



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

August 13, 2014

MEMORANDUM NO:
2014-FW-1805

Memorandum

TO: Cheryl Williams
Director, Public and Indian Housing, 6APH

//signed//

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

SUBJECT: The Kenner Housing Authority, Kenner, LA, Did Not Administer Its Public Housing and Recovery Act Programs in Accordance With Regulations and Guidance

INTRODUCTION

In accordance with our regional plan to review public housing programs and because of weaknesses identified during a prior audit by the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General (OIG), we reviewed the public housing programs of the Kenner Housing Authority in Kenner, LA. Our overall objective was to determine whether the Authority administered its public housing programs in accordance with regulations and guidance. This is the second¹ memorandum under this objective and addresses only the Authority's procurement and financial operations.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

¹ Audit Memorandum 2013-FW-1804, issued September 24, 2013, addressed the Authority's Housing Choice Voucher program.

METHODOLOGY AND SCOPE

The scope of our review generally covered assessing the Authority's procurement practices and financial operations, including payments to contractors, petty cash, and the management of interfund account transactions for the period January 1, 2009, through October 31, 2013. We expanded the scope as necessary to meet the objective. We conducted the review at the Authority's administrative office in Kenner, LA, the HUD field office, and our HUD OIG offices in Baton Rouge and New Orleans, LA, from November 2013 through June 2014.

To accomplish our objective, we performed the following:

- Reviewed relevant regulations and HUD guidance,
- Reviewed the Authority's policies and procedures,
- Reviewed the Authority's procurement records,
- Reviewed the Authority's paid invoice reports and check registers for the review period,
- Reviewed the Authority's general ledgers for its interfund accounts,
- Reviewed the Authority's financial submissions to HUD,²
- Reviewed applicable HUD monitoring reviews,
- Assessed the Authority's controls over its financial operations and procurement practices,
- Coordinated with HUD staff, and
- Interviewed Authority staff.

Between January 1, 2009, and October 31, 2013, the Authority paid nine contractors more than \$1 million. We reviewed the procurement files for eight contractors with payments totaling \$930,364 to determine whether the contracts were procured in accordance with the Authority's and HUD's requirements.³ Because of the procurement issues identified, we expanded the review to determine whether the Authority maintained adequate documentation to support the payments made to its contractors. Also, in cases in which ineligible contract terms were identified in the contract, we determined whether contractor payments included ineligible costs. We reviewed the supporting documentation for 31 payments totaling \$341,270 made to 4 of the contractors. Through file reviews, we determined that the Authority's contractor-paid invoice reports were generally reliable and could be used to support our conclusions and recommendations.

Based upon the Authority's comprehensive check register, it had 68 petty cash expenditure payments. Based on dollar amount, we reviewed eight of the expenditures, totaling \$1,819 to determine whether the expenditures were eligible and adequately supported as required.⁴ Through file reviews, we determined that the Authority's comprehensive check registers generally were not reliable, since the supporting hardcopy checks for the petty cash expenditures reflected significantly less amounts than reflected in the check register. Therefore, we did not rely on the check registers to support our conclusions and recommendations. Instead, we used

² We reviewed audited data for fiscal years 2009 through 2011. The Authority's fiscal year is July 1 to June 30.

³ 24 CFR (Code of Federal Regulations) 85.36 and HUD Handbook 7460.8, REV 2

⁴ 2 CFR Part 225 and 24 CFR 85.20

hardcopy system-generated information that we traced to source documentation to ensure accuracy. Lastly, we reviewed all four of the Authority’s interfund transfers totaling more than \$1.9 million to assess timeliness and whether the accounts were properly managed.

BACKGROUND

The Authority is a public housing agency established in 1964 to provide safe, decent, and sanitary housing for low-income families and individuals. It is located at 1013 31st Street in Kenner, LA, and manages 137 low-rent units and 1,322⁵ program vouchers. The Authority is governed by a five-member board of commissioners, which establishes policies under which it conducts business. The board hires the executive director, who is responsible for the daily operations of the Authority. At HUD’s request, the East Baton Rouge Parish Housing Authority began managing the Authority’s programs, effective April 8, 2013.

