



**Pell City and Ragland Housing  
Authorities,  
Pell City, AL, and Ragland, AL  
Public Housing Program**

**Office of Audit, Region 4  
Atlanta, GA**

**Audit Report Number: 2018-AT-1009  
July 23, 2018**

---



**To:** Velma Byron, Director, Office of Public and Indian Housing, 4CPH

**//Signed//**

**From:** Nikita N. Irons, Regional Inspector General for Audit, 4AGA

**Subject:** The Pell City Housing Authority, Pell City, AL, Did Not Always Administer Its and the Ragland Housing Authority, Ragland, AL's Funds in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Pell City and Ragland Housing Authorities' housing programs.

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.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



**Audit Report Number: 2018-AT-1009**

**Date: July 23, 2018**

**The Pell City Housing Authority, Pell City, AL, Did Not Always Administer Its and the Ragland Housing Authority, Ragland, AL's Funds in Accordance With HUD Requirements**

## Highlights

---

### What We Audited and Why

---

We audited the Pell City and Ragland Housing Authorities' financial operations. We began our review of Pell City and Ragland because it aligns with a goal in our annual audit plan to improve the U.S. Department of Housing and Urban Development's (HUD) execution of and accountability for grant funds. Our audit objective was to determine whether the Pell City Housing Authority complied with HUD's regulations regarding the management of its financial operations and its management of the Ragland Housing Authority.

### What We Found

---

The Pell City Housing Authority failed to follow Federal requirements and its policies governing program execution for both Pell City and Ragland. Specifically, Pell City did not (1) always administer its and Ragland's funds in accordance with Federal requirements and its policies and procedures, (2) comply with conflict-of-interest requirements, and (3) always comply with its and Ragland's housing requirements. This condition occurred because the Authorities lacked adequate controls and their boards of commissioners lacked the appropriate knowledge of Federal requirements and the Authorities' guidelines to ensure adequate oversight. As a result, the Authorities spent more than \$1,000 for unallowable costs and disbursed more than \$44,000 that was not properly supported.

### What We Recommend

---

We recommend that the Director of HUD's Birmingham Office of Public and Indian Housing require the Pell City Housing Authority to (1) repay from non-Federal funds the \$1,188 for payments made for unallowable costs, (2) provide documentation for costs or repay more than \$12,000 from non-Federal funds, (3) comply with conflict-of-interest requirements, and (4) implement adequate procedures and controls to ensure that waiting list applicants are selected in accordance with HUD requirements. We also recommend that the Ragland Housing Authority (1) repay from non-Federal funds the \$105 in payments made for unallowable costs, (2) provide documentation for costs or repay more than \$31,000, and (3) implement adequate procedures and controls to ensure that waiting list applicants are selected in accordance with HUD requirements.

# Table of Contents

---

<b>Background and Objective.....</b>	<b>3</b>
<b>Results of Audit .....</b>	<b>4</b>
<b>Finding 1: The Pell City Housing Authority Did Not Administer Its and Ragland’s     Financial Operations in Accordance With HUD Regulations .....</b>	<b>4</b>
<b>Finding 2: The Pell City Housing Authority Did Not Comply With Conflict-of-     Interest Requirements .....</b>	<b>9</b>
<b>Finding 3: The Pell City and Ragland Housing Authorities Did Not Always     Administer Their Waiting Lists in Accordance With HUD Requirements.....</b>	<b>11</b>
<b>Scope and Methodology.....</b>	<b>13</b>
<b>Internal Controls.....</b>	<b>15</b>
<b>Appendixes.....</b>	<b>16</b>
<b>A. Schedule of Questioned Costs .....</b>	<b>16</b>
<b>B. Auditee Comments and OIG’s Evaluation.....</b>	<b>17</b>

# Background and Objective

---

The Pell City Housing Authority was established on August 8, 1951, in accordance with State and Federal laws. It administers 78 low-rent public housing units in Pell City, AL. Its mission is to provide decent, safe, sanitary, and affordable housing and related services to the qualified citizens of Pell City. The Pell City Housing Authority is governed by a five member board of commissioners appointed by the mayor and an executive director. The board of commissioners hires the executive director to manage the daily operations of the Authority. Pell City has four full-time employees, including its executive director.

The Ragland Housing Authority was established on December 19, 1951, in accordance with State and Federal laws. Its mission is to provide decent, safe, sanitary, and affordable housing and related services to the qualified citizens of Ragland, AL. The Ragland Housing Authority administers 60 low-rent public housing units in Ragland, AL. Ragland is governed by its own five-member board of commissioners appointed by the mayor. The Pell City Housing Authority is the management agent for the Ragland Housing Authority.<sup>1</sup> Pell City's executive director is responsible for the administration of Ragland's daily housing operations. Ragland's maintenance supervisor and property manager are its only employees.

Pell City and Ragland are governed by the provisions of a consolidated annual contributions contract between them and the U.S. Department of Housing and Urban Development (HUD). Pell City and Ragland each receive Public Housing Operating Fund subsidies for the operation and maintenance of low-income housing projects. Also, HUD awards funds from its Public Housing Capital Fund program annually to Pell City and Ragland to provide financial assistance to carry out capital and management activities, including development, financing, and modernization.

HUD awarded Pell City more than \$1.12 million in operating funds for fiscal years 2013 to 2017 and more than \$578,000 in capital funds for years 2012 to 2017. HUD awarded Ragland more than \$1.13 million in operating funds for fiscal years 2013 to 2017 and more than \$410,000 in capital funds for fiscal years 2012 to 2017. HUD's Alabama Office of Public Housing in Birmingham, AL, is responsible for overseeing the Authorities.

Our audit objective was to determine whether the Pell City Housing Authority complied with HUD's regulations regarding the management of its financial operations and its management of the Ragland Housing Authority.

---

<sup>1</sup> The Pell City Housing Authority entered into a management agreement with the Ragland Housing Authority on May 14, 2012.

# Results of Audit

---

## **Finding 1: The Pell City Housing Authority Did Not Administer Its and Ragland's Financial Operations in Accordance With HUD Regulations**

---

Pell City did not always administer its and Ragland's financial operations in accordance with HUD regulations. Specifically, Pell City's credit card was inappropriately used for more than \$5,800 in unallowable and inadequately supported purchases. In addition, Ragland's credit card was inappropriately used for more than \$1,400 in unallowable and inadequately supported purchases. Ragland failed to support program expenses of \$11,887. Further, Pell City and Ragland did not provide adequate documentation to support \$8,165 and \$18,373, respectively, in Federal funds spent for hired laborers. These conditions occurred because the executive director did not follow Federal regulations and the Authorities' policies and Pell City's and Ragland's boards of commissioners did not provide adequate oversight. As a result, HUD lacked assurance that the Authorities' housing programs operated in accordance with program requirements.

### **Pell City Credit Card Expenditures Were Not Eligible or Adequately Supported**

Pell City paid more than \$1,100 for unallowable expenditures and more than \$4,700 in costs that lacked adequate documentation. Credit card payments were made for unallowable expenditures, such as late fees, gift cards, alcoholic beverages, and gas purchased by the maintenance director while on vacation. Pell City also purchased miscellaneous items, such as food and supplies, which lacked an itemized receipt. Regulations at 2 CFR (Code of Federal Regulations) Part 225, establishes the basic guidelines, principles, and standards, for allowable costs, and 2 CFR 200.403(a) and (g) also provides the same guidance. Both regulations provide that allowable costs must be adequately documented, necessary, and reasonable for the proper and efficient performance and administration of Federal awards. Additionally, regulations at 24 CFR 85.20(b)(5) and 85.20(b)(6) provide guidance on the requirements that must be followed in determining the reasonableness, allowability, and allocability of costs and state that accounting records must be supported by source documentation.

The September 21, 2015,<sup>2</sup> credit card use policy required the appropriate official to review the credit card statement and supporting documentation within 5 days of receipt of the statement. Pell City's September 21, 2015, board minutes showed that the responsibility for the monthly credit card review was assigned to a member of the board. However, Pell City's executive director approved all credit card purchases for herself and the Pell City staff. In addition, Pell City's board disregarded the policy and did not always perform its duty to review the credit card statements. The board reviewed only 15 of 26<sup>3</sup> credit card statements received after the credit card use policy was implemented. Of the 15 statements the board reviewed, Pell City's

---

<sup>2</sup> Before September 21, 2015, Pell City did not have a credit card policy.

<sup>3</sup> See the Scope and Methodology section of this report for details of the projection methodology.

executive director disregarded the Authority’s policies and paid 13 of 15<sup>4</sup> credit card statements before the board’s review and approval.

As a result, HUD lacked assurance that Pell City appropriately used Federal funds for allowable and supported costs. The table below summarizes Pell City’s unallowable costs and inadequately supported expenses.

Fiscal year	Total purchases reviewed	Unallowable costs	Unsupported	Total questioned costs
2013	\$9,770	\$638	\$1,201	\$1,839
2014	11,446	311	1,042	1,353
2015	12,958	139	833	972
2016	13,565	100	1,040	1,140
2017	12,078	0	593	593
<b>Total</b>	<b>59,817</b>	<b>1,188</b>	<b>4,709</b>	<b>5,897</b>

#### **Ragland’s Credit Card Expenditures Were Not Eligible or Adequately Supported**

Ragland paid \$105 for unallowable credit card purchases, such as gas and gifts, and spent more than \$1,300 in Federal funds for items not adequately supported with receipts in accordance with 24 CFR 85.20(b)(5), 24 CFR 85.20(b)(6), 2 CFR Part 225, and 2 CFR 200.403.

