



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

October 31, 2014

**MEMORANDUM NO:**  
2015-FW-1802

## *Memorandum*

TO: Regenia Hawkins  
Director, Public and Indian Housing, 6APH

Craig T. Clemmensen,  
Director, Departmental Enforcement Center, CACB

Dane Narode  
Associate General Counsel, Program Enforcement, CACC

//signed//

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

SUBJECT: The Rotan Housing Authority, Rotan, TX, Did Not Administer Its Public Housing and Recovery Act Programs in Accordance With Regulations and Other Requirements

### **INTRODUCTION**

In accordance with our regional plan to review public housing programs and because of a complaint filed with the Office of the Inspector General (OIG) and issues identified by new management, we performed a review of the Rotan Housing Authority (Authority). The complainant and Authority management alleged that the Authority maintained its records in a disorderly fashion, lacked supporting documentation for rental income, had large rental shortages, made questionable large unit turnaround payments to tenants, and made questionable payments for asbestos removal. Our objectives were to determine whether the Authority operated its public housing in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements and to determine whether the complainant's allegations and issues identified by current Authority management were valid. Specifically, we determined whether the Authority 1) properly maintained its financial books and records, 2) had support for and properly managed its rental income and tenant balances, 3) had support for its expenses, and 4) properly procured an asbestos removal contract and had support for the contract's payments. We also reviewed board oversight and compliance with the State of Texas law.

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**

We conducted the review at the Authority's administrative offices in Rotan, TX, the HUD Office of Public Housing, and our office in Fort Worth, TX from February through August 2014. The scope of the review generally covered the Authority's financial operations, including its record keeping, expenditures, tenant rent collections, and oversight by its board of directors for the period January 1, 2012, through December 31, 2012. We expanded the scope as necessary to meet the review objectives.

The Authority imposed a scope limitation that significantly impaired our review. The Authority provided disorganized and incomplete records haphazardly placed into boxes containing records for multiple years. The state of the records limited our ability to understand the control environment and the substance of the Authority's financial activities. Further, none of the staff from the review period remained at the Authority to provide any insight into the Authority's operations, policies, or controls. In addition, the records contained only a limited number of board meeting minutes, and the majority of the minutes had not been signed. Thus, we could not determine what actions the board had approved. Due to the disorganized state of the Authority's records, the Authority's independent public accountant was unable to complete its required fiscal year 2012 audit.<sup>1</sup>

To accomplish our objective, we performed the following:

- Reviewed relevant laws, regulations, contracts, and other HUD requirements and guidance.
- Reviewed the Authority's admissions and occupancy policy.
- Reviewed the Authority's available board meeting minutes. The Authority did not maintain its minutes in a centralized or organized manner. We reviewed the available minutes which we found scattered in boxes of unorganized documentation provided by the Authority. The documentation only included the board minutes from 11 meetings for the 45 months from May 2009 through January 2013.
- Reviewed the Authority's 2012 general ledger and bank statements.
- Reviewed available invoices, and receipts found in the boxes provided by the Authority.
- Reviewed electronic financial data from January 1, 2012, through December 31, 2012. We performed an assessment of the reliability of the data. We determined that the electronic financial data provided by the Authority could not be relied on to provide a complete, accurate, or consistent basis on which to support our findings, conclusions or recommendations. The Authority did not maintain complete data in its electronic general ledger and did not provide detailed postings for transactions in January or February 2012.

---

<sup>1</sup> Office of Management and Budget Circular A-133.

In addition, the Authority lacked supporting documentation and maintained the documents that existed in an extremely disorganized manner. Because of this, we based our review of expenses on information in invoice files and bank statements.

- Selected a sample of vendors with the five largest expenditures from the Authority's electronic general ledger. Even though we determined the general ledger to be unreliable, we used it as a basis to select individual expenditure amounts to determine whether adequate support for the general ledger entries existed. Due to the condition of the Authority's records and the incomplete general ledger, it was impossible to determine an accurate universe of expenses. In order to estimate the universe for our testing, we totaled the checks written from the Authority's public housing bank account and posted to its general ledger. The Authority did not post any checks for January or February 2012. The total of the checks from the account equaled \$386,386. The selected sample totaled \$64,288 or 17 percent of the universe.
- Selected a sample of 3 months (January, June, and December) of rent registers, rent receipts, and rent deposits from our 12 month scope to determine whether the Authority consistently and accurately maintained its rental records. However, the Authority only provided 6 months of rent registers (January through June 2012).
- Interviewed HUD staff, the current Authority staff, the board chairman, and the Authority's independent public accountant.

Due to concerns expressed by current Authority management, we expanded our scope to include

- Five unexplained checks dated December 30, 2010, written to public housing tenants totaling \$6,763 that the Authority redeposited into its bank account.
- Amounts paid for asbestos remediation from the Authority's American Recovery and Reinvestment Act (Recovery Act) Funds.

## **BACKGROUND**

The Authority was established pursuant to the laws of the State of Texas for the purpose of providing affordable housing to low-income families and individuals. The policy-making body of the Authority is its board of commissioners, and the powers of the Authority are vested in its commissioners. It selects and employs the executive director, who is responsible for the efficient day-to-day operations of the Authority. The mayor of Rotan is responsible for appointing the Authority's five-member board of commissioners. At least one of the commissioners must be a resident who is directly assisted by the Authority. In January 2013, the board terminated the executive director in place during the review period.

The Authority had 86 units of public housing and received HUD capital funds<sup>2</sup> and operating funds annually. HUD allowed the Authority to use its capital funds for development, financing, modernization, and management improvements for its public housing units. HUD allowed the Authority to use operating funds for the operation and management of its public housing program. Table 1 contains the HUD funding the Authority received in fiscal year 2012.

---

<sup>2</sup> Via formula grant

**Table 1: HUD public housing fiscal year 2012 funding**

<b>Funding type</b>	<b>Amount</b>
Operating fund	\$287,211
Capital fund	95,006
<b>Total</b>	<b>\$382,217</b>

In addition, the Authority received \$158,712 in Recovery Act funds in 2009.

The Authority also administered a U.S. Department of Agriculture (USDA) Rural Rental Housing program that provided direct, below market interest rate loans for the construction or acquisition and rehabilitation of rental housing for low and moderate-income families, including the elderly and disabled. The USDA also provided rental assistance for the tenants, if needed. The Authority administered 23 USDA units.