From fiscal years 2009 through 2013, HUD provided operating, Public Housing Capital Fund program, Housing Choice Voucher program, and American Recovery and Reinvestment Act funds as reflected in table 1.

Table 1: HUD funding

| Fiscal year | Low-rent public housing | | Housing Choice Voucher program | Recovery Act |
|--------------|-------------------------|----------------------|--------------------------------|------------------|
| | Operating subsidies | Capital Fund program | | |
| 2009 | \$414,404 | \$213,403 | \$3,599,447 | \$271,543 |
| 2010 | 414,659 | 212,686 | 8,308,370 | |
| 2011 | 438,414 | 175,600 | 7,816,144 | |
| 2012 | | 15,000 | 7,431,187 | |
| 2013 | 317,271 | | 7,132,963 | |
| Total | \$1,584,748 | \$616,689 | \$34,288,111 | \$271,543 |

In addition, HUD paid the Authority more than \$3 million in administrative fees from January 1, 2009, through October 31, 2013, to administer its Housing Choice Voucher program.

Our overall objective was to determine whether the Authority administered its public housing programs in accordance with regulations and guidance. This is the second review under the overall objective and addresses the Authority’s procurement and financial operations.

⁵ As of January 29, 2014, the Authority had a total of 1,322 vouchers.

RESULTS OF REVIEW

The Authority did not comply with HUD regulations when administering its procurement and financial operations. Specifically, it did not always ensure that it

- Properly identified the source of funds used for expenditures or properly managed its interfund transfers,
- Complied with Federal and its own procurement requirements,
- Adequately supported and ensured the eligibility of payments to contractors,
- Maintained adequate documentation for its petty cash expenditures, and
- Submitted its financial data to HUD within specified timeframes.

These conditions occurred because the Authority did not have adequate controls over its procurement and financial operations. Specifically, the Authority lacked written financial management policies before November 2013, and its procurement policy was not consistent with HUD's requirements. In addition, the Authority did not have written policies or procedures for processing and accounting for its interfund activities, lacked adequate segregation of duties, and did not properly train or supervise its staff. As a result, the Authority (1) mismanaged and could not support more than \$1.9 million in interfund transfers (2) made \$849 in ineligible and \$886,830 in unsupported contractor payments; and (3) paid \$1,330 for unsupported petty cash transactions.

The Authority Did Not Properly Identify the Source of Funds Used For Expenditures or Properly Manage Its Interfund Transfers

The Authority is required⁶ to properly document its expenditures. However, the Authority's accounting records did not identify the appropriate funding source that should have been charged for each expenditure incurred from January 1, 2009, to October 31, 2013.

In addition, the Authority improperly made interfund transfers and did not maintain adequate documentation to support the transfers. It paid all of its operating expenses from its public housing program account and later reimbursed the account using its Housing Choice Voucher program funds. From January 1, 2009, through October 31, 2013, the Authority made four interfund transfers between these two accounts as shown in table 2.

Table 2: Interfund Transfers

| Date | Amount |
|--------------|--------------------|
| 5/12/2010 | \$ 728,771 |
| 6/27/2011 | 333,162 |
| 6/26/2012 | 419,167 |
| 5/13/2013 | 436,546 |
| Total | \$1,917,646 |

⁶ 2 CFR Part 225.

The Authority made the transfers 11 to 13 months apart, indicating that funds were being loaned between the two programs, a prohibited practice⁷ since funds are not fungible between programs. The Authority also could not provide documentation supporting any of the transfers, making \$1,917,646 unsupported. According to HUD's review, the Authority should have had only minimal amounts in its interfund accounts at the end of each fiscal year. However, for fiscal years 2009 through 2011, the Authority reported balances at the end of each fiscal year. Its latest financial data for fiscal year 2011⁸ showed interfund balances of \$62,027.