Although Ragland began using the credit card for purchases in September 2013, its board of commissioners was unaware of the credit card or its use by Ragland’s staff. Therefore, the board did not review the credit card purchases. Ragland did not have a credit card policy, although Pell City established a credit card use policy on September 21, 2015. Ragland’s board did not review or approve the policy.

Pell City’s executive director, as the management agent for Ragland, approved all credit card purchases for herself and Ragland’s staff without the board’s review. As a result, HUD lacked assurance that Pell City appropriately managed Ragland’s financial operations, thereby ensuring that Federal funds were used for allowable and supported costs. The table below summarizes Ragland’s unallowable and inadequately supported expenses.

---

<sup>4</sup> See the Scope and Methodology section of this report for details of the projection methodology.

Fiscal year	Total purchases reviewed	Unallowable costs	Unsupported	Total questioned costs
2013	\$0	\$0	\$0	\$0
2014	3,472	0	545	545
2015	3,529	105	147	252
2016	6,208	0	0	0
2017	3,500	0	628	628
<b>Total</b>	<b>16,709</b>	<b>105</b>	<b>1,320</b>	<b>1,425</b>

### **Ragland’s Program Expenditures Were Not Adequately Supported**

We reviewed 20 disbursements totaling more than \$214,000 to determine whether the purchases were allowable and adequately supported. Ragland lacked supporting documentation for 3 of the 20 sampled disbursements<sup>5</sup> totaling \$11,887 for contract payments and supplies. Ragland did not provide sufficient support for all of its disbursements, as required by 24 CFR 85.20(b)(6). In addition, regulations at 2 CFR Part 225 and 2 CFR 200.403 (a) and (g) provide that allowable costs must be necessary, reasonable, and adequately documented.

Ragland also did not comply with its own purchase review and check writing policy. The policy required that the executive director and board chairman review and sign all checks before purchase to ensure that the costs complied with HUD’s requirements. We identified 15 of 20<sup>6</sup> sampled disbursements that were signed by the executive director and a member of the board other than the board chairman as required. Ragland’s staff and its board disregarded Federal regulations and its own policies and failed to ensure that its policies and procedures were fully implemented. As a result, HUD lacked assurance that Pell City appropriately managed Ragland’s financial operations to ensure that Federal funds of \$11,887 were used for adequately supported costs.

### **Hired Laborers Were Improperly Paid for Work at Pell City and Ragland**

Pell City and Ragland did not provide adequate documentation to support more than \$26,538 paid for work by hired laborers. Specifically, Pell City did not provide adequate documentation to support \$8,165 paid for work performed by hired laborers. Pell City officials stated that they paid five individuals for assistance with the preparation of vacant units for occupancy and other maintenance work. However, Ragland did not provide adequate documentation to support \$18,373 paid for work performed by five of its tenants. Ragland officials stated that they paid the tenants for assistance in preparing vacant units for occupancy and other maintenance work.

Regulations at 2 CFR Part 225 and 2 CFR 200.403 (a) and (g) provide that allowable costs must be necessary, reasonable, and adequately documented. Section 3 of the Housing and Urban

---

<sup>5</sup> See the Scope and Methodology section of this report for details of the projection methodology.

<sup>6</sup> See the Scope and Methodology section of this report for details of the projection methodology.

Development Act of 1968<sup>7</sup> allow the hiring of public housing residents and low- and very low-income persons for temporary employment, but the costs must be necessary, reasonable, and adequately documented. Pell City and Ragland paid the workers to assist with the responsibilities of the maintenance supervisors. However, the documentation provided failed to adequately support in detail the services provided by the workers, the location of the work performed, or the justification for payment. As a result, Pell City and Ragland paid \$26,538 in Federal funds for unsupported disbursements, and HUD lacked assurance that Pell City appropriately managed its and Ragland's financial operations.

### **Conclusion**

Pell City's executive director and Ragland's staff, as well as the board of commissioners for each Authority, disregarded Federal regulations and their own policies and failed to ensure that their policies and procedures were fully implemented. As a result, HUD paid more than \$45,700 in Federal funds for unallowable costs and inadequately supported disbursements and lacked assurance that the Authorities' housing programs operated in accordance with program requirements.

### **Recommendations**

We recommend that the Director of HUD's Birmingham, AL, Office of Public and Indian Housing require

- 1A. The Pell City Housing Authority to reimburse its public housing fund from non-Federal funds \$1,188 for payments made for ineligible credit card expenditures.
- 1B. The Pell City Housing Authority to support or reimburse its public housing fund \$12,874 (\$4,709 + \$8,165) for unsupported disbursements.
- 1C. The Pell City Housing Authority to fully implement adequate internal controls over its credit card purchases and disbursements to ensure that it complies with Federal requirements and its own policies and procedures.
- 1D. The Pell City Housing Authority to revise its policies and procedures for its review of expenditures to ensure that its board of commissioners documents its enforcement of and the Authority's compliance with the requirements during its review process to ensure that the Authority's disbursements are supported and used for eligible expenditures.
- 1E. The Pell City Housing Authority's board of commissioners to receive training to ensure the proper review and approval of expenditures and to understand the requirements relevant to the Authority's financial operations.

---

<sup>7</sup> Section 3 of the HUD Act of 1968 states that whenever HUD financial assistance is spent for housing or community development, to the greatest extent feasible, economic opportunities will be given to Section 3 residents, specifically, public housing residents and low- and very low-income persons, and businesses in that area.

- 1F. The Ragland Housing Authority to reimburse its public housing fund from non-Federal funds \$105 for credit card payments made for ineligible expenditures.
- 1G. The Ragland Housing Authority to support or reimburse its public housing fund \$31,580 (\$1,320 + \$11,887 + \$18,373) for unsupported disbursements.
- 1H. The Ragland Housing Authority to develop and implement adequate internal controls over its credit card purchases and disbursements to ensure that it complies with Federal requirements and its own policies and procedures.
- 1I. The Ragland Housing Authority to develop and implement its own policies and procedures for its review of expenditures to ensure that its board of commissioners documents its enforcement of and the Authority's compliance with the requirements during its review process to ensure that the Authority's disbursements are supported and used for eligible expenditures.
- 1J. The Ragland Housing Authority's board of commissioners to receive training to ensure the proper review and approval of expenditures and to understand the requirements relevant to the Authority's financial operations.

## **Finding 2: The Pell City Housing Authority Did Not Comply With Conflict-of-Interest Requirements**

---

Pell City failed to comply with conflict-of-interest requirements when it allowed its executive director to directly supervise her spouse and approve his timesheets and credit card purchases. This condition occurred because the Authority's board of commissioners disregarded Federal, State, and its own regulations regarding conflicts of interest. As a result, HUD lacked assurance that housing program funds were spent in accordance with program requirements.

### **There Was an Apparent Conflict of Interest**

Pell City's executive director and its maintenance supervisor were married, and the executive director was the direct supervisor of her spouse. She approved his timesheets<sup>8</sup> and credit card purchases<sup>9</sup> from 2013 to 2017 and had a direct financial interest in his continued employment and earnings. Pell City's board of commissioners entered into an employment contract with the executive director in March 2009, although her husband was already employed with the Authority as its maintenance supervisor.

Regulations at 2 CFR 200.303(a) require that effective internal controls over Federal awards be established and maintained and that management evaluate delegation for the proper segregation of duties. Also, 24 CFR 982.161(a)(2) prohibits any employee of a public housing agency who formulates or influences policy decisions from entering into a contract or arrangement in which the employee has a direct financial interest during his or her tenure or for 1 year thereafter. Accordingly, the board could have designated another position the responsibility for the approving the executive director's husband's timesheets and purchases.

Pell City's annual contribution contract<sup>10</sup> with HUD also prohibited the conflict-of-interest relationship and provided guidance for obtaining a waiver of the requirements by HUD or the Authority's board of commissioners. The State of Alabama Code<sup>11</sup> further prohibits public employees from engaging in actions or inaction that would materially affect their financial interest or that of their family members. The executive director and the board chairman stated that HUD was aware of the marital relationship, and the board chairman asserted that the board had issued a waiver. However, Pell City could not provide a waiver from HUD or its board of

---

<sup>8</sup> The maintenance supervisor was a salaried employee and submitted his timesheets as required. We did not identify any issues.

<sup>9</sup> We reviewed 100 percent of the maintenance supervisor's credit card purchases and identified the questioned expenditures in finding 1.

<sup>10</sup> ACC Part A, Chapter 9, Section 19(B)(1) of HUD's annual contributions contract defines a conflict of interest as a financial interest that may arise between the Authority's employees and their immediate family members. The annual contributions contract, part A, chapter 9, section 19(B), prohibits this type of relationship, but HUD and the Authority's board of commissioners may waive the requirement. Further, the annual contributions contract, part A, chapter 9, section 19(B)(4), states that the Authority's board of commissioners may waive the requirements for good cause, as permitted by State and local law.

