



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

August 1, 2014

MEMORANDUM NO:
2014-FW-1804

Memorandum

TO: David G. Pohler
Director, San Antonio Office of Public Housing, 6JPH

FROM: *//signed//*
Gerald Kirkland
Regional Inspector General for Audit, 6AGA

SUBJECT: The Management of the Housing Authority of the City of Beeville, Beeville, TX,
Did Not Exercise Adequate Oversight and Allowed Ineligible and Unsupported
Costs

INTRODUCTION

In accordance with our regional plan to review public housing programs and as part of our overall risk strategy to review smaller housing authorities, we reviewed the Housing Authority of the City of Beeville, TX. Our objective was to determine whether the Authority operated its public housing and related grant programs in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. However, we limited our review to determining whether the Authority (1) properly collected, deposited, and recorded its low-rent rental receipts; (2) had adequate controls over its credit cards; and (3) made additional or improper payroll payments. We also reviewed board oversight and expanded our testing to cover other high-risk disbursements.

METHODOLOGY AND SCOPE

We conducted our work at the Authority's administrative office in Beeville, TX, and the Office of Inspector General's (OIG) offices in Houston and Fort Worth, TX, from December 3, 2013, to April 30, 2014. The review generally covered the period March 31, 2012, to September 30, 2013. We expanded the scope as necessary to accomplish our objective.

To accomplish our objective, we reviewed the Authority's

- Policies and procedures and its available board minutes.
- Bylaws and annual contributions contract with HUD.
- Electronic fiscal year general ledgers and cash disbursements data. We used this information to select high-risk items for review. We determined that the electronic data were generally sufficiently reliable to meet our review objectives.
- Available credit card statements from Valero, Office Depot, Home Depot, American Express, Sam's Club, and Walmart. For some months and credit cards, the Authority did not provide a statement. We expanded the review to December 2005 for Sam's Club, March 2007 for Walmart, and December 2011 for American Express.
- Contract with its executive director, dated June 4, 2013.
- Payroll information in the general ledger.
- Payments made to one contractor; however, we deferred on a detailed review of this and the Authority's other procurements until a later date.
- Travel and other payments made to the executive director.
- Financial statements for the 12 months ended March 31, 2012, for background information and findings relevant to our review objective.

We also

- Interviewed the executive director, eight permanent employees, a maintenance supervisor, and three temporary maintenance employees.
- Interviewed six board members, including one recently appointed board member.
- Obtained the Authority's HUD program funding information for fiscal years 2012 through 2013.
- Reviewed and obtained an understanding of the relevant laws, regulations, and HUD's guidance.
- Conducted site inspections of five of the Authority's low-rent properties and its community center.
- Analyzed rent registers, rent receipts, and bank deposits for March, July, and September 2013.
- Reviewed checks and the check signatures on bank statements for 7 months.
- Obtained the total amount of housing assistance payments made to the executive director's brother from April 2012 to May 2014.

BACKGROUND

The Authority is chartered as a public corporation under the laws of the State of Texas for the purpose of providing safe, decent, and affordable housing. It is governed by a five-member board of commissioners, who are appointed and can be removed by the mayor of Beeville. The board is responsible for establishing operating policies and overseeing the executive director, who manages the Authority's day-to-day operations. The Authority has eight permanent

employees, an executive director, a maintenance supervisor, and three temporary maintenance employees.

The Authority owns and manages 194 low-rent public housing units and administers 226 housing choice vouchers out of the 230 vouchers it receives from HUD. It also has 76 U.S. Department of Agriculture-funded rural housing units. HUD provided operating subsidies and Public Housing Capital Fund program funds to the Authority to manage, maintain, operate, and improve its public housing developments. HUD also provided the Authority Housing Choice Voucher program administrative fees and housing assistance payments. In addition, the Authority received rental income from its tenants. The Authority’s fiscal year is from April 1 to March 31.

