leave for charitable contributions, improperly procuring a $500,000 surveillance system, wasting $3 million on security staff and cars, and managing its maintenance personnel poorly. The report contains findings related to the first two allegations.

Regarding the third allegation, the Authority purchased five vehicles in 2001 and three vehicles in 2002 for its newly formed in-house security force using Drug Elimination Grant funds. According to the Drug Elimination Grant program, the employment of security personnel and the direct purchase or lease of vehicles for housing authority police departments are allowable uses of funds. After eliminating its in-house security force, the Authority placed the vehicles in its vehicle pool for use by its staff. This report contains a finding related to the Authority's management of its pool vehicles.

We did not review the final allegation regarding maintenance because the Authority's most recent public housing assessment rating was "substandard physical." This led the local HUD office to execute an improvement plan with the Authority on October 2, 2006. The plan lasts through September 30, 2007. Therefore, the Authority has not had time to implement the plan.

Our audit objective was to determine whether the Authority followed HUD's regulations and its own policies while procuring goods and services, granting leave, and managing vehicle operations.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Follow Required Procurement Procedures

The Authority improperly procured goods and services by not following HUD regulations or its own procurement policy. The Authority's staff misinterpreted its written policy because portions of it were vague. As a result, the Authority has no assurance that it received the best value or paid a reasonable amount on procurement actions totaling $705,764.

The Authority Improperly Procured Contracts

The Authority improperly procured goods and services by not

- Obtaining HUD approval for a contract exceeding $250,000,
- Comparing costs before using the General Services Administration schedule to purchase equipment,
- Issuing an addendum when changing the specification on a bid, and
- Performing a cost/price analysis when modifying contracts.

The Authority spent more than $250,000 on its surveillance system without obtaining approval from its HUD representative. The cost of the project began at $246,708 but increased to $659,236 after contract modifications and the purchase of equipment. An amendment to the Authority's procurement policy (resolution #20-04) states that all contracts, purchases, and contract modifications in excess of $250,000 shall be presented to the Authority's HUD representative for approval.

The Authority purchased equipment for its surveillance system for $174,417 from a vendor chosen from the approved General Services Administration schedule. However, it did not obtain the costs of at least three vendors to ensure that it received the best price, as required by its policy and HUD's regulations (see 24 CFR [*Code of Federal Regulations*] 85.36(d)(4) in appendix C).

The Authority changed the specifications to its surveillance system without issuing an addendum to its request for proposal (solicitation). The Authority's original solicitation requested a wireless surveillance system, but the vendor whose bid was accepted offered a fiber optic based system. HUD's regulations require that solicitations incorporate a clear and accurate description of the technical requirements for the product to be procured. In addition, the Authority's procurement policy states that additional or revised information changing the solicitation shall be accomplished by issuing an addendum to the solicitation.

The Authority made modifications (totaling $284,639) to three contracts that increased the overall project costs without performing cost or price analyses. HUD's regulations, as well the Authority's procurement policy, require a cost or price analysis in connection with every procurement action including contract modifications (see 24 CFR [*Code of Federal Regulations*] 85.36(f) in appendix C). The Authority did not demonstrate that a cost or price analysis had been performed. The following chart details the costs of the modifications.

Description	*Date*	*Original contract*	*Contract modifications*	*Totals*
Surveillance vendor contract	Nov. 1, 2004	$246,708		
	Nov. 6, 2004		$52,174	
	Jan. 12, 2005		32,671	
	Apr. 6, 2006		151,456	$483,009
Surveillance equipment vendor contract	Nov. 1, 2004	174,417		
	Nov. 19, 2004		(935)	
	Jan. 12, 2006		2,745	176,227
Surveillance project total				659,236
Third contract with no cost or price analysis	Aug. 6, 2004		4,641	
	Oct. 22, 2004		10,676	
	Dec. 13, 2004		29,111	
	Jan. 12, 2005		2,100	46,528
Totals			*$284,639*	*$705,764*

Authority Staff Misinterpreted Procurement Policy

The Authority's procurement controls were inadequate because its written policy and amendments were vague, resulting in its staff not always following the policy or HUD regulations.