<sup>11</sup> The State of Alabama Code 36-25-1 defines a conflict of interest as any action, inaction, or decision by a public official or public employee in the discharge of his or her official duties, which would materially affect his or her financial interest or that of his or her family members or any business with which the person is associated in a manner different from the manner in which it affects the other members of the class to which he or she belongs.

commissioners. In addition, HUD's official files did not contain a written waiver of the conflict as required.

### **Conclusion**

Pell City's board of commissioners disregarded Federal, State, and its own regulations regarding conflicts of interest. As a result, HUD lacked assurance that housing program funds were spent in accordance with program requirements.

### **Recommendations**

We recommend that the Director of HUD's Birmingham, AL, Office of Public and Indian Housing require

- 2A. The Pell City Housing Authority to comply with conflict-of-interest requirements or obtain a waiver from HUD or its board of commissioners.
- 2B. The Pell City Housing Authority to develop and implement a policy for the review and approval of timesheets and credit card purchases, which ensures a proper segregation of duties and is approved by its board of commissioners.

### **Finding 3: The Pell City and Ragland Housing Authorities Did Not Always Administer Their Waiting Lists in Accordance With HUD Requirements**

---

Pell City and Ragland did not properly maintain their waiting lists in accordance with HUD requirements. Specifically, the Authorities did not maintain adequate historical documentation to show that they selected applicants from their waiting lists in accordance with their own and HUD's requirements. These conditions occurred because the Authorities failed to follow the established waiting list policy. As a result, HUD had no assurance that applicants were properly selected from the Pell City and Ragland waiting lists.

#### **Pell City Did Not Maintain Adequate Waiting List Documentation**

Pell City did not properly maintain its waiting lists. For two of the four<sup>12</sup> tenant files reviewed, the Authority did not maintain adequate historical documentation to support its selection of applicants for admission to housing. For example, Pell City's waiting list showed 33 applications dated before August 16, 2017. However, an applicant applied for a housing unit on September 5, 2017, and Pell City leased the housing unit to the applicant on December 15, 2017. Pell City had no documentation or justification to explain why this family was admitted into the program before the other applicants on the waiting list. Specifically, Pell City did not document the offers made, the offers rejected, and the date on which the applicant was housed in accordance with the selection method guidance provided at section VII(B) of its admissions and continued occupancy policy.<sup>13</sup> Regulations at 24 CFR 960.206(e) also required that the Authority select applicants in accordance with the method specified in its housing plans and have a clear audit trail that could be used to verify its compliance with its methodology. As a result of its noncompliance, Pell City may have bypassed eligible applicants on its waiting list to accommodate other applicants without adequate documentation.

#### **Ragland Did Not Maintain Adequate Waiting List Documentation**

Ragland did not properly maintain its waiting lists because it lacked adequate historical documentation to support its selection of applicants for admission to housing. For one of two<sup>14</sup> applications reviewed, Ragland did not document the offers made, the offers rejected, and the date on which the applicant was housed in accordance with 24 CFR 960.206(e).<sup>15</sup> For example, Ragland's waiting list showed four applications, dated before August 16, 2017, when Ragland leased the housing unit to one of four applicants on October 31, 2017. However, the remaining three applications were dated before those of the selected applicant. Ragland had no documentation or justification to explain why this family was admitted into the program before

---

<sup>12</sup> See the Scope and Methodology section of this report for details of the projection methodology.

<sup>13</sup> Section VII(B) of the admissions and continued occupancy policy required that the Authority maintain accurate records of (1) eligibility status on its waiting list, (2) position on the waiting list, (3) offers made, (4) offers rejected (reason), and (5) date housed.

<sup>14</sup> See the Scope and Methodology section of this report for details of the projection methodology.

<sup>15</sup> Regulations at 24 CFR 960.206(e) require that public housing agencies select applicants in accordance with the method specified in the agency's housing plan and have a clear audit trail that can be used to verify compliance with this methodology.

the other applicants on the waiting list. As a result, Ragland may have also bypassed eligible applicants on its waiting list to accommodate other applicants without adequate documentation.

### **Conclusion**

Pell City and Ragland failed to follow their established waiting list policy. As a result, they may have bypassed eligible applicants on their waiting lists to accommodate other applicants without adequate documentation.

### **Recommendations**

We recommend that the Director of HUD's Birmingham, AL, Office of Public and Indian Housing require

- 3A. The Pell City Housing Authority to fully implement procedures and controls to ensure that waiting list applicants are selected in accordance with HUD requirements.
- 3B. The Ragland Housing Authority to fully implement procedures and controls to ensure that waiting list applicants are selected in accordance with HUD requirements.

# Scope and Methodology

---

We performed our onsite audit work between August 2017 and April 2018 at the Pell City Housing Authority at 110 32nd Street, Pell City, AL, and the Ragland Housing Authority at 406 8th Street, Ragland, AL. Our audit period was October 1, 2012, through September 30, 2016. We expanded the audit period to September 30, 2017, to accomplish our objective.

To accomplish our objective, we

- Reviewed and obtained an understanding of Pell City's and Ragland's annual contributions contract and policies and procedures.
- Reviewed applicable HUD laws, regulations, and other HUD program requirements relevant to operation subsidies and capital funding.
- Reviewed Pell City's and Ragland's board minutes and organizational charts.
- Reviewed Pell City's and Ragland's audited financial statements.
- Reviewed Pell City's and Ragland's financial records, including but not limited to disbursement documents, credit card statements, and vendor invoices.
- Interviewed Pell City's and Ragland's employees, board chairman, fee accountants, and HUD staff.

## **Findings 1 and 2**

We reviewed the credit card purchases for Pell City and Ragland to determine whether the purchases were properly supported and eligible. We reviewed 100 percent of Pell City's credit card purchases from October 1, 2012, to September 30, 2017, totaling more than \$59,000. We also reviewed 100 percent of Pell City's 26<sup>16</sup> credit card statements from August 2015<sup>17</sup> to September 2017 to determine whether the board reviewed and approved the credit card statements. We reviewed 100 percent of the 15 statements to determine whether the board approved the statement before the executive director made the payment. We reviewed 100 percent of Ragland's credit card purchases from July 1, 2012,<sup>18</sup> to September 30, 2017, totaling more than \$16,000. We also reviewed the checks issued to tenants during the audit period; obtained and reviewed supporting documentation, such as timesheets, checks, bank statements, and tenant files; and compared the tenants paid to the payroll report and employee listing.

## **Finding 1**

We reviewed financial records and supporting documentation for Pell City from October 1, 2012, to September 30, 2017, and for Ragland from July 1, 2012, to September 30, 2017. We

---

<sup>16</sup> Pell City's board of commissioners performed its first review on October 6, 2015, for the purchases reported on the August 2015 to October 2015 credit card statements.

<sup>17</sup> Pell City implemented its credit card use policy on September 21, 2015.

<sup>18</sup> Ragland did not begin using the credit card for purchases until September 2013.

reviewed the expenditures to determine whether program disbursements were (1) supported, (2) properly approved, (3) accurately reflected in the Authorities' financial records, (4) allowable, and (5) made from the proper accounts with eligible program funds. For Pell City, we selected a statistical sample of 120 expenditures, and reviewed a statistical sample of 20 expenditures totaling more than \$97,000 from a universe of 2,539 expenditures totaling more than \$2.3 million for the period October 1, 2013, through September 30, 2017. We selected a statistical sample of 120 expenditures for Ragland and reviewed a sample of 20 expenditures that totaled more than \$214,000 from a universe of 1,827 expenditures totaling more than \$2.1 million for the period July 1, 2012, through September 30, 2017. After reviewing the sample 20 expenditures for Pell City and Ragland, we determined that the observed deficiencies did not rise to the level needed to justify reviewing the complete sample of 120 expenditures, respectively.

### **Finding 3**

We reviewed the Pell City and Ragland waiting lists, dated August 16, 2017, and compared them to the tenant listing as of January 2, 2018. For Pell City, we determined that seven applicants were housed between August 16, 2017, and January 2, 2018. Additionally, we determined that only three of the seven tenants were on Pell City's waiting list as of August 16, 2017. Therefore, we determined that Pell City housed four applicants that were not on its waiting list.

We determined that Ragland housed two applicants between August 16, 2017, and January 2, 2018. We determined that both applicants were on the waiting list as of August 16, 2017.

The results of findings 1, 2 and 3 for the audit apply only to items selected for review and cannot be projected to the universe or population.

### **Other Information**

To achieve our audit objective, we relied in part on computer-processed data contained in the accounting system of the current and former fee accounting firms for both Authorities to achieve our audit objective. Although we did not perform detailed assessments of the reliability of the data, we performed minimal levels of testing and found the data to be adequately reliable for our purposes. The tests for reliability included but were not limited to comparing computer-processed data to vendor payments, financial records, and other supporting documentation.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

---

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## **Relevant Internal Controls**

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## **Significant Deficiency**

Based on our review, we believe that the following item is a significant deficiency:

- Pell City did not administer its and Ragland's program operations in accordance with requirements. Specifically, it did not (1) ensure that program disbursements were appropriate and supported, (2) comply with conflict-of-interest requirements, and (3) administer its waiting list in accordance with regulations (findings 1, 2, and 3).

