



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

August 14, 2015

MEMORANDUM NO:
2015-FW-1807

Memorandum

TO: Johnny Wooley
Director, Office of Public Housing, 6FPH

//Signed//

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

SUBJECT: The Hot Springs Housing Authority, Hot Springs, AR Did Not Comply With
Federal Regulations and Other Requirements When Administering Its Public
Housing Programs

INTRODUCTION

In accordance with our regional plan to review public housing programs and because of a complaint filed by a contractor with the U.S. Department of Housing and Urban Development's (HUD) Office of the Inspector General (OIG) and issues identified by HUD's Office of Public Housing, we performed a review of the Hot Springs Housing Authority. The contractor alleged that the Authority did not procure a contract in compliance with Federal regulations. In addition, HUD was concerned that the Authority's travel costs appeared excessive and that the Authority had a large staff turnover during a 42-month period¹ in which 64 staff left the Authority. Our objectives were to determine whether the Authority procured contract services in compliance with Federal, State, and the Authority's requirements and whether the Authority spent public housing funds on allowable costs. We also reviewed the appropriateness of the Authority's board of commissioners' oversight.

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 review.

¹ September 2010 to March 2014

METHODOLOGY AND SCOPE

The Authority did not have adequate or complete records, which limited the scope of the review. As a result, the Authority could not provide a reliable universe of procurements and expenditures. Therefore, the review results were from a specific non-representative sample selection. Additionally, we did not interview the former executive director to obtain explanations for her decisions or additional documentation because the Authority terminated her and she was the subject of other proceedings.

To achieve our review objectives, we performed the following:

- Reviewed relevant laws, regulations, contracts, and other HUD requirements and guidance.
- Reviewed the Authority's procurement policy, amended and updated June 23, 2009.
- Reviewed the independent public accountant audit reports for the Authority's fiscal years ending June 30, 2012, and June 30, 2013.
- Reviewed available electronic financial data from September 1, 2010, to March 25, 2014.
- Selected and reviewed 10 contracts to determine compliance with requirements. Because the Authority did not have a contract log or procurement master list, it could not provide the universe of its contracts. Therefore, we used total contract expenditures and concerns, or allegations about specific procurements to select the contracts for review.
- Reviewed credit card statements from September 2010 to February 2014 for improper or ineligible transactions.
- Reviewed a non-representative sample of checks and supporting documents, such as invoices and receipts, for improper or ineligible payments. The payments were selected based upon the payee including specific vendors, employees, or commissioners.
- Reviewed the Authority's general operating account bank statements from October 1, 2010, to March 31, 2014.
- Selected and reviewed training and travel costs charged to the Authority's public housing account.
- Reviewed the board of commissioners' meeting minutes for meetings held from July 21, 2010, to April 28, 2014.
- Subpoenaed training records from seven training vendors.
- Subpoenaed fee accountant records from September 2010 to June 2011.
- Subpoenaed financial records from the Authority's software provider.
- Interviewed HUD and Authority staff and current and former commissioners.

We conducted the review at the Authority's office at 1004 Illinois Street, Hot Springs, AR, and our offices in Little Rock, AR, Fort Worth, TX, and Oklahoma City, OK, from March 2014 to March 2015. Except as noted above, the scope of the review generally covered the period September 1, 2010, to March 25, 2014. We expanded the scope through May 15, 2014, for payments made to the former executive director for apparently unused leave.

BACKGROUND

The Authority was established on October 3, 1960, to provide affordable housing to low- and moderate-income families and individuals. The City of Hot Springs' board of directors appoints the five members of the board of commissioners. In addition to providing oversight of the Authority, the board of commissioners selects the executive director, who also serves as the board secretary. The executive director is responsible for the efficient day-to-day operations of the Authority. The former executive director served as executive director from September 7, 2010, until the board of commissioners terminated her employment without cause, effective April 23, 2014. She was the executive director during our entire review period. The board of commissioners hired a new executive director on September 15, 2014.

To help the Authority manage its 375 public housing units, HUD provides operating and capital funds. The Authority also administers 658 housing choice vouchers. To receive the funds, the Authority signed contracts stating that it would comply with HUD regulations and requirements. The following table shows the financial assistance that HUD authorized the Authority for the review period.

Table 1: HUD funding for Federal fiscal years reviewed

Program	2011	2012	2013	2014
Housing choice vouchers	\$3,088,182	\$2,793,162	\$2,989,157	\$2,447,045
Public housing operating subsidies	1,162,669	1,244,328	1,340,740	1,346,683
Public housing capital funds	466,305	423,800	410,697	376,697
Totals	\$4,717,156	\$4,461,290	\$4,740,594	\$4,170,425

RESULTS OF REVIEW

The Authority did not operate its public housing programs in accordance with Federal regulations and other requirements. Specifically, it improperly procured or lacked support for the 10 contracts reviewed totaling \$611,338. Further, it spent \$14,651 on ineligible costs² and did not have support for an additional \$51,470. These conditions occurred because the former executive director ignored or failed to follow Federal regulations and the Authority's consolidated annual contributions contract with HUD. In addition, the board of commissioners failed to provide adequate oversight of the Authority and former executive director. As a result, the Authority incurred at least \$677,459 in questioned costs.