Table 1: HUD’s reported funding for the Authority

HUD program	Fiscal year 2012¹	Fiscal year 2013	Total
Low-rent operating subsidy	\$ 90,655	\$ 593,287	\$ 683,942
Housing Choice Voucher program	944,262	855,038	1,799,300
Capital Fund program	224,714	231,538	456,252
Total	\$ 1,259,631	\$ 1,679,863	\$2,939,494

RESULTS OF REVIEW

The Authority’s management did not properly manage its public housing and related grant programs in accordance with HUD requirements. Specifically, it (1) did not properly oversee its rent receipts, (2) mismanaged its credit cards and vehicles, (3) paid ineligible and unsupported costs, and (4) failed to hold regular board meetings. These conditions occurred because the Authority’s management, consisting of its executive director and board of commissioners, did not exercise adequate oversight of and control over the Authority. Further, management did not ensure that staff followed policies, procedures, and controls. As a result, the Authority’s tenant accounts receivable balances were inaccurate, and it overcharged a few tenants. Additionally, it paid ineligible and unsupported costs totaling \$75,583.

The Authority Did Not Properly Oversee Its Rental Income

The Authority did not properly oversee its rental income as it did not reconcile its rent receipts, rent registers, and bank deposits monthly for the 18 month review scope. It lacked basic segregation of duties as the staff responsible for maintaining the rent register and bank deposit sometimes collected the rent. Further our testing of 3 months showed that it accepted cash without adequate controls, did not deposit a few receipts, and provided incomplete or illegible rent receipts to the tenants. The Authority’s staff also did not ensure the amount recorded on the rent receipts provided to the tenant matched amounts in its rent register and, in a few cases, did not record the tenant’s rent payment in the rent register. Further, staff improperly charged tenants late fees. In addition, the Authority’s staff did not know how to account for payments made on old outstanding accounts. The executive director had known for years that the staff had not reconciled rental income; however, she did not establish or inform the board of the need for a policy. As a result, the Authority’s tenant accounts receivable balances were inaccurate, and it

¹ HUD’s fiscal year is from October 1 to September 30.

overcharged a few tenants. Further, since the necessary controls to prevent improper activity did not exist, theft of rent receipts could have gone undetected.

The Authority Mismanaged Its Fuel Cards and Vehicles

The Authority's staff misused its fuel cards and did not properly manage the six Authority-owned vehicles. Authority management did not require staff to provide fuel card purchase receipts or maintain vehicle mileage logs. Authority management also allowed staff to take vehicles home. During the review period, Authority staff possessed and used as many as five fuel cards. Three credit card statements showed that a staff member purchased fuel three times in 1 day. Further, all but one of the other credit card statements showed that one or more of the staff members purchased fuel twice in 1 day. In addition, the executive director stopped using her fuel card and used other staff members' cards for fuel because the Authority's accountant advised her that she would have to report her fuel use to the Internal Revenue Service as income. This abusive behavior occurred because the Authority did not have a credit card or a vehicle use policy. The executive director said that she did not have a vehicle policy and did not need one because she trusted her employees. The executive director's actions showed a lack of sound business ethics. During the review period, the Authority paid \$24,821 for fuel, which was about \$230 monthly per vehicle.² As the City of Beeville covered 6 square miles and the Authority's properties were generally within 2 miles of the main office, the fuel charges appeared excessive. Further, the Authority's practice of allowing staff to use Authority vehicles for personal use created a significant risk and potential liability for the Authority should the employee have an accident. In addition, the Authority should have reported the staff's personal use of the Authority's vehicles to the Internal Revenue Service as income.

The Authority Made Payments in Violation of Conflict-of-Interest Requirements

The Authority made housing assistance payments to the executive director's brother, a landlord, in violation of the housing assistance payment contract's conflict-of-interest requirements. The executive director said HUD had granted a waiver allowing these payments; however, HUD said it had no knowledge of a waiver. As it lacked a waiver, the Authority made ineligible payments totaling \$17,097.

