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Audit Report Number 2011-AO-0001
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TO: Donald J. Lavoy, Acting Deputy Assistant Secretary for Field Operations, PQ  
Craig Clemmensen, Director of Departmental Enforcement Center, CACB

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Gulf Coast Region, 11  
AGA

SUBJECT: The Lafayette Parish Housing Authority, Lafayette, LA, Violated HUD  
Procurement Requirements and Executed Unreasonable and Unnecessary  
Contracts

## **HIGHLIGHTS**

### **What We Audited and Why**

In response to a congressional and U.S. Department of Housing and Urban Development (HUD) request to review allegations of corruption and mismanagement, we audited the Lafayette Parish Housing Authority's (Authority) operations of its (1) public housing program and (2) Disaster Housing Assistance Program (DHAP). Our objective was to determine whether the Authority operated in accordance with HUD's and other requirements. Specifically, we wanted to determine whether the Authority (1) complied with requirements in the procurement and monitoring of its contracts and (2) ensured that its contracts were reasonable and necessary.

### **What We Found**

The Authority neither properly administered its contracting activities, as it violated a number of HUD procurement requirements, nor ensured that its contracts were reasonable and necessary. The Authority also paid its contractors, including its DHAP contractors (1) outside of specified contract timeframes, (2)

in excess of specified contract amounts, and (3) excessive contract increases. These conditions occurred because the Authority did not have adequate controls, as it did not maintain (1) a procurement policy that was consistent with Federal regulations, (2) a contract administration system to ensure that its contractors performed according to contract terms, (3) a written code of standards of conduct governing the performance of its employees engaged in the award and administration of contracts, (4) a contract register, and (5) written contract monitoring policies and procedures, or have a contract monitor. In addition, the Authority did not perform cost or price analyses. Further, it did not (1) have adequately trained staff, adequate staffing levels or oversight, and was poorly managed. As a result, it could not provide reasonable assurance that more than \$2.9 million in disbursements from its operating and/or capital fund was spent properly; protected from fraud, waste, and abuse; or used to benefit program participants.

The Authority also did not always ensure that its contracts were reasonable and necessary. This condition occurred because the Authority did not perform cost or price analyses or ensure that its procedures provided for a review of proposed procurements to avoid the purchase of unnecessary or duplicative items as required. As a result, the Authority could not provide reasonable assurance that HUD funds were used (1) effectively and efficiently or (2) to benefit program participants. In addition, HUD funds may have been exposed to fraud, waste, and abuse.

## What We Recommend

We recommend that HUD's Deputy Assistant Secretary for Field Operations require the Authority to (1) support or repay from non-Federal funds the portion of the more than \$2.9 million in operating and/or capital funds that it cannot support; (2) modify its procurement policy to reflect applicable State and local laws and regulations and applicable Federal laws; (3) implement additional internal controls related to its procurement and monitoring activities including, maintaining a contract administration and written code of standards governing the performance of its employees; (4) ensure that its staff attend HUD-approved procurement training, which includes contract administration and oversight; (5) ensure that it maintains adequate levels of competent staff; (6) immediately cease payments to the DHAP accounting specialist working without an executed contract and support or repay any amounts that it cannot support from non-Federal funds for funds disbursed after the contract expired; and (7) remain under HUD receivership for at least a year or until it can demonstrate to HUD that its procurement and other practices consistently meet Federal requirements. After the HUD receivership is lifted and an Executive Director is hired, HUD should place the Authority on a zero dollar threshold, for at least a year or until it can demonstrate to HUD that its procurement and other practices consistently meet Federal requirements. In addition, we recommend that the Director of HUD's Departmental Enforcement

Center take appropriate administrative action, up to and including debarment, against the former deputy director.

We also recommend that HUD's Deputy Assistant Secretary for Field Operations require the Authority to (1) perform a cost or price analysis in connection with every procurement action and (2) review proposed procurements to avoid the purchase of unnecessary or duplicative items.

### **Auditee's Response**

We provided a copy of the draft report to HUD on May 10, 2011. We held an exit conference with HUD on May 19, 2011. We asked HUD to provide written comments to the draft report by May 25, 2011, and it provided written comments dated on that day. HUD then submitted a revised response dated June 2, 2011. HUD generally agreed with our audit results and recommendations. The complete text of HUD's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVE

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The Lafayette Parish Housing Authority (Authority) is a public corporation located at 115 Kattie Drive, Lafayette, LA. The Authority's mission is to provide (1) safe, decent, and affordable housing to low-income families and (2) self-sufficiency programs to promote education, health, home ownership, and social programs for residents of public housing and participants of the Section 8 program. The Authority manages six developments in the Lafayette area. Of the six developments, two are elderly and disabled developments, and four are family developments. The Authority manages 572 public housing units and more than 1,600 Section 8 vouchers. Under normal operations, the Authority is governed by a five-member board of commissioners, and an executive director is responsible for providing oversight and administrative supervision of the Authority's daily activities. However, amid allegations of corruption and mismanagement with extensive media coverage regarding its operations, the Authority's executive director, along with the deputy director, resigned in October of 2010.