The Authority Did Not Follow Procurement Requirements

The Authority did not comply with procurement requirements or effectively administer its procurements to ensure that it made financially responsible decisions. For example, it (1)

² This included \$3,000 in public housing funds spent to maintain non-public-housing properties.

attempted to award or awarded contracts to parties that had apparent conflicts of interest, (2) did not consistently follow established procurement methods, and (3) did not maintain procurement records that were reliable or adequate. These conditions occurred because (1) the Authority did not implement adequate policies and procedures, (2) the board and Authority staff were not aware of all procurement requirements, (3) the former executive director elected not to follow the requirements, and (4) the board did not provide adequate oversight or establish an adequate internal control environment. As a result, the Authority incurred \$614,338 in questioned costs.³

The Authority Attempted To Award or Awarded Contracts to Parties That Had Apparent Conflicts of Interest

The Authority did not always award contracts to the lowest responsible bidder and awarded a contract to a business that had an apparent conflict of interest with the former executive director. The Authority's records showed that it intended to procure contracts despite apparent conflicts of interest. For example, in 2012, the Authority determined that it needed to replace the roof and siding to one of its properties due to damage incurred from a storm. The Authority had two separate bid solicitations for this work. Both solicitations involved relationships between a bidder and the former executive director.

In the first bid solicitation in October 2012, the company that submitted the highest bid was the cousin of the former executive director's husband. The company also employed the former executive director's husband. Further, the Authority had recently hired the wife of the company's owner. The Authority canceled the first bid solicitation, despite receiving responsive bids,⁴ because it decided the bids were too low based on insurance estimates. However, after canceling the first bid solicitation, the Authority conducted its own cost estimate and concluded that the cost would be approximately within the price range of the bids submitted. Had the Authority conducted the cost estimate before the solicitation, it would have known that the bids were within range, and should have awarded the contract to the lowest responsive bidder. Although the former accountant tried to award the contract to the lowest responsive bidder, the former executive director did not allow him to make the award.

During the second bid solicitation in December 2012, the Authority violated procurement requirements⁵ by awarding the contract to a contractor that was not the lowest responsive bidder.⁶ After receiving and opening the bids, the Authority interviewed three of the five bidders to determine which one would be awarded the contract. Under sealed bid procurement requirements, there was no provision to interview bidders as the purpose of a sealed bid is to award the contract to the lowest responsive bidder. Further, the bids should be publicly opened at the time and place prescribed in the invitation for bids.⁷ Thus, there was no need to interview

³ This includes \$3,000 in public housing funds that the Authority inappropriately used to maintain non-public-housing properties.

⁴ The Authority did not accept a low responsive bid from another company in the first bid solicitation.

⁵ HUD Handbook 7460.8, REV-2

⁶ According to 24 CFR (Code of Federal Regulations) 85.36(d)(2), sealed bids are publicly solicited and a firm fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction.

⁷ Regulations at 24 CFR Part 85.36

the bidders. The Authority's records did not document why it deviated from normal sealed bid procurement practices. The contractor that was awarded the contract had a working relationship with the company that was the highest bidder in the first solicitation, which was the company that employed the former executive director's husband. The awarded contractor failed to provide a bid bond as required.⁸ In addition, the contractor could not obtain the required performance bond. Because of these deficiencies, the Authority withdrew the contract and awarded it to another bidder. In addition to incurring unsupported costs of \$246,775 because of improperly awarding the contract,⁹ the Authority exposed itself to a lawsuit from other bidders. For both bid solicitations, the Authority did not follow basic procurement requirements.¹⁰

In another example, the Authority and its board of commissioners authorized a change in the Authority's financial and program management provider. Eight days after the Authority hired the former executive director, she requested the board of commissioners' approval to change the Authority's accounting system and services. The Authority contracted with a software company that had previously employed the former executive director. The Authority could not provide rating sheets for all companies that submitted proposals and the rating sheets that it provided were unsigned so it was not known who rated the companies. Additionally, after the award of the contract, the Authority provided change orders to the company without support or justification. Because of dissatisfaction with the company among board members and staff due to usability concerns, unreliable data, and undelivered functionality, the Authority discontinued its contract after approximately 2 years and after the former executive director's employment was terminated. The Authority paid the company more than \$110,000 and reverted to its previous financial and program management provider.