The Authority Paid for Ineligible Advertising Costs

According to the Authority's general ledger, it paid advertising costs to various entities, such as the Boys and Girls Club, a cheerleader's booster club, churches, and various community festivals. Paying such costs is ineligible according to Federal cost principles.³ The executive director thought such costs were allowable. As a result, the Authority paid a total of \$9,313 in ineligible advertising costs.

The Authority Paid Its Executive Director Unsupported Compensation

The Authority paid its executive director for unused vacation days without obtaining the necessary board approval. The executive director directed the bookkeeper via "inter-office memo" to issue her checks in lieu of vacation days, stating "As approved by Board." The board meeting minutes did not contain discussion or approval for any of these payments. These

² (\$24,821/18 months)/6 vehicles

³ 2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (Office of Management and Budget Circular A-87)

improper payments occurred because the executive director circumvented the board's oversight. As a result, the Authority paid its executive director unsupported compensation in six checks, issued from April 2012 to July 2013, totaling \$8,721.

The Authority Lacked Support for the Executive Director's Pay Increase

The executive director received several pay increases; however, the Authority lacked board approval for one of the pay increases. In addition, the executive director instructed the bookkeeper to issue her pay increases in checks separate from the Authority's regular bimonthly payroll. These additional payments conflicted with the Authority's personnel policy. In two cases, the Authority also paid the executive director's salary increase retroactive to the beginning of the Authority's fiscal year in which the raise occurred. However, the Authority lacked support or evidence of board oversight, such as board approval for the two retroactive payments. The executive director received a total of \$6,895 for the unsupported pay increase and two retroactive pay increases.

The Authority Reimbursed the Executive Director for Unnecessary, Ineligible, and Unsupported Costs

The executive director submitted "inter-office memos" for reimbursement for travel and other costs. The Authority made unnecessary reimbursements to the executive director totaling \$1,724 for personal mileage when the Authority owned six vehicles and the executive director used the Authority's fuel cards to purchase fuel. In addition, the Authority reimbursed her a total of \$620 for ineligible costs, such as Christmas parties, a meal for a trip to "SAM" and an inspection, door prizes for parties, lunches, meals, and buffets for meetings. The Authority recorded many of these ineligible costs as travel expenses. The Authority also reimbursed the executive director \$1,682 for travel costs that lacked receipts or support. The payments occurred because the executive director submitted the reimbursement requests directly to the bookkeeper and the board did not oversee the payments. As a result, the Authority paid the executive director \$1,724 in unnecessary, \$620 in ineligible, and \$1,682 in unsupported travel costs.

The Authority Improperly Used Its Other Credit Cards

The Authority's staff made improper purchases on its Walmart Community credit card, Sam's Club credit card, and American Express card in violation of Federal cost principles.⁴ The executive director purchased Christmas decorations, gifts, toys for donations, meals, and food. The Authority expensed most of these purchases as office supplies and maintenance materials. This condition occurred because the board had not implemented a credit card policy. As a result, the Authority made \$4,321 in ineligible purchases.

The Authority Lacked Support for a Commissioner's Travel

The Authority lacked support for payments made to one of its commissioners for travel. The Authority's policy was unclear as to whether commissioners had to provide receipts for travel except in high-cost areas where it required expenses to be itemized. However, the State of Texas requires that commissioners support all travel costs with receipts.⁵ As a result, the Authority could not support the \$389 it paid to its commissioner.

⁴ *ibid*

⁵ Texas Attorney General's opinion, dated April 26, 1994

The Authority's Board of Commissioners Did Not Hold Regular Meetings

Based on interviews and the Authority's records, the board did not hold any regular meetings during the 18 months from March 2012 to September 2013. The Authority held eight special meetings instead. The Authority's bylaws stated that regular meetings must be held the third Wednesday of every month. The executive director held special board meetings to conduct regular business because she was not able to get all of the board members together for a regular meeting. In June 2013, the Authority amended its bylaws to no longer have regular meetings, allowing for special meetings instead. All of the board members interviewed confirmed their inability to meet. They believed the executive director was doing a good job, had confidence in her, and stated that she had been the executive director for a number of years, making oversight unnecessary. By not meeting regularly and performing adequate oversight, the board failed to detect and correct the problems noted in this memorandum.