In the absence of the executive director, the U.S. Department of Housing and Urban Development (HUD) placed the Authority on a zero dollar threshold<sup>1</sup> and managed the Authority with the intention of restoring it to an acceptable state without a HUD takeover. However, effective March 28, 2011, as a last resort, HUD placed the Authority under administrative receivership.<sup>2</sup> HUD's administrative receiver replaced the Authority's executive director to control the day-to-day operations of the Authority, and HUD's one-member board of commissioners replaced the Authority's board of commissioners to provide additional oversight. Our objective was to determine whether the Authority operated in accordance with HUD's and other requirements. Specifically, we wanted to determine whether the Authority (1) complied with requirements in the procurement and monitoring of its contracts and (2) ensured that its contracts were reasonable and necessary.

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<sup>1</sup> According to HUD, being on a zero dollar threshold required the Authority to submit all payment requests to HUD for prior approval.

<sup>2</sup> Administrative receivership is a process whereby HUD declares a public housing authority in substantial default of its annual contributions contract and takes control of the authority under the powers granted to the HUD Secretary under the Housing Act of 1937 as amended.

## RESULTS OF AUDIT

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### Finding 1: The Authority's Contract Procurement and Monitoring Activities Did Not Comply With Federal Regulations

The Authority did not procure or monitor its contracts in accordance with Federal regulations. Specifically, it did not maintain procurement records sufficient to detail the history of its procurement actions, including cost or price analyses. In cases in which there were no procurement records, the Authority could not support that its procurement transactions were conducted in a manner providing full and open competition. In addition, the Authority (1) disbursed funds to contractors without fully executed contracts; (2) executed contracts that did not contain all required provisions; (3) entered into a contract that created a conflict of interest; (4) paid contractors outside of specified contract timeframes; (5) paid contractors in excess of specified contract amounts; (6) appeared to obtain services using bid splitting, which is prohibited, to avoid the competitive procurement process; and (7) failed to ensure that contractors completed work in accordance with contract terms.

Further, under its Disaster Housing Assistance Program (DHAP), the Authority (1) did not include ceiling prices in its contracts as required; (2) paid contractors both before the contracts were executed and after the contracts expired; and (3) authorized unsubstantiated, excessive pay increases. Moreover, the former executive director's employment contract (1) contained unjustified pay increases, overlapping contract periods, a gap in the contract period, and terms which conflicted with another housing authority's contract and (2) was not properly terminated.

These conditions occurred because the Authority did not have adequate internal controls. Specifically, it did not maintain (1) a procurement policy consistent with Federal regulations, (2) an adequate contract administration system, (3) a written code of standards of conduct governing its employees engaged in the contract award and administration process, (4) a contract register, and (5) written contract monitoring policies and procedures or have a contract monitor. In addition, the Authority did not perform cost or price analyses. Further, it did not have adequately trained staff, adequate staffing levels or oversight, and was poorly managed. As a result, the Authority could not provide reasonable assurance that more than \$2.9 million was spent properly or used to benefit program participants.

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#### No Procurement Records and Unsigned Contracts

The Authority did not maintain procurement records sufficient to detail the history of its procurement actions, including documentation to support its rationale for the method of procurement selected, selection of contract type, contractor selection or rejection, and basis for the contract price as required by 24 CFR (Code of Federal Regulations) 85.36(b)(9). Between January 2007 and September 2010, the Authority made payments related to at least 48 contracts associated with 31

contractors<sup>1</sup> with disbursements totaling more than \$2.5 million. Of the \$2.5 million, \$1,568,245 was disbursed from the Authority's operating fund and \$973,126 was disbursed from the Authority's capital fund.<sup>2</sup> A review of the 48 contract files determined that none included sufficient procurement records to support the Authority's procurement activities. Specifically,

1. For three contract files with disbursements totaling \$67,983,<sup>3</sup> the Authority could not locate the contracts and related documentation;
2. For four contract files with disbursements totaling \$290,943,<sup>4</sup> the file did not include an actual contract but, rather, an invoice or contractor proposal; and
3. For the remaining 41 contract files with contracts and disbursements totaling more than \$2.18 million,<sup>5</sup> 30 did not have associated procurement records, and 11 had insufficient procurement records.<sup>6</sup>

In addition, 7 of the 41 contract files discussed in number 3 above contained contracts that were not properly executed, as the contracts did not include the signatures of the contractor and/or the Authority<sup>7</sup>.

### **Contracts Missing Required Provisions**

The Authority did not ensure that its contracts contained all provisions required by HUD. Of the 41 contract files discussed in number 3 above, none contained all applicable provisions required by 24 CFR 85.36(i). For instance, one contract that exceeded the small purchase threshold<sup>8</sup> did not contain the following sections required for contracts with contract amounts exceeding the small purchase threshold<sup>9</sup>:

1. Administrative, contractual, or legal remedies in instances in which contractors violate or breach contract terms;
2. Termination requirements for cause and for convenience, including the manner by which it will be effected and the basis for settlement; and

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<sup>1</sup> See appendix C.

<sup>2</sup> See totals in appendix D.

<sup>3</sup> See contracts 36, 39, and 41 in appendix D.

<sup>4</sup> See contracts 2, 3, 21, and 35 in appendix D.

<sup>5</sup> See contracts 1, 5 through 20, 22 through 34, 37, 38, 40, and 42 through 48 in appendix D.

<sup>6</sup> The contract files with insufficient procurement records included the contract and proposal submission only for the selected contractor in most instances. Other procurement records, such as solicitations and proposal or bid submissions for competing contractors, were not included.

<sup>7</sup> See contracts 18, 19, 22, 26, 29, 37 and 40.