The Authority Did Not Consistently Follow Established Procurement Methods

The Authority failed to appropriately perform its fiduciary duty and responsibility to award contracts by established processes. For 5 of 10 sampled procurements, the Authority did not follow procurement requirements or methods.¹¹ Among other things, the Authority

- Split contracts to avoid proper procurement procedures such as competitive bidding,
- Did not conduct required independent cost estimates,¹² and
- Allowed contracts to gradually increase without reevaluating the proper procurement method.¹³

⁸ The Authority's bid solicitation required a responsive bidder to provide completed, signed, and dated copies of the bid form, bid guarantee with bid bond, noncollusive affidavit, and form HUD-5369-A (Representations, Certifications, and Other Statements of Bidders, Public and Indian Housing Programs).

⁹ The Authority paid a company, which was not the lowest responsive bidder, \$246,775 to complete the project.

¹⁰ Regulations at 24 CFR Part 85.36

¹¹ State of Arkansas Procurement Law and Rules

¹² Regulations at 24 CFR 85.36(f)(1) require grantees to perform a cost or price analysis in connection with every procurement action, including contract modifications.

¹³ According to State of Arkansas Procurement Law and Rules 19-11-229(b)(1), contracts exceeding an estimated purchase price of \$25,000 must be awarded by competitive sealed bidding.

The following table shows the common deficiencies for the five contracts.

Table 2: Procurement deficiencies

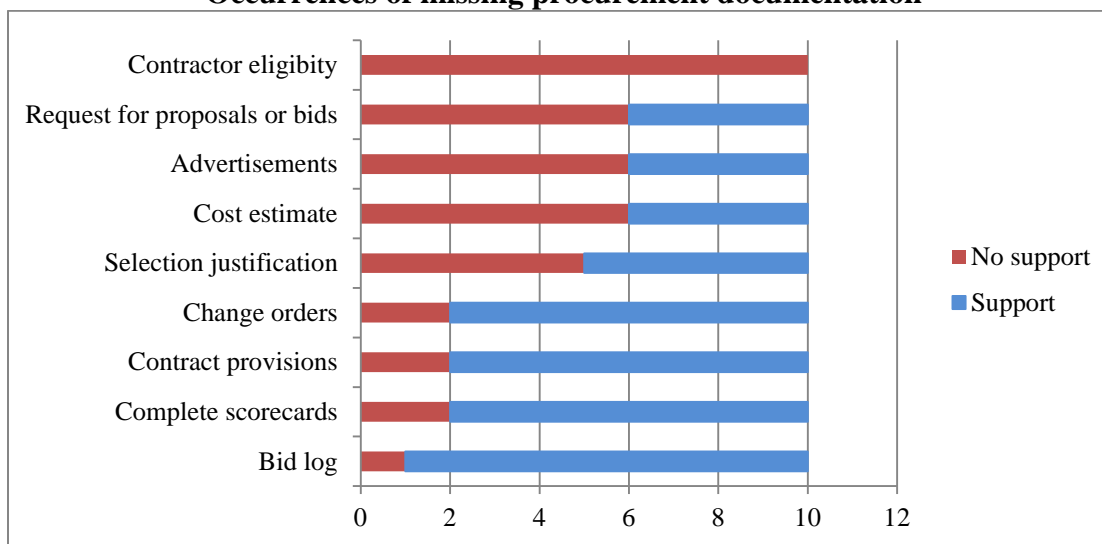
Scope of work	Split bids	Improper bid solicitations	No independent cost estimate
Air conditioner chiller		X	
Wheel chair ramp, porch, curb, and trough	X	X	
Landscaping ¹⁴		X	X
Parking lot construction		X	X
Unit demolition and remodeling		X	

The Authority Did Not Maintain Procurement Records That Were Reliable or Adequate

The Authority did not maintain reliable or adequate procurement records as required.¹⁵ It did not provide evidence that it researched bidders before public opening as required.¹⁶ For example, the Authority awarded a construction contract for more than \$32,000 to a company that was not licensed to work on contracts greater than \$20,000. Further, it did not have support showing that it procured the services by sealed bid.

The Authority did not have a complete history for any of the 10 procurements reviewed. The following chart shows the frequency of noncompliance with the requirements.

Occurrences of missing procurement documentation



¹⁴ The Authority improperly used \$3,000 of its public housing funds to pay the landscaping company for maintenance of non-public-housing properties.

¹⁵ Regulations at 24 CFR 85.36(b)(9) require grantees to maintain records sufficient to detail the significant history of their procurements.

¹⁶ HUD Handbook 7460.8, REV-2, chapter 10, section.2(C), Contractor Researching Responsibility

The Authority did not effectively administer its procurement activities or follow requirements because of its failure to implement appropriate policies and procedures; its former executive director's improper actions; and insufficient training for its board of commissioners, management, and staff. Further, its board of commissioners did not provide adequate oversight to establish effective controls to administer its procurement activities, including selecting the appropriate contractors, making eligible payments, and maintaining sufficient records. As a result, the Authority incurred \$614,338 in questioned costs.