The Authority's 2011 financial statement audit reflected numerous findings; many of them repeat findings from 2010. Both contained findings on budget overruns, tenant receivables, security deposits, and tenant files. The 2011 audit also reflected additional findings related to payroll tax payments, internal controls over cash disbursements, and account analysis. While the 2011 audit reflected an overall "unqualified" opinion, it reflected a "qualified" opinion in regard to compliance for major programs. The audit also contained material weaknesses and significant deficiencies in the internal control over financial reporting. The noncompliance was identified as material to the financial statements.

The Authority had a history of substandard performance issues. As early as 2001, the Authority was classified as a substandard performer in HUD systems. Ultimately, in 2011 the Authority was classified as troubled by HUD. Since the Authority continued to demonstrate poor performance, continued mismanagement, and a failure to properly administer its HUD programs and funds, the Authority signed a recovery agreement with HUD on July 26, 2012. The Agreement established performance targets, set out strategies for meeting targets, and provided for incentives and sanctions for effective implementation of the strategies leading to improvement in the Authority's performance and status.

### **RESULTS OF REVIEW**

The complainant's allegations and the other issues raised by current management were valid. The Authority did not administer its public housing programs in accordance with regulations, and other requirements, including Texas State law. Specifically, the Authority and its executive director 1) failed to maintain documentation to support its financial operations, 2) did not maintain support for some expenses, 3) improperly procured and lacked payment support for an asbestos removal contract, and 4) failed to effectively manage or administer its tenant rents. Further, the board violated State law by not maintaining written minutes or recordings of its meetings and failed to provide adequate oversight. These conditions occurred because the executive director ignored or failed to follow Federal regulations and the Authority's consolidated annual contributions contract. Additionally, the board failed to properly oversee the executive director and the Authority's activities. As a result, the Authority 1) could not show that it accurately reflected all transactions in its general ledger, had correct and supportable

account balances, and properly managed \$382,217 of HUD fiscal year 2012 funds; 2) lost revenue; failed to take action on delinquent tenants, which allowed them to accrue large outstanding balances; and could not show that it properly charged, collected, or deposited all rents; 3) incurred \$46,097 in questioned costs; and 4) could not support a \$43,300 asbestos contract or payment. Since the Authority lacked meeting minutes, the Authority may also have taken invalid and unsupported actions.

We recommend that the Director of HUD's Fort Worth Office of Public Housing require the Authority to adopt policies and procedures covering its entire operations. If the Authority properly implements the recommendation, it should ensure that its Public Housing funding of at least \$382,217 for the next 12 months will be put to better use. In addition, we recommend that Director of Public Housing require the Authority to support or repay questioned costs totaling \$89,397. We also recommend that the Associate General Counsel for Program Enforcement determine legal sufficiency, and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act and/or civil money penalties against the executive director.

### **The Authority's Executive Director Did Not Maintain Documentation to Support Its Financial Operations**

Contrary to Federal requirements<sup>3</sup> and its consolidated annual contributions contract,<sup>4</sup> the executive director did not maintain records sufficient to adequately identify the source and application of funds or support the Authority's expenditures. Instead, the Authority maintained its records in a haphazard manner that did not facilitate the preparation of statements and reports or permit a timely and effective audit. Further, the Authority did not maintain a complete or accurate general ledger, failed to properly withhold and deposit payroll taxes, and failed to fund its employee retirement accounts. These issues occurred because the executive director failed to follow the requirements. Further, the board knew of some of these issues but did not take proper, timely, or sufficient action to correct them. For example, the board voted to give the executive director a 5 percent pay raise in March 2011 even though the executive director continued to mismanage the Authority's programs. As a result, the Authority lacked auditable financial information, incurred an unpaid payroll tax liability in excess of \$116,000, and created a retirement liability of \$25,797.

#### *The Authority Did Not Maintain a Complete and Accurate General Ledger*

The Authority did not maintain a complete and accurate general ledger. The general ledger did not reflect detailed transactions for the entire year, and the Authority lacked supporting information for rental income. The executive director did not provide the Authority's fee accountant with the documentation necessary for it to make entries into the Authority's general ledger for January and February 2012. Due to the fee accountant's continued inability to obtain documentation from the executive director, and the Authority's failure to pay outstanding invoices, the fee accountant asked the Authority to hire another service. In addition, the executive director did not ensure that the fee accountant had accurate tenant rent payment information to post to the general ledger. Rather than use a software package the Authority had purchased and provided training on, the executive director used hand-written ledgers to account

---

<sup>3</sup> 24 Code of Federal Regulations (CFR) Part 85.20. See appendix C.

<sup>4</sup> Sections 15(A) and 15(B) of the contract. See appendix C.

for rental revenue for January through June 2012. The Authority had no rent registers for July through December 2012. Further, the executive director told the fee accountant that she had no rent registers for 2012 because the Authority's software system was "messed up" and did not reflect accurate tenant rent balances. The executive director instructed the fee accountant to use the Authority's bank deposits to determine tenant rent income. Because the executive director did not take action to properly maintain the Authority's general ledger, the Authority's independent certified public accountant determined the records were unauditible. Further, the Authority cannot show that it effectively used its HUD 2012 funds totaling \$382,217.

*The Authority Failed to Properly Withhold and Deposit Payroll Taxes or to Fund Employee Retirement Accounts*

The Authority failed to withhold payroll taxes, as required.<sup>5</sup> This occurred because the executive director ignored Federal regulations and did not withhold taxes from employee's salaries or pay the Authority's portion of the taxes to the Internal Revenue Service.<sup>6</sup> Further, the board knew that the executive director did not withhold the taxes from employee's salaries. As early as October 2009, the board discussed the executive director's failure to withhold or pay social security taxes. In December 2009, the board directed the executive director to "check into the matter" and report back at the next board meeting. We could not determine whether the executive director reported back to the board or how the board addressed the issue as the next available meeting minutes were dated March 2011. In March 2011, the executive director informed the board that social security taxes were being deducted from the employee's paychecks and that the Authority was paying its portion. Due to the executive director's failure to properly withhold and pay its payroll taxes, the Authority owed more than \$116,000 in unpaid taxes, penalties, and interest.

In addition, the Authority failed to properly fund its employee's retirement accounts. This issue occurred because the executive director failed to properly fund the accounts and the board failed to take decisive action upon learning of the underfunding issue. The Authority's March 24, 2011 board meeting minutes indicated that the Authority owed a total of \$25,797 to its employees' retirement funds due to a failure to fund them in prior years. The minutes further indicated that since the Authority failed to pay social security during this time, the board agreed that it wanted to fully fund the employee retirement accounts. The board passed a motion to pay the amounts owed to the employees' retirement plan over a 24 month period. However, the Authority's 2011 audited financial statements stated that the Authority terminated the employees' pension plan in March 2011.

