



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

August 19, 2014

MEMORANDUM NO:
2014-FW-1806

Memorandum

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

//signed//

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

SUBJECT: The South Landry Housing Authority, Grand Coteau, LA, Did Not Always Comply With Federal Procurement and Financial Requirements, Including a Procurement Using Recovery Act Funds

INTRODUCTION

In accordance with our regional plan to review public housing programs and because of weaknesses identified by the U.S. Department of Housing and Urban Development (HUD), we reviewed the public housing programs of the South Landry Housing Authority, Grand Coteau, LA. Our objective was to determine whether the Authority administered its HUD public housing programs in accordance with regulations and guidance.

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.

METHODOLOGY AND SCOPE

The review generally covered the Authority's procurement practices, time and leave records, inventory tracking, financial transactions including credit card purchases, and American Recovery and Reinvestment Act of 2009 grant from January 1, 2009, to November 30, 2013. We expanded the scope as necessary to meet the objective. We conducted the review at the Authority's administrative office in Grand Coteau, LA, and at the HUD field office and our offices in New Orleans and Baton Rouge, LA, from December 2013 through May 2014.

To accomplish our objective, we performed the following:

- Reviewed relevant laws, regulations, and other HUD requirements;
- Reviewed the Authority’s procurement policy and accounts payable procedures;
- Reviewed the Authority’s financial statements and reports, bank statements, general ledgers, invoices, and other supporting documentation;
- Reviewed the Authority’s procurement and accounts payable files;
- Reviewed the Authority’s credit card transactions;
- Reviewed HUD’s monitoring reports;
- Reviewed the Authority’s board meeting minutes and board resolutions; and
- Interviewed Authority and HUD staff.

We requested the Authority’s financial transactions data, but the Authority could not provide the data in electronic format. The Authority also did not keep a list of its contractors. From a review of the general ledger, we identified 15 contractors and reviewed the procurement files for all 15 to determine whether the Authority followed HUD’s and its own procurement requirements. Because of possible issues with the Authority’s use of its seven credit cards, we selected all of the credit cards for review to determine whether the Authority ensured that purchases were eligible and supported. Lastly, we randomly selected 42 of 402 inventoried items to determine whether the Authority properly accounted for and tracked the items.

BACKGROUND

The South Landry Housing Authority is a public agency, established to provide safe and sanitary housing for very low-income families and individuals. It is located at 400 Crape Myrtle Drive, Grand Coteau, LA, and manages 148 low-rent units. The Authority is governed by a five-member board of commissioners, which is responsible for establishing policies, hiring an executive director to manage the Authority’s day-to-day operations, and overseeing the executive director. From fiscal years 2009 through 2013, HUD provided Public Housing Capital and Operating Fund program and Recovery Act grant funds. See table 1.

Table 1: HUD funding

Fiscal year	Operating funds	Capital funds	Recovery Act funds
2009	\$ 356,860	\$207,256	\$263,721
2010	409,814	206,559	
2011	417,892	170,542	
2012	365,065	0	
2013	381,329	151,682	
Totals	\$1,930,960	\$736,039	\$263,721

Our objective was to determine whether the Authority administered its HUD public housing programs in accordance with regulations and guidance.

RESULTS OF REVIEW

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

- Violated HUD’s and its own procurement requirements,
- Improperly used its credits cards,
- Did not properly account for and track its inventory,
- Did not maintain proper time and leave records for employees, and
- Failed to maintain official board records or give public notice of board meetings.

These conditions occurred because the Authority did not have (1) adequate oversight by the board and its former executive director or (2) finalized and approved written policies and procedures to govern its procurement activities, credit card use, inventory, time and attendance tracking, and board proceedings. As a result, it incurred questioned costs totaling more than \$1 million, and could not provide assurance that it was operated effectively, spent HUD funds in accordance with requirements, and protected those funds from waste and abuse.

The Authority Violated HUD’s and Its Own Procurement Requirements

The Authority is required¹ to maintain procurement records for each contractor. However, a review of procurement files for 14 contractors determined that the Authority did not maintain adequate procurement documentation as it did not have a contract or procurement file records² for 8 contractors and did not perform an independent cost estimate³ for 6. See table 2.

Table 2: Procurement deficiencies

Contractor name	Total disbursement or funding source			Deficiency
	Operating	Capital	Recovery Act	
Barras Architects		\$ 31,352		No independent cost estimate
Custom Computer Systems	\$14,795			No procurement file
Digitech Office Machines	1,828			No procurement file
E.L. Habetz Builders, Inc.		139,968		No independent cost estimate
Gilbert’s Computer Services	9,238			No procurement file
Housing Solutions Alliance	37,269			No independent cost estimate
L.K. Breaux & Associates			\$134,726	No independent cost estimate
Management Resource Group	18,543			No contract or procurement file
Mike Estes, P.C.	40,330			No procurement file
Peter Smith	3,760			No contract or procurement file
Petron, LLC		184,000		No independent cost estimate
R.M. Fire Protection	15,114			No contract or procurement file
Smith’s Plumbing	6,560			No contract or procurement file
True Construction		247,084		No independent cost estimate
Totals	\$147,437	\$602,404	\$134,726	

¹ The Authority was required to follow HUD requirements at 24 CFR (Code of Federal Regulations) 85.36.