<sup>8</sup> According to HUD, public housing authorities should establish a dollar threshold for individual small purchases that may not exceed the Federal small purchase threshold (currently \$100,000) or any lower dollar value set by the State or locality having jurisdiction over the housing authority. The State's threshold was set at \$25,000. Therefore, the Authority was required to comply with the State's small purchase threshold in the amount of \$25,000, as it was more stringent than the Federal requirement.

<sup>9</sup> See contract 44 in appendix D.

3. 3-year record retention requirements upon final payment and the closure of all other pending matters.

In another instance, a construction contract did not include provisions for compliance with (1) equal employment opportunity, (2) the Anti-Kickback Act, and (3) the Davis-Bacon Act as required<sup>10</sup>.

In addition, the Authority did not ensure that its time and materials contracts included ceiling prices. Of the 41 contract files reviewed with contracts discussed above, 13 were labor hour contracts. For these 13 contracts, the Authority did not include a ceiling price in the executed contracts as required by 24 CFR 85.36(b)(10).

### **Conflict of Interest and Duplicate Services**

The Authority created a conflict of interest and violated 24 CFR 85.36(b)(3) when it entered into a contract with the former deputy director while he was employed with the Authority. The former deputy director resigned in October 2010. Before his resignation, the Authority entered into a contract with the deputy director, effective December 1, 2008, to perform DHAP inspections. The deputy director was also responsible for overseeing the Authority's DHAP inspection process during the contract period. Under this contract, the Authority paid the former deputy director a total of \$535.<sup>11</sup> In addition to creating this conflict of interest, the Authority (1) began paying the former deputy director on January 15, 2008, more than 10 months before the effective date of this DHAP contract, and (2) did not sign the contract until March 1, 2010, more than 2 years after the Authority disbursed the initial payment.

Further, the Authority was paying another contractor to perform the same services. This contract had an effective date of February 17, 2007, but was not signed by the Authority. According to the Authority, it contracted with the former deputy director after it terminated the other contractor's contract due to health concerns. However, a review of the Authority's accounts payable data determined that the Authority made payments to both contractors under DHAP between January 15 and June 20, 2008.

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<sup>10</sup> See contract 25 in appendix D.

<sup>11</sup> See contract 34 in appendix D.

## Undue Contract Payments

The Authority made payments (1) outside of specified contract timeframes<sup>12</sup> and (2) in excess of fixed contract amounts.

### Payments Outside of Specified Contract Timeframes

Of the 48 contracts reviewed, the Authority required one contractor to provide consultative services as a contract controller/fee accountant at a rate of \$90 per hour. The contract was effective October 30, 2007, and the contract period covered fiscal years ending September 30, 2007, through September 30, 2010. However, the contractor continued to perform services for the Authority at least through February 2011, an additional 5 months after the September 30, 2010, contract expiration date. Although not included in our review, using the contracted hourly rate at 40 hours per week, we estimate that the Authority paid this contractor at least \$78,000 after the contract expired. According to the contractor, she and the Authority established an informal agreement to continue the contracted services until the Authority's board was able to review proposal submissions for a fee accountant. The contractor provided a copy of an e-mail, dated October 1, 2010, to the former executive director, requesting to continue the contracted services. However, neither the contractor nor the Authority provided documentation showing the Authority's agreement.

In another instance, the Authority executed two contracts with the same contractor to provide services related to the Authority's capital fund program. One contract was effective August 11, 2009, and the other was effective March 9, 2010. However, under both contracts, the Authority required the contractor to begin providing services before the contract execution date. Specifically, the Authority required the contractor to begin providing services on July 27 and October 1, 2009, respectively. In addition, between May and July 2009, the Authority paid this contractor at least \$6,000 before the August 11, 2009, execution date of the initial contract.

### Payments in Excess of Fixed Contract Amounts

Of the 31 contractors related to the 48 contracts reviewed, 7 contractors received payments in excess of the executed contract amounts with no contract amendments. As of September 30, 2010, the Authority overpaid these seven contractors more than \$350,000.<sup>13</sup> In one instance, 1 contractor had 11 contracts with executed contract amounts totaling \$76,354. However, the Authority paid this contractor at least \$229,231,<sup>14</sup> resulting in overpayments totaling \$152,877.

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<sup>12</sup> This includes payments that were made before contract execution and payments made after contract termination dates.

<sup>13</sup> See appendix E.

<sup>14</sup> See the third contractor in appendix E.

## Possible Bid Splitting

HUD Handbook 7460.8 Rev 2, Chapter 5, Section 5.3 prohibits bid splitting, which is the process of executing multiple small purchase contracts for similar services to permit the use of the small purchase procedures and avoid more stringent competitive procurement requirements. However, our review determined that the Authority may have engaged in bid splitting for 2 of its 31 contractors reviewed.

In one instance, within 1 year, the Authority executed at least 11 contracts with the same contractor,<sup>15</sup> of which 8 contracts involved storm damage and/or roof repair. Had the Authority executed one contract for these services, the total would have exceeded the small purchase threshold of \$25,000, and more stringent procurement requirements would have applied, including inviting sealed bids or requesting competitive proposals.

In the other instance, the Authority executed two contracts within 6 months for the same services with the same contractor.<sup>16</sup> The Authority executed these contracts on August 11, 2009, and March 9, 2010, with contract amounts of \$23,780 and \$24,950, respectively. These contract amounts were just slightly below the \$25,000 small purchase threshold.

The Authority's procurement policy did not reflect the applicable State and local laws and regulations and applicable Federal laws, including competition requirements as required by 24 CFR 85.36(b)(1) and (c)(1).