Conclusion

The Authority did not properly manage its public housing and related grant programs in accordance with HUD requirements. It did not properly oversee its rent receipts, mismanaged its credit cards and vehicles, paid ineligible and unsupported costs, and failed to hold regular board meetings. These conditions occurred because the Authority's management, consisting of its executive director and board of commissioners, did not exercise adequate oversight of and control over the Authority. Further, management did not ensure that staff followed policies, procedures, and controls. As a result, the Authority paid questioned costs detailed in the following table totaling \$75,583.

Table 2: Total questioned costs

Description	Ineligible amounts	Unsupported amounts	Unnecessary amounts
Unsupported fuel card charges		\$24,821	
Ineligible conflict-of-interest payments	\$17,097		
Ineligible advertising costs	9,313		
Unsupported executive director compensation		8,721	
Unsupported pay increases		6,895	
Improper credit card purchases	4,321		
Unnecessary executive director mileage payments			\$1,724
Unsupported executive director travel payments		1,682	
Ineligible reimbursements to the executive director	620		
Unsupported commissioner's travel		389	
Grand total	\$31,351	\$42,508	\$1,724

RECOMMENDATIONS

We recommend that the Director of the San Antonio Office of Public Housing require the Authority to

- 1A. Implement internal controls, policies, and procedures for rental income, including requiring monthly reconciliations.
- 1B. Either support or repay \$24,821 from non-Federal funds for unsupported fuel charges.

- 1C. Implement a policy for its credit cards that includes restricting access, requires a review of charges by an appropriate manager or board member, and provides for actions to be taken against employees who violate the policy.
- 1D. Implement a vehicle use policy that (1) includes provisions for tracking mileage for each vehicle, determining the extent of employee personal use of Authority vehicles, and reporting the income to the Internal Revenue Service; and (2) establishes objective criteria for determining who is authorized to use Authority vehicles based upon the benefit obtained by the Authority.
- 1E. Determine whether the executive director should use an Authority-provided vehicle for Authority business or have her track the use of her personal vehicle for business use to support mileage reimbursements.
- 1F. Update its personnel policy to include prohibiting conflicts of interest in housing assistance payments contracts.
- 1G. Repay from non-Federal funds \$17,097 paid for ineligible housing assistance payments made in violation of the housing assistance payments contract's conflict-of-interest requirements.
- 1H. Adopt a policy that ensures that only allowable costs are charged to its Federal programs with Federal requirements.⁶
- 1I. Repay from non-Federal funds \$9,313 paid for ineligible advertising costs.
- 1J. Support or repay from non-Federal funds \$8,721 in unsupported vacation payments.
- 1K. Support or repay from non-Federal funds \$6,895 in unsupported pay increases.
- 1L. Repay from non-Federal funds \$4,321 paid for ineligible credit card purchases.
- 1M. Repay from non-Federal funds \$1,724 paid for unnecessary costs paid for mileage.
- 1N. Support or repay from non-Federal funds \$1,682 paid to its executive director for unsupported costs.
- 1O. Repay from non-Federal funds \$620 paid to the executive director for ineligible costs.
- 1P. Support or repay from non-Federal funds \$389 paid for a commissioner's unsupported travel.
- 1Q. Update its personnel policy to comply with State of Texas requirements for commissioners' travel, including requiring supporting documentation for travel.
- 1R. Hold regular board meetings and provide adequate oversight of the Authority's operations.
- 1S. Consult with the mayor of Beeville and evaluate the board of commissioners, determine its effectiveness, and remove and replace commissioners as appropriate.