The Authority Did Not Comply With Federal and Its Procurement Requirements or Ensure That Payments to Contractors Were Eligible and Supported

The Authority is required⁹ to maintain procurement records for each contractor and ensure that its payments to these contractors are eligible and adequately supported.¹⁰ However, the Authority did not always (1) maintain procurement documentation, such as the rationale for the method of procurement, selection of contract type, and contractor selection or rejection;¹¹ (2) perform independent cost estimates and cost analyses;¹² (3) ensure that its contract costs were reasonable and necessary,¹³ or (4) ensure that all payments made to its contractors were eligible and supported. Specifically, a review of procurement files for eight contractors, with disbursements totaling \$930,364 determined that the Authority did not maintain adequate procurement documentation for six. In addition, a review of 31 payments to 4 contractors determined that for 10 payments to 3 contractors, the Authority did not always ensure that costs were eligible and supported. As such, the Authority incurred \$887,679 in questioned costs. Specifically,

- For an architect, which it paid \$122,044, the Authority included in the contract a prohibited cost-plus-percentage-of-cost allowance of 15 percent.¹⁴ An expanded review of all payments to this contractor showed that of the \$122,044, the Authority paid \$849 in ineligible costs in two payments due to this increase in costs. In addition, the Authority did not have documentation to support that it performed an independent cost estimate or cost analysis when procuring these services, making the remaining \$121,195 unsupported.
- For one general contractor, the Authority did not have procurement records, including documentation to support that it performed an independent cost estimate or cost analysis to support payments of \$40,458.
- For another general contractor and an independent auditor, the Authority did not have procurement records, including documentation to support that it performed an independent cost estimate or cost analysis to support payments of \$616,576 and \$64,160,

⁷ Office of Management and Budget Circular A-133, March 2013 Compliance Supplement. These are payments as of October 31, 2013.

⁸ As of June 25, 2014, independent audits for fiscal years 2012 and 2013 had not been completed.

⁹ The Authority was required to follow HUD requirements at 24 CFR 85.36. The Authority's procurement policy is dated June 2007.

¹⁰ 24 CFR 85.20(b)

¹¹ 24 CFR 85.36(b)

¹² 24 CFR 85.36(f)

¹³ 2 CFR Part 225

¹⁴ Cost-plus-percentage-of-cost contract terms are prohibited by 24 CFR 85.36(f)(4).

respectively, to these contractors. In addition, while both had at least one executed contract, the contracts did not cover all payments. Specifically, for the general contractor, the Authority had only one fixed-fee contract to support \$44,470 in payments, leaving \$572,106 unsupported. For the independent auditor, the Authority had only one fixed-fee contract to support \$36,410, leaving \$27,750 unsupported. Also, an expanded review of 10 payments showed that the Authority did not maintain invoice documentation for 8, including 3 payments to the independent auditor totaling \$24,200 and 5 payments to the general contractor totaling \$34,508.

- For a plumbing contractor, the Authority did not have quotes, proposals, or other documentation as required for small purchases¹⁵ to support payments of \$34,871 to this contractor.
- For its lawn maintenance contractor, the Authority did not have documentation to support that it performed an independent cost estimate or cost analysis, making \$9,570¹⁶ unsupported. In addition, when obtaining this service, the Authority did not select the lowest bidder or maintain documentation justifying its rejection of the lowest bidder as required.¹⁷ Specifically, the proposed monthly fee for the lowest bidder was \$1,213, while the selected contractor's proposed monthly fee was \$2,773, a difference of \$1,560 per month. Without the appropriate documentation, the Authority could not show the reasonableness or necessity for selecting this contractor.