# Appendixes

---

## Appendix A

---

**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Unsupported 1/</b>	<b>Ineligible 2/</b>
1A		\$1,188
1B	\$12,874	
1F		\$105
1G	\$31,580	
<b>Total</b>	<b>44,454</b>	<b>\$1,293</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/ 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.

# Appendix B

## Auditee Comments and OIG's Evaluation

Ref to OIG  
Evaluation

### Auditee Comments

# Pell City Housing Authority

Patricia Lynne Smith  
Executive Director  
Room 330

P.O. Box 681 Pell City, Alabama 35125  
205-338-7012  
[pellcityhousing@yahoo.com](mailto:pellcityhousing@yahoo.com)

Office of Inspector General  
75 Ted Turner Drive SW,

Atlanta, Georgia 30303  
404-331-3369

June 25, 2018

Dear Office of Inspector General,

**Pell City Housing Authority (“PCHA”) and Ragland Housing Authority (“RHA”) joint response to the U.S. Department of Housing and Urban Development’s (“HUD”), Office of Inspector General (“OIG”) May 31, 2018 draft audit report and request for written comments**

**General:**

*In its draft, OIG cites what is believed to be OMB Circulars and Guidance Part 225 as establishing “the basic guidelines, principles, and standards, for allowable costs” and that “it states that allowable costs must be adequately documented, necessary, and reasonable for the proper and efficient performance and administration for Federal awards.”<sup>1</sup> PCHA and RHA will use the OMB Circulars and Guidance Part 225 as the governing authority in its response.*

Comment 1

Comment 1

---

<sup>1</sup> Reference was also made to “regulations at 24 CFR 85.20(b)(5) and 85.20(b)(6)” to “provide guidance on the requirements that must be followed in determining the reasonableness, allowability, and allocability of costs and state that account records must be supported. **To the best of our knowledge, 24 CFR 85.20(b)(5) and 85.20(b)(6) were removed December 19, 2014 by 79 FR 75871.** (See Exhibit K) If a separate regulation superseded this regulation, the PCHA and RHA would request that HUD disclose the regulation and allow each housing authority the appropriate time to respond.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 2

Comment 3

#### **PCHA's Response to OIG's Finding 1: The Pell City Housing Authority Did Not Administer Its and Ragland's Financial Operations in Accordance with HUD Regulations**

##### *I. Pell City Credit Card Expenditures Were Not Allowable*

"Pell City paid more than \$1,100 for unallowable expenditures and more than \$4,700 in costs that lacked documentation. Credit card payments were made for unallowable expenditures, such as late fees, gift cards, alcoholic beverages, and gas purchased by the maintenance director while on vacation. Pell City also purchased miscellaneous items, such as food and supplies, which lack an itemized receipt."

##### *Unallowable Charges (Pell City):*

*It is PCHA's understanding that the items listed in Exhibit A of PCHA's response are the items OIG has determined as unallowable credit card purchases. PCHA would note that none of the expenditures listed on Exhibit A were used to purchase alcoholic beverages.*

*It is the position of the PCHA that the expenditure noted as 3/28/2014, \$60.00 is an allowable cost under Appendix B to Part 225 section 42 and 43, which state as follows:*

*"42. Training Costs. The cost of training provided for employee development is allowable." And "43. Travel Costs. a. General. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit."*

*On the day of March 28, 2014, PCHA and RHA's executive director traveled to Orange Beach, Alabama to attend the Alabama Public Housing Area Directors Association ("APHADA") conference. (Exhibit B) The APHADA is a professional conference held annually to educate Executive Directors on changes in policy and regulations. PCHA/RHA's Executive Director's husband, who is also the Maintenance Supervisor, accompanied his wife on the trip. The Executive Director's personal vehicle was in the shop at the time and the Board approved the use of a Housing Authority vehicle to travel to the conference. The purchase of gas on the above referenced date was for travel to and from the conference. PCHA/RHA believes this cost is allowable under the above regulations.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 3

*In addition, section 27 states as follows:*

*27. Meetings and conferences. Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences.*

*The following items were bought in association with the conduction of the Alabama Association of Housing and Redevelopment Authority's ("AAHRA") annual conference: 8/19/2013 \$40.70; 8/23/2013 \$14.83; 8/24/2013 \$54.72; \$24.14. These charges were all reimbursed by the AAHRA and deposited into PCHA funds to pay for the above mentioned credit card charges. Itemized receipts were provided and can still be provided by PCHA. In addition, PCHA has attached the corresponding credit card statement, proof of attendance at conference, the email to AAHRA regarding reimbursement and the deposit slip for the reimbursement from AAHRA. (Exhibit C) PCHA believes these charges are allowable under the above referenced provisions.*

Comment 3

*In addition, charges made on 10/24/2012 for \$42.00, and on 12/10/2012 for \$41.53 were food bought for Board Meetings. Under the above referenced Section 27, the PCHA believes these are allowable charges.*

*Section 13 of part 225 states the following "13. Employee morale, health, and welfare costs. a. The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expense incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.*

*The following charges were placed to purchase flowers as acts of condolences to bereaving employees: 10/24/2012 \$150.99; 1/5/2013 \$101.20; 9/18/2013 \$70.00". The purchases were made for two employees and one Commissioner. The PCHA believes that the act of kindness on behalf of the PCHA to the employees improved "working conditions, employer-employee relations, employee morale, and employee performance" which are allowable under the above referenced guidelines.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 3

*OMB Circulars and Guidance Part 225 also states:*

*"Sections 1 through 43 provide principles to be applied in establishing the allowability or unallowability of certain items of cost. ... Failure to mention a particular item of cost in these sections is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost."*

*PCHA believes that the gift cards purchased on 8/21/2013, 8/7/2015, and 8/21/2016 for the AARHA conference should be allowable. By comparison to a "similar or related items of cost", section 27. Meetings and conferences states:*

*"Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences."*

*The purchases of the three (3) gift cards were done so as a donation to the AARHA Education Scholarship Fund. The gift cards were donated at the AARHA convention which the Executive Director attended and was under guidelines in section 27. Given that the "allowable" items of cost are not an exhausted list, PCHA believes that the gift cards should be allowed.*

*In addition, the OMB Circulars and Guidance Pt. 225, App A. gives additional guidance. It states reasonable costs as "Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost." PCHA's Executive Director was present, at a convention, where all attendees are involved in the overseeing of Housing Authorities. All members of the convention were asked to donate a door prize so that money could be raised for an education scholarship. It is prudent that the Executive Director, based on the circumstances prevailing at the time the decision was made, would have believed that the cost associated with the donation would be allowable and reasonable according to the definitions under the OMB Circulars and Guidance Part 225.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 4

*Lastly, OIG cited a charge on 8/19/2013 for \$8.94. PCHA does not find a charge for that amount on that date on its statement and would ask that it be removed from OIG's report.*

Comment 5

*II. Ragland's Credit Card Expenditures Were Not Allowable*  
*Unallowable charges (Ragland)*

*"Ragland paid \$105 for unallowable credit card purchases, such as gas and gifts..." OIG listed two purchases for RHA that were determined to be unallowable. RHA believes both purchases are allowable under OMB guidelines.<sup>1</sup> Those purchases are listed in a spreadsheet marked as Exhibit D.*

*On 1/28/2015, RHA made a purchase for \$68.20. The purchase was for food/ condolences for a RHA Commissioner whose husband unexpectedly passed away. Under section 13 of the OMB Circulars and Guidance, Part 225, App. B states "Employee morale, health, and welfare costs. a. The costs of employee information publications, health or first aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable." RHA believes that this section allows for the types of purchases noted above.*

*OIG also noted a 2/12/2015 purchase of \$36.90. Section 26 states "26. Materials and supplies costs. a. Cost incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable." In addition, Section 43 states "Travel costs. a. General. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit." The 2/12/2015 purchase was a charge for gas in a RHA work truck. The Town of Ragland, where RHA is located, only has one gas station. That particular gas station ran out of gas on the day in question. The employee was unauthorized to use the RHA credit card so an authorized user traveled with the employee to the closest gas station to purchase gas. Later, the employee was authorized to use the credit card for future issues. (See Exhibit E) Under sections 26 and 43, the purchase should be allowable.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 1

#### *III. PCHA and RHA Credit Card Expenditures and Disbursements Were Not Adequately Supported*

*PCHA believes that the attached Exhibit F is a spreadsheet identifying all purchases indicated as not adequately supported by OIG in its audit draft. According to Part 225.20 "Policy. This part establishes principles and standards to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. The principles are for determining allowable costs only." It is PCHA's understanding that all charges listed in Exhibit F and RHA's Exhibits G and H have been deemed to be allowable costs just not adequately supported. Therefore, PCHA and RHA will not reference Part 225 in its response as Part 225 is not relevant to the findings.*

*In its draft, OIG references Part 225 as establishing "the basic guidelines, principles, and standards, for allowable costs" and that "it states that allowable costs must be adequately documented, necessary, and reasonable for the proper and efficient performance and administration for Federal awards."<sup>1</sup> PCHA and RHA find no such language in Part 225. Part 225, App. A, C. Basic Guidelines states:*