## Substandard or No Work Performed

Site visits related to 5 of the 48 contracts reviewed determined that

- In three instances, the contractor completed the work required by the contract specifications.
- In one instance, the contract required the contractor to install and/or repair handicap ramps. When asked, the Authority stated that it was not aware of any handicap ramp work completed by the contractor. However, the contractor submitted an invoice to the Authority totaling \$4,050 on the same date that the contract was effective. The Authority paid this

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<sup>15</sup> See contractor 4 in appendix C.

<sup>16</sup> See contractor 30 in appendix C.

contractor less than 3 weeks later. Therefore, the Authority may have paid this and other contractors for work that was not performed.

- In one instance, the Authority required the contractor to complete work such as installing handrails and placing signage and paint to identify accessible parking spaces on the exterior of the unit. However, our site visit determined that the contractor did not always ensure that the exterior of handicap units included handrails. As shown in exhibit A below, this area outside the unit at the Authority's Martin Luther King public housing site did not have handicap rails along the walkway. However, we noted that the parking lot outside of the unit contained handicap signage and parking striping.

**Exhibit A**



No handicap railings

The Authority did not maintain a contract administration system to ensure that its contractors performed in accordance with the terms, conditions, and specifications of its contracts or purchase orders as required by 24 CFR 85.36(b)(2).

**Internal Controls Not Adequate**

The Authority lacked several internal controls which would have aided it in the procurement and monitoring of its contracts. Specifically, the Authority's procurement policy did not adequately reflect applicable State and local laws and was not consistent with Federal regulations, including 24 CFR 85.36 and HUD Handbook 7460.8, as it

1. Did not include guidelines for selecting the appropriate procurement method or performing cost or price analyses as required by 24 CFR 85.36(d) and 24 CFR 85.36(f), respectively. These guidelines would have assisted the Authority in ensuring that it complied with Federal procurement regulations when procuring goods and services.

2. Did not detail procurement procedures related to records retention requirements outlined in 24 CFR 85.36(b)(1) and (b)(9). Because the Authority did not retain sufficient procurement records, it could not support that its procurement transactions were conducted in a manner providing full and open competition as required by 24 CFR 85.36(c)(1). In addition, without sufficient procurement records, the Authority could not support that it (1) made awards only to responsible contractors as required by 24 CFR (b)(8) and (2) ensured that selected contractors were not suspended, debarred, or otherwise ineligible as required by 24 CFR 941.205(d).
3. Did not reference contract provision requirements outlined in 24 CFR 85.36(i). Since the Authority's contracts did not include and/or meet all applicable provisions, it was unable to ensure that its contractors were aware of and complied with HUD requirements.

According to the Authority, it primarily used HUD Handbook 7460.8 as its procurement policy. However, HUD did not agree with this method and stated that the Authority should have only used the handbook as a guide and developed its own procurement policy to reflect applicable requirements.

In addition, the Authority did not maintain a

1. Contract administration system which ensured that its contractors performed in accordance with terms, conditions, and specifications of its contracts or purchase orders as required by 24 CFR 85.36(b)(2);
2. Written code of standards of conduct governing the performance of its employees engaged in the award and administration of contracts as required by 24 CFR 85.36(b)(3); and
3. Contract log or organized contract files. To conduct our review, we had to create a contract log using the Authority's accounts payable data, board meeting minutes, and other sources. Without the contract log, the Authority could not ensure that it avoided the purchase of unnecessary or duplicate items as required by 24 CFR 85.36(b)(4). As related to the contract files, in some instances, files were placed into boxes with no clear method of organization, as shown in exhibit B on the following page.

## Exhibit B



Not maintaining a contract log and organized files likely precluded the Authority from periodically reviewing its record of prior purchases, as well as future needs, to find patterns of procurement actions that could be performed more efficiently or economically, a general procurement planning requirement outlined in HUD's procurement handbook 7460.8.

Further, the Authority did not implement written contract monitoring policies and procedures, hire a contract monitor, ensure that its staff was adequately trained or maintain adequate staffing levels. According to former and current Authority staff, the majority of the Authority's staff did not receive any procurement training and the Authority's staffing levels were not sufficient, which precipitated the need for contracted services. We agreed that staffing levels were not sufficient, as a review of the organizational chart determined that all accounting positions were not filled. In addition, a review of the Authority's accounting procedures determined that the Authority lacked adequate segregation of duties related to its accounts payable function, as the same employee prepared checks, recorded general entries, and maintained custody of vouchers. Without the written procedures and adequately trained staff, the Authority could not ensure that contractors complied with and were paid according to the terms of the contracts.

### Review of Seven DHAP Contracts

During the review, we initially identified the 48 contracts discussed above. However, we later determined that the Authority had at least seven additional individual DHAP-related labor hour contracts that it had not provided. Upon request, the Authority provided those contracts, and we performed a limited review of the contracts, including the contract amounts and associated payments. The seven individual contracts included five for DHAP case managers, one for a DHAP intake specialist, and one for a DHAP accounting specialist. The limited review as related to the seven contracts determined that