⁶ See footnote 3.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/
1B		\$24,821	
1G	\$17,097		
1I	9,313		
1K		8,721	
1L		6,895	
1M	4,321		
1N			\$1,724
1O		1,682	
1P	620		
1Q		389	
Total	\$31,351	\$42,508	\$1,724

- 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/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Unreasonable or unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



Equal Housing Opportunity

HOUSING AUTHORITY OF THE CITY OF BEEVILLE

VIOLA SALAZAR, EXECUTIVE DIRECTOR
1101 W. BOWIE BEEVILLE, TEXAS 78102

July 21, 2014

U.S. Department of
Housing and Urban Development
Office of Inspector General (Region 6)
819 Taylor Street
Suite 13A09
Fort Worth, Texas 76102

Ref: The Management of the Housing Authority of the City of Beeville, Beeville, TX
Did Not Exercise Adequate Oversight and Allowed Ineligible and Unsupported Costs

Dear Mr. Kirkland:

In responds to your letter dated July 7, 2014 for the following findings:

1. **The Authority Did Not Properly Oversee Its Rental Income**

The authority will adopt a policy to address the following issues:

- a. Reconcile its rent receipts, rent registers and bank deposits monthly.
- b. The fact that the authority lacks basic segregation of duties as the staff responsible for maintaining the rent register and bank deposit sometimes collected the rent, although there were three employees at the time, the clerk which would have collected the rents was sometimes out therefore the manager would collect the rents. The other problem is that sometime the manager would be responsible for the front office while the clerk responsible for collecting rents would be out of the office and the manager would be on the phone, therefore the bookkeeper is responsible for collecting rent.

The authority takes pride in giving good customer service.

- c. The authority will no longer accept cash.
- d. The authority will adopt a policy to address the issue of making deposits daily and providing complete receipts to tenants.
- e. The authority will adopt a policy that will correct all the issues identified by your office.

Phone No. 361/362-0399 Fax No. 361/362-0205



Comment 1

Ref to OIG Evaluation

Auditee Comments

Comment 1

2. **The Authority Mismanaged Its Fuel Card and Vehicles**

The Authority will adopt a policy to address all issues with credit card and vehicle usage.

Comment 2

3. **The Authority Made Payments in Violation of Conflict-of-Interest Requirements**

The authority would like to request one additional month to provide OIG with the waiver granted from HUD.

Comment 1

4. **The Authority Paid for Ineligible Advertising Cost**

The authority will adopt a policy to address the issue of advertising cost.

Comment 3

5. **The Authority Paid Its Executive Director Unsupported Compensation**

The Executive Director did get paid for unused vacation days without obtaining the board approval but only because the authority has a policy that approves vacation. The Executive Director did not know she needed further board approval. In the future the Executive Director will obtain the necessary board approval. The executive director **was not** trying to circumvent the board's oversight.

Comment 4

6. **The Authority Lacked Support for the Executive Director's Pay Increase**

The authority paid the executive director the amount of salary that was approved by the board.

Comment 1

7. **The Authority Reimbursed the Executive Director for Unnecessary, Ineligible, and Unsupported Costs**

The authority will adopt a policy to address issues concerning what the board's responsibilities and the Executive Director responsibilities are.

Comment 1

8. **The Authority Improperly Used Its Other Credit Cards**

The Authority will adopt a policy to address the issue of credit cards usage.

Comment 5

9. **The Authority Lacked Support for a Commissioner's Travel**

The commissioner received payment for travel according to the policy. Enclose are the documents to support the payments made to the commissioner and a copy of the travel policy.

Ref to OIG Evaluation

Auditee Comments

Comment 6

10. **The Authority's Board of Commissioners Did Not Hold Regular Meetings**

The Mayor is in search of four new board members.

If you have any questions, please call our office at 361-363-9865.

Sincerely,


Viola Maldonado
Executive Director

Ref to OIG Evaluation

Auditee Comments



CITY OF BEEVILLE
400 N. Washington
Beeville, Texas 78102

July 18, 2014

Theresa A. Carroll
Assistant Regional Inspector General
The U.S. Department of Housing and Urban Development
Office of the Inspector General
Office of Audit (Region VI)
819 Taylor Street, Suite 13A09
Ft. Worth, Texas 76102

Re: Draft Audit Memorandum Entitled;
The Management of the Housing Authority of the City Of Beeville, Beeville, TX, Did Not
Exercise Adequate Oversight and Allow Ineligible and Unsupported Costs.

