
AUDIT REPORT



HOUSING AUTHORITY OF THE CITY OF UVALDE SECTION 8 AND LOW RENT PROGRAMS

UVALDE, TEXAS

01-FW-203-1003

DECEMBER 18, 2000

OFFICE OF AUDIT, SOUTHWEST DISTRICT
FORT WORTH, TEXAS



Issue Date	December 18, 2000
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TO: Diana Armstrong
Director, Office of Public Housing, 6JPH

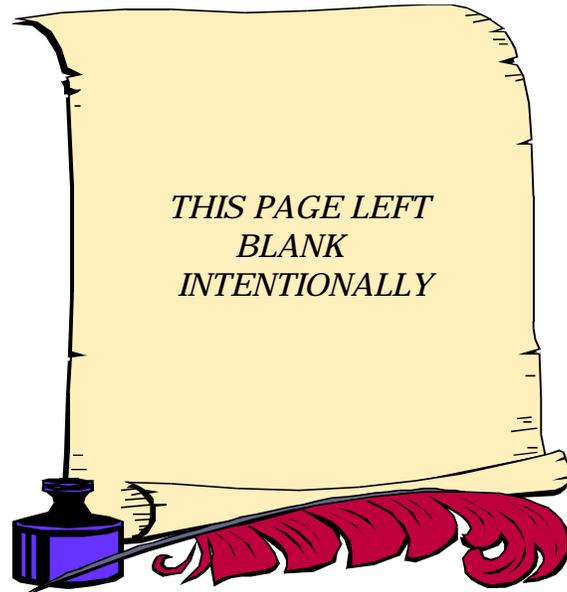
SIGNED
FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Section 8 and Low Rent Programs
Housing Authority of the City of Uvalde
Uvalde, Texas

As requested by your office, we conducted an audit of the Section 8 and Low Rent Programs of the Uvalde Housing Authority. Before the audit, your office had already identified significant Annual Contributions Contract violations and the severe financial condition of the Authority. Specifically, the Authority had over-requisitioned Section 8 funds and had incurred excessive administrative expenses over what they had earned. During this audit, we focused on the concerns you identified. This audit contains one finding.

Within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

If you have any questions, please contact Jerry Thompson, Assistant District Inspector General for Audit, at (817) 978-9309.



Executive Summary

We have completed an audit of the Housing Authority of Uvalde, Texas. The objectives of the audit were to: (1) identify the purposes for which the Authority used unearned Section 8 administrative fees; (2) determine whether the Authority complied with its Annual Contribution Contracts (ACC) in the use of certain Section 8 and Low Rent funds; (3) determine whether the Authority used its Low Rent or Comprehensive Improvement Assistance Program (CIAP) funds for other purposes; and (4) determine whether the Authority duplicated payments of certain travel or other administrative expenses in the Section 8 or Low Rent Programs that may have been paid by the Authority's affiliate, the Uvalde Housing Development Corporation. We found the Authority violated provisions of the ACCs by spending unearned Section 8 funds and Low Rent funds for other purposes.

The former Executive Director spent \$563,702 in HUD funds on questionable costs.

The former Executive Director ignored HUD's instructions and violated HUD requirements by using \$563,702 in HUD Program funds to pay for excessive and questionable expenses. The Authority incurred \$375,552 in excessive administrative costs in the Section 8 Program and \$188,150 in questionable costs in the Low Rent Program. The excessive or questionable costs are: (1) \$188,284 used to undertake various projects not related to the operation of these programs, including the construction of an affiliate's apartment complex; (2) \$85,012 paid in excessive salaries; (3) \$167,960 in Low Rent funds transferred to Section 8; (4) \$38,023 in unsupported costs; and (5) \$84,423 in additional administrative expenses in excess of the amount earned.

The former Executive Director had an objective to develop properties not related to the Section 8 and Low Rent Programs. To do this, he manipulated the Section 8 requisition process. The former Executive Director was also the Secretary/Treasurer of the affiliate from which he arranged to receive a rent-free apartment. Therefore, a conflict of interest appears to be evident. However, the former Executive Director of the Authority, acting as the Executive Director of the Authority and the Secretary/Treasurer of the affiliate, severed the affiliate from the Authority in 1999. As a result, the Authority is currently in a severe financial condition. The Authority has reimbursed \$224,194 to the Section 8 and Low Rent Programs, but the Authority still owes HUD \$262,925 in unearned Section 8 funds and \$76,583 to the Low Rent

Program for the excessive administrative expenses and questionable costs.