The Authority Did Not Maintain Adequate Documentation For Petty Cash Expenditures

The Authority did not have invoices, receipts, or other documentation to support its use of petty cash. Specifically, a review of eight petty cash expenditures totaling \$1,819 determined that the Authority could not support six expenditures totaling \$1,330. According to the purpose shown in the Authority's electronic accounting data, the petty cash was used for gas, parts, and a briefing. Although the Authority did not have written policies to address the use of and documentation requirements for petty cash expenditures, it was required to maintain documentation to support all program expenditures.¹⁸

¹⁵ For small purchases exceeding the micropurchase threshold, HUD Handbook 7460.8, REV, Section 5.3, required the Authority to solicit price quotes from an adequate number of qualified sources generally defined as not fewer than three. The questioned purchases exceeded the Federal micropurchase threshold.

¹⁶ Amount paid as of October 31, 2013

¹⁷ 24 CFR 85.36(d)(2)

¹⁸ 2 CFR Part 225

The Authority Did Not Submit Audited Financial Data to HUD Within Specified Timeframes

Although the Authority is required to submit its audited financial data¹⁹ within 9 months after fiscal yearend, the Authority missed this deadline for fiscal years 2009 through 2013 as shown in table 3.

Table 3: Financial data submissions

| Fiscal yearend | Due date | Date submitted |
|-----------------------|-----------------|---------------------------------|
| 06/30/ 2009 | 03/31/2010 | 11/16/2010 |
| 06/30/2010 | 03/31/2011 | 06/30/2011 |
| 06/30/2011 | 03/31/2012 | 12/31/2013 |
| 06/30/2012 | 03/31/2013 | Not yet submitted ²⁰ |
| 06/30/2013 | 03/31/2014 | Not yet submitted |

Although the Authority was late with its submissions, it did not obtain a waiver from HUD. For fiscal yearend 2013, the Authority requested that HUD waive the due date to submit its audited financial statements; however, HUD denied the request. According to the Authority, it did not know why the former executive director missed the deadline to submit the audited financial statements for fiscal years 2009 through 2012.²¹ However, the Authority recently procured the services of a fee accountant to assist with the outstanding audits for fiscal years 2012 and 2013. Also, the Authority had to reconstruct its financial documents to support its financial data for fiscal years 2012 and 2013. The Authority stated that it planned to submit the outstanding audited financial statements by June 30, 2014, for fiscal year 2012 and shortly thereafter for fiscal year 2013.

The Authority Lacked Adequate Controls

The Authority lacked adequate controls to ensure that its financial and procurement operations complied with program requirements. Specifically, it did not maintain financial and procurement records for fiscal years 2009 and 2010. In addition, it did not have written financial management policies before November 13, 2013, and did not have written policies for handling interfund transfers. Further, the Authority's procurement policy, dated June 2007, did not include detailed working-level or separate procedures for its staff.²² As related to processing and accounting for its financial activities, there was no segregation of duties before April 2013 as the former executive director performed all duties in this area. The Authority also could not provide detail regarding the activities charged to each funding source as it paid all of its expenditures from its public housing account. Contracting with a fee accountant to perform part of the accounting function could have helped to ensure appropriate segregation of duties, compliance with program requirements, and better accounting for funds. Lastly, before April 2013, Authority staff did not receive training and proper supervision. Under the interim executive director's leadership, since

¹⁹ Financial Assessment Subsystem

²⁰ As of June 25, 2014, independent audits for fiscal years 2012 and 2013 had not been completed.

²¹ The interim executive director began managing the Authority April 8, 2013. Thus, the former executive director had already missed the deadline to submit the Authority's audited financial data for fiscal years 2009 through 2012.

²² HUD Handbook 7460.8, REV 2, section 2.2

April 2013, the Authority had implemented at least six policies, including financial and cash management policies; ensured that its procurement activities were better documented; and provided training for its staff.

Conclusion

Because the Authority failed to ensure that it had adequate controls in place, it paid \$849 in ineligible and more than \$2.8 million in unsupported costs. In addition, the Authority could not provide reasonable assurance to HUD that it properly managed its public housing or Recovery Act programs.