Dear Theresa,

I want to address the Draft Audit Memorandum that you forwarded to my attention via e-mail on July 7, 2014.

I found the results of review of the Draft Audit Memorandum very alarming and I am very disturbed with the lack of Board oversight as stated in said draft audit memorandum.

Please see enclosed copies of correspondence that have been sent out to Housing Authority Board Member(s) [REDACTED] and [REDACTED] informing them of the expirations of their terms, effective immediately, and thanking them for their service via certified mail. After much consideration and thought, I will not be re-appointing [REDACTED] no [REDACTED] to the Beeville Housing Authority Board.

Be advised that I have received letters of resignation from both, Board Member [REDACTED], on July 1, 2014 and from Board Member [REDACTED], on July 2, 2014 resigning their positions as Board Members of the Beeville Housing Authority, effective immediately.

I want to assure all parties associated with this Draft Audit Memorandum that, as Mayor of the City of Beeville, I will do my part in establishing a Board of Directors that will be responsible and take a pro-active stance in overseeing the management of the Housing Authority for the City of Beeville, Beeville, Texas.

Please feel free to contact me with any questions related to this matter.

Mayor David Carabajal
City of Beeville
400 N. Washington Street
Beeville, Texas 78102
361-358-4641 phone
361-358-7355 fax
david.carabajal@beevilletx.org

Comment 6

Ref to OIG Evaluation

Auditee Comments

Sincerely,



David B. Carabajal
Mayor of the City of Beeville

Cc: David G. Pohler
Director, San Antonio Office of Public Housing, 6JPH

Gerald Kirkland
Regional Inspector General for Audit, 6AGA

Mayor David Carabajal
City of Beeville
400 N. Washington Street
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OIG Evaluation of Auditee Comments

- Comment 1** The executive director agreed to adopt new policies to address many of the issues identified in the memorandum. However, she did not provide any of these policies for review. We acknowledge these actions. However, the executive director needs to obtain board approval of any new policies and the board needs to appropriately exercise its oversight authority to prevent issues from reoccurring.
- Comment 2** The executive director requested additional time to respond to the conflict of interest issues. HUD will provide the Authority time to respond to this issue after issuance of the final memorandum.
- Comment 3** The executive director admitted to paying herself for her vacation without board approval because the Authority has a policy allowing such payments. Further, she said she was not trying to circumvent the board's oversight. However, the Authority's personnel policy stated that board shall establish the salary of the executive director and it allowed payment of vacation days upon written request by the eligible employee. By directing the bookkeeper to issue her checks and not making a request and seeking board approval, the executive director did circumvent the board's oversight.
- Comment 4** The executive director stated she was paid amounts approved by the board. The board approved the Authority's budgets, but the budget may not have clearly detailed she was receiving a pay increase. Further, the executive director received additional and retroactive payments not in accordance with the Authority's policy or as approved by the board.
- Comment 5** The executive director provided receipts for the commissioner's lodging and a handwritten note for mileage. As a result, we reduced the amount in the memorandum accordingly. The note lacked support for meals, taxis, and parking costs. As the State of Texas requires commissioners to be paid for expenses "as long as such expenses are supported by adequate evidence of actual money expended", the amount in the memorandum is unsupported. We did not include the information provided as support as it contained personal identification information.
- Comment 6** The executive director indicated that a search for new board commissioners was underway. Further, the mayor indicated that two commissioners had resigned and two whose terms had ended would not be reappointed. He further stated that he was taking action to have a responsible board. We acknowledge their comments; however, the new board needs to hold regular meetings and provide adequate oversight. The mayor also provided resignation letters from two board commissioners and termination letters for two additional board commissioners. We did not include them in the memorandum, but they are available upon request.