We are making recommendations for corrective actions, including a recommendation for HUD to consider taking administrative sanctions against the former Executive Director.

We did not find duplicated payments for administrative or travel costs

We also looked for duplicative payments from the Section 8, Low Rent, HOME, and CIAPs that the Authority's affiliate may have paid. Our review did not disclose such duplicative payments.

We provided a copy of this report to the interim Executive Director of the City of Uvalde Housing Authority on September 26, 2000, and they issued their response on October 13, 2000. We had an exit conference with current Authority Officials on October 19, 2000. We also requested a response to our preliminary findings from the former Executive Director, which we received on December 22, 1999, while he was still employed by the Authority. The responses generally agreed that the Authority used HUD program funds for other purposes. The former Executive Director attributed the Authority's severe financial condition to an embezzlement that occurred prior to his employment. The Authority's current management said they are taking action to improve the efficiency of the operations and to collect the funds owed to HUD programs. The complete responses are contained in Appendix B.

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Abbreviations

ACC	Annual Contributions Contract
CIAP	Comprehensive Improvement Assistance Program
CFR	Code of Federal Regulations
HOME	HOME Investment Partnerships Program
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
TDHCA	Texas Department of Housing and Community Affairs
UHDC	Uvalde Housing Development Corporation

Introduction

Background.

The City of Uvalde established the Housing Authority of Uvalde, Texas, in 1971. From 1971 through 1999 the mayor appointed a five-member Board of Commissioners to govern the Authority. Because of changes to the state law in 2000, the mayor now appoints 11 members to the Board. The Board hires an Executive Director to manage the Authority's day-to-day operations. The Board appointed Virginia Limon as interim Executive Director on February 14, 2000. The Authority has 48 Low Rent units occupied and 193 Section 8 units leased. The Authority keeps its records at its office, 1700 Garner Field Road, Uvalde, Texas.

The Authority hired the former Executive Director on February 22, 1993, and fired him by unanimous vote on February 10, 2000. Board minutes state various reasons for his termination. The most significant reasons stated are for "mismanagement" and "non compliance with the HUD Annual Contribution Contracts" during his tenure.

During Fiscal Years 1993 through 1999, HUD provided \$4,104,804 to provide assistance under the Authority's Section 8 Programs and \$290,894 in subsidy to the Low Rent Program. HUD also provided \$861,309 in CIAP grant funds to improve the Low Rent units.

In June 1994, the Authority created the Uvalde Housing Development Corporation (UHDC) to operate exclusively for the benefit of the Authority and to act as an instrumentality of the Authority. The UHDC's mission is to provide decent and affordable housing for lower income residents in Uvalde. The Board of Directors of UHDC, at any point in time, would be the serving Board of Commissioners of the Authority. The former Executive Director was the Secretary-Treasurer of UHDC in 1994.

In November 1997, the Texas Department of Housing and Community Affairs (TDHCA) awarded the Authority \$208,000 in HUD HOME funds. Under the HOME Buyer's Assistance Program, the Authority is to provide, 40 qualifying homebuyers, up to \$5,000 in assistance to purchase a home. In September 1997, TDHCA approved a \$200,000 HOME loan to the Granada Apartments, Ltd. for the construction of 100 apartments in Uvalde, Texas. The

Authority was the original limited partner and the UHDC is still the general partner of the Granada Apartments, Ltd.

Audit Objectives.

The objectives of the audit were to: (1) identify the purposes for which the Authority used unearned Section 8 administrative fees; (2) determine whether the Authority complied with its Annual Contribution Contracts in the use of certain Section 8 and Low Rent funds; (3) determine whether the Authority used its Low Rent or Comprehensive Improvement Assistance Program funds for other purposes; and (4) determine whether the Authority duplicated payments of certain travel or other administrative expenses in the Section 8, Low Rent, CIAP, or HOME Programs that may have been paid by the Authority's affiliate, the Uvalde Housing Development Corporation.

Scope and Methodology.