Resolution #20-40 was unclear as to whether the dollar threshold applied individually or in the aggregate. The wording led staff to misinterpret the resolution to mean that any single contract, purchase, or contract modification required approval from the Authority's HUD representative if it (alone) exceeded $250,000. The HUD representative who approved the resolution said that the intent of this resolution was that any project with a total cost exceeding $250,000 would be submitted for approval.

The Authority's policies specifically required more than one bid but did not address the procurement requirements for items purchased from an approved vendor from the General Services Administration schedule. The Authority's staff believed that since it used vendors from the schedule, the General Services Administration had already performed procurement actions and no further action was needed on their part.

The Authority's policy required an addendum to be issued in certain circumstances but did not indicate who was responsible. The Authority's procurement staff was unaware of the change in specifications in the solicitation for the surveillance system and, therefore, did not know that they should have issued an addendum.

The Authority's policy did not clarify who was responsible for performing a cost analysis. The Authority's procurement staff said that they would ask for the analysis from the requesting department but they often would not receive it.

The Authority Has No Assurance of Best Procurement Value

The Authority has no assurance that it received the best value or that the amount paid was reasonable on procurement actions totaling $705,764.

The Authority has no assurance that it

- Paid the best possible price for the equipment procured through the General Services Administration schedule,
- Received the best possible proposal for the fiber optic based system, and
- Paid reasonable costs for the contract modifications.

Recommendation

We recommend that the director of HUD's Chicago Office of Public Housing require the Authority to

1A. Improve its procurement controls by developing clearly written policies and controls to ensure that its staff follows the policies.

Finding 2: The Authority Granted Leave to Employees for Charitable Contributions

The Authority improperly granted leave to employees in exchange for contributions to the United Way. The executive director believed that giving to the United Way was good for the community and that granting leave to encourage such giving was an acceptable practice. As a result, between 2003 and 2005, the Authority improperly spent nearly $150,000 that should have gone toward ensuring decent, safe, and sanitary housing for its residents.

The Authority Granted Leave for Charitable Contributions

The Authority improperly granted leave to employees in exchange for contributions to the United Way. Employees received eight hours of leave for every $100 donated to the United Way, up to a maximum of 80 hours of leave per person per year.

Office of Management and Budget Circular A-87 states that contributions or donations, including cash, property, and services, made by the governmental unit are unallowable. However, it also states that the cost of paid leave is allowable if it is provided under established written leave policies. Further, the Authority's annual contributions contract limits the Authority's spending to authorized operating expenses. The Authority's written leave policies did not authorize this type of leave.

From 2003 through 2005, the Authority improperly paid its employees $147,934 for 7,589 hours of leave taken in exchange for contributions to the United Way. The Authority's employees contributed $119,256 during the three-year period, which the Authority forwarded to the United Way (see table below).

Year	Amount paid to staff for United Way leave	Hours of leave used by staff	Amount contributed by staff
2003	$42,600	2,388	$38,722
2004	$67,330	3,452	$50,770
2005	$38,004	1,749	$29,764
Total	$147,934	7,589	$119,256

The Authority Believed United Way Leave Was Acceptable

The executive director believed that giving to the United Way was good for the community and that granting leave to encourage such giving was an acceptable practice.

The Authority stopped granting leave for United Way contributions when its HUD representative told it to stop after being notified of the practice by an anonymous employee.

The Authority Improperly Spent Nearly $150,000

During the years 2003 through 2005, the Authority improperly spent nearly $150,000 that should have gone toward ensuring decent, safe, and sanitary housing for its residents. The annual contributions contract states that expenses must be necessary for the operation of the project to provide decent, safe, and sanitary dwellings. The employees should have been performing their duties in support of this mission during the 7,589 hours that they were on leave.