HUD should require the Authority to implement policies, procedures, and controls to ensure the Authority's financial records support its financial operations and sources and uses of funds. In addition, HUD should require the Authority to implement payroll policies and procedures to ensure that taxes and other obligations are properly withheld and paid. Further, HUD should work with the Authority to resolve its unpaid payroll taxes and retirement liabilities and ensure that the Authority only uses HUD funds to pay the unpaid HUD portions and not any interest or

---

<sup>5</sup> Payroll taxes included social security and Medicare taxes on employees' wages. See appendix C

<sup>6</sup> Title 26, Subchapter C, Employment Taxes and Collection of Income Tax at Source, require employers to withhold social security and Medicare taxes from employees' wages and to pay their share. See appendix C.

penalties. If the Authority implements these recommendations, it should ensure that its HUD funding of at least \$382,217 for the next 12 months will be put to better use.

**The Authority Did Not Maintain Support for Some Expenses**

In violation of Federal regulations and its annual contributions contract, the Authority did not maintain support for some expenses. Our testing showed the Authority could not support \$34,619 in general expenses, \$4,715 in purchases made with a debit card, and \$6,763 in unsupported payments made to tenants in December 2010. These unsupported payments occurred because the executive director did not maintain any system of records to support the Authority’s source and application of funds or its expenditures and the board did not exercise adequate oversight. As a result, the Authority cannot support expenses totaling \$46,097.

*The Authority Lacked Support for \$34,619 of \$64,288 Expenses Sampled From Its General Ledger*

Out of a sample of expenditures totaling \$64,288, the Authority lacked the required<sup>7</sup> supporting documentation for \$34,619 in general expenses such as maintenance and cleaning supplies, gas and auto repair, and credit card purchases. The Authority lacked support because the executive director failed to maintain it. Since it did not provide documents to support these expenses, the Authority could not show that it spent the \$34,619 on reasonable, supportable, and valid expenses. Table 2 shows the sampled and unsupported amounts.

**Table 2: Unsupported general expenditures**

<b>Sample expenditure</b>	<b>Total from general ledger sample</b>	<b>Total unsupported</b>
White’s True Value	\$27,923	\$12,553
Rotan Mercantile	10,996	7,927
Momar	9,760	6,130
Lee’s Service Auto Parts	9,641	2,041
VISA	5,968	5,968
<b>Total</b>	<b>\$64,288</b>	<b>\$34,619</b>

*The Authority Lacked Support for Purchases Made with a Debit Card*

The Authority lacked support for \$4,715 in purchases made with the Authority’s debit card. The Authority’s 2012 bank statements reflected numerous purchases made with the Authority’s debit card. Table 3 contains examples of the purchases.

---

<sup>7</sup> Federal regulations and the Authority’s annual contributions contract required the Authority to maintain supporting documentation for its expenditures. See appendix C.

**Table 3: Examples of unsupported debit card purchases**

<b>Vendor</b>	<b>Total Unsupported Payments</b>
Best Buy	\$1,030
Landes Furniture	730
HD Supply	192
Walmart/Sam's	119
Allsup's	111
<b>Total</b>	<b>\$2,182</b>

The payments to Landes Furniture included an initial payment of \$170 in February 2012 and recurring \$80 payments each month from April through October. The documentation provided by the Authority did not support these payments. These unsupported charges occurred because it appeared that no one on the board reviewed the bank statements or debit card purchases. As a result, the Authority cannot show that its staff or executive director made valid and supported charges totaling \$4,715.

*The Executive Director Made Unexplained Payments to Tenants*

Contrary to Federal documentation requirements, the executive director made unsupported and unexplained payments to tenants totaling \$6,763, as shown in table 4. The Authority lacked documentation showing why it paid four of the five tenants. Although the records showed that the Authority paid one tenant for unit make-ready work, the records did not show what units the tenant made ready or how many hours the tenant worked. Further, the payment appeared to be irregular as the tenant was 90 years old.

**Table 4: Unsupported payments to tenants**

<b>Tenant</b>	<b>Date</b>	<b>Purpose<sup>8</sup></b>	<b>Amount</b>
Tenant #1	12/30/2010	Not noted	\$1,120
Tenant #2	12/30/2010	Make-readies	899
Tenant #3	12/30/2010	Not noted	1,940
Tenant #4	12/30/2010	Not noted	2,210
Tenant #5	12/30/2010	Not noted	594
<b>Total</b>			<b>\$6,763</b>

On February 7, 2011, the Authority deposited these checks into its bank account and they cleared that day. The deposit slip did not indicate any cash was returned. Only three of the five tenants actually endorsed their checks. Due to the unauditible state of the Authority's records, we could not determine if the Authority recorded these checks as rental income or some other type of income, or if it issued a 1099 Miscellaneous Income and Wage Statement to the any of the tenants. As the Authority lacked support for these checks, it could not show that it made these payments totaling \$6,763 for valid and supported expenses.

---

<sup>8</sup> As noted on the check.

HUD should require the Authority to support or repay \$46,097 in unsupported expenditures. In addition, HUD should require the Authority to adopt financial controls for expenses including ensuring costs are adequately reviewed, documented, and supported.

### **The Authority Improperly Procured and Lacked Payment Support for an Asbestos Removal Contract**

In violation of Federal requirements, the Authority improperly procured and lacked support for payments for asbestos removal in its public housing units, which it paid with Recovery Act funds. Specifically, the Authority's executive director 1) improperly sole-sourced the procurement for asbestos removal, 2) entered into a contract without needed requirements, 3) failed to ensure that the price paid was reasonable, and 4) failed to maintain invoices or other support for its payments. The improper procurement and payments occurred because the executive director did not follow federal procurement requirements. As a result, the Authority could not support the \$43,300 procurement or payments.