1. None of the contracts included ceiling prices as required by 24 CFR 85.36(b)(10);
2. The DHAP accounting specialist and two of the DHAP case managers worked outside of the specified contract timeframes, both before the contract execution and after the contract expiration dates. As related to the DHAP accounting specialist, the contract term was from November 24, 2008, through July 31, 2010. However, as of March 14, 2011, the Authority stated that it continued to pay the contractor as a DHAP consultant without an executed contract. Assuming a 40-hour work week and using the contracted hourly pay rate in the amount of \$15.60, estimated payments made to this contractor after the contract expired on July 31, 2010, through the end of February 2011 would equal at least \$18,928<sup>17</sup>. In addition, a review of the Authority's accounts payable data determined that it paid one DHAP case manager \$41,339<sup>18</sup> between December 28, 2007, and November 30, 2008, and another \$37,994<sup>19</sup> between February 1 and November 30, 2008, to perform DHAP case management services without a contract in place; and
3. Each of the five case managers received unsubstantiated, excessive pay increases ranging from a 23 to 233 percent increase. As related to the pay increases, the Authority executed one to three contracts after the original contracts with all DHAP case managers for the purpose of increasing the rate of pay. A review determined that the pay increases ranged from 23 to 233 percent of the hourly rates under the initial contracts. However, the file did not include documentation, such as a cost or price analysis, to substantiate the excessive pay increases as required by 24 CFR 85.36(f). In addition, the scopes of work for the subsequent contracts did not require more work than required by the initial contracts. Payments made under the subsequent contracts totaled \$356,109.<sup>20</sup>

### **Review of the Former Executive Director's Employment Contract File**

In addition to the procurement and DHAP contracts review, we reviewed the employment contract file and associated disbursement data of the former executive director; he resigned in October 2010. The review determined that, due to the Authority's inadequate oversight and poor management, the former executive director

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<sup>17</sup> This amount is estimated and therefore, not included in questioned costs. See recommendation 11.

<sup>18</sup> See contract 2A under the DHAP review in appendix D.

<sup>19</sup> See contract 5A under the DHAP review in appendix D.

<sup>20</sup> See unsubstantiated contract increase totals relative to contracts 1A through 5A in appendix D.

1. Received unjustified pay increases. The Authority’s disbursement data showed that over approximately years, the former executive director’s hourly pay ranged from \$58 to \$89, a \$32 per hour increase. The contract allowed for an 8.5 percent increment increase in pay upon annual satisfactory evaluation and approval by the Authority’s board. However, the Authority did not have documentation to support the completion of performance evaluations for the executive director or the basis for the increases.
2. Had a gap and overlapping contract periods. As shown in the table below, the three contracts covered the following periods:

**Table 1**

Contract number	Contract effective dates
1	October 10, 2002, through October 10, 2007
2	August 7, 2008, through August 7, 2013
3	November 16, 2009, through November 16, 2014

As shown in table 1 above, from October 11, 2007, to August 6, 2008, the Authority did not have an executed employment contract with the former executive director. In addition, the employment contracts with effective dates of August 7, 2008, to August 7, 2013, and November 16, 2009, to November 16, 2014, overlapped. Further, although the contract specified that the contract period could be renewed with the consent of both the former executive director and the board, the file did not include documentation to support the need for change or renewal of the contract. Also, the contracts did not include a clause to state that subsequent contracts superseded previous contracts.

3. Had contract periods that conflicted with his contract with another housing authority, the Opelousas Housing Authority (Opelousas). Specifically, the employment file included copies of contracts between the former executive director and Opelousas for consultant/executive director services. A comparison of Authority and Opelousas contracts determined that the duties outlined under both were the same and/or closely related. In addition, the August 11, 2008, effective date for one of Opelousas’s contracts was within 3 days of the August 7, 2008, effective date for contract number two, shown in table 1 above. Therefore, the former executive director was performing the same duties for both housing authorities during the same period. Further, the Authority’s payroll data showed that the Authority paid the former executive director for 80-hour biweekly pay periods at both the Authority and Opelousas from January 7, 2007, through November 20, 2009.

In addition, the Authority did not ensure that the former executive director’s contract was properly terminated. According to the former executive director’s

contract terms, he could terminate the employment contract by providing the Authority with a minimum of 45 days written notice and delivering a “notice of termination,” specifying the nature, extent, and effective date of termination. However, the file did not include a letter or notice evidencing that the Authority properly terminated the contract. Upon request, the Authority later provided the former executive director’s resignation letter, which was unsigned, only included two sentences, and was dated the date of his resignation.

## **Conclusion**

Our review determined that the Authority, which is currently on a zero dollar threshold and under HUD’s receivership, did not properly administer its contracting activities as it violated a number of HUD procurement requirements. In addition, the Authority paid its contractors (1) outside of specified contract timeframes, (2) in excess of specified contract amounts, and (3) excessive contract increases.

These conditions occurred because the Authority did not maintain (1) a procurement policy that was consistent with Federal regulations, (2) a contract administration system to ensure that its contractors performed according to contract terms, (3) a written code of standards of conduct governing the performance of its employees engaged in the award and administration of contracts, (4) a contract register, (5) written contract monitoring policies and procedures or have a contract monitor. In addition, the Authority did not perform cost or price analyses. Further, it did not have adequately trained staff, adequate staffing levels or oversight, and was poorly managed. As a result, it could not provide reasonable assurance that more than \$2.9 million in HUD funds was spent properly; protected from fraud, waste and abuse; or used to benefit the program participants.