To accomplish the audit objectives, we:

- Reviewed the Audit Request and Supporting Documentation.
- Reviewed the HUD approved reports and Independent Public Accountant Audit Reports submitted by the Authority for Fiscal Years ending June 30, 1993, through June 30, 1999, for the Low Rent and Section 8 Programs.
- Interviewed HUD Program Staff; Authority Staff, Fee Accountants, Granada Apartments' Manager, UHDC Board Members and Officers, TDHCA Staff, and current and past serving Board members of the Authority.
- Reviewed the Section 8 Annual Contributions Contract and Public and Indian Housing (PIH) Notices to identify the requirements for the: (1) estimates and requisitions and (2) maintenance and use of the Administrative Fee Reserves for housing purposes.
- Reviewed the Low Rent Annual Contributions Contract to identify the requirements and definitions for: (1) operating receipts; (2) operating expenditures; and (3) projects.
- Reviewed the Code of Federal Regulations (CFR) and OMB Circular A-87, Cost Principles to identify the requirements: (1) costs eligibility and (2) cost allocation.
- Reviewed HUD and Authority correspondence files.

- Reviewed Authority Board minutes, personnel and general policies, bank statements, canceled checks, check vouchers and other supporting documents from July 1, 1993, through April 2000.
- Reviewed the UHDC: board minutes, bank statements, canceled checks, check vouchers, contracts, and other supporting documents from September 1994 through January 2000.¹
- Reviewed the documents provided by the Authority's General Counsel and Fee Accountant.
- Reviewed the HOME grant and loan applications and contracts to identify the program requirements.
- Interviewed the developer and the general contractor of the Granada Apartments.
- Reviewed the Authority's bank statements, canceled checks, check vouchers for the HOME Buyers Assistance Program account from January 1998 through April 2000.
- Review the Granada Apartments' Ltd., the Project Developer's and the Project General Contractor's: bank statements, canceled checks, invoices, contracts, and other supporting documents for the HOME Construction Loan from January 1998 through April 1999.

Audit Period and Sites.

We conducted the audit from November 1999 through August 2000 in accordance with generally accepted government auditing standards. The audit covered the Authority's operations from July 1, 1992, through April 30, 2000.

¹ Various bank statements and canceled checks were missing for the period reviewed. The former Executive Director is the Secretary/Treasurer of the UHDC and the custodian of records. He stated that the missing bank statements and canceled checks were lost.



The Former Executive Director Ignored HUD's Instructions and Spent \$563,702 in Excessive and Questionable Costs

The former Executive Director ignored HUD's instructions and used \$563,702 in HUD Program funds to pay for excessive administrative expenses and questionable costs not directly related to the HUD Programs. He violated provisions of the Annual Contribution Contracts by spending Section 8 funds requisitioned from HUD but not earned and Low Rent funds for non-Low Rent purposes. He manipulated the requisitioning process of the Section 8 Programs. From July 1992 through November 1999, the Authority incurred \$375,552 in excessive administrative expenses in the Section 8 Programs² and \$188,150 in questionable expenses in the Low Rent Program. The excessive or questionable costs are: (1) \$188,284 used to undertake various projects not related to the operation of these programs, including the construction of an affiliate's apartment complex; (2) \$85,012 paid in excessive salaries; (3) \$167,960 in Low Rent funds transferred to Section 8; (4) \$38,023 in unsupported costs; and (5) \$84,423 in additional administrative expenses in excess of the amount earned. The former Executive Director had an objective to develop properties not related to the Section 8 and Low Rent Programs. Also, because the former Executive Director arranged to receive a rent-free apartment from the affiliate, a conflict of interest appears to be evident. As a result, the Authority is currently in a severe financial condition. The Authority has reimbursed \$224,194 to the Section 8 and Low Rent Programs, but the Authority still owes HUD \$262,925 in unearned Section 8 funds and \$76,583 to the Low Rent Program for the excessive administrative expenses and questionable costs.

Requirements.

The Low Rent Annual Contribution Contract (ACC) between HUD and the Authority incorporates by reference the regulations for Public and Indian Housing Authorities contained in Title 24 of the Code of Federal Regulations (CFR). Title 24 of the CFR, part 85, establishes the uniform administrative rules for federal grants and cooperative agreements and sub-awards to State, local and Indian tribal governments. This part also establishes OMB Circular A-87³ as the cost principles for housing authorities to follow when determining allowable costs to federal programs.