#### *The Authority Improperly Procured Its Asbestos Removal Contract*

The executive director did not follow Federal procurement requirements<sup>9</sup> as she did not solicit bids from an adequate number of sources. According to the Authority's documentation, the executive director hired a firm who was recommended to her by a contractor at another housing authority. According to a written statement by the executive director:

“Asbestos Abatement was a new subject to me so I looked in the phone book for Asbestos abatement, hazardous waste removal, and hazardous material removal and found nothing of the sort. Later I went online. There were several links to go to, however, when I clicked on the links it kept coming up with errors. Therefore, I visited with a contractor from a neighboring Housing Authority and asked him if he knew anyone that did asbestos abatement. He referred me to this company. Since they were the only asbestos abatement company I could find I engaged in a contract with them. I am including several pages from the Internet which show that the websites had errors or could not be found.”

Contrary to the executive director's statement, the Authority's files lacked any pages documenting the executive director's internet search efforts or errors. Further, the Texas Department of State Health Services regulates asbestos removal and its website contains a list of numerous licensed asbestos companies within the State.<sup>10</sup> Also, although the executive director claimed that she could not find another company, the contractor subsequently subcontracted with another company that performed the actual asbestos removal.<sup>11</sup> Thus, the Authority cannot show that the executive director properly solicited from an adequate number of sources.

---

<sup>9</sup> 24CFR 85.36(ed)(4)(i), see appendix C.

<sup>10</sup> The contractor was not licensed in the State of Texas to work with asbestos.

<sup>11</sup> The contract was between the contractor and subcontractor. The Authority was not a party to the contract.

*The Authority's Contract Was Inadequate and Did Not Contain Required Contract Provisions*<sup>12</sup>

The Authority's contract for the asbestos removal was a one page handwritten document that did not contain any details regarding 1) the scope of work, 2) any other significant details concerning the asbestos removal or disposal, and 3) the required Federal clauses including access by the grantee or the Federal agency to the contractor's books and records. However, the contract between the contractor and his subcontractor contained a detailed scope of work, a work plan, a waste disposal plan, and a bid.

*The Authority Lacked a Cost Analysis to Show Price Reasonableness*

The Authority could not show that the executive director had performed a cost analysis, including an evaluation of the specific elements of costs and profit, which was required when a noncompetitive purchase was made. As the contractor subcontracted his \$43,300 contract to another firm for \$22,105, we question the reasonableness of the contract price. Further, even though the Authority paid the contractor \$43,300 in May 2010, the contractor never paid the subcontractor. After numerous unsuccessful attempts to contact the contractor regarding the nonpayment, the subcontractor filed a \$22,105 lien against the Authority's public housing property in August of 2010. As of July 2013, the subcontractor had not been paid.

*The Authority Lacked Support for Its Payment to the Contractor*

The Authority did not have an invoice or any other support that the contractor had completed the work. In addition, rather than pay the contractor by check, which appeared to be its normal practice, the Authority made a wire transfer to pay this contractor. The current executive director attempted to obtain an invoice and other information, but the contractor will no longer accept or return her calls.

HUD should require the Authority to either support or repay \$43,300 in unsupported expenses. Further, HUD should work with the Authority to ensure that the lien is removed from its public housing property. HUD should also require the Authority to adopt procurement and contractor payment policies that meet Federal requirements and ensure its staff follows them. HUD should also ensure that Authority staff are trained in Federal procurement and contracting requirements.

**The Authority Failed to Effectively Manage Its Tenant Rents**

The Authority failed to effectively manage or administer its tenant rents. It did not 1) take action to properly collect rent from tenants, 2) maintain accurate or complete rent registers, and 3) maintain accurate rent receipts books. It also improperly wrote-off an employee's outstanding rent balance. This occurred because the executive director and staff either ignored existing policy or did not follow basic rental and accounting practices. As a result, the Authority lost revenue; failed to take action on delinquent tenants, which allowed them to accrue large outstanding balances; and could not show that it properly charged, collected, or deposited all rents. Further, it could not reconcile its rental collections or show that its rental collections or outstanding balances were accurate or supported.

---

<sup>12</sup> 24CFR85.36(i), see appendix C.

*The Authority Did Not Properly Collect Rent From Its Tenants*

The Authority did not take action to properly collect rent from its tenants in accordance with its Admission and Occupancy Policy. Instead, its available rent registers for the 6 months from January 2012 to July 2012, reflected continually increasing tenants account receivable balances. The Authority’s rent receivable balance due at the beginning of January 2012 was \$33,387. At the end of June 2012, it increased to \$41,019, an increase of \$7,632. The Authority’s total rent roll for January was \$9,635. Therefore, in a 6 month period, the rent receivable balance increased by 79 percent of the Authority’s monthly rent roll. Further analysis of the rent registers showed that the Authority allowed numerous tenants to have overdue balances in excess of \$1,500. Three tenants had balances due in excess of \$5,000.

However, the Authority’s maintenance of its registers and the accuracy of its tenants’ outstanding balances were questionable. For example, one of the three tenant’s balance due increased from \$1,525 to \$5,627, which totaled to an increase of \$4,102 or an average increase of \$684 per month. Yet, the tenant’s rent was only \$280 per month from January through May and \$322 in June. We could find no explanation for the significant increase. The Authority’s failure to properly collect rent and maintain its rent register and tenant balances occurred because the executive director ignored the Authority’s policy for rent collection and tenant evictions. As a result, the Authority’s tenant accounts receivable continued to increase, which negatively affected the Authority’s financial position. Further, the Authority lacked assurance it maintained accurate tenant balances.

*The Authority Did Not Maintain Accurate or Complete Rent Registers*

The Authority failed to maintain accurate or complete rent registers. Rather than use software it purchased to track its tenant’s rental balances, the Authority used handwritten registers. Further, it failed to maintain complete handwritten registers as it provided only 6 handwritten rent registers for the 12 months reviewed. Its registers also contained many inaccuracies. For example, the Authority did not always carry the tenants’ balance due forward correctly. Table 5 shows examples of 5 of the 86 tenant rent balances at the end of January 2012 that did not match their February 2012 beginning balances.

**Table 5: Inaccurate tenant rent balances**

<b>Tenant</b>	<b>January rent ending balance</b>	<b>February rent beginning balance</b>	<b>Difference</b>
Tenant #1	\$1,205	\$2,591	\$1,386
Tenant #2	6,190	5,530	(660)
Tenant #3	1,020	505	(515)
Tenant #4	1,705	2,500	795
Tenant #5	1,720	2,520	800

Further, the rent registers reflected two new tenants in February 2012. Being new, the tenants should not have had a beginning rent balance. However, the registers reflected beginning balances of \$680 and \$290. In addition, the Authority also inconsistently posted rent receipts to its rent registers. For example, in January 2012, the Authority’s rental receipt books contained 10 rent payments totaling \$2,257 that it failed to post to the rent register. Its rent registers also contained mathematical errors that affected the tenants’ balances. Additionally, the registers also

contained a large number of strike-through and white-out changes. These conditions occurred because the executive director ignored basic procedures and failed to use software on which she had received training. Due to the incomplete and inaccurate records, the executive director instructed the fee accountant to use bank deposits to determine the amount of rental income to post in the general ledger. As a result, the Authority could not support or reconcile its reported rent collections or its outstanding tenant balances.