## Recommendations

We recommend that HUD's Deputy Assistant Secretary for Field Operations, require the Authority to

- 1A. Support or repay from non-Federal funds any amounts that it cannot support, including \$1,568,245 to its operating fund and \$973,126 to its capital fund paid for (1) contracts that were improperly procured, (2) contract overpayments, or (3) contract payments made outside of the contract effective dates.
- 1B. Modify its procurement policy to reflect applicable State and local laws and regulations and applicable Federal laws as required by 24 CFR 85.36(b)(1). In particular, the Authority should modify its procurement policy to include but not be limited to procedures for
  - Procurement method selection,
  - Appropriate contract type selection,
  - Conducting price reasonableness assessments,
  - Determining contractor selection and rejection,
  - Records retention,
  - Contract administration and monitoring,
  - Contract provision requirements, and
  - Executing time and material contracts.
- 1C. Maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of its contracts or purchase orders as required by 24 CFR 85.36(b)(2).
- 1D. Maintain a written code of standards of conduct governing the performance of its employees engaged in the award and administration of contracts as required by 24 CFR 85.36(b)(3).
- 1E. Maintain a contract register needed to periodically review its record of prior purchases, as well as future needs, to find patterns of procurement actions that could be performed more efficiently or economically as required by 24 CFR 85.36(b)(4).
- 1F. Implement a contract filing system that will allow easy storage and retrieval of contract-related documents.
- 1G. Ensure that its executive director and its contracting department employees attend HUD-approved procurement training, which includes contract administration and oversight.

- 1H. Ensure that it maintains adequate staffing levels and that staff possess the appropriate level of education and experience to perform the duties of each position.
- 1I. Immediately cease payments to the DHAP consultant (accounting specialist) working without an executed contract. In addition, the Authority should support or repay any amounts that it cannot support from non-Federal funds for funds disbursed after the July 31, 2010, contract expiration date.
- 1J. As related to DHAP, support or repay from non-Federal funds any amounts that it cannot support for a total of \$435,442 to its operating fund, which includes (1) \$140,966 and \$96,525 disbursed to two DHAP case managers who were paid without an executed contract and for unsubstantiated, excessive salary increases; and (2) \$197,951 disbursed to the three DHAP case managers for unsubstantiated, excessive salary increases.
- 1K. Remain under HUD receivership for at least a year or until it can demonstrate to HUD that its procurement and other practices consistently meet Federal requirements. After the HUD receivership is lifted and an Executive Director is hired, HUD should place the Authority on a zero dollar threshold, for at least a year or until it can demonstrate to HUD that its procurement and other practices consistently meet Federal requirements.

We also recommend that the Director of HUD's Departmental Enforcement Center

- 1L. Take appropriate administrative action, up to and including debarment, against the former deputy director.

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## Finding 2: The Authority's Contracts Were Not Always Reasonable and Necessary

The Authority did not always ensure that its contracts were reasonable and necessary. This condition occurred because the Authority did not perform cost or price analyses or ensure that its procedures provided for a review of proposed procurements to avoid the purchase of unnecessary or duplicative items as required. As a result, the Authority could not provide reasonable assurance that HUD funds were used (1) effectively and efficiently or (2) to benefit program participants. In addition, HUD funds may have been exposed to fraud, waste, and abuse.

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### Unreasonable and Unnecessary Contracts

The Authority executed unreasonable and unnecessary contracts. Specifically,

1. A review of 13 labor hour contracts,<sup>21</sup> determined that hourly rates appeared to be excessive in at least 3 instances. Specifically, the Authority executed one plumbing contract at a rate of \$85 per hour and two accounting contracts at a rate of \$90 per hour. The plumbing contract was effective February 4, 2009, and the accounting contracts were effective October 30, 2007, and September 1, 2009,<sup>22</sup> respectively.

In May 2008, the Bureau of Labor Statistics' Occupational Outlook Handbook, 2010-11 Edition, stated that the median wage rate for plumbers was approximately \$22 hourly and the median wage rate for accountants was approximately \$29 hourly, based on a 40-hour work week. The handbook also stated that the top 10 percent of plumbers earned more than \$38 hourly and the top 10 percent of accountants earned more than \$49 hourly, based on a 40-hour work week. Therefore, in May 2008, the Authority paid its contracted accountants approximately \$40 per hour more than the highest paid accountants. In addition, the Authority may have paid its contracted plumber unreasonable hourly rates. This condition occurred because the Authority did not perform cost or price analyses as required by 24 CFR 85.36(f).

2. During our procurement review of the 48 contracts discussed under finding 1, we identified at least 4 contracts that may have been unnecessary, as the services appeared to be duplicative. This condition occurred because the Authority did not ensure that its procedures provided

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<sup>21</sup> 13 of the 48 contracts discussed in finding 1

<sup>22</sup> This was the contract effective date; however, the Authority's accounts payable data indicated that this contractor received payments beginning January 10, 2007.

for a review of proposed procurement to avoid the purchase of unnecessary or duplicative items as required by 24 CFR 85.36(b)(4).

In one instance, the Authority executed three contracts related to security services, each of which covered the same contract timeframe of October 1, 2009, to September 30, 2010, and involved monitoring resident activities. Based on the contracts' vague scopes of work, we could not differentiate among the duties required of each contractor, indicating at least two unnecessary contracts. In another instance, the Authority executed two contracts for accounting services. The scope of work required the contracted accountants to provide services such as reconciliation of bank accounts, preparing budget analyses, processing the general ledger, and general accounting transactions. Authority staff could have performed these accounting services. HUD terminated the accounting contracts, effective March 18, 2011, further validating that these contracts were unnecessary.