*"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards."*

*Part 225 makes no reference to the documentation of purchases and only makes reference to the allowability of purchases. The purchases have to be necessary and reasonable. No standard is listed for the level of documentation. The guideline implies that the documentation must be sufficient for it to be determined whether the purchases are reasonable and therefore, allowable. As all items in Ex F, G, and H are allowable, it is each housing authorities' position that the documentation is sufficient.*

Comment 1

---

<sup>2</sup> Reference was also made to "regulations at 24 CFR 85.20(b)(5) and 85.20(b)(6)" to "provide guidance on the requirements that must be followed in determining the reasonableness, allowability, and allocability of costs and state that account records must be supported. **To the best of our knowledge, 24 CFR 85.20(b)(5) and 85.20(b)(6) were removed December 19, 2014 by 79 FR 75871.** (See Exhibit K) If a separate regulation superseded this regulation, the PCHA and RHA would request that HUD disclose the regulation and allow each housing authority the appropriate time to respond.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 1

*PCHA and RHA would further note that 24 CFR Part 85 is believed to have been removed in December 19, 2014 and therefore, no longer a standard by which should not be used to determine whether a credit card/disbursement is adequately supported. (See Exhibit K)*

*If 24 CFR Part 85 was authoritative, 85.20(b)(6) would state the following:*

*(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.”*

*PCHA and RHA believe its documentation meets this definition.*

Comment 6

*Not Adequately Supported (Pell City and Ragland)*

*Attached Exhibits F and G list all purchases found by OIG to be inadequately supported by PCHA and RHA.*

*PCHA and RHA have already provided all receipts, invoices, and documentations supporting each purchase as listed in Exhibit F and G. It is PCHA and RHA's position that the documentation already presented was found sufficient for OIG to make a determination that each of the items was an allowable cost. As such, the documentation, by definition, is sufficient documentation. It allows the regulatory entity sufficient proof that the item is deemed allowable and acceptable under the corresponding federal regulations. There is nothing in the now removed 24 CFR Part 85 that requires PCHA and RHA to have any more detailed documentation than what has already been presented. The information that is being asserted by OIG as being “reasonable and necessary” many times requires for the PCHA and RHA to request independent third parties to provide documentation and receipts that they would not otherwise provide to customers, or which, many times, they are unable to manufacture. (See Exhibit I for the Ragland Post Office). The cited regulations are meant to help provide guidance to federal departments, not penalize them with unrealistic and unattainable goals.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 7

*In addition to the documentation previously given, RHA is also attaching Exhibit J, additional proof that the purchase on 7/24/2017 for \$325.00 was a registration fee for the annual AAHRA conference. PCHA and RHA believe that the documents attached in Exhibits J are sufficient for adequately documentation.*

*Disbursements/ Credit Card Purchases Not Supported by Adequate Documentation (Ragland)*

*OIG listed three disbursements and nine purchases that were determined to not be support by adequate documentation for RHA. Those disbursements and purchases are listed in a spreadsheet marked as Exhibit H.*

*The 3/5/2014, Check 2020 was for items needed to maintain the sewer plant that is owned and maintained by RHA, and for items (wax stripper) used in the maintenance of the units. As support of its disbursement, RHA has attached the following as Exhibit L: a copy of the check; a detailed order form from the company, signed by a maintenance worker with RHA; an invoice from the company for the same amount as the check; and three (3) detailed work orders, also signed by the same maintenance worker, stating what materials where used and also detailed remarks in which the material bought from the company is listed.*

*The Check 2599 dated 9/24/2015 is for work done at RHA to remove trees. The funds for this work were obtained through a grant approved by the HUD (Exhibit M). RHA is attaching the grant application detailing the work requested and the letter of approval.*

*Lastly, check 3106 dated 2/7/2017 was to replace the DVR and security cameras that had ceased to work due to being struck by lightning. RHA is attaching the following documentation: (1) a copy of the canceled check, and (2) a detailed invoice for the same amount. PCHA has also attached a "lightning affidavit" from a representative of the company attesting to the need to replace the system. (Exhibit N)*

*RHA does not find any remarks in any of the references cited by OIG that require any additional or more detailed documentation. As such, it is RHA's position that this disbursement is adequately supported.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 8

#### IV. Credit card policy and Check Signing Authorization Policy

To the best of RHA and PCHA's knowledge, it is not mandated that housing authorities have credit card policies. Pell City did adopt a credit card policy in 2015. The policy did say that it had to be signed off by the Director and a Commissioner five (5) days prior to the time due. A revised credit card policy is now in place, as of May 16, 2018 (see Exhibit O). As to RHA, a credit card policy, the same as the revised version of PCHA, was approved on May 8, 2018 (see Exhibit P). In addition, on that same day, RHA revised its check signing authorization policy to require any two signatures of persons listed on the bank authorization card. (See Exhibit Q). This policy is now the same as PCHA.

#### V. Hired Laborers Were Improperly Paid for Work at Pell City and Ragland

OIG cites both PCHA and RHA for not providing adequate documentation to support payment for work performed by hired laborers. Attached in Exhibit R are the list of hired laborers for both PCHA and RHA.

Comment 9

OIG lists Worker 3 (\$60) as a laborer that was hired by PCHA. As stated in previous conversations with OIG, Worker 3 was never a hired laborer. The \$60 check issued to Worker 3 was a security deposit refund. PCHA has previously provided documentation (including a copy of the check issued to Worker 3 with the designation "security deposit refund" noted; the "Pell City Housing Authority Notice of Intent to Vacate" signed by Worker 3 and noted on the form the information, "amount refunded \$60.00") establishing that the check in question was issued as a refund. Not only is there no additional documentation to give OIG but there are no "detail service provided by the workers, location of the work performed". PCHA is providing its documentation again as Exhibit S to this response and requesting that Worker 3's name and corresponding payment be deleted from the list improperly paid hired workers.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 10

*As to the other "hired laborers", OIG specifically states that "the documentation provided failed to adequately support in detail the services provided by the workers, the location of the work performed, or the justification for payment." PCHA and RHA find no requirement in Part 225 that requires the type of documentation as listed by OIG. PCHA and RHA have provided the following documentation in Exhibits T - AA, and believe that it is sufficient to properly support the payment of each worker.*

#### Worker 1

*Worker 1 was issued the following checks: check 12932 on 04/28/2016 for \$640.00; check 12949 on 05/12/2016 for \$535.00; and check 12957 on 06/13/2016 for \$225.00 for a total of \$1,400.00. As with all hired laborers, PCHA provided to OIG: (1) copies of each check issued, with the location of the work performed and a description of the work done (each check states "helping with grass and vacant unit"); and (2) a copy of the hours performed each day by the workers. (See Ex. T) All criteria quoted by OIG were sufficiently and adequately documented and as such, should not be deemed "inadequately supported."*

#### Worker 2

*Worker 2 was issued the following checks for PCHA: check 12989 on 07/12/2016 for \$230.00 and check 13069 on 08/30/2016 for \$295.00 for a total of \$525.00. For documentation, PCHA provided the following: (1) copies of each check issued, with notation of location (206 31<sup>st</sup> St North, 720 14<sup>th</sup> St So.) and a description of work done (helping with vacant units). (See Ex. U)*

*RHA issued a total of \$10,767.50 in checks (See Exhibit F for a complete listing). As documentation, RHA provided the following: (1) a copy of the check issued, complete with location (720 14<sup>th</sup> Street South) and description (helping with vacant units) (2) a copy of the daily hours worked and (3) the work orders that correspond with the work performed. As with all of hired laborers, both the PCHA and the RHA has provided enough documentation for the payments issued to be deemed adequately supported. (see Exhibit U).*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 10

#### Worker 4

*Worker4 was issued the following checks by PCHA: check 13237 on date 02/24/2017 for \$460.00; and check 13254 on 03/08/2017 for \$150.00 for a total of \$610.00. As documentation, the PCHA has provided (1) a copy of the corresponding check, with location specified (3105 1<sup>st</sup> Avenue North, 3104 2<sup>nd</sup> Avenue North, 3105 3<sup>rd</sup> Avenue North, 3105 1<sup>st</sup> Avenue North, 109 31<sup>st</sup> St North, 3101 2<sup>nd</sup> Ave. No.) and a description (helping with vacant units) and (2) a copy of the daily hours worked (See Exhibit V). PCHA believes the documentation provided is sufficient to meet the OIG required criteria and be found to be adequately sufficient documentation.*

#### Worker 5

*Worker 5 was issued the following checks by PCHA: Check 13135 dated 11/09/2016 for \$350.00, Check 13139 on 11/10/2016 for \$225.00, check 13147 dated 11/29/2016 for \$400.00, check 13166 on 12/14/2016 for \$650.00, and check 13179 for 12/27/2016 for \$640.00 for a total of \$2,265.00. As supporting documentation, PCHA provided copy of check, with dates, value, description and location (i.e. "helping with vacant units; cleaning 4430; 3202 1st avenue North; 3112 3rd Avenue North"). PCHA also provided payroll forms that show detailed hours. Every copy of every check provided to OIG for Worker 5 designates the location the services were provided and the services provided by the worker. The justification for payment should be evident by the notation that she did the work. (See Exhibit W)*