² HUD Handbook 7460.8, REV. 2, Procurement Handbook for Public Housing Agencies, Section 3.3(A)

³ 24 CFR 85.36(f)

For the eight contractors with no contract or procurement documentation, the Authority used the small purchase method to acquire the services but did not document that it received quotes from other contractors, as required.⁴ In addition, three of these contractors have provided professional or technical services to the Authority on a continued basis for the past 17 years without the Authority ever executing a contract.⁵ As related to the six with no independent cost estimates, the Authority used the competitive proposal or sealed bid procurement methods to acquire the services; however, the Authority did not obtain an independent cost estimate⁶ before awarding the contracts.

In addition, the Authority did not have documentation to justify why it did not ensure full and open competition⁷ for two of its contracts. For its combined 2009 and 2010 Capital Fund grant project, the Authority awarded its architectural and engineering contract to Barras Architects without soliciting competitive proposals from other architectural firms and used Barras Architects for all of its Capital Fund projects from 2007 to 2011. As related to its accounting contract, Housing Solutions Alliance had been the Authority’s fee accountant since 2002. Instead of advertising periodically, the Authority continuously renewed the contract.

The Authority Improperly Used Its Credit Cards

The Authority had seven credit cards, including six business credit cards in its name and a Chase Visa credit card in its former executive director’s name with one to five users or cards. Regulations prohibit the use of program funds to pay interest or late fees on credit cards⁸ and membership fees other than to business, technical, and professional organizations.⁹ Also, costs must be supported as well as necessary and reasonable¹⁰ for the effective operation of housing programs. During the review period, the Authority used \$3,840 in program operating funds to pay ineligible credit card late fees, and finance charges, and ineligible membership fees. See table 3.

Table 3: Ineligible interest, late fee, and membership expenditures

Expenditure description	Chase Visa	Sam’s Club	Exxon Mobil
Interest charges	\$416	\$262	\$ 933
Late fees	225	565	754
Annual membership fees		685	
Totals	\$641	\$1,512	\$1,687

In addition, the Authority used its credit cards to purchase many questionable items, such as food, drinks, candle warmers, candy, ice machine repairs, foam pillows, portable heaters, and meals at restaurants. However, it did not have documentation to support \$144,263 of these and other credit card purchases. See table 4.

⁴ HUD Handbook 7460.8, REV. 2, Section 5.1 and 5.5(D)
⁵ HUD Handbook 7460.8, REV. 2, Section 5.5(C)
⁶ 24 CFR 85.36(f)
⁷ 24 CFR 85.36(c)1
⁸ Appendix B to 2 CFR 225(23)(a)
⁹ Appendix B to 2 CFR 225(28)(a)
¹⁰ Appendix A to 2 CFR 225(c)(1)(a)(j)

Table 4: Purchases lacking supporting documentation

Credit card name	Amount
Sears	\$ 76,165
Lowe's	28,796
Sam's Club	21,387
Chase Visa	11,835
Office Depot	5,601
Home Depot	479
Total	\$144,263

When asked about some of the charges on the Chase Visa, the Authority provided several explanations. For example, for the meals purchased at restaurants, the Authority stated that employees were taken to lunch for national employee recognition days, such as boss's day or secretary's day and board members received an annual Christmas meal. In another example, the Authority purchased items for and prepared an annual gumbo for its housing residents, vendors, councilman, alderman, and others. However, there was no documentation in the file showing approval or how these meals or other purchases were necessary and reasonable for the effective operation of the Authority's programs.

The Authority Did Not Properly Account for and Track Its Inventory

The Authority is required to take inventory once every 2 years and maintain a control system to ensure adequate safeguards for preventing loss, damage, or theft of property.¹¹ However, site inspections determined that for 42 items on the Authority's inventory list, it could not account for 7 appliances¹² purchased between January 1996 and August 2013 from its capital funds for a total cost of \$2,070. In addition, for 89 other appliances, the inventory list did not have information regarding where the items were located, such as in a housing unit or storage.

The Authority Did Not Maintain Proper Time and Leave Records for Its Employees

The Authority's policy¹³ required the employees and supervisors to certify in the time records that employees' recorded work and leave hours were accurate. However, a review of the records determined that they were not always certified. The Authority's policy also required employees to use a time clock. However, the former executive director required employees to submit a manual daily work and time log and a printed monthly calendar showing the leave taken. The former executive director, who was also the timekeeper, recorded each employee's leave information¹⁴ on a leave record card, but employees did not have access to this information. In addition, information regarding the employees' leave balance, use, and accrual was not included on their payroll documents, preventing employees from having records of their leave.