² Section 8 Programs refers to the Section 8 Voucher and Section 8 Certificate Programs of the Authority.

³ Cost Principles for State and Local Governments.

Section 11 of the Section 8 ACC provides the requirements for the use of program receipts. The Authority:

- Must use program receipts only to pay program expenditures; and
- Must not make any program expenditures, except in accordance with the HUD-approved budget estimate and supporting data for a program.

Section 12 of the Section 8 Programs' ACC provides the requirements of the establishment and use of the administrative fee reserve. The Authority:

- Must maintain an administrative fee reserve for a program. The Authority must credit to the administrative fee reserve the total of the amount by which program administrative fees paid by HUD for a fiscal year exceed the Authority's administrative expenses and
- Must use funds in the administrative fee reserve to pay administrative expenses in excess of program receipts. If any funds remain in the administrative fee reserve, the Authority may use the administrative reserve funds for other housing purposes.

Section 2 of the Low Rent Program ACC provides the definition of terms. The following definitions are relevant to this audit:

- "Act" means the United States Housing Act of 1937, as amended.
- "Operating Receipts" shall mean all rents, revenues, income, and receipts accruing from, out of, or in connection with the ownership or operation of such project.
- "Operating Expenditures" shall mean all costs incurred by the Authority for administration, maintenance, and other costs and charges that are necessary for the operation of the project.

- “Project” means public and Indian housing developed, acquired, or assisted by HUD under the Act, other than Section 8 of the Act, and the improvement of such housing.

Section 11 of the Low Rent Program’s ACC states the Authority shall not incur any operating expenditures except pursuant to an approved operating budget.

Regarding conflicts of interest, the Low Rent Program ACC, Part A, Section 19, Subsection (A)(1), provides that neither the Authority nor any of its contractors or their subcontractors may enter into any contract, subcontract, or arrangement in connection with a project under this ACC, in which any employee of the Authority who formulates policy or who influences decisions with respect to the projects(s), has interest, direct or indirect, during his tenure or for one year there after.

OMB Circular A-87, Attachment A, Part C, Basic Guidelines, requires costs to be necessary, reasonable, and adequately documented for proper and efficient performance and administration of federal awards. The Circular also provides that costs are allocable to a particular cost objective if the goods or services involved are chargeable to such cost objectives according to the relative benefits received. In addition, any cost allocable to a particular award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons.

Every year the Authority requisitions Section 8 funds from HUD to make housing assistance payments, cover audit costs, hard to house fees, and their Administrative Fee Earned.⁴ HUD requires the requisitions to be based on reasonable estimates of units authorized and leased. At the end of each fiscal year the Authority submits a yearend settlement statement showing the actual amount of annual HUD contributions earned. At this time, HUD adjusts the amount paid during the year to the actual amount the Authority earned. If the Authority has requisitioned too much, funds are due HUD, and if not enough, funds are due

⁴ The Administrative Fee is published yearly in the Federal Register. The fee rate is multiplied by the number of actual units leased to determine the total of the Administrative Fees Earned for the fiscal year.

the Authority. The Authority earns an Administrative Fee for administering the Section 8 Program based on the number of units leased monthly. HUD pays the administrative fee to cover the administrative costs. It's the Authority's responsibility to operate within the limits of the administrative fee earned and to put into reserve any amounts earned in excess of its administrative costs.

Beginning January 1, 1995, HUD Notice PIH 94-64 required housing authorities to review, no later than 90 days into the fiscal year, their estimate of Section 8 annual contributions required. HUD requires housing authorities to revise their estimates if it appears that they will receive 5 percent more in total annual contributions than required.

The Authority owes HUD \$262,925 of Section 8 funds it spent but had not earned.

As of January 31, 2000, the Authority had spent \$262,925⁵ of unearned Section 8 funds. From July 1992 through January 2000, the Authority requisitioned \$944,632 more than it earned for its Administrative Fee and program costs. HUD was only able to offset \$681,707 of the over-requisitioned amount because at various times when the authority had submitted yearend settlement statements, the Authority had already spent all it had over-requisitioned on other projects or on excessive administrative expenses. The table below shows the over-requisitioned amounts, the funds offset by HUD and the amounts due at the time of settlement for each fiscal year.