#### *The Authority Did Not Maintain Accurate Rent Receipt Books*

The Authority did not maintain accurate rent receipt books. It failed to maintain its receipts in date order, and, even though it had separate receipt books for its rural housing and HUD programs, it intermingled the receipts. In addition, it does not appear that the Authority completed rent receipts for all of the rent payments it received since the receipt book for December 2012 contained only 8<sup>13</sup> receipts for its 86 units totaling \$1,114, but the general ledger reflected tenant rent deposits of \$11,241. These conditions occurred because the executive director and Authority staff did not follow basic rental receipt procedures. As a result, the Authority could not support or reconcile its reported rent collections.

#### *The Authority Improperly Wrote Off an Employee's Past Due Rent Balance*

Contrary to HUD guidance,<sup>14</sup> the executive director improperly wrote off \$1,500 of an employee's past due rent. Further, the rent registers for the six available months did not show any rent paid by the employee. The Authority's documentation did not contain any explanation for this write-off or why it did not require the employee to pay rent. Since the Authority did not correctly calculate tenant balances, we could not determine whether the balance owed was accurate. Additionally, the Authority's write-off of this balance may have been unwarranted as the employee continued to live in the unit, which made the Authority's uncollectible determination questionable.

HUD should require the Authority to implement written policies and procedures for the administration of its tenant rents including but not limited to a rental collection policy which includes an eviction policy for nonpayment of rents; detailed procedures for collecting, posting, and reconciling tenant rent accounts; a policy for tenants who are employees; and a policy and detailed procedures for uncollectible rent write offs. HUD should also require that the Authority work with the tenants with past due balances to set up payments arrangements.

### **The Authority's Executive Director and Board Failed to Maintain Meeting Minutes and Resolutions**

The Authority's available meeting minutes showed that the executive director and its board violated State law. State law required the Authority to prepare and keep minutes or make a recording of each open meeting of the body. The minutes must state the subject of each deliberation, and indicate each vote, order, decision, or other action taken.<sup>15</sup> The Authority's documentation only included the board minutes from 11 meetings for the 45 months from May

---

<sup>13</sup> There were 10 receipts in the December low rent receipt book. However, two of them were for the Authority's USDA Rural Housing program.

<sup>14</sup> HUD Handbook 7510.1, Public and Indian Housing Low Rent Technical Accounting Guide.

<sup>15</sup> Texas Government Code Section 551.021. See appendix C.

2009 through January 2013. In addition, none of the resolutions were numbered to allow them to be tracked or kept in order. Further, the board only signed the minutes for one meeting. The remaining 10 board minutes were unsigned; therefore, the Authority lacked assurance that the minutes reflected what occurred at the meetings. As secretary for the board, the executive director failed to maintain board meeting minutes; however, the board also had a responsibility to review the Authority records and ensure that they were maintained. As a result, the Authority may have taken invalid and unsupported actions and the Authority's financial condition continued to worsen. HUD should require the board to adopt policies and procedures concerning documenting and maintaining its board meeting minutes to ensure that they adequately document the actions of the board.

### **The Board Did Not Provide Adequate Oversight**

Even though HUD declared the Authority troubled in 2005, the board did not take decisive action to improve its operations, as required. Although the executive director continued to mismanage the programs, as documented by her failure to pay taxes and withhold retirement payments, the board unanimously approved the Authority's monthly financial statements in 6 of the 11 board meetings, most recently in October 2012. The board's failure to provide oversight negatively affected the Authority by allowing the executive director to continue to mismanage the Authority's programs. HUD's Recovery Agreement, signed by the Authority in July 2012, showed the substandard condition to which the Authority had deteriorated. HUD should work with the mayor to evaluate the board's effectiveness and remove or replace members as appropriate. In addition, HUD should provide training and technical assistance to the board.

## **CONCLUSION**

The Authority did not administer its public housing programs in accordance with regulations, and other requirements, including Texas State law. The Authority and its executive director failed to maintain documentation to support its financial operations, did not maintain support for some expenses, improperly procured and lacked payment support for an asbestos removal contract, and failed to effectively manage or administer its tenant rents. Further, the board violated State law by not maintaining written minutes or recordings of its meetings and failed to provide adequate oversight. These conditions occurred because the executive director ignored or failed to follow Federal regulations and the Authority's consolidated annual contributions contract. Additionally, the board failed to properly oversee the executive director and the Authority's activities. As a result, the Authority 1) could not show that it accurately reflected all transactions in its general ledger, had correct and supportable account balances, and properly managed \$382,217 of HUD's fiscal year 2012 funds; 2) lost revenue; failed to take action on delinquent tenants, which allowed them to accrue large outstanding balances; and could not show that it properly charged, collected, or deposited all rents; 3) incurred \$46,097 in questioned costs; and 4) could not support a \$43,300 asbestos contract or payment. Since the Authority lacked meeting minutes, the Authority may also have taken additional invalid and unsupported actions.

## RECOMMENDATIONS

We recommend that the Director, Office of Public Housing, Fort Worth, TX,

- 1A. Require the Authority to adopt policies and procedures covering its entire financial operations, including procedures that ensure costs are adequately reviewed, documented, and supported. If the Authority properly implements the recommendation, it should ensure that its Public Housing funding of at least \$382,217 for the next 12 months will be put to better use.
- 1B. Require the Authority to resolve its unpaid payroll taxes and retirement liabilities and ensure that the Authority only uses non-federal or non-HUD funds to pay the unpaid interest or penalties.
- 1C. Require the Authority to support or repay \$46,097 in unsupported expenditures. The funds should be repaid to the Authority's public housing program. However, if the Authority made any of the expenditures from its 2010 or earlier capital fund grants, or if the Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD. Any repayments must be from non-Federal funds.
- 1D. Require the Authority to either support or repay to HUD for its transmission to the U.S. Treasury \$43,300 in unsupported asbestos abatement expenses. Repayment must be from non-Federal funds.
- 1E. Require the Authority ensure that the lien is removed from its public housing annual contributions contract property.
- 1F. Require the Authority to adopt procurement and contractor payment policies that meet Federal requirements.
- 1G. Ensure that Authority staff are trained in Federal procurement and contracting requirements.
- 1H. Require the Authority to develop and implement written policies and procedures for the administration of its tenant rents including but not limited to a rental collection policy that includes an eviction procedures for nonpayment of rents; detailed procedures for collecting, posting, and reconciling tenant rent accounts; a policy for tenants who are employees; and procedures for the write off of uncollectible rents.
- 1I. Require the Authority work to execute repayment agreements with the tenants that have past due rent balances. The agreements should include warnings that the failure to pay in accordance with the agreements could result in eviction.
- 1J. Require the board to adopt policies and procedures concerning 1) the conducting of regular board meetings, 2) documenting and maintaining its board meeting minutes to