The Authority Improperly Spent Its Public Housing Funds on Ineligible and Unsupported Activities

In violation of Federal regulations and its consolidated annual contributions contract, the Authority spent at least \$11,651 of its public housing funds on unallowable costs and did not maintain adequate support for at least \$51,470 in expenditures. For instance, the Authority spent \$1,100¹⁷ for the former executive director's home security deposit,¹⁸ and the former executive director charged at least \$425 in gasoline to the Authority's credit card while she was on vacation leave.¹⁹ HUD required the Authority to spend public housing funds on necessary and reasonable activities for its program²⁰ and adequately document its expenditures²¹ by maintaining complete and accurate records.²² The ineligible expenditures occurred because the former executive director ignored or failed to follow Federal regulations and the Authority's consolidated annual contributions contract with HUD. Further, the board of commissioners did not properly oversee the former executive director, who charged ineligible costs to her Authority credit cards and prepared expense reports that included expenses for personal use. Authority staff either did not have required training or elected not to question the former executive director's actions. As a result, the Authority did not have \$11,651 available for eligible public housing program activities and could not support the eligibility of \$51,470.

¹⁷ The actual security deposit was \$1,000, not \$1,100.

¹⁸ State of Arkansas Travel Regulations did not authorize security deposits as an allowable expenditure. It authorized only the packing, crating, loading, and unloading of household effects and actual transportation expenditures according to the Internal Revenue Service publications.

¹⁹ It was at least \$425 because she did not keep clear records of her leave taken.

²⁰ Regulations at 2 CFR Part 225, appendix A, paragraph C(1)(a)

²¹ Regulations at 2 CFR Part 225, appendix A, paragraph C(1)(j)

²² Section 15(A) of the consolidated annual contributions contract

The following table shows categories of the ineligible activities paid for with public housing funds.

Table 3: Ineligible activities totaling \$11,651

Activity	Amount
Entertainment, gifts, and meals for staff ²³	\$3,693
Personal costs of the former executive director ²⁴	3,637
Meals for board meetings ²⁵	2,041
Gifts for public housing residents, including gifts for paying rent on time ²⁶	1,217
Donations ²⁷	883
Guest ticket for spouse of former board member ²⁸	180
Total	\$11,651

The Authority Did Not Keep Records To Support More Than \$51,000

The Authority’s former executive director had not set up a system for documenting her leave and supporting expenditures.²⁹ As a result, the Authority incorrectly paid \$23,621 to her for accrued leave upon her termination. Further, the Authority did not keep adequate documentation to support \$14,446 and spent \$13,403 on unsupported training. Without the proper controls and under the influence of the former executive director, Authority staff did not maintain supporting documentation or justification for payments. Further, the board of commissioners did not adequately monitor the former executive director’s vacations and expenditures. As a result, the Authority’s records did not support that it spent at least \$51,470 of the \$156,647 (33 percent) reviewed on allowed public housing activities.

The Former Executive Director Did Not Keep Complete Records of Her Leave

The Authority did not have records to show that it correctly paid the former executive director \$23,621 for 482 hours³⁰ of accrued leave when the board of commissioners terminated her employment without cause on April 23, 2014. This occurred because the Authority’s staff did not comply with the Authority’s requirements when calculating leave and improperly made a retroactive change to the leave accrual based on a November 2013 employment agreement. In addition, the former executive director did not completely report all leave taken during her employment with the Authority. As a result, the entire \$23,621 was unsupported.

²³ Regulations at 2 CFR Part 225, appendix B, paragraph 20, did not allow the Authority to spend public housing funds on goods and services for its staff’s personal use.

²⁴ Federal regulations did not authorize the former executive director to spend public housing funds for her own personal use.

²⁵ Section 14(B) of the contract prohibited the Authority from paying its commissioners for their services. Providing meals at board meetings gave the impression that the Authority compensated its commissioners.

²⁶ Regulations at 2 CFR Part 225, appendix B, paragraph 20, did not allow the Authority to spend its public housing funds for personal use.

²⁷ Regulations at 2 CFR Part 225, appendix B, paragraph 12, did not allow the Authority to give contributions or donations, including cash, property, and services, to any organization.

²⁸ Federal regulations did not authorize this cost. The former board member wrote that he was not aware that his wife was registered as a guest of the conference. Table amounts were rounded.

²⁹ Regulations at 2 CFR Part 225 required the former executive director to keep complete records.

³⁰ We rounded the number of hours of leave.