Recommendation

We recommend that the director of HUD's Chicago Office of Public Housing require the Authority to

2A. Repay from nonfederal sources, the $147,934 improperly spent for employee leave.

Finding 3: The Authority Poorly Managed Vehicle Operations

The Authority poorly managed its general vehicle operations. It had not established proper controls to ensure that it only paid necessary expenses. As a result, the Authority incurred excess vehicle costs totaling $36,554.

The Authority Poorly Managed Vehicle Operations

The Authority poorly managed its general vehicle operations. It

- Did not maintain adequate vehicle records,
- Poorly managed fuel card use,
- Provided vehicle allowances that were not in its approved policies, and
- Did not dispose of broken and excess vehicles.

Inadequate Records

The Authority did not follow its own policy or HUD regulations regarding vehicle records. The Authority's vehicle policy stated that a log would be maintained for pool vehicles to record each trip made, as well as the mileage of each trip. From January 2005 through June 2006, vehicle sign-out sheets show that the former security vehicles (now pool vehicles) were checked out from the vehicle pool 36 times. Of the 36 entries, 34 lacked key information such as dates/times, mileage, and fuel levels.

HUD regulations (24 CFR [*Code of Federal Regulations*] 85.32(d)) state that procedures for managing equipment must include maintaining property records and a control system to ensure adequate safeguards until disposition takes place.

Fuel Card Management

The Authority poorly managed its staff's fuel card use. Each vehicle was assigned a fuel card. Before using a card, an employee needed to provide a pin number and the odometer reading. Many of the odometer readings given by employees were obviously incorrect. In addition, there were no limits on the amount of fuel the employees used. HUD regulations (24 CFR [*Code of Federal Regulations*] 85.20(3)) state that effective control and accountability must be maintained for all grant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

During an investigation of fuel card use, the Authority discovered that an employee was using the card to sell fuel to other customers. The Authority also discovered that some staff used the pin number of a supervisor.

The Authority revised its fuel card procedures in September 2006. Currently, four approved fuel stations have an Authority fuel card. When getting fuel, each employee must show identification while the station checks the listing of eligible employees. The employee must then return the fuel receipt to the Authority's vehicle coordinator.

<u>Vehicle Allowances</u>
From 2003 through 2006, the Authority improperly paid $29,095 to staff for unapproved vehicle allowances. The Authority provided vehicle allowances to staff that were not assigned an Authority-owned vehicle but whose job description stated that they might be called to work after hours. When asked about this practice during the audit, the Authority discontinued providing vehicle allowances. Vehicle allowances were not contained in the Authority's approved policies.

<u>Vehicle Disposition</u>
This year, the Authority incurred $7,459 in additional insurance costs by not disposing of broken and excess vehicles. The Authority insured six pool vehicles (former security vehicles) and six vehicles that were not working, although they had been driven sparingly or not at all. The vehicles had been in that condition from one to three years. By disposing of the broken and excess vehicles, the Authority could recoup nearly $51,000 (see appendix D).

HUD regulations (24 CFR [*Code of Federal Regulations*] 85.32(e)) state that when equipment acquired under a grant is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, the grantee will dispose of the equipment.

In addition, the annual contributions contract states that the Authority may withdraw funds only for the payment of necessary operating expenditures. Costs for idle equipment are not necessary operating expenditures.

The Authority Had Inadequate Vehicle Controls

The Authority had inadequate controls to ensure that it only paid necessary expenses and maintained adequate vehicle records. The Authority did not monitor its log sheets to ensure that the proper information regarding vehicle use was maintained. It did not thoroughly review and reconcile fuel card reports for accuracy and document its followup on all odometer and fuel use discrepancies.

The Authority's disposition policy did not provide a method for evaluating its assets to determine excess items for disposition. In addition, the Authority did not develop a policy for providing vehicle allowances. It needed this policy to authorize vehicle allowances and identify situations warranting allowances and their amounts.

The Authority Incurred Excess Vehicle Costs

The Authority incurred excess vehicle costs totaling $36,554—$7,459 in insurance premiums and vehicle allowances of $29,095.