RECOMMENDATIONS

We recommend that the Director, Office of Public Housing, New Orleans, LA, require the Authority to

- 1A. Reconcile its accounting records to identify the appropriate funding source that should have been charged for each expenditure incurred from January 1, 2009, to October 31, 2013. After doing so, address recommendations 1B through 1J in this memorandum.
- 1B. Provide support for the \$1,917,646 in interfund transactions and demonstrate that the funds were not loaned between the low-rent public housing and Housing Choice Voucher programs or repay the appropriate programs from non-Federal funds.
- 1C. Repay the appropriate program the \$849 in ineligible payments to its architect from non-Federal funds.
- 1D. Support \$121,195 in payments to its architect or repay the appropriate program from non-Federal funds.
- 1E. Support \$40,458 in payments to its general contractor or repay the appropriate program from non-Federal funds.
- 1F. Support \$616,576 in payments to its general contractor or repay the appropriate program from non-Federal funds. Should the Authority provide procurement and contract documentation for the payments, the Authority should also provide invoice documentation to support \$34,508.
- 1G. Support \$64,160 in payments to its independent auditor, or repay the appropriate program from non-Federal funds. Should the Authority provide procurement and contract documentation for the payments, the Authority should also provide invoice documentation to support \$24,200.
- 1H. Support \$34,871 in payments to its plumbing contractor or repay the appropriate program from non-Federal funds.

- 1I. Support \$9,570 in payments to its lawn maintenance contractor or repay the appropriate program from non-Federal funds. The Authority should also provide support for the reasonableness and necessity of choosing the higher bidder.
- 1J. Support or repay the appropriate program \$1,330 in petty cash transactions from non-Federal funds.
- 1K. Implement policies and procedures governing its interfund transactions, ensuring that funds are not loaned between its housing programs, transfers are made in a timely manner, and interfund account balances are cleared at the end of each fiscal year.
- 1L. Update its procurement policy to include detailed working-level or separate procedures for its staff.

Appendix A

SCHEDULE OF QUESTIONED COSTS

| Recommendation number | Ineligible 1/ | Unsupported 2/ |
|-----------------------|---------------|--------------------|
| 1B | | \$1,917,646 |
| 1C | \$849 | |
| 1D | | 121,195 |
| 1E | | 40,458 |
| 1F | | 616,576 |
| 1G | | 64,160 |
| 1H | | 34,871 |
| 1I | | 9,570 |
| 1J | | 1,330 |
| Total | <u>\$849</u> | <u>\$2,805,806</u> |

- 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Kenner Housing Authority

An Equal Housing Opportunity
~ 1003 31st Street ~ Kenner, Louisiana 70065 ~
Phone 504-467-9166 ~ Fax 504-464-7781

July 22, 2014

Mr. Gerald R. Kirkland
Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of Audit (Region 6)
819 Taylor Street, Suite 13A09
Fort Worth, Texas 76102

Dear Mr. Kirkland:

Please find attached an answer to the letter received from you dated July 8, 2014 relative to the audit report entitled "**The Kenner Housing Authority Did Not Administer Its Public Housing and Recovery Act Programs in Accordance With Regulations and Guidance**".

Comment 1

The response specifically refers to the section of the audit report on Page 5 entitled, "**The Authority Did Not Comply with Federal and Its Procurement Requirements or Ensure That Payments to Contractors Were Eligible and Supported**". There are five (5) bullet points noted. This response is to bullet points 2-5.

If you have any questions or need any additional information, please give me a call at (504) 467-9166.

Sincerely,

Richard L. Murray
Executive Director

cc: File

OIG Evaluation of Auditee Comments

Comment 1 With its written response, the Authority provided additional documentation related to five procurements. Although we requested the documentation throughout the review, the Authority did not provide it until it provided its response to the draft memorandum on July 22, 2014. Additionally, the documentation is voluminous. Thus, we did not assess its validity or adequacy. The Authority will need to provide the documentation to HUD for its review during the audit resolution process. We did not include the documents in this memorandum, but they are available for review upon request. We did not make any revisions to the memorandum based on the Authority's response.