Authority staff miscalculated the former executive director's accrued leave. Until November 2013, the former executive director did not have an employment agreement, and therefore, she should have accrued leave according to Authority policy. The former executive director's November 18, 2013, employment agreement increased her accrued leave to 200 hours per year for 2 years and 240 hours thereafter. According to the chairman of the board of commissioners, without the board's knowledge, the former executive director required staff to retroactively implement the contract provisions even though the agreement terms were not retroactive. The Authority retroactively adjusted her accrued leave for a pay period to reflect 240 hours of annual leave starting on September 7, 2012.³¹ Nothing in the Authority's policies or employment agreement permitted this. If the Authority's staff had calculated the former executive director's leave according to the Authority's requirements, she would have accumulated only 359 hours instead of the 656 hours that the Authority's records showed, a 297-hour difference.

In addition to accumulating more hours than supported, the former executive director did not report used leave. According to leave records, the former executive director reported that she took only 54.5 hours of leave (almost 7 days) during her more than 3½ years of employment with the Authority. Upon termination of the former executive director, staff reviewed her calendar for leave not reported and initially calculated that the Authority owed her \$13,519 for 276 hours of unused leave.³² The calendar included only her scheduled leave from October 2011, approximately 1 year after she was employed. The Authority did not have controls in place to monitor whether the former executive director took vacation not reported on her calendar.

After receiving \$13,519 for 276 hours, the former executive director claimed that she was owed additional hours of leave. The Authority then paid her an additional \$10,102 for 206 hours of leave that the former executive director had included in her calendar. According to the chairman of the board of commissioners, the former executive director disagreed that she took leave on some of the days since she took her cellphone and computer with her on trips and was in touch with staff.

³¹ This date was 2 years after she was hired.

³² The calendar showed that the former executive director had 380 hours of used leave (656 original estimated unused leave less 380 hours used leave equals 276 hours unused leave).

The following table shows the leave listed on the former executive director’s calendar and the leave later successfully contested and paid by the Authority.

Table 4: Leave taken by the former executive director according to her calendar

Dates	Reason for trip according to calendar³³	Leave hours according to calendar	Leave hours contested and paid
October 2011	[former executive director] off	32	32
May 2012	“Kansas for [deleted] Graduation on May 9 th ,”	40	
August 2012	[former executive director] vacation	64	
March 2013	“Kansas to city children and grandchildren” ³⁴	24	24
April 2013	“austin [sic] for brothers 60 birthday” ³⁵	16	16
June 2013	[former executive director] out of office	24	24
September 2013	Kansas	20	20
December 2013	[former executive director] to Kansas for Christmas	20	20
February 2014	Cruise	40	
April 2014	Leave for Kansas ³⁶	70	70
Various	Floating holiday hours	30	
Total		380	206

In response to allegations that the former executive director was not always at the Authority during work hours, the chairman of the board of commissioners claimed that she worked at home in the mornings, answering emails and corresponding with staff. However, she did not have a telework agreement with the Authority. Another claim made was that the former executive director worked late on the days when she arrived late. Because of the lack of criteria that might permit such arrangements, documentation related to the frequency and materiality of occurrences, and oversight, the Authority did not know whether it paid the former executive director in excess of her contract terms; that is, paid her when she was not working or on formal leave.

³³ Names were redacted from the table. The reasons listed closely resemble actual calendar statements.

³⁴ On these 3 days when she claimed to be working, she charged gasoline to the Authority’s credit card while in other States.

³⁵ On these 2 days when she claimed to be working, she purchased gasoline in Red Oak and Austin, TX, using the Authority’s credit card.

³⁶ The board of commissioners approved these 70 hours as administrative leave, which staff had improperly deducted from her vacation balance.

The Authority had no records other than calculations of its employees' rationale for making these payments. This condition occurred because the board of commissioners failed to monitor the former executive director's use of leave. Further, the former executive director failed to establish controls to support her leave or ensure that the Authority had controls in place to maintain accurate leave records. Without these basic controls, the Authority had no reliable support for the former executive director's leave payments.

The Authority Could Not Support \$14,446

Because the Authority did not keep complete and accurate records, it could not support \$14,446 spent for various items. The following are examples of some incomplete and inaccurate records.

- Authority staff canceled training, resulting in canceled flights costing \$3,346. The supporting documents did not show that either the airlines reimbursed the funds or Authority staff used the purchased tickets for public housing purposes.
- For a \$2,475 payment to a department store, the Authority did not have supporting documents, such as packing slip(s) and purchase order(s), to show that the purchase was for the public housing program.
- Using the Authority's credit cards, the former executive director purchased at least \$2,400 in gasoline for travel that did not appear to be for public housing purposes.
- In May 2012, the former executive director charged a \$714 flight to Peoria, IL, to the Authority's credit card. However, the Authority did not have documentation supporting the purpose for this trip. Further, the board of commissioners did not approve travel or training for this location and time.
- The former executive director instructed staff to pay more than \$500 from public housing funds for magazines delivered to her personal residence.
- The former executive director charged more than \$500 to the Authority's credit card for car washes and service on her personal vehicle.