## Conclusion

Because the Authority did not perform cost or price analyses or ensure that it avoided the purchase of unnecessary or duplicative items, it agreed to unnecessary and unreasonable contracts. As a result, the Authority could not provide reasonable assurance that HUD funds were used (1) effectively and efficiently or (2) to benefit program participants. In addition, HUD funds may have been exposed to fraud, waste, and abuse.

## Recommendations

We recommend that HUD's Deputy Assistant Secretary for Field Operations, require the Authority to

- 2A. Perform a cost or price analysis in connection with every procurement action, as required by 24 CFR 85.36(f), for future procurements.
- 2B. Review proposed procurements to avoid the purchase of unnecessary or duplicative items as required by 24 CFR 85.36(b)(4).

## SCOPE AND METHODOLOGY

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We conducted our audit at the Authority's office in Lafayette, LA, and the HUD Office of Inspector General (OIG) offices in New Orleans, LA, and Baton Rouge, LA, between October 2010 and April 2011.

To accomplish our audit objective, we

- Reviewed relevant laws, regulations, and HUD handbooks.
- Interviewed HUD, Authority, and Office of Louisiana Legislative Auditor staff.
- Reviewed the Authority's board meeting minutes.
- Reviewed the Authority's procurement policy and accounts payable procedures.
- Reviewed the Authority's audited financial statements.
- Reviewed HUD's monitoring reports.
- Reviewed the Authority's annual contributions contract and related amendments, the annual plan and the 5-year plan.
- Reviewed the Authority's procurement files.
- Reviewed and analyzed the Authority's disbursements as related to its contractors.
- Conducted site visits.

We completed a 100 percent review of the 48 contracts that we initially identified with disbursements totaling more than \$2.5 million. We evaluated the contract files to determine whether the contracts were procured and monitored in accordance with Federal regulations and were reasonable and necessary. Through file reviews, we determined that the disbursement data were generally reliable. In addition, we selected 5 of the 48 contracts based on contract status, date of completion, and the ability to verify the contractor's work. We selected construction and repair related contracts completed less than 3 years prior to our review. We performed the site visits to evaluate whether the contractors' work was completed in accordance with the contract terms.

We also performed a limited review of 7 DHAP contracts outside of the 48 contracts that we initially identified and reviewed. We evaluated the contract amounts and associated payments totaling \$579,877 to identify overpayments and assess reasonableness. Lastly, we evaluated the former executive director's employment contracts and associated payroll data to assess reasonableness. Through file reviews, we determined that the disbursement data were generally reliable. We did not assess the reliability of the payroll data as the data was not considered in calculating questioned costs.

Our audit scope covered January 1, 2007, through September 30, 2010. We expanded the scope as needed to accomplish our objective. 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Policies and procedures that were implemented to reasonably ensure that procurement activities were conducted in accordance with applicable laws and regulations and
- Policies and procedures that were implemented to reasonably ensure that HUD funds were effectively or efficiently spent or used to benefit program participants and were safeguarded from fraud, waste, and abuse.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

1. The Authority lacked adequate controls to ensure that procurement and monitoring activities were conducted in accordance with applicable laws and regulations (see finding 1).
2. The Authority lacked adequate controls to ensure that its contracts were reasonable and necessary (see finding 2).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Unsupported 1/
1A	\$2,541,371
1J	\$435,442
Total	\$2,976,813

- 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.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



Office of the Field Director

#### U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

New Orleans Field Office  
Hale Boggs Federal Building  
500 Poydras Street, 9<sup>th</sup> Floor  
New Orleans, LA 70130-3099  
www.hud.gov

JUN 2 2011

Nikita N. Irons  
Regional Inspector General for Audit  
Gulf Coast Region  
500 Poydras Street, Suite 1117  
New Orleans, LA 70130

Dear Ms. Irons:

SUBJECT: Audit Report Discussion Draft

**Comment 1**

The New Orleans Field Office has received the OIG audit report regarding the Lafayette Parish Housing Authority, Lafayette, LA, Violations of HUD Procurement Requirements and Execution of Unreasonable and Unnecessary Contracts. We concur with your recommendations to HUD's Deputy Assistant Secretary for Field Operations requiring the Lafayette Housing Authority to comply with items 1A through 1J and 1M as cited in the Discussion Draft Audit Report (DDAR). The Field Office also concurs with Findings 2A and 2B.

**Comment 1**

In reference to recommendation (1K) properly terminate the former executive director's contract; in our opinion the Executive Director submitted his resignation letter which terminated his contract. Therefore, no further action is deemed necessary.

**Comment 1**

In reference to recommendation (1L) remain on a zero dollar threshold; in our opinion the zero threshold should be lifted while the Lafayette Housing Authority is under HUD receivership but reinstated once HUD returns the agency to local control.

**Comment 1**

Finally, we concur with your recommendation that the Director of HUD's Departmental Enforcement Center take appropriate administrative action, up to and including debarment, against the agency's former executive and deputy directors.

Sincerely,

A handwritten signature in black ink, appearing to read "Cheryl J. Williams".

Cheryl J. Williams, Director  
Office of Public Housing

cc: Justin Ormsby  
Danberry Carmen  
Tracy Camey  
Dan Rodriquez

## **OIG Evaluation of Auditee Comments**

**Comment 1** We agree with HUD's assessment of the recommendations. As agreed at the exit conference, we removed recommendation 1K and revised recommendation 1L (which is now recommendation 1K). We also acknowledge HUD for taking actions to correct the deficiencies at the Authority.