¹¹ 24 CFR 85.32(d)(2-3)

¹² Five ranges and two refrigerators

¹³ Authority's personnel policy, dated May 2004

¹⁴ The former executive director used the Louisiana State Civil Service's leave crediting table to determine leave earned for each employee.

The Authority Failed To Maintain Board Records or Give Public Notice of Its Meetings

The Authority is required¹⁵ to give written notice of its regular meetings, with an agenda, and keep written minutes of all meetings as public record. However, the Authority neither advertised notices of its board meetings nor prepared written meeting agendas. It also did not maintain official records of its board minutes and board resolutions as none of the board documents were certified with approving signatures or the Authority's seal. By not following the requirements, the Authority prevented residents and the public from being informed about its operations, performance, and policies.

The Authority Did Not Have Adequate Oversight or Written Policies and Procedures

The board is expected to provide leadership, support, and oversight of the executive director and establish and approve policies that comply with Federal program regulations as well as State and local laws. The executive director is responsible for ensuring that the Authority's day-to-day operations comply with HUD requirements. However, the board had not received training and was unaware of its roles and responsibilities. Also, while the Authority had written by-laws to govern its board, those by-laws were more than 50 years old¹⁶ and included procedures that conflicted with program requirements. For instance, the bylaws stated that regular board meetings may be held without notice; however, as discussed above, the Authority is required to provide notice.

In addition, the Authority did not have controls in place to ensure that the Authority's day-to-day operations complied with HUD requirements. Specifically, although the Authority had 22 written policies, the board had approved only its procurement policy, which was dated June 2009. The remaining 21 policies were either incomplete or still in draft form, lacked effective dates of implementation, and were not provided to staff. Lastly, employees did not receive proper training. For example, one Authority employee, who had been with the Authority for 17 years and assisted with procurement, had received procurement training only once in November 2013.

Conclusion

Because the Authority's management failed to implement adequate controls and provide adequate oversight, the Authority incurred questioned costs totaling more than \$1 million and could not provide reasonable assurance that it was operated effectively, spent HUD funds in accordance with requirements, and protected those funds from waste and abuse.

¹⁵ Louisiana Revised Statute 42:19 and 20.

¹⁶ The by-laws did not show an effective date; however, approved board resolutions included within the by-laws were dated 1960.

RECOMMENDATIONS

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

- 1A. Support that disbursements made to Barras Architects, E.L. Habetz Builders, Petron, LLC and True Construction were reasonable or repay \$602,404¹⁷ from non-Federal funds to HUD for contractor disbursements without adequate procurement records. In addition, provide justification showing why it did not ensure full and open competition for its contract with Barras Architects.
- 1B. Support or repay \$147,437 from non-Federal funds to its Operating Fund program for contractor disbursements without adequate procurement records. Specifically, provide a contract or procurement file for Custom Computer Systems, Digitech Office Machines, Gilbert's Computer Services, Management Resource Group, Peter Smith, R.M. Fire Protection, Smith's Plumbing and Mike Estes, P.C., as applicable. In addition, provide documentation showing why it did not ensure full and open competition for its contract with Housing Solutions Alliance and that disbursements made to this contractor were reasonable.
- 1C. Support that disbursements made to L.K. Breaux & Associates were reasonable or repay from non-Federal funds \$134,726 to HUD for transmission to the U.S. Treasury for amounts paid from its Recovery Act funds for contracts without adequate procurement records.
- 1D. Repay \$3,840 from non-Federal funds to its Operating Fund program for amounts paid for ineligible credit card purchases and transactions.
- 1E. Support or repay from non-Federal funds \$144,263 to its Operating Fund program for credit card purchases that did not have receipts or other support.
- 1F. Support or repay from non-Federal funds \$2,070 to its Capital or Operating Fund program as appropriate for the missing appliances.
- 1G. Implement internal control procedures to ensure that credit cards are used only for eligible costs and that supporting documentation is maintained.
- 1H. Perform a physical inventory of all items, update its inventory records, and verify the existence of and provide the location of the 89 appliances on its inventory list without locations.
- 1I. Implement adequate written policies and internal control procedures for its equipment inventory and record keeping.

¹⁷ Barras Architects \$31,352, E.L. Habetz Builders \$139,968, Petron, LLC \$184,000, and True Construction \$247,084

- 1J. Establish and implement a timekeeping policy to include procedures for the certification and reviews of work and leave hours for accuracy.
- 1K. Provide HUD-approved training to its board members and employees regarding their roles and responsibilities.
- 1L. Ensure public notices and written agendas are provided for future board meetings and board documents are properly recorded and approved.
- 1M. Ensure that the board's by-laws are updated and in compliance with program requirements.
- 1N. Finalize and obtain board approval of its written policies and procedures.

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$ 602,404
1B		147,437
1C		134,726
1D	\$3,840	
1E		144,263
1F		2,070
Totals	\$3,840	\$1,030,900

- 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

The interim executive director of the South Landry Housing Authority stated that her office had no comments.