The Authority Mismanaged Training of Its Staff

The Authority could not support the necessity or justify the reasonableness of \$13,403 in training costs. It did not set up a system to document that training was approved, completed, reasonable, and supported. Further, the Authority did not have adequate controls and procedures to ensure that its staff and board of commissioners received the training necessary to perform their duties and training funds were used effectively and efficiently. The board of commissioners was responsible for ensuring that policies were developed and providing oversight of the former executive director. Neither the former executive director nor the board of commissioners met these responsibilities. Further, it appeared that the former executive director was the main beneficiary of the training as she participated in half of the reported training events. Additionally, some of the training may not have been the most cost effective or beneficial to the organization. Based upon interviews with staff and the board of commissioners, the lack of understanding of requirements allowed many of these conditions to occur.

The Authority did not establish or implement a system to identify training needs, approve training, support training costs, or determine the cost reasonableness of the training. Authority staff kept only two training certificates in a training file, and the documents attached to its check

copies generally did not support that staff completed the training. As with other expenditures, the Authority was required to retain documentation to support payments. With the high turnover of staff during the former executive director's tenure, the Authority should have focused on ensuring that staff members had the skills to do their jobs and carry out the mission of the Authority.

Some of the training that the former executive director attended did not appear to be required for her specialized knowledge. For example, she attended a 4-day user conference in Lexington, KY, given by the software company that she worked for before her employment with the Authority.³⁷ According to her resume, her job duties with the software company included assisting clients in retrieving data, identifying internal training needs, providing training, and setting up new software. She also trained fellow staff members, implemented training standards and certifications, developed and enhanced the product, assisted with writing specifications, and tested the final product. Given this experience, it seems unreasonable to send her to additional training in the use of this software. The Authority spent at least \$2,386 in travel costs to send her to this training.

Instead of attending available training within the area, the former executive director and board of commissioners often attended training out of State. For instance, according to HUD, the National Association of Housing and Redevelopment Officials held training for commissioners in Arkansas four times a year. Rather than attending training in Arkansas, the former executive director and several members of the board of commissioners attended training in San Diego and Martha's Vineyard. The Authority incurred questionable travel costs of \$4,402³⁸ for airline travel.

CONCLUSION

The Authority did not comply with Federal or State requirements or its own policies and procedures in managing its public housing program. Specifically, the Authority and its former executive director did not appropriately procure services or lacked support for 10 contracts totaling \$611,338. Further, the Authority spent \$14,651 for ineligible costs and did not have support for an additional \$51,470. These conditions occurred because the Authority did not adopt and implement or follow appropriate policies and procedures and the former executive director ignored or failed to follow Federal regulations and the Authority's consolidated annual contributions contract with HUD. In addition, the board of commissioners failed to provide adequate oversight of the Authority and former executive director. As a result, the Authority incurred at least \$677,459 in questioned costs.

³⁷ This was the same company discussed above for the improper software procurement.

³⁸ The travel to San Diego and Martha's Vineyard cost \$2,777 and \$1,625, respectively.

RECOMMENDATIONS

We recommend that the Director, Office of Public Housing, Little Rock, require the Authority to

- 1A. Repay its public housing program \$3,000 from non-Federal funds for ineligible payments to maintain non-public-housing properties. However, if the Authority made any of the expenditures from its capital fund grants that have not been validated within 2 years, or if the Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD.
- 1B. Support or repay its public housing program \$611,338 from non-Federal funds for improperly procured contracts. However, if the Authority made any of the expenditures from its capital fund grants that have not been validated within 2 years, or if the Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD.
- 1C. Implement adequate controls, policies, and procedures to ensure compliance with regulations, including maintaining complete and accurate records, appropriate board of commissioners' oversight, and proper spending of funds.
- 1D. Provide adequate training to its board of commissioners, management, and staff on appropriate policies and procedures.
- 1E. Repay its public housing program \$11,651 from non-Federal funds for ineligible expenditures. However, if the Authority made any of the expenditures from its capital fund grants that have not been validated within 2 years, or if the Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD.
- 1F. Support or repay its programs, as appropriate, \$23,621 from non-Federal funds for unsupported leave balance payments to the former executive director. However, if the Authority made any of the expenditures from its capital fund grants that have not been validated within 2 years, or if the Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD.
- 1G. Support or repay its public housing program \$14,446 from non-Federal funds for unsupported expenditures.³⁹ However, if the Authority made any of the expenditures from its capital fund grants that have not been validated within 2 years, or if the Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD.
- 1H. Support or repay its public housing program \$13,403 from non-Federal funds for unsupported training and travel. However, if the Authority made any of the expenditures from its capital fund grants that have not been validated within 2 years, or if the Authority

³⁹ In June 2014, the Authority repaid \$1,200 of this amount to its public housing program.

is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD.