*Worker 5 was also issued the following checks by RHA: Check 3062 on 01/05/2017 for \$80.00; check 2778 on 04/07/16 for \$410.00; check 2796 on 04/27/2016 for \$435.00; check 2872 on 07/12/16 for \$580.00; check 2900 on 07/29/16 for \$960.00; check 2919 on 08/08/16 for \$320.00; check 2925 on 08/30/2016 for \$1,140.00; check 2950 on 09/12/2016 for \$360.00; check 2963 on 09/29/2016 for \$870.00; check 2980 on 10/06/2016 for \$360.00; check 2989 on 10/27/16 for \$720.00 and check 3022 on 11/09/2016 for \$240.00 for a total of \$6,475.00.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 10

*For each payment, RHA has provided the following: (1) a copy of each check issued; (2) a copy of the payroll hours of the worker for each day (often times with the location where the work was performed), and (3) a corresponding work order that lists the location, the material used, signed by the hired laborers and often with remarks regarding the specific work done. (See Exhibit X). This documentation meets the criteria set out by OIG in its written draft and is sufficient to meet the adequately supported threshold instituted by OIG.*

#### Worker 6

*Worker 6 was issued by PCHA a total amount of payments equaling \$3,365.00. As documentation, PCHA provided the following: (1) copies of each check issued, with a location (each check has multiple locations listed) and description (some checks have multiple description-helping with vacant units, cutting grass, preparing for UPCS Inspections, performing repairs from inspection), (2) the corresponding daily hours worked, and (3) the work orders that correspond with the work performed. In addition, PCHA has provided the work orders related to and a copy of the UPCS Inspection with corresponding dates. (See Ex. Y)*

#### Worker 7

*Worker 7 was issued a total of \$845.00 in checks as payment for work done. As proof of documentation, the RHA provided to OIG the following: (1) copies of the checks issued, with description of the work done ("worked on the grounds preparing for Inspection" and "helping with apartments") (2) copy of the daily hours worked and (3) the work orders that correspond with the work performed. RHA also provided a copy of its corresponding check registry which listed additional details ("07/31/2013, check 1840 Worker 7, Contract labor with \_\_\_\_\_", Ragland Maintenance worker). RHA believes this is sufficient documentation to be deemed adequately supported. (See Ex. Z)*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 10

#### Worker 8

*Worker 8 received the following payments from RHA: check 3137 on 03/10/2017 for \$115.00 and check 3157 for 03/23/2017 for \$150.00 (See exhibit Y). As documentation, RHA provided the following: (1) copies of the checks issued, with a description of work provided (helping with vacant units), and (2) a copy of the daily hours worked by the hired laborer and (3) the work orders that correspond with the work performed. RHA believes this is sufficient documentation to be deemed adequately supported.*

#### Worker 9

*Worker 9 was issued one check for \$20.00. As documentation in support of the payment, RHA provided (1) a copy of the check issued, complete with description ("helping Jack"), and the daily hours worked, which notes the location (708 Brannons Circle, Ragland, Alabama) but also a description (Picked up trash). There was only one check issued and one hours worked form. (See Ex. AA) The correlation between the two is not only obvious but also provides sufficient documentation to determine the location, date, job performed, and why the worker should be paid. RHA believes this is sufficient documentation to be deemed adequately supported.*

Comment 11

*In regard to Board training, PCHA and RHA Commissioners have attended all training that could be afforded by the Housing Authorities. PCHA has one certified Commissioner and four (4) that will be attending certification classes at the convention this year. RHA has one commissioner that has attended training and plans on being certified in the near future. Both PCHA and RHA will provide documentation of such at OIG's request.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 12

#### **PCHA's Response to OIG's Finding 2: The Pell City Housing Authority Did Not Comply With Conflict of Interest Requirements**

##### **I. There Was an Apparent Conflict of Interest**

*In order to appropriately address OIG's Conflict of Interest assertion, it should first be noted that OIG has repeatedly failed to correctly identify and report the PCHA's Executive Director's employment date. The current PCHA Executive Director was hired as tenant coordinator **July 5, 1994**. She was promoted to PCHA Executive Director **May 1, 1998** and was asked by Birmingham HUD to be director over RHA on **May 30, 2012**. (See Exhibit BB) The current Executive Director's date of employment has never been March 2009 (as reported in OIG's draft). OIG was told during phone conversations with the Executive Director that the employment date was incorrect and OIG has failed to correct the date.*

Comment 13

*The current Executive Director's husband works as the Maintenance Supervisor and was hired on **April 22, 1991**. He was married to the current Executive Director at the time of his employment. He was also married to the current Executive Director at the time she was made Executive Director over PCHA and again, as RHA. At the time that both employees were originally hired, the Personnel Policy adopted by the Pell City Housing Authority (see attached exhibit CC) stated that nepotism was to be avoided if possible, but did not prohibit the hiring of two individuals from the same family.*

*In 1998, when the current Executive Director was hired for her current role, the annual contribution contract made no requirement that a waiver be obtained. (Ex. DD) It is PCHA's position that to date, a different contract has never been executed by PCHA.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 13

*In addition, on March 3, 2009, the Pell City Housing Authority's Minutes note (Ex. EE) the following: "Commissioner \_\_\_\_\_ asked the board to turn to page 29 and look under employment of relatives, he stated that he would like to have an amendment added to this section that would read as follows: If a legally hired employee(s) was/were hired and approved by Pell City Housing Authority board of Commissioners prior to the adoption of this amendment such employee(s) shall be retained by reason of tenure and conditions- Grandfathered In. The aforementioned previously hired employee(s) will adhere to all requirements, standards, and duties of the Pell City Housing Authority state and federal guidelines/laws with the exception of the Nepotism Clause thereby nullified in the singular cause. Commissioner \_\_\_\_\_ than called for a motion to accept the Amendment to the Nepotism Clause, a motion was made by Commissioner \_\_\_\_\_ this motion was seconded by Commissioner \_\_\_\_\_ and was unanimously approved." (See attached Exhibit EE).*

*Furthermore, on April 24, 2007, the PCHA Board notes a reference to a Board meeting that took place at the hiring of the current Executive Director. (See Exhibit FF) "Mrs. \_\_\_\_\_ was officially hired by the Board on Tuesday April 14, 1998. Some questions that were raised at the meeting included: Could \_\_\_\_\_ work for his wife? After discussion, everyone felt they did not anticipate any problems." The minutes continue by stating, "Ms. \_\_\_\_\_ stated that these are the minutes that tell how \_\_\_\_\_ (Executive Director) and \_\_\_\_\_ both came to work at the Pell City Housing Authority. She asked if it was wrong or right and noted that this is not the only situation in Public Housing in Alabama where a husband and wife work together or some other relatives are employed. She informed the board that there are other Housing Authorities in this area where family members are hired. Neither of them hired the other they came thru here at the nomination and the seconding of Housing Commissioners just like the current board. Co-Chairman \_\_\_\_\_ stated that she wanted to provide a background so that everyone could understand why and how \_\_\_\_\_ (Executive Director) and \_\_\_\_\_ came to work at the Authority together. Ms. \_\_\_\_\_ then opened the floor for any questions that they might have.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 13

Commissioner \_\_\_\_\_ stated that he would like to know what other Housing Authorities have families working together around here. \_\_\_\_\_ stated that she could check and get a list together. Co-Chairman \_\_\_\_\_ stated that we do have other Directors from other housing authorities at the meeting, and **also present at the meeting was \_\_\_\_\_** (the former HUD Director of Public and Indian Housing, Birmingham Office), "who had previously served at HUD. Ms. \_\_\_\_\_ asked Mr. \_\_\_\_\_" (the former HUD Director of Public and Indian Housing, Birmingham Office) "if he could elaborate on this discussion." The former HUD Director of Public and Indian Housing, Birmingham Office "stated that there are several Housing Authorities around the State that have relatives working for them. He named Daleville, where a mother and daughter work together and Valley Housing where a husband and wife work together. Commissioner \_\_\_\_\_ asked in what capacity they work together and Mr. \_\_\_\_\_" (the former HUD Director of Public and Indian Housing, Birmingham Office) "stated that in Valley the wife is the Executive Director and the husband is the Maintenance Director just like it is in Pell City. ... Commissioner \_\_\_\_\_ asked if that made it right. He stated that you have to make an evaluation of what is right, and that the policies and By-Laws established what is right and what is wrong. **Commissioner \_\_\_\_\_ asked Mr. \_\_\_\_\_" (the former HUD Director of Public and Indian Housing, Birmingham Office) "if he approved of nepotism in the sense that it is at this Housing Authority. The former HUD Director of Public and Indian Housing, Birmingham Office "responded by saying he would approve it, and did approve it, while in his position as Director of Public Housing in Birmingham, Alabama and for the State of Alabama."**<sup>1</sup>

Based on the above minutes, it is apparent that the Board of Commissioners knew of the relationship between the Executive Director and the Maintenance Supervisor, sought out guidance regarding the relationship, and ultimately, approved of both working for the authority. PCHA believes that these minutes are a sufficient waiver.