## Appendix C

### AUTHORITY CONTRACTORS (JANUARY 2007 TO SEPTEMBER 2010)

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Number	Contractor	Number of contract files
1	A/C Sales	1
2	AK Affordable Pest Control	1
3	Allen, Green and Williamson	2
4	Anderson Iron Works	11
5	Assist Agency	2
6	Benny Prejean Service Company	1
7	Big Poppa's Fitness Gym	1
8	Brasseaux's Nursery	1
9	Chris Electric Service Company	1
10	Chris Trahan	1
11	Constellation Energy	1
12	Daryl Charles	1
13	E.L. Habetz	4
14	Firmin Architects LTD	1
15	Garnett Thomas	1
16	Jamie Sarver	1
17	Jessie Broussard	1
18	Johnny Hector	1
19	Jonathan Carmouche	1
20	Kingdom Alarms	1
21	Lafayette Reserves LLC	1
22	Lafayette Sheriff's Reserve	1
23	Mandi Mitchell	1
24	Marcus Bruno	1
25	Michael Washington	1
26	P J Home Improvement	1
27	Rachel Mouton	1
28	Russell Recotta	1
29	Sandra Potier	1
30	Smith and Associates	3
31	Tenmast	1
<b>Total</b>		<b>48</b>

## Appendix D

### CONTRACTOR DISBURSEMENT REVIEW RESULTS

<b>Procurement review</b>			
<b>Contract(s)</b>	<b>Contractor</b>	<b>Amount disbursed from operating fund</b>	<b>Amount disbursed from capital fund</b>
1	A/C Sales	\$16,215	
2	AK Affordable Pest Control	\$25,008	\$15,528
3 and 4	Allen, Green and Williamson	\$208,130	
5 through 15	Anderson Iron Works	\$60,862	\$168,369
16 and 17	Assist Agency	\$78,785	
18	Benny Prejean Service Company	\$15,568	
19	Big Poppa's Fitness Gym	\$4,965	\$24,999
20	Brasseaux's Nursery		\$8,334
21	Chris Electric Service Company	\$16,047	
22	Chris Trahan		\$69,450
23	Constellation Energy	\$58,834	
24	Daryl Charles	\$923	\$1,920
25 through 28	E.L. Habetz	\$146,664	\$337,089
29	Firmin Architects LTD		\$54,600
30	Garnett Thomas	\$18,791	\$11,329
31	Jamie Sarver	\$60	\$42,155
32	Jessie Broussard	\$2,500	
33	Johnny Hector	\$923	\$1,920
34	Jonathan Carmouche	\$535	
35	Kingdom Alarms	\$26,230	
36	Lafayette Reserves LLC		\$15,333
37	Lafayette Sheriff's Reserve		\$111,333
38	Mandi Mitchell	\$2,700	
39	Marcus Bruno		\$35,450
40	Michael Washington	\$8,700	
41	P J Home Improvement	\$17,200	
42	Rachel Mouton	\$2,240	
43	Russell Recotta	\$148,642	\$29,857
44	Sandra Potier	\$612,493	
45 through 47	Smith and Associates		\$45,460
48	Tenmast	\$95,230	
<b>Totals</b>		<b>\$1,568,245</b>	<b>\$973,126</b>

## Appendix D (cont'd)

### CONTRACTOR DISBURSEMENT REVIEW RESULTS

		<u>DHAP review</u>		
Contract	Contractor	Disbursed from operating fund		
		<i>Unsubstantiated contract increases</i>	<i>Unsubstantiated contract increases</i>	<i>Payments made outside of specified contract timeframes</i>
1A	Linda Jefferson	\$30,640		
2A <sup>23</sup>	Beatrice Wilson		\$55,186	\$41,339
3A	Charlie Essie	\$26,560		
4A	Chris Williams	\$140,751		
5A <sup>24</sup>	Myra Liz Parker		\$102,972	\$37,994
<b>Totals</b>		<b>\$197,951</b>	<b>\$158,158</b>	<b>\$79,333</b>

<sup>23</sup> Contract 2A - \$96,525 (\$55,186 + \$41,339) disbursed from operating fund.

<sup>24</sup> Contract 5A - \$140,966 (\$102,972 + \$37,944) disbursed from operating fund.

## Appendix E

### CONTRACTOR OVERPAYMENT REVIEW RESULTS<sup>25</sup>

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<b>Contractor</b>	<b>Total amount of contract(s)</b>	<b>Total amount disbursed</b>	<b>Total overpayment</b>
A/C Sales	\$12,285	\$16,215	\$3,930
Allen, Green and Williamson	\$194,750	\$208,130	\$13,380
Anderson Iron Works	\$76,354	\$229,231	\$152,877
Brasseaux's Nursery	\$6,375	\$8,334	\$1,959
E.L. Habetz	\$302,631	\$483,753	\$181,122
Jessie Broussard	\$2,000	\$2,500	\$500
Mandi Mitchell	\$2,550	\$2,700	\$150
<b>Totals</b>	<b>\$596,945</b>	<b>\$950,863</b>	<b>\$353,918<sup>26</sup></b>

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<sup>25</sup> We performed this analysis based on contracts provided by the Authority. However, because the Authority did not maintain a contract log or use a systematic approach to maintain its physical contracts, there is a possibility that all contracts were not provided by the Authority. If this is the case, there may be additional contracts applicable to the disbursement amounts referenced in the table.

<sup>26</sup> This table is for illustrative purposes only as this amount is included in the total questioned costs amount as reflected in the procurement review table totals in appendix D.