We also recommend that the Director, Office of Public Housing, Little Rock

- 1I. Review the current actions of the board of commissioners to determine its effectiveness and whether it is “presently responsible.” If not, appropriate action should be taken, such as referring the board members to the Departmental Enforcement Center for proper administrative sanctions, including suspensions, limited denials of participation, and debarments as deemed appropriate.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$ 3,000	
1B		\$611,338
1E	11,651	
1F		23,621
1G		14,446
1H		13,403
TOTALS	\$14,651	\$662,808

- 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 review. 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

HOUSING AUTHORITY OF THE CITY OF HOT SPRINGS
1004 ILLINOIS ST. HOT SPRINGS, ARKANSAS 71901
(501)-624-4420. FAX: (501) 624-2745. E-mail: rherrington@hshousing.org
EXECUTIVE DIRECTOR: RICHARD HERRINGTON, JR

August 5, 2015

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

Subject: Response to the HACHS OIG Audit Report

Dear Mr. Kirkland:

This is the official response from the Housing Authority of the City of Hot Springs, (HACHS).

FINDING 1

Comment 1

The HACHS has examined the procurement issues regarding the findings. As the present Executive Director I have reviewed your conditions statement and have no disagreement with it. I do have a disagreement with the method of how you arrived at the \$614,338 in questionable costs. Please note the following.

Upon examining the additional request that we made to your office regarding contracts and breakdowns of questionable cost for procurement, we disagree with the following samples of 1,2,3,5 and 10.

Sample (1) - Roofing and fascia siding for \$246,775 - The HACHS original bid was \$214,968.02 as paid by the **agency insurance company**. Through change orders, the final amount was \$346,775. The HACHS acknowledges the wrongful use PHA funds to the amount of \$31,806.98. That is the only amount owed for repayment. **No payback warranted except for \$ 31,806.98.**

Sample (2) - AC Chiller - **The payment was also made with insurance proceeds** in the amount of \$35,740.00 which was the total amount of work the organization received. **No payback warranted.**

Comment 2

Sample (3) - The Wheel Chair Ramp / Soil erosion - The wheel chair ramp was paid with Capital Funds on 10/11/10. The soil erosion, also paid by CFP is a totally separate job that was bid out and completed on 11/2/10. The winning bids on both contracts happened to have gone to the same company, Jay Crete. The jobs were bid out separately weeks apart, so no split procurement occurred. In addition, that in 2009 the agency procurement policy defined a micro purchase as \$5,000 or less and only one quote was needed. **No payback warranted.**

Comment 3

Sample (5) - Landscaping/Lawn Maintenance - The contract between HACHS and Justin Ritter, DBA Lawns, Limbs and Landscaping, had a two year option. The option is based on work being performed by

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Comment 4

the contractor and accepted satisfactorily by the PHA. HACHS decided to exercise the two year option which is not illegal or unethical for \$53,859. **No payback warranted.** The remaining balance of \$3,000 is owed because it was done on the PHA owned properties which should not have happened.

Comment 1

Sample (10) – Unit Demolition and Remodel - The unit demolition and remodel cost was \$13,910.00. **Insurance proceeds paid \$11,616.10** on 2/8/11. A check is due the agency for an additional \$1,694.01 from the insurance company for this job. HACHS used PHA funds to pay the balance of \$2,293.90.

Comment 5

In addition we also challenge Samples 8 (Emerge Accounting) and Sample 9 (Barton, Gonzalez, and Myer, P.A.) You have not provided any information in which to document your claim of questionable cost of procurement which would have allowed the HACHS to comment on.

Based upon your work sheet we challenge \$425,405.12. We agree to pay back of \$188,932.88 regarding contracts.

FINDING 2

Upon reviewing the Public Housing Funds Spent on Ineligible Activities we agree with most of the amounts. We are disputing the following due to the fact that the items were not paid out of Public Housing Funds or were reimbursed.

Comment 6

Check #15962: High Wine Country Gift Basket and Dollar Tree, gifts for staff - The amounts in question, \$223.77 and \$50.00 **were paid out of employee association funds** and paid out the Revolving Fund Checking Account. Funds are deducted from employees pay each month to cover items specifically for the staff.

Check#16900: Sam's Club, gifts for staff - The funds used to pay this bill, \$112.84, were also **paid out of employee association funds** and paid out of the Revolving Fund Checking Account.

Comment 7

Check#30109: Southwest Airlines, airline flight for former executive director's husband - On 11-26-12 a **check was made out to HACHS for \$415.20 and deposited in the PH General Fund.** The check in amount for \$20.00 was not reimbursed by [the former Executive Director].

Comment 8

Check#30254: [REDACTED], lunch for staff training in Hot Springs - [REDACTED] attended a Fred Pryor HR Laws 2013 Seminar in Hot Springs (Event #133188). We feel we are being penalized for attending seminars in Hot Springs. The cost included three lunches which would have been cheaper than paying per diem and travel costs. This was a legitimate seminar attended by staff. They were on company business.