<sup>3</sup> " \_\_\_\_\_" were inserted and names deleted to protect individual's privacy. A complete copy of the minutes has been attached as Exhibit EE.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 13

*PCHA would also note that they have never been told of any official form for a waiver or a requirement of such. PCHA would and has provided the minutes from the April 24, 2007 meeting as a waiver of any conflicts of interest.*

*In addition, PCHA would note that the Director of HUD Birmingham referenced in the minutes was Director from 1993-2003. Based on the above minutes, it is very clear that not only did Birmingham HUD know of the relationship but that as Director of HUD, he approved of the current Executive director and her husband working for the same Housing Authority. The referenced HUD Director ratified that opinion again in these 2007 minutes. PCHA believes this is sufficient to establish that HUD Birmingham also waived the conflict of interest.*

*Lastly, PCHA would also note that when the current Executive Director became Executive Director of Ragland Housing Authority in 2012, it was at the request of Birmingham HUD. There were multiple meetings and phone calls with Birmingham HUD. Present at most, if not all, of the meetings was the Divisions Director, HUD Office Birmingham. At no point in any meeting was the Executive Director asked to provide a waiver regarding the employment of her husband.*

*The documentation provided in the above exhibits regarding the alleged conflict of interest was repeatedly offered to OIG by the Executive Director but OIG never requested the documentation. PCHA is also providing a copy of its segregation of work duties. (Exhibit GG)*

Comment 14

### **PCHA and RHA's Response to OIG's Finding 3: The Pell City and Ragland Housing Authorities Did Not Always Administer Their Waiting Lists In Accordance With HUD Requirements**

#### **I. Pell City and Ragland Did Not Maintain Adequate Waiting List Documentation**

*During their numerous and lengthy visits to PCHA and RHA, OIG only asked for the current waiting list and randomly selected tenant files. OIG did not ask to see the applicant files. Applicant files are kept by both PCHA and RHA to document the applicant's process of becoming a tenant.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 14

*OIG's complaint seems to be that applicants further down the list were awarded housing before higher listed applicants. OIG's findings are an assumption on its part that PCHA and RHA did not maintain adequate waiting lists. Had OIG reviewed the applicant files (i.e. the applicants that were 'skipped'), it would have seen that the applicants that did not receive housing in an orderly fashion were due to that prospective tenant's failure to provide information to the Housing Authority. In other words, tenants that were "skipped" were due to the applicant's own actions. Often times the applicant failed to provide income information or refused to complete the application process. Applicant files would have also shown correspondence and all efforts by the Housing Authority to help the tenant comply. PCHA and RHA cannot provide every applicant file as an exhibit to this response. However, PCHA and RHA are providing the waiting list of applicants with working notes that is kept by PCHA and RHA to make sure that each housing authority is compliant with ACOP. (See Exhibit HH)*

*OIG also never asked for historical waiting lists. If asked, both RHA and PCHA would have provided the requested information.*

#### **Conclusion**

Comment 15

*In conclusion, PCHA and RHA assert that OIG's findings are not accurate in many cases and misguided at best. Most of the "unallowed" costs identified by OIG are allowable under Part 225. In addition, Part 225 states that it is not meant to be an exhausted list. To use it as such is inconsistent with the intentions of the regulations. The "inadequately supported" documentation given by PCHA and RHA was sufficient for OIG to use to determine that the costs were allowable. That alone should be sufficient documentation. However, even if it was not, PCHA and RHA have provided the documentation that OIG requested in its draft. As for the conflict of interest, OIG, although told many times, refuses to note the correct employment date for the Executive Director. In addition, the contract agreement that was in affect at the time of the employment of the Executive Director did not prohibit the employment of other family members and did not require a waiver. Even if such a waiver were required, it is evident by board minutes that not only did the Housing Authority's Board of Commissioners not have an issue with the employment of the Executive Director and her husband but neither did Birmingham HUD.*

## Auditee Comments and OIG's Evaluation

### Auditee Comments

#### Ref to OIG Evaluation

Comment 15

*Lastly, it is the opinion of RHA and PCHA that had OIG asked for the appropriate documentation, it would have found that both housing authorities are compliant with their waiting lists and do not "skip" over applicants.*

*PCHA and RHA are asking that OIG and HUD reconsider their findings in light of the material presented today, especially given that some of the findings are factually incorrect. PCHA and RHA will remain compliant if requests are made for additional information and look forward to discussing these issues.*

*Sincerely*



**Patricia Lynne Smith,  
Executive Director of the  
Pell City Housing Authority and  
Ragland Housing Authority**

Comment 1

---

<sup>1</sup>As noted previously, HUD cites 24 CFR 85.20(b)(5) and 24 CFR 85.20(b)(6). TO the best of our knowledge, these regulations were removed in December, 2014 by 79 FR 75871. If other regulations outside of what is contained in this document were used as a standard by which PCHA and RHA were held to, then both Housing Authorities would request time to adequately review those regulations.

## OIG Evaluation of Auditee Comments

Comment 1 Pell City's comments state that in its draft, OIG cites what is believed to be OMB Circulars and Guidance Part 225 as establishing "the basic guidelines, principles, and standards, for allowable costs" and that "it states that allowable costs must be adequately documented, necessary, and reasonable for the proper and efficient performance and administration for Federal awards." Part 225 makes no reference to the documentation of purchases and only make reference to the allowability of purchases. Pell City Housing Authority and Ragland Housing Authority will use the OMB Circulars and Guidance Part 225 as the governing authority in its response. It is Pell City Housing Authority's understanding that all charges listed in exhibit F, and Ragland Housing Authority exhibits G and H have been deemed to be allowed costs just not adequately supported. Pell City Housing Authority and Ragland Housing Authority would further note that 24 CFR Part 85 is believed to have been removed in December 19, 2014, and therefore, no longer a standard by which should not be used to determine whether a credit card/disbursement is adequately supported (exhibit K).

Part 85 and 2 CFR 200.403 applied to all Federal awards received before December 26, 2014. Part 2 CFR 225 governed the Authority's Federal awards made after December 26, 2014. Specifically, 2 CFR 225 Appendix A, Part C (1)(e),(f), and (j) states that costs must be consistent with policies, regulations, and procedures, be afforded consistent treatment, and adequately documented. Our review covered HUD funds awarded to Pell City and Ragland for fiscal years 2013 to 2017. Accordingly, we applied the appropriate criteria based on the date of the award to determine if the costs were proper. Pell City did not provide exhibits F, G, H and K with its comments.

Comment 2 Pell City's comments state that none of the expenditures listed in exhibit A were used to purchase alcoholic beverages.

Pell City did not provide exhibit A with its comments but we acknowledge that the draft report did not include the cost associated with the purchase of alcoholic beverages. However, during our review, we found that alcoholic drinks were purchased on August 6, 2015, for \$13.99. In accordance with 2 CFR 200.423, alcoholic beverages are unallowable. Pell City's executive director stated that the purchases were made for the Alabama Association of Housing and Redevelopment Activities (AAHRA) meeting and provided documentation that Pell City was reimbursed by the AAHRA; therefore, we did not question the cost. However, we determined that the alcoholic beverages were a reportable condition because the purchase of alcohol with Federal funds is unallowable.

Comment 3 Pell City's comments state that that the \$60.00 is an allowable training travel cost under Appendix B to Part 225 section 42 and 43 (exhibit B) and that the charges were all reimbursed by the Alabama Association of Housing and Redevelopment Activities (AAHRA) (exhibit C). Pell City also asserts that charges made for food

bought for board meetings and to purchase flowers as acts of condolences to bereaving employees were allowable. Lastly, Pell City believes that the gift cards purchased for the AAHR conference should be allowable.

We do not agree with the statement that charges by Pell City were allowable or reimbursed by the AAHRA. The documentation Pell City provided during the audit did not satisfy the basic guideline requirements at 2 CFR 225 or 2 CFR 200.403 (a) and (g) to determine the reasonableness, allowability, or reimbursement of the costs based on Federal regulations or regulations at 24 CFR Part 85 which requires that accounting records are maintained to adequately identify the source and application of funds. Pell City did not provide exhibits B and C with its comments. Pell City should work with HUD during the audit resolution process to ensure the recommendations are fully implemented.

Comment 4 Pell City's comment states that it did not find a charge for \$8.94 on its credit card statement and request that it be removed from the report.

The \$8.94 charge was included on the itemized receipt dated August 19, 2013, totaling \$119.52. Based on our analysis of the purchases, Pell City was unable to provide records establishing the proper use of funds. Therefore, we did not make revisions to the report.

Comment 5 Pell City's comments state that it disagreed with the OIG listing two purchases for Ragland Housing Authority that were determined to be unallowable. Pell City believes both purchases are allowable under OMB guidelines (exhibit D) and the employee was authorized to use the credit card for future issues (exhibit E) under sections 26 and 43, the purchase should be allowable.

We do not agree with the statement that both purchases are allowable. The documentation provided during the audit did not satisfy the basic guideline requirements at 2 CFR 225 or 2 CFR 200.403 to determine the reasonableness or allowability of the costs based on Federal regulations. Pell City did not provide exhibits D and E with its comments. Pell City should work with HUD during the audit resolution process to ensure the recommendations are fully implemented.

Comment 6 Pell City's comments state that it has already provided all receipts, invoices, and documentations supporting each purchase as listed in exhibits F and H. There is nothing in the now removed 24 CFR Part 85 that requires Pell City Housing Authority and Ragland Housing Authority to have any more detailed documentation than what has already been presented.