Fiscal Year End	Section 8 Funds Required	HUD Scheduled Payments	Amount Over-Requisitioned	Funds Offset by HUD	Current Amount Due HUD
06/30/1993	\$ 628,940	\$ 698,877	\$ -69,937	\$ 69,937	\$ 0
06/30/1994	596,765	617,492	-20,727	-16,944	37,671
06/30/1995	588,432	607,841	-19,409	0	19,409
06/30/1996	516,260	710,649	-194,389	37,669	156,720
06/30/1997	517,037	710,649	-193,612	177,660	15,952
06/30/1998	485,690	710,290	-224,600	107,004	117,596
06/30/1999	452,793	596,810	-144,017	172,479	-28,462
01/31/2000	323,076	401,017	-77,941	133,902	-55,961
Totals	\$4,108,993	\$5,053,625	(\$944,632)	\$681,707	\$262,925

⁵ This figure is correct through 1/31/2000. The Authority has not submitted the Year End Settlement Statements for 6/30/2000 which were due to the FMC on August 15, 2000. The FMC still has to process and approve the statements to determine the final amount "Due HUD" through the date of this report.

The former Executive Director over-requisitioned Section 8 funds, ignored HUD's instructions, and spent \$188,284 on housing projects in violation of contract provisions.

The former Executive Director used \$188,284 in Section 8 and Low Rent funds on various other housing related projects. He spent \$181,176 in unearned Section 8 funds and \$7,108 in Low Rent funds for these other projects. Although, the Section 8 ACC allows any funds remaining in the administrative fee reserve to be used for other housing purposes, the Authority had no administrative fee reserve or the Authority owed HUD the amounts it over-requisitioned. HUD's Low Rent contract provisions and applicable cost principles require the Authority to use Low Rent funds on costs that are necessary for the operation of the Low Rent project. The Authority's use of \$7,108 in Low Rent funds did not benefit the Low Rent project. The former Executive Director ignored HUD's instructions and continued to approve and use the Section 8 and Low Rent funds for those other projects.

The former Executive Director undertook these housing projects with Board approval. He used Section 8 and Low Rent funds to obtain Low Income Housing Tax Credits for the Granada Apartments, Ltd. This project, as mentioned earlier, is owned by the UHDC. He tried to obtain HUD HOME funds from the TDHCA. Also, he attempted to obtain funds from Rural Development, formerly Farmer's Home Administration under the United States Department of Agriculture (USDA). However, his primary goal was to build the Granada Apartments using Tax Credits and HUD HOME funds from the State. The table below shows the amount of Section 8 and Low Rent funds used for the UHDC and other housing projects.

Housing Projects	Section 8	Low Rent	Totals
UHDC Expenses	\$137,376	\$2,785	\$140,161
UHDC Salaries	19,692	4,323	24,015
Subtotal UHDC	\$157,068	\$7,108	\$164,176
Other Housing Projects	24,108		24,108
Totals	\$181,176	\$7,108	\$188,284

Of the \$188,284 used for other housing projects, the Authority used \$164,176 to fund UHDC and the Granada Apartments. Of this \$164,176, the Authority used \$140,161 of the funds for travel, legal fees, land, consulting fees, application fees, training, and seminar costs. The Authority used \$24,015 in salaries for the benefit of UHDC. The former Executive Director traveled 141 days

on UHDC business. For calendar years 1994 through 1999, the Low Rent Program paid for 23 days of travel and the Section 8 Program paid for 81 days of travel. UHDC paid for his travel covering a period of 37 days. Although UHDC paid his travel costs, the Authority paid his salary during those 37 days. His salary is paid with Low Rent and Section 8 funds. The Low Rent and Section 8 Programs did not benefit from his travel for UHDC.

As of November 30, 1999, the UHDC had reimbursed the Authority \$115,033 for the costs the Authority incurred. The Authority applied \$112,627 to the Section 8 Programs and \$2,406 to the Low rent Program, leaving the Corporation still owing \$44,441 to the Section 8 Program as part of the \$262,925 owed HUD and \$4,702 to the Low Rent Program. Therefore, the Authority needs to collect an additional \$49,143 from the UHDC and repay the HUD Programs in this amount.

The Authority also used \$24,108 of unearned Section 8 money on other housing projects besides the Granada Apartments. Most of these expenses were for travel to attend training seminars or workshops related to and to apply for Farm Labor, USDA, and TDHCA HOME housing programs. We are recommending the Authority repay the \$24,108 to HUD from nonfederal funds as part of the \$262,925 it over-requisitioned from HUD.