Check#30669: [REDACTED], lunch for staff training in Hot Springs - [REDACTED] attended a Fred Pryor Payroll Laws 2013 Seminar in Hot Springs (Instructor [REDACTED]). The cost included three lunches which would have been cheaper than paying per diem and travel costs. This was a legitimate seminar attended by staff. They were on company business.



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Comment 9

From the list provided regarding Ineligible Activities totaling \$11,651.00, we are agreeing to \$10,781.72 and challenging \$869.28. In addition to the above the HACHS does not challenge \$52,008.00 for [the former Executive Director's] severance and annual leave. Please note that all of the expenditures were directly related to the actions of the previous Executive Director, [REDACTED].

Comment 10

Please also note that I believe that the HACHS has made many successful strides since the departure of [the former Executive Director]. For instance, the Board of Commissioners has received training from Jackson Management Consulting on agency operations and necessary effective policies for operations. In addition, the HACHS received assistance in agency finance operations. The Board of Commissioners hired a new Executive Director who developed seventeen (17) new policies which included Procurement among them.

As the Executive Director I am planning on having a comprehensive and thorough Board of Commissioners training this fall along with a Procurement and Contract Management training for my staff and all board members. These trainings along with others will only improve the operations of the agency.

If you have any questions please do not hesitate to contact me at 501 – 321 – 4711.

Yours,

Richard Herrington, Jr

Cc: Johnny Wooley – Director Office of Public Housing, Little Rock



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OIG Evaluation of Auditee Comments

Comment 1 The Authority agreed that it did not comply with procurement requirements or effectively administer its procurements to ensure that it made financially responsible decisions. However, the Authority questioned whether it should be required to repay funds that it received from an insurance company.

Based upon its financial documents, the Authority paid the insurance premiums with Federal funds. The Authority will need to work with HUD to support that these costs were paid from non-Federal funds and complied with requirements.

Comment 2 The Authority claimed that it did not split the procurements for the wheel chair ramp and soil erosion work because it “bided (sic) out separately weeks apart.” The Authority claimed that the two contracts complied with the micro purchase requirement in its procurement policy.

We disagree. Based upon the Authority’s documentation and its response, it appears the Authority split the scope of work to put it under the \$5,000 micro purchase ceiling. The Authority did not provide other bids or quotes. The contracts totaled \$5,900, which exceeded the \$5,000 micro purchase ceiling cited by the Authority. Although the Authority’s signed approval and payment dates differ for both projects, the purchase orders for both contracts were dated September 29, 2010, indicating that the Authority originally grouped the work together.

Comment 3 The Authority stated that its contract with a landscaping firm had a 2-year option, which was based on work being performed by the contractor and accepted satisfactorily by the Authority. Thus, the Authority deemed that \$53,859 spent for the lawn services was not illegal or unethical.

The Authority did not provide documentation to support that it properly procured the contract.

Comment 4 The Authority acknowledged that \$3,000 paid to the landscaping contractor was for work performed at an Authority owned property. We appreciate the Authority acknowledging that it owes the \$3,000.

Comment 5 The Authority claimed that we did not provide enough information for it to comment on the unsupported procurements for two sample items, a fee accountant contract and an audit services contract. We provided the Authority with a list of missing documentation for both contracts. The Authority provided some, but not complete, documentation for the questioned fee accountant contract. It did not provide any additional documentation for the audit services contract or contest the remaining contracts.

As stated in the finding, the Authority did not provide sufficient support for either contract. The Authority will need to provide adequate support to HUD or repay \$611,338 as stated in Recommendation 1B.

- Comment 6** The Authority claimed it paid about \$387 of the questioned costs from an employee association account that was funded with deductions from employees' paychecks to cover items purchased for them. The Authority did not provide an accounting of the employee association account. The Authority will need to work with HUD to document it made the payments from the employee association account.
- Comment 7** The Authority stated that the former executive director reimbursed the Authority \$415 of the \$435 that the Authority inappropriately paid for an airline ticket for the former executive director's husband. However, it did not provide documentation to support the reimbursement. The Authority will need to provide the documentation to HUD for closure of the recommendation.
- Comment 8** The Authority contended that lunch paid for staff during a seminar held in Hot Springs was eligible because staff was on official training and the Authority saved travel costs. The Authority will need to provide support to HUD that the payments for lunches were allowable costs that complied with requirements, or that the payments were from non-Federal funds.
- Comment 9** The Authority did not challenge the remaining questionable costs including the severance and annual leave paid to the former executive director.
- Comment 10** The Authority stated that it replaced the former executive director and made changes to its operations, including developing 17 new policies. Further, its board received training and the Authority plans to provide additional board training along with procurement and contract management training to staff and the board. We acknowledge the Authority's efforts to improve its operations. The Authority will need to provide the policies to HUD to evaluate prior to closure of the recommendation.