ensure that they adequately document the actions of the board, and 3) the proper review and approval of Authority payments, procurements, and overall operations.

1K. Work with the mayor to evaluate the board's effectiveness and remove or replace members as appropriate.

1L. Provide training and technical assistance for the board.

We recommend that the Director, Departmental Enforcement Center

1M. Take appropriate administrative sanctions, including suspensions, limited denials of participation, and debarments against the executive director.

We recommend that the Associate General Counsel for Program Enforcement

1N. Determine legal sufficiency, and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act and/or civil money penalties against the executive director.

## APPENDIXES

### Appendix A

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

Recommendation number	Unsupported 1/	Funds Put to Better Use2/
1A		\$382,217
1C	\$46,097	
1D	43,300	
<b>Totals</b>	<b><u>\$89,397</u></b>	<b><u>\$382,217</u></b>

- 1/ 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.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements the recommendation it will more appropriately use its public housing funding of at least \$382,217 to better use during the next 12 months.

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

---

#### Ref to OIG Evaluation

#### Auditee Comments

**Rotan Housing Authority  
202 W. Mc Arthur  
P.O. Drawer J  
Rotan, Texas 79546  
325-735-3613 FAX 325-735-2572**

October 9, 2014

Mr. Gerald R. Kirkland  
Regional Inspector General for Audit  
Office of Audit (Region 6)  
819 Taylor Street, Suite 13A09  
Fort Worth, Texas 76102

Re: Rotan Housing Authority, Rotan, Texas  
Did Not Administer Its Public Housing and Recovery Act Programs in  
Accordance With Regulations and Other Requirements.

Dear Mr. Kirkland:

Please find our response to the memorandum of the OIG Audit below:

#### Introduction

The Rotan Housing Authority (“RHA” or “Housing Authority”) in no way seeks to defend any inappropriate actions of the former Executive Director and her office administration. The Housing Authority would like to point out the many positive changes that the new Executive Director and her administration have implemented since taking over the operations at the RHA, which will prevent any similar problems in the future. These changes include: adoption of new policies and procedures that address issues in the audit; employing and training all new office staff; implementation of an overall system of checks and balances; re-certifying all tenants and enforcing the rent collection policy; collection of back rents on delinquent tenants; screening all new applicants and requiring all new tenants pay a security deposit; making necessary repairs to the property; and paying in full all delinquent payroll taxes.

The audit recommends that the RHA make certain reimbursements for unsupported expenses. During the past 18-months, the Executive Director working hand-in-hand with the Board of Commissioners has made a significant amount of progress in getting the RHA back on track. If the Rotan Housing Authority is required to pay these funds, it would have a devastating financial impact on the agency and would punish the Housing Authority and its low-income tenants twice for the poor decisions made by the former Executive Director and her office administration.

**Comment 1**

**Comment 2**

**Ref to OIG Evaluation**

**Auditee Comments**

A full response to the audit and its findings follows. The Rotan Housing Authority looks forward to working with HUD and the OIG to further resolve the audit findings so that the Housing Authority can continue to move forward, grow and continue to serve the low-income families of Rotan, Texas.

**Response**

**Comment 1**

For the duration of the former Executive Director’s employment, aspects of the Rotan Housing Authority’s operations fell far short of the high standards that the Housing Authority sets for itself. In particular, certain actions by the former Executive Director and her staff were inconsistent with the Program requirements and significantly strayed from the RHA’s mission. As a result, the former Executive Director was terminated in January 2013. The Rotan Housing Authority signed a Management Agreement with the Hamlin Housing Authority in March 2013. Immediately upon taking over the management operations of the RHA, the new Executive Director and Assistant Executive Director implemented new policies and procedures to ensure that the inappropriate conduct which gave rise to the Audit would not be repeated.

**Comment 2**

In the past 18-months, the Rotan Housing Authority has made significant changes that address the concerns outlined in the Audit. Detailing these actions provides the most appropriate resolution to the Audit’s findings. Although the Audit recommends repayment of monies by RHA for some unsupported expenditures, the implementation of those recommendations would take much needed resources away from low-income residents and further impede RHA’s ability to move forward and recover. We believe that a more practical course of action is for HUD to continue to work with the new RHA administration to assure that new policies and procedures already in place protect the agency from again becoming susceptible to such outrageous mismanagement and apparent fraudulent activity.

**Comment 1**

Due to serious health problems, the Executive Director resigned at the Rotan Housing Authority and ended the Management Agreement between the Hamlin Housing Authority and the Rotan Housing Authority in July 2014. The Board of Commissioners promoted the Assistant Executive Director to Executive Director. The new Executive Director has 12 years experience in the housing authority industry and was instrumental in the improvements at the Rotan Housing Authority over the past 18-months.