The Granada Apartments provided a rent-free apartment to the Director.

From October 1998 through February 2000, the Granada Apartments provided a "rent free" apartment to the former Executive Director. He lived in a three-bedroom apartment from October 1998 through September 1999 when the average rent charged was \$440. He later moved to a two-bedroom apartment from October 1999 through February 2000 when the average rent charged was \$395. The Granada Apartments also provided UHDC a "rent-free" and "utility-free" office. The former Executive Director uses this office for UHDC business. This situation appears to be a direct conflict of interest for the former Executive Director.

The Authority paid \$85,012 in excessive salaries with Section 8 funds.

One of the reasons the Authority had no funds to repay the amount of Section 8 funds over-requisitioned from HUD was that the Authority used \$85,012 in unearned Section 8 funds to pay excessive salaries from 1995 through 1999.

The Authority exceeded the HUD approved salaries from 1995 through 1997. Several times, HUD specifically modified the approved budgeted salaries to reflect the salary comparability information and the financial condition of the Authority. HUD did not require approval and did not approve the operating budgets for 1998 and 1999 because the Authority had passed the Public Housing Management and Performance financial indicators. We estimated the excessive salaries using the highest salaries HUD had previously approved. The excessive salaries are allocated between the Low Rent and Section 8 Programs.

Calendar Year	HUD Approved Salaries for Authority Employees	Salaries Paid by Authority Per W2 Forms	Excessive Salaries Paid by Authority	Excessive Salaries Chargeable to Section 8
1995	\$ 95,490	\$ 96,588	\$ 1,098	\$ 900
1996	76,775	99,834	23,059	18,908
1997	97,490	109,496	12,006	9,845
1998	97,490	136,349	38,859	31,865
1999	97,490	126,141	28,651	23,494
Totals	\$464,735	\$568,408	\$103,673	\$85,012

The former Executive Director ignored HUD's instructions and paid the excessive salaries anyway. Consequently, the Authority paid \$85,012 in excessive salaries with unearned Section 8 funds when they did not have any Administrative Fee Reserves to cover these costs. We are recommending the Authority repay the \$85,012 to HUD from nonfederal funds as part of the \$262,925 in unearned funds the Authority still owes HUD.

The Authority records lack adequate support for \$38,023 in administrative expenses.

The Authority used \$38,023 program funds on unsupported expenditures. The Authority spent \$24,941 in unearned Section 8 funds and \$13,082 of Low Rent funds on these expenditures. The Authority records did not contain adequate supportive documentation to show that these costs were eligible or necessary for the operation of the Section 8 and Low Rent Programs. For example, we found instances where payments had: no invoices, no purpose stated on the check voucher, no names of the individual traveling on the check voucher, and no supporting documents for the amount of the check. OMB Circular A-87 says that all costs must be necessary, reasonable, and adequately documented for proper and efficient performance and

administration of federal awards. Since the Authority could not provide adequate support for these costs, we are recommending the Authority repay the \$13,082 to the Low Rent Program from nonfederal funds. The Authority needs to repay HUD \$24,941 as part of the \$262,925 in unearned Section 8 funds they spent on these unsupported costs from nonfederal funds.

The Authority paid \$84,423 for operating costs with funds they had not earned.

The Authority spent \$84,423 in unearned Section 8 funds on other miscellaneous administrative expenses in the Section 8 Programs. These expenses represent the amount of administrative expenses incurred and paid with money they over-requisitioned and spent during the period. The \$84,423 does not include costs identified for the various housing related projects, excessive salaries, and unsupported costs. These administrative expenses would be considered program operating costs and could have been paid with Section 8 Administrative Fees Earned if the Authority had any. We are recommending the Authority repay HUD the \$84,423 from nonfederal funds as part of the \$262,925 in unearned Section 8 funds they spent on these miscellaneous administrative expenses.

The Authority transferred \$167,960 in Low Rent funds to cover Section 8 shortfalls.