We do not agree with the statement that Pell City and Ragland Housing Authorities have already provided all receipts, invoices, and documentations supporting each purchase, and that the documentation is sufficient. The documentation provided during the audit did not satisfy the basic guideline requirements at 2 CFR 225 and the regulations at 2 CFR 200.403 (a) and (g) to determine the reasonableness or allowability of the costs due to the lack of

adequate documentation, such as itemized receipts supporting the use of the funds. Regulations at 24 CFR Part 85 requires that accounting records are maintained to adequately identify the source and application of funds. Pell City did not provide exhibits F and H with its comments. Pell City should work with HUD during the audit resolution process to ensure the recommendations are fully implemented.

- Comment 7 Pell City's comments state that OIG listed three disbursements and nine purchases that were determined to not be supported by adequate documentation for Ragland Housing Authority exhibit H. As support for the disbursements, Ragland has attached supporting documentation as exhibit L. In addition, Ragland Housing Authority did not find any remarks in any of the references cited by OIG that require any additional or more detailed documentation. As such, it is Ragland Housing Authority's position that this disbursements is adequately supported.

The documentation provided during the audit did not satisfy the requirements to establish the proper use of funds. Pell City did not provide exhibits H and L with its comments to include in the report. Ragland should work with HUD during the audit resolution process to address the recommendations.

- Comment 8 Pell City's comments state that to the best of Ragland and Pell City's knowledge, it is not mandated that housing authorities have credit card policies. Pell City adopted a revised credit card policy on May 16, 2018 (exhibit O), and Ragland adopted the same policy on May 8, 2018 (exhibit P). In addition, on that same day, Ragland Housing Authority revised its check signing authorization policy to require any two signatures of persons listed on the bank authorization card (exhibit Q).

In the report, we acknowledged that Pell City Housing Authority implemented its credit card policy in 2015, but we also determined that Pell City did not follow its own policy and Ragland Housing Authority did not implement a credit card policy. OIG agrees that credit card policies are not mandated. However, OMB guidance at 2 CFR 225 makes several references to policy guidance for the proper application of its cost principles. Specifically, 2 CFR 225, Appendix A, Part C(1)(e),(f), and (j) states that costs must be consistent with policies, regulations, and procedures, be afforded consistent treatment, and adequately documented. Additionally, regulations at 2 CFR 200.403(a) and (g) state that allowable costs must be necessary, reasonable, and adequately documented. The lack of a credit card policy or the failure of its established policies and procedures to provide adequate documentation for costs, showed a failure to comply with OMB's cost principles.

We acknowledge Pell City and Ragland for recognizing the need to improve its credit card policy as recommended in the report. However, we did not review the revised policy because exhibits O, P, and Q were not provided with Pell City's comments. Therefore, we did not determine if the revised policy addressed our recommendations. Pell City and Ragland should make sure the policies are

provided to HUD and properly implemented to clear the recommendations during the audit resolution process.

- Comment 9 Pell City's comments state that OIG lists Worker 3 (\$60) as a laborer that was hired by Pell City Housing Authority. The \$60 check issued to Worker 3 was a security deposit refund, and request that Worker 3's name and corresponding payment be deleted from the list improperly paid hired workers.

We agreed and removed the reference to the \$60 paid for a security deposit refund from the costs in the report.

- Comment 10 Pell City's comments state that OIG specifically states that "the documentation provided failed to adequately support in detail the services provided by the workers, the location of the work performed, or the justification for payment." Pell City Housing Authority and Ragland Housing Authority find no requirement in Part 225 that requires the type of documentation as listed by OIG. Pell City Housing Authority and Ragland Housing Authority have provided the documentation in exhibits T - AA, and believe that it is sufficient to properly support the payment of each worker.

We do not agree with the statement. The documentation provided during the audit did not adequately support the use of the funds to satisfy the requirements to determine the necessity and reasonability of the workers as required by regulations at 2 CFR Part 225 and 2 CFR 200.403 (a). In addition, regulations at 24 CFR 960.206(e) required that the Authority select applicants in accordance with the method specified in its housing plans and have a clear audit trail that could be used to verify its compliance with its methodology. Pell City and Ragland Housing Authorities should work with HUD during the audit resolution process to address the recommendations. Pell City did not provide exhibits T-AA with its comments.

- Comment 11 Pell City's comments state that in regard to Board training Pell City Housing Authority and Ragland Housing Authority Commissioners have attended all training that could be afforded by the Housing Authorities. Pell City Housing Authority has one certified Commissioner and four (4) that will be attending certification classes at the convention this year. Ragland Housing Authority has one commissioner that has attended training and plans on being certified in the near future. Both Pell City Housing Authority and Ragland Housing Authority will provide documentation of such at OIG's request.

We acknowledge Pell City and Ragland Housing Authorities for its efforts to ensure its board of commissioners participate in future trainings. Pell City and Ragland should work with HUD during the audit resolution process to ensure the recommendation is fully implemented.

- Comment 12 Pell City's comments state that OIG has repeatedly failed to correctly report the Pell City Housing Authority's executive director's employment date. The current

Pell City Housing Authority executive director was hired as tenant coordinator July 5, 1994. She was promoted to Pell City Housing Authority Executive Director May 1, 1998 and was asked by Birmingham HUD to be director over Ragland Housing Authority on May 30, 2012 (exhibit BB). The current executive director's date of employment has never been March 2009 (as reported in OIG's draft). OIG was told during phone conversations with the executive director that the employment date was incorrect and OIG has failed to correct the date.

The documentation provided during the audit by Pell City did not adequately support the executive director's employment date. Therefore, we relied upon the executive director's employment contract as the source document for our audit report. We revised the report to clarify that the date shown in the report is the executive director's contract date, since we did not receive adequate documentation to support the original employment date. Pell City did not provide Exhibit BB with its comments.

Comment 13 Pell City's comments state that the current executive director's husband works as the maintenance supervisor and was hired on April 22, 1991. He was married to the current executive director at the time of his employment. He was also married to the current executive director at the time she was made executive director over Pell City Housing Authority and again, as Ragland Housing Authority. At the time that both employees were originally hired, the personnel policy adopted by the Pell City Housing Authority (exhibit CC) stated that nepotism was to be avoided if possible, but did not prohibit the hiring of two individuals from the same family. In 1998, when the current executive director was hired for her current role, the annual contribution contract made no requirement that a waiver be obtained (exhibit DD).

Based on the board minutes, it is apparent that the board of commissioners knew of the relationship between the executive director and the maintenance supervisor, sought out guidance regarding the relationship, and ultimately, approved of both working for the authority. Pell City Housing Authority believes that these minutes are a sufficient waiver. Pell City Housing Authority would also note that they have never been told of any official form for a waiver or a requirement of such. Pell City Housing Authority would and has provided the minutes from the April 24, 2007, meeting as a waiver of any conflicts of interest.

In addition, Pell City Housing Authority would note that the director of the HUD Birmingham Office referenced in the minutes was director from 1993-2003. Based on the above minutes, it is very clear that not only did the Birmingham HUD Office know of the relationship but that as director of HUD, he approved of the current executive director and her husband working for the same Housing Authority. Pell City Housing Authority believes this is sufficient to establish that the HUD Birmingham Office also waived the conflict of interest.

Lastly, Pell City Housing Authority would also note that when the current executive director became executive director of Ragland Housing Authority in

2012, it was at the request of the Birmingham HUD Office. There were multiple meetings and phone calls with the Birmingham HUD Office. Present at most, if not all, of the meetings was with the division's director, HUD Office Birmingham. At no point in any meeting was the executive director asked to provide a waiver regarding the employment of her husband.

We disagree with Pell City's statement because Pell City's Part A, Chapter 9 of the annual contribution contract with HUD prohibited the conflict-of-interest relationship and provided guidance for obtaining a waiver of the requirements by HUD or the Authority's board of commissioners. In addition, the State of Alabama Code further prohibits public employees from engaging in actions or inaction that would materially affect their financial interest or that of their family members. Pell City has not provided a written document showing that HUD approved a waiver exempting the Authority from conflict-of-interest provisions. Pell City did not provide exhibits CC and DD with its comments.

- Comment 14 Pell City's comments state that OIG only asked for the current waiting list and randomly selected tenant files. OIG did not ask to see the applicant files. Applicant files are kept by both Pell City Housing Authority and Ragland Housing Authority to document the applicant's process of becoming a tenant. If asked, both Ragland Housing Authority and Pell City Housing Authority would have provided the requested information.

During our review, we requested all documentation related to the sample of tenants reviewed for the waiting list and interviewed the property manager at both Pell City and Ragland Housing Authorities. The applicant files were never provided to support the waiting activity. Pell City and Ragland should work with HUD during the audit resolution process to confirm that its policies and procedures are sufficient to ensure that waiting list applicants are properly selected.

- Comment 15 Pell City's comments assert that OIG's findings are not accurate and request that OIG reconsider its findings based on the new documentation provided at the exit conference on June 26, 2018.

We based the results on the documentation provided by Pell City and Ragland. During the audit and the documentation provided at that time did not adequately support the costs, the conflict of interest waiver, or the waiting list applicants. Pell City and Ragland should work with HUD during the audit resolution process to ensure the recommendations are fully implemented.