**Comment 1**

The new RHA administration has made great strides to restore the public’s trust in the Housing Authority and to improve the RHA’s operations, particularly in the areas of financial management, fair housing, program administration, reporting, and transparency. During this short period of time, the RHA has already:

- Adopted new Admissions & Continued Occupancy Policy with all new policies, procedures, and forms for all Programs;
- Established new application intake process and implemented new screening procedures for all Programs;
- Established new Waiting List for all Programs;

**Ref to OIG Evaluation**

**Auditee Comments**

- Engaged a new Certified Accountant with experience specifically in housing authority accounting;
- Converted all tenants to a new rental software for housing authorities for Public Housing and Rural Development;
- Re-certified all tenants in both Programs to make sure all income was being used to calculate the correct rent and increased rental income for the agency;
- Obtained Back Rent Agreements on all delinquent tenants for both Programs;
- Enforced the Collection Policy on all tenants;
- Implemented late charges, non-refundable pet fees, mow fees, tenant damage charges, cleaning fees, security deposits, and satellite deposits to increase income for the agency;
- Implemented reporting tenants in Debts Owed Module in EIV and reporting past tenants to the Collection Agency;
- Followed through with evictions for lease violations;
- Moved existing tenants into the appropriate bedroom size apartments for their family;
- Established a new filing system for all income and expenses and furnished all reporting data to fee accountant timely;
- Worked with the Auditor and OIG to locate documentation for financial reporting to HUD and the OIG audit;
- Established criteria for tenant file documentation and brought all tenant files current;
- Brought all data current in PIC module and MINC;
- Ensured and maintained 100% reporting in PIC module and MINC;
- Established working relationship with Fisher County Sheriff's Office to control crime at all sites;
- Worked with the Internal Revenue Service and filed all delinquent Form 941 Reports and paid \$111,371.99 in delinquent payroll taxes, interest, and penalties;
- Installed QuickBooks and began processing accounts payable, payroll, Form 941 processing, W-2 processing, 1099 processing, bank reconciliation and financial report processing for Board of Commissioners meetings monthly;
- Set up files for Capital Funding Grants, Operating Budgets, Annual & 5-Year Plans, Forms 941, Texas Workforce Commission Reports, W-2's, 1099's, Vendors W-9's, Annual Inspections, Equipment Inventory, Appliance Inventory, Annual GAAP Inventories, Energy Audits, Utility Allowance Studies, Financial Statements, PIC Data, PIC Reports, Board Meetings Minutes and documentation, and ACOP Manual & Policies;
- Completed insurance claim work on burned unit;
- Completed insurance claim work on roofs for all units;
- Completed CFP Grant work in process;
- Continued to complete CFP Grant work;

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 2**

- Replaced numerous central heat and air units that were no longer operational and make needed repairs to the properties;
- Completed a Railroad Commission Audit on master-metered gas systems;
- Completed training for all staff members on master-metered gas systems;
- Located documentation for asbestos abatement, which showed the contractor was paid and failed to pay his subcontractor; turned information over to City Attorney to have Mechanic’s Lien removed from property;
- Worked with the Mayor to replace board members and elect a new Chairman and Vice-Chairman;
- Conduct monthly board meetings and keep board informed on progress;
- Set up training for new board members for commissioner training and Open Meetings Act training and obtain certification for the trainings;
- Provided quarterly reports to HUD in accordance with Recovery Agreement until all open items completed;
- Performed outreach activities to try to fill vacancies;
- Inspected all units and repaired prior to REAC Inspection;

The new RHA’s administration has no desire to defend any of the inappropriate actions of the prior Executive Director or her administration. However, neither do we desire to be further punished for what was most certainly a shared failure of oversight. Our response contesting certain recommendations is not a defense of the former Executive Director or her administration. In fact, her actions have negatively impacted RHA’s ability to operate and repair both the Public Housing property and the Rural Development property. The Rotan Housing Authority wants to ensure that its low-income residents are not burdened with debt that will cripple the agency’s ability to carry out its mission.

**Comment 1**

Board oversight has significantly increased. Monthly board meetings are held and a list of all expenditures, Balance Sheet, and Profit & Loss Statements are reviewed at each meeting. A Director’s Report informs the board of all issues currently being addressed by the agency.

**Comment 1**

**Conclusion**

- 1) Since RHA established the General Ledger in QuickBooks, the documentation is now being maintained to support RHA’s financial operation;
- 2) Documentation is now being maintained to support all expenditures. RHA’s will contact past and present vendors to try to obtain missing documentation for the former Executive Director’s unsupported expenditures. RHA will have the City Attorney prepare a demand letter to the former Executive Director for any unsupported expenditures for which documentation cannot be obtained.
- 3) RHA has provided documentation to the City Attorney for the payment to the Contractor for the asbestos removal contract. The City Attorney is preparing a letter to the subcontractor informing them that RHA has paid the contractor for the contract and demand removal of the Mechanic’s Lien from RHA property. RHA has made numerous attempts to contact the contractor for documentation

**Ref to OIG Evaluation**

**Auditee Comments**

but the contractor will not respond to the inquiries. Since this Contract was submitted and reviewed by HUD staff prior to funding, RHA feels the Program would be better served if HUD requires a copy of each contractor's license and bid bond for future projects to ensure that this type of award is not funded again. Proper Procurement Policies are now being followed by RHA. The current Executive Director will attend Federal Procurement training as soon as possible to ensure that the proper procurement is always followed and cost analysis showing price reasonableness will be performed.

- 4) RHA has automated the process of filing Form 941 through QuickBooks and continues to make payroll deposits monthly. All delinquent payroll taxes have been paid to the IRS by RHA. Retirement accounts will be funded if sufficient funds are available at the conclusion of this audit.
- 5) The Housing Authority strictly enforces the Collection Policy for tenant rents and other charges. RHA maintains computer generated detailed rent registers for both programs and maintains accurate rent receipt books. The delinquent rent for Rural Development has all been collected or properly written off by the board. There are only 4 tenants left owing delinquent rent for public housing and all 4 have signed Back Rent Agreements and make the required payments on the delinquent rent each month with their current rent. A substantial amount of delinquent rent has been collected or properly written off by the board.
- 6) Board Meeting files have been set up and are maintained monthly with written minutes, resolutions, and documentation from the meetings. RHA continues to find written minutes, resolutions, and recordings from past meetings. RHA will organize all meeting information found in an organized manner for future reference.
- 7) Since the election of a new Board Chairman and Vice-Chairman and the replacement of 2 board members, better oversight of the agency's operations is being maintained. The new Executive Director has developed a good working relationship with the current board and continues to keep them informed on Housing Authority business through the Director's Report at each board meeting. New board members are required to obtain Certification for Commissioner training and Open Meetings Act training.

The Rotan Housing Authority does not seek to make any excuses for the actions of the prior Executive Director and her administration. Many of these actions were inconsistent with RHA's mission to serve low-income families and were unethical and bad business decisions. During the past 18-months, the new RHA administration has made significant strides to implement meaningful checks and balances that will ensure accountability, transparency, and adherence to HUD and local requirements. In short, these changes will prevent the events of the past from reoccurring.

The Rotan Housing Authority will continue to work with HUD and OIG, as well as the public and RHA clients, to resolve any issues and restore trust in the agency and its mission. The new administration with the oversight of the Board of Commissioners will make every effort to ensure that future funds are well managed to support the program.