The former Executive Director authorized and approved the transfer of \$167,960 of Low Rent funds to the Section 8 Programs during the period beginning July 1993 through February 2000. The Low Rent funds covered the shortfalls in the Section 8 Program. According to the interim Executive Director, they needed the funds to make housing assistance payments. The Authority has reimbursed the Low Rent Program \$109,161 from Section 8 funds and currently owes the Low Rent Program \$58,799. OMB Circular A-87 says funds from one federal award cannot cover fund deficiencies in other federal awards. Also, the Low Rent ACC definition of a "project" specifically excludes any project under Section 8 of the Act. We are recommending the Authority repay the Low Rent Program \$58,799 from nonfederal funds.

HUD could not offset the entire amount because the Authority had spent the money.

HUD staff responsible for processing Section 8 yearend settlement statements said HUD could not offset the entire over-requisitioned amount for several reasons including a HUD system conversion that occurred during 1995 and 1996. HUD did not process the offset for the over-

requisitioned amount for Fiscal Year 1994 until during the fiscal year ended June 30, 1996. By the time HUD processed and approved the Year End Settlement Statements, HUD could not offset the entire amount that was over-requisitioned. The main reason they could not offset the entire amount due for each fiscal year was because the Authority had already spent the over-requisitioned funds. If HUD had offset the entire amounts, the Authority would not have had enough money in the bank to pay Section 8 landlords the remaining housing assistance payments during each fiscal year.

The Fee Accountant and HUD increased Section 8 requisitions with information provided by the former Executive Director.

The Fee Accountant that prepared the 1993 through 1997 Section 8 estimates and requisitions said that the former Executive Director said several times that the Authority would be fully leased up in the next fiscal year. The former Executive Director said the Authority was getting Low Income Housing Tax Credits. He said the tax credits would allow UHDC to construct the Granada Apartments and this would increase the housing stock in Uvalde for Section 8 applicants. The fee accountant, relying on the statements by the former Executive Director, estimated more leased units than necessary during 1993 through 1997.

On one occasion, the former Executive Director did not agree with the Fee Accountant's 1999 estimate and requisition. The former Executive Director contacted a HUD Financial Management Specialist and told her that the Fee Accountant's estimate was too low. He said the Authority would be fully leased up by October 1998 because the Granada Apartments would be in operation. The HUD Financial Management Specialist, also relied on his statements and revised and increased the 1999 fiscal year estimate and requisition. However, the completion of the Granada Apartments did not increase the number of units leased in the HUD Section 8 Programs. The Authority had leased 170 Section 8 units as of June 30, 1998, and only leased 158 units by June 30, 1999, including 33 units at the Granada Apartments. The Authority actually leased 12 less units than the prior fiscal year.

The former Executive Director did not inform Commissioners of HUD requirements.

We interviewed various Authority Commissioners that served from 1993 through 1999. The Commissioners acknowledged that they approved the housing related projects, including the Granada Apartments, initiated by the

former Executive Director. They also recall positive reports and comments from HUD saying that the Authority went from a “Troubled” agency to a “High Performer”⁶ during the tenure of the former Executive Director. The former Executive Director told the Commissioners that they could use Section 8 funds for those housing projects. However, the Commissioners said that the former Executive Director did not fully inform the Board about the problems with:

- Over-requisitioning Section 8 funds;
- Spending more than administrative fees earned;
- Negative Section 8 Administrative Fee Reserves;
- Spending Section 8 funds for “housing related purposes” when the Authority had no Administrative Fee Reserves, violating the ACC requirements; and
- Spending Low Rent funds on non Low Rent housing projects violating the ACC requirements.

They believe the former Executive Director should have informed them of the serious financial condition of the Authority and the ACC violations. Commissioners also said they would have followed HUD’s instructions and not undertaken the housing projects if he had adequately informed them.

The former Executive Director severed the Uvalde Housing Development Corporation from the Authority.

Collecting the \$49,143 due from the UHDC may present a problem because neither the UHDC nor the Granada Apartments are now affiliated with the Authority. When the Authority established the UHDC, the Authority Commissioners also served on the UHDC Board of Directors. When they created the limited partnership, the Granada Apartments, Ltd., in December 1996, the Authority was a limited partner with 99 percent interest. The UHDC was the general partner with a 1 percent interest. In December 1997, the former Executive Director, representing both entities as the Secretary/Treasurer of UHDC and the Executive Director of the Authority, signed and executed an amendment to the original partnership agreement. The amendment withdrew the Authority from the partnership and