In addition, without accurate vehicle records, the Authority cannot track the vehicles' mileage, which means it is unable to ensure that it

- Spent a reasonable and necessary amount on gas,
- Calculated proper intervals for maintenance, or
- Recorded accurate fair market value for accounting and disposition.

Recommendations

We recommend that the director of HUD's Chicago Office of Public Housing require the Authority to

3A. Improve its controls over vehicle operations by maintaining vehicle records according to HUD requirements, as well as its own policies.

3B. Ensure gas card reports are thoroughly reviewed and reconciled.

3C. Repay $29,095 in unauthorized vehicle allowances.

3D. Develop and implement effective policies on vehicle allowances.

3E. Amend its disposition policy to include a method for identifying excess assets.

3F. Dispose of excess and nonworking vehicles to put $58,285 to better use.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed the *Code of Federal Regulations* pertaining to procurement and other administrative requirements; Office of Management and Budget circulars; HUD's procurement handbook; the Authority's policies regarding procurement, vehicles, and personnel; and the Authority's annual contributions contract. We interviewed Authority and HUD personnel and reviewed the Authority's financial statements.

We reviewed the procurement file for the Authority's surveillance system. We then selected a sample of four additional procurement contracts from the 95 contracts that the Authority awarded to vendors during the period October 2003 to September 2006. Due to the number of contracts, we selected all contracts whose amounts were between $175,000 and $500,000 to determine whether the Authority followed HUD's and its own procurement policy. We reviewed the selected contracts to determine whether the Authority 1) awarded the contracts competitively, 2) exceeded the $250,000 contract limit without HUD approval, and 3) modified the contracts without a cost or price analysis. In addition, we reviewed the procurement files for the eight security vehicles purchased between 2000 and 2002 to determine whether the method of procurement was allowable.

To determine the amount of payroll deductions for United Way contributions, as well as the number of United Way leave hours used by the Authority's staff and the corresponding dollar value of the hours, we reviewed the Authority's employee pay stubs for the years 2003 through 2005. We determined the amount of vehicle allowances paid to staff from 2003 through 2006 during our review of the pay stubs.

We reviewed the Authority's vehicle listing to determine the number of vehicles on hand. We also reviewed the Authority's current insurance policy to determine the number of these vehicles that were insured. The Authority's insurance policy showed that the average insurance cost per vehicle was $621.66. We estimated that the Authority will spend at least $7,459 (12 vehicles x $621.66) for excess vehicles per year. To determine whether the Authority was properly tracking vehicle use, we reviewed its vehicle sign-out logs. We reviewed the Authority's available fuel exception reports to determine whether it was performing followup procedures to reconcile exceptions and enforce penalties. We obtained the mileage of broken and excess vehicles to determine their value for disposition. To estimate the values of the excess vehicles, we used the Kelley Blue Book "good" private party sale value.

We performed our audit work from June through November 2006 at the Authority's office located at 720 N. 20th Street, East St. Louis, Illinois. Our audit period covered April 1, 2004, through March 31, 2006. We expanded the period as indicated above to address the items in the complaint. We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Controls over procurement,
- Controls over personnel leave practices, and
- Controls over the use and disposal of vehicles.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The Authority's procurement controls were inadequate (see finding 1),
- The Authority implemented personnel practices that were not a part of the approved policies (see findings 2 and 3), and
- The Authority did not establish a method for identifying excess assets that incur unnecessary expenses (see finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
2A	147,934	
3C	29,095	
3E		58,285

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the Authority implements our recommendation, it will not incur costs of $7,459 in unnecessary vehicle insurance premiums. It will also realize other savings of $50,826 by disposing of the unnecessary vehicles. It will instead expend those funds on expenses necessary to provide decent, safe, and sanitary housing. Once the Agency successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of these benefits. The reported amounts do not reflect any offsetting costs.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

December 26, 2006

Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing & Urban Development
Office of Inspector General
Gateway Tower II- 5th Floor
400 State Avenue
Kansas City, Missouri 66101-2406

RE: Draft Audit Report- Housing Authority of East St. Louis, Illinois

Dear Mr. Hosking:

On behalf of the East St. Louis Housing Authority (ESLHA) I would like to thank you for the opportunity to provide comments on the Draft Audit Report- Housing Authority of East St. Louis, Illinois. Additionally, we would like to express our sincere thanks to your staff: Ms. Carrie Gray, Mr. Anthony Anderson and Mr. Lanre Iwayemi for their patience and professionalism.

Over the course of 6 months (May 2006-November 2006) the U.S. Department of Housing & Urban Development's Office of Inspector General conducted an audit of the ESLHA. According to the draft report, the audit was initiated because "We received a hotline complaint alleging that the Authority's management misused HUD funds by compensating employees for charitable contributions, improperly procuring a $500,000 surveillance system, wasting $3 million on security staff and cars". Moreover, the stated objective "was to determine whether the Authority followed HUD's regulations and its own policies while procuring goods and services, granting leave, and managing vehicle operations."

The ESLHA generally agrees with the findings and recommendations of the draft audit report.

1

Comment 1

FINDING 1: The Authority Did Not follow required Procurement Procedures. The Authority improperly procured goods and services by not following HUD regulations or its own procurement policy. The Authority's staff misinterpreted its written policy because portions of it were vague. As a result, the Authority has no assurance that it received the best value or paid a reasonable amount on procurement actions totaling $705,764.

COMMENT 1: *For more than 20 years, the East St. Louis Housing Authority (ESLHA) has been govern by the U.S. Department of Housing & Urban Development (HUD); during this period of time there have been various administrators, but for 14 years Quadel Consulting was the mechanism used to provide day-to-day management. The basic procurement policy was last change in 1991, however there have been a number of modifications/amendments to reflect the changes made by the Housing Authority Administrators (HAR), who are considered "the Board of Commissioners". To this end, the basic contract amount has changed, however the process has remained constant.*

With respect to the procurement of the surveillance system, the contract administrator was responsible for developing a review team. This team was composed of seven (7) employees, ranging from the finance director, security chief, housing operations director, supervising property manager, modernization manager, contract coordinator and contract administrator.

The initial procurement was based upon providing a wireless surveillance system that would support the efforts of ESLHA's attempts to secure the scattered site developments. After issuing the procurement package, the security surveillance committee visited several public housing authorities, and it was determined by the committee, that a wireless surveillance system, would not meet the needs of ESLHA; consequently, during the pre-bid conference the security surveillance committee asked the vendors in attendance if they had the capacity to provide a fiber optic based system, and would they be interested in biding on the project with a fiber optic based system. Upon receipt of the bids, only one vendor submitted a proposal to provide a fiber optic based system. This was further complicated because the bid was considered excessive by the committee, because the vendor had included his costs, as well as profit and overhead. As such, the committee removed the equipment from the bid and opted to procure through a GSA vendor, which dramatically reduced the cost of equipment.

We generally agree that misunderstanding and miscommunication was an issue with the procurement. However, we disagree that the ESLHA did not receive the best possible proposal for the fiber optic based system. Furthermore, we believe that we did in fact receive the best possible price for the equipment procured through the General Services Administration schedule, and the costs for contract modifications were reasonable. As stated earlier, the committee performed cost benefit analysis, when they decided not to permit the vendor to provide equipment as a part of his scope of work. Furthermore, we utilized GSA because we have always been advised that the schedule has undergone extensive procurement prior to being published.

We generally agree with the recommendation to "Improve procurement controls by developing clearly written policies and controls", as such we have begun to prepare said document for review and approval by the appropriate officials.

FINDING 2: The Authority Granted Leave to Employees for Charitable Contributions.
The Authority improperly granted leave to employees in exchange for contributions to the United Way. The executive director believed that giving to the United Way was good for the community and that granting leave to encourage such giving was an acceptable practice. As a result, between 2003 and 2005, the Authority improperly spent nearly $150,000 that should have gone toward ensuring decent, safe, and sanitary housing for its residents.

Comment 2

COMMENT 2: *Public Housing Authorities provide more than decent, safe and sanitary housing for its residents. From its origin in 1937 the intent of public housing, has been to provide housing assistance to those experiencing difficult times, and provide an environment whereby they can improve themselves to ultimately return to mainstream. Improvement involves more than providing decent, safe and sanitary housing; otherwise the U.S. Department of Housing & Urban Development would not have created social service programs, such as Family Self Sufficiency, Drug Elimination Programs, Moving to Work. Moreover, there are programs such as the ROSS Grants, for families and elderly, which have the specific intent of improving the quality of life for those being served by public housing.*

The ESLHA currently has three (3) trained social workers involved with assisting our public housing clients. These individuals facilitate social service assistance for our clients, whose needs range from the typical assistance to financial support. The majority (Catholic Urban Programs, Call for Help, Leslie Bates Davis Neighborhood House, Boys Scouts, Jackie Joyner-Kersee Foundation) of these agencies rely upon United Way funding. These agencies depend upon the generosity of employers and their employees within the community to support the local non-profits through donations to the United Way.

In August 2005, during the Katrina disaster, families from New Orleans were sent throughout the country; the ESLHA provided housing assistance to 17 families. The support for furniture, clothes, and food was provided by United Way funded organizations. More importantly, United Way of Greater St. Louis provided $100,000 for support of the Katrina victims in the St. Louis area.
Motivating employees to give to United Way of Greater St. Louis, was a means of encouraging them to give something back to the community which most of them have grass roots. Thus the idea of providing administrative time off for contributions made.

We generally agree with the recommendation to "repay from nonfederal sources, the $147,934". Upon review and approval by the Housing Authority Representative (HAR) the ESLHA will begin immediately to repay the administrative leave by utilizing excessive Annual Leave (vacation) of employees who are over the permitted amount at the end of each calendar year.

FINDING 3: The Authority Poorly Managed Vehicle Operations.
The Authority poorly managed its general vehicle operations. It had not established proper controls to ensure that it only paid necessary expenses. As a result, the Authority incurred excess vehicle costs totaling $36,554.

Comment 3

COMMENT 3: *The ESLHA generally agrees with the recommendations.*
3A. "Improve its controls over vehicle operations by maintaining vehicle records according to HUD policies, as well as its own."

- *The ESLHA will immediately review existing policies and procedures and improve controls.*

3B. "Ensure gas card reports are thoroughly reviewed and reconciled."

- *The ESLHA will immediately implement the policy of reviewing and reconciling all gas card reports.*

3C. "Repay $29,095 in unauthorized vehicle allowances."

- *The ESLHA will request authorization from the Housing Authority Representative (HAR) to make repayment from non public housing funds.*

3D. "Develop and implement effective policies on vehicle allowances."

- *The ESLHA will begin the development of an amendment of the Human Resource Policy, which will provide vehicle allowances to some department and division supervisors.*

3E. "Amend its disposition policy to include a method for identifying excess assets."

- *The ESLHA will immediately amend its disposition policy to include the recommendation for excess assets.*

3F. *"Dispose of excess and nonworking vehicles to put $58,285 to better use."*

- *If a fair market value cannot be obtained, ESLHA will seek authorization from the HAR and HUD to sell to a "unit of government". Additionally, the ESLHA has requested from its vehicle insurer payments for all vehicles that were not operational at the time of policy renewal. In the future, there will be staff assigned to checking insured vehicles prior to policy renewal.*

In closing, the ESLHA appreciates the opportunity to provide comments to the draft report. We understand the intent of the report is to improve operations, which will enhance our efforts to deliver quality services to the residents of the East St. Louis Housing Authority. As such, we take the FINDINGS seriously, and will begin to make amendments in those areas requiring improvements.

4

Should you require additional information or have concerns about the content of this report, please feel free to contact me at (618) 646-7198.

Sincerely,

William E. Wilkins
Executive Director

Carrie Gray, CPA, Assistant Regional Inspector General for Audit, HUD Office of Inspector General, St. Louis
Anthony Anderson, CIA, Auditor, HUD Office of Inspector General, St. Louis
Steven E. Meiss, Director, Office of Public Housing, Chicago HUD
Elmore Richardson, Housing Authority Representative, Office of Public Housing, Chicago HUD

5

OIG Evaluation of Auditee Comments

Comment 1 The Authority stated that during its pre-bid conference the security surveillance committee asked the vendors in attendance if they had the capacity to provide a fiber optic based system, and that only one of the vendors in attendance submitted a proposal for a fiber optic based system. The Authority's procurement policy requires it to issue an addendum to its Request for Proposal when additional or revised information changes the solicitation. Only the vendors in attendance were aware of the fiber optic proposal, and this addendum would have allowed other vendors that were not in attendance to submit a proposal for the fiber optic based system. By allowing additional vendors with fiber optic capability to submit a proposal, the Authority may have received a less costly proposal or confirmed that the accepted proposal was the least costly.

Although the Authority is encouraged to use the General Services Administration schedule when procuring goods and services, the Federal Acquisition Regulation states that:

> For orders exceeding the micro-purchase threshold, survey at least three Schedule contractors through the online shopping service (General Services Administration Advantage) or review the catalogs or pricelists of at least three Schedule contractors and seek additional price reductions where appropriate; evaluate; and make a best value selection (Federal Acquisition Regulation 8.405.1).

The Authority did not perform the proper procurement actions when purchasing from the General Services Administration schedule, as stated in the Federal Acquisition Regulations.

Comment 2 The Authority stated that it plans to repay the $147,934 in improper administrative leave with excessive annual leave (vacation) of employees who are over the permitted amount at the end of the calendar year. The Authority's approved human resource policy says that staff can accumulate up to a maximum of 400 hours, the executive staff can accumulate up to 480 hours, and the executive director can accumulate an unlimited number of hours. We do not believe that payment of the improper administrative leave with excessive annual leave hours that would be forfeited under the policy is a sufficient form of repayment.

Comment 3 We would like to commend the Authority for taking immediate action to review its existing policies and procedures, improve its controls regarding its vehicle records and fuel card reports, and amend its disposition policy. The Authority has agreed to repay the $29,095 in unauthorized vehicle allowances, to amend its human resource policy to include vehicle allowances, and to dispose of its excess and nonworking vehicles.

Appendix C

CRITERIA

<u>24 CFR [*Code of Federal Regulations*] 85.20(b)(3)</u>
Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

<u>24 CFR [*Code of Federal Regulations*] 85.32(d)</u>
Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property; a serial number or other identification number; the source of property; who holds title; the acquisition date and cost of the property; the percentage of federal participation in the cost of the property; the location, use, and condition of the property; and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

(5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

<u>24 CFR [*Code of Federal Regulations*] 85.32(e)</u>
When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment will be made as follows:

(1) Items of equipment with a current per-unit fair market value of less than $5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.

(2) Items of equipment with a current per-unit fair market value in excess of $5,000 may be retained or sold, and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency’s share of the equipment.

(3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

<u>24 CFR [*Code of Federal Regulations*] 85.36(c)(3)(i)</u>
Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description shall not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of

the qualitative nature of the material, product, or service to be procured and when necessary, shall set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a brand name or equal description may be used as a means to define the performance or other salient requirements of a procurement. The specific features of the named brand which must be met by offerors shall be clearly stated.

<u>24 CFR [*Code of Federal Regulations*] 85.36(d)(4)</u>
Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.
(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals, and one of the following circumstances applies:
  (A) The item is available only from a single source;
  (B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
  (C) The awarding agency authorizes noncompetitive proposals; or
  (D) After solicitation of a number of sources, competition is determined inadequate.
(ii) Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.
(iii) Grantees and subgrantees may be required to submit the proposed procurement to the awarding agency for preaward review in accordance with paragraph (g) of this section.

<u>24 CFR [*Code of Federal Regulations*] 85.36(f)(1)</u>
Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.

<u>Annual Contributions Contract, Section 401, General Depositary Agreement and General Fund</u>
(D) The Local Authority may withdraw monies from the General Fund only for (1) the payment of Development Costs, (2) the payment of Operating Expenditures, (3) the purchase of investment securities as approved by the Government, (4) other purposes specified in this Contract, and (5) other purposes specifically approved by the Government.

<u>Annual Contributions Contract, Section 406, Operating Receipts and Expenditures, Reserves, and Residual Receipts</u>

(A) Operating Receipts with respect to each Project shall mean all rents, revenues, income, and receipts accruing from, out of, or in connection with the ownership or operation of such Project, from whatever source derived: Provided, That Operating Receipts shall not include (1) any monies received for development of such Project, (2) annual contributions pledged for the payment of Bonds and Notes, (3) premiums and accrued interest received in connection with the sale of Bonds or Temporary Notes, (4) proceeds from the disposition of real property, (5) proceeds from the disposition of personal property to the extent provided in clause (1) of subsection (c) of Sec. 308, or (6) the proceeds of claims against insurers or others arising out of damage to or destruction of such Project to the extent provided in Sec. 210.

(B) Operating Expenditures with respect to each Project shall mean all costs incurred by the Local Authority for administration, maintenance, establishment of reserves (as provided in subsection (c) of this Sec. 406), and other costs and charges (including, but not limited to, payments in lieu of taxes and operating improvements) which are necessary for the operation of such Project in such a manner as to provide decent, safe, and sanitary dwellings within the financial reach of Families of Low Income, and to promote serviceability, efficiency, economy, and stability: Provided, That Operating Expenditures shall not include any costs incurred as a part of the Development Cost, nor the payment of principal of the Bonds or Notes, nor, unless approved by the Government, interest on the Bonds or Notes.

<u>Office of Management and Budget Circular A-87 (8)(d)(2)</u>
The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absence from the job, such as annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including federal awards, and; (c) the accounting basis selected for costing each type of leave is consistently followed.

<u>Office of Management and Budget Circular A-87 (12)(a)</u>
Contributions or donations, including cash, property, and services, made by the governmental unit, regardless of the recipient, are unallowable.

Appendix D

VEHICLE BLUE BOOK VALUE

Vehicle number	*Mileage*	*Date not working*	*Repair costs*	*Blue Book value*	*Net value*
49	*84,330*	*June 2005*	*$1,808*	*$1,175*	*$ -633*
61	*76,294*	*Apr. 2003*	*$6,000*	*$500*	*$ -5,500*
63	*60,909*	*May 2004*	*	*	
64	*62,399*	*Sept. 2004*	*$2,077*	*$2,975*	*$898*
70	*67,819*	*Apr. 2004*	*$2,400*	*$6,060*	*$2,340*
71	*72,519*	*June 2004*	*$3,400*	*$6,160*	*$2,760*
88	*140,000*	*July 2004*	*$577*	*$2,610*	*$2,033*
107	*63,069*	*n/a*	*n/a*	*$6,655*	*$6,655*
108	*45,617*	*n/a*	*n/a*	*$7,055*	*$7,055*
109	*66,122*	*n/a*	*n/a*	*$6,530*	*$6,530*
110	*65,233*	*n/a*	*n/a*	*$6,605*	*$6,605*
123	*44,206*	*n/a*	*n/a*	*$8,200*	*$8,200*
124	*56,590*	*n/a*	*n/a*	*$7,750*	*$7,750*
			Total		*$50,826*

*The Authority's information on vehicle #63 was inconclusive and did not have information in the file to support any amounts. Its only information was an e-mail from the former vehicle coordinator, stating that the vehicle would be removed from service due to several safety issues and mechanical problems that would cost several times more than the vehicle was worth to make it road safe.