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 2**

The appropriate and most meaningful resolution to the Audit findings is one that will support the many changes that the current RHA administration has and is continuing to implement. RHA is open to suggestions regarding policy changes that HUD or OIG may have which could further ensure the appropriate level of checks and balances at the Housing Authority. To recommend repayment of such a large sum of money simply penalizes the low-income families served by the Rotan Housing Authority again for the actions of the prior Executive Director and her administration, and will significantly hinder RHA's ability to move forward and serve its clients.

**Comment 3**

The Rotan Housing Authority recommends the OIG pursue civil money penalties and administrative sanctions, as appropriate, against the former executive director. The former executive director made unexplained payments to tenants. Documentation was discovered for the end of each fiscal year of this type of activity. Some tenants were elderly and disabled and some checks were for unit make-readies. No explanation could be found by the current administration, the board of commissioners, or the OIG as to why these checks were issued and then re-deposited into the same bank account. The check numbers were sequential. The Rotan Housing Authority and the Board of Commissioners feel very strongly that the former Executive Director needs to be held accountable for her breach of fiduciary responsibility while employed by the Rotan Housing Authority.

Sincerely,



Mary Denson  
Executive Director  
Rotan Housing Authority

## OIG Evaluation of Auditee Comments

- Comment 1** The Authority's response detailed the many positive changes already made to improve its operations. Its steps included the hiring of a new executive director and administration, adoption of new policies and procedures, training for all office staff, implementation of a system of checks and balances, payment of all delinquent payroll taxes, and addressing weaknesses in its tenant rent function. OIG recognizes the steps taken by the Authority to improve its operations and to repay debts incurred by its previous executive director. The Authority should continue to work with HUD to ensure its changes address the issues noted in the audit memorandum, to improve its controls and processes, to implement additional policies as needed, and to educate its staff and board of commissioners concerning their roles and responsibilities.
- Comment 2** The Authority's response contended that requiring repayment of unsupported amounts would be financially devastating and punish the Authority and its low-income tenants twice for the poor decisions made by the former executive director. We disagree that the repayment of funds is to punish or penalize the Authority. Instead, the recommendations seek a return of the unsupported Federal funds so they can be used to benefit the Authority's tenants. The Authority should work with HUD to determine a feasible and effective way to address the unsupported amounts reflected in the audit memorandum.
- Comment 3** The Authority's response recommends that the OIG pursue civil money penalties and other administrative sanctions as appropriate against the former executive director. As reflected in the recommendations section of the audit memorandum, the OIG recommended that the Director of HUD's Departmental Enforcement Center take appropriate administrative sanctions, including suspension, limited denial of participation, or debarment against the executive director. In addition, OIG recommended that HUD's Associate General Counsel for Program Enforcement pursue remedies against the executive director.

## Appendix C

### CRITERIA

---

#### **Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments (24 CFR (Code of Federal Regulations) Part 85)**

Subpart C—Post-Award Requirements, Financial Administration  
**§ 85.20 Standards for financial management systems.**

...

“(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) **Financial reporting.** Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) **Accounting records.** Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) **Internal control.** 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.
- (4) **Budget control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) **Allowable cost.** Applicable Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) **Source documentation.** Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

#### **The Authority’s Annual Contributions Contract With HUD**

##### **“Section 15 – Books of Account, Records, and Government Access**

- (A) The HA must maintain complete and accurate books of account for the projects of the HA in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit.
- (B) The HA must furnish HUD such financial and project reports, records, statements, and documents at such times, in such form, and accompanied by such reporting data as required by HUD.”

**Title 26, Subchapter C, Employment Taxes and Collection of Income Tax at Source**  
**31.3102–1 Collection of and liability for, employee tax; in general.**

“(a) The employer shall collect from each of his employees the employee tax with respect to wages for employment performed for the employer by the employee. The employer shall make the collection by deducting or causing to be deducted the amount of the employee tax from such wages as and when paid. For provisions relating to the time of such payment, see

§ 31.3121(a)-2.) The employer is required to collect the tax, notwithstanding the wages are paid in something other than money, and to pay over the tax in money. (As to the exclusion from wages of remuneration paid in any medium other than cash for certain types of services, § 31.3121(a)(7)-1, relating to such remuneration paid for service not in the course of the employer’s trade or business or for domestic service in a private home of the employer; and § 31.3121(a)(8)-1, relating to such remuneration paid for agricultural labor.)”

**§ 31.3102–2 Manner and time of payment of employee tax.**

“The employee tax is payable to the district director in the manner and at the time prescribed in Subpart G of the regulations in this part.”

**PART 85—Administrative Requirements For Grants And Cooperative Agreements To State, Local And Federally Recognized Indian Tribal Governments**

**§ 85.36 Procurement.**

...

“(4) 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.

...

“(i) *Contract provisions.* A grantee’s and subgrantee’s contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. Contracts are required to include

- (1) Administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. (Contracts more than the simplified acquisition threshold)

(2) Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement. (All contracts in excess of \$10,000)

(3) Compliance with Executive Order 11246 of September 24, 1965, entitled “Equal Employment Opportunity,” as amended by Executive Order 11375 of October 13, 1967, and as supplemented in Department of Labor regulations (41 CFR chapter 60). (All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees)

(4) Compliance with the Copeland “Anti-Kickback” Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR part 3). (All contracts and subgrants for construction or repair)

(5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2000 awarded by grantees and subgrantees when required by Federal grant program legislation)

(6) Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts awarded by grantees and subgrantees in excess of \$2000, and in excess of \$2500 for other contracts which involve the employment of mechanics or laborers)

(7) Notice of awarding agency requirements and regulations pertaining to reporting.

(8) Notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract.

(9) Awarding agency requirements and regulations pertaining to copyrights and rights in data.

(10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.

(11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

(12) Compliance with all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act (42 U.S.C. 1857(h)), section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000).

(13) Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Pub. L. 94-163, 89 Stat. 871).”

**Texas Government Code, Title 5, Subtitle A, Chapter 551, Open Meetings**

“SUBCHAPTER B. RECORD OF OPEN MEETINGS

Sec. 551.021. MINUTES OR RECORDING OF OPEN MEETING.

(a) A governmental body shall prepare and keep minutes or make a recording of each open meeting of the body.

(b) The minutes must:

(1) state the subject of each deliberation; and

(2) indicate each vote, order, decision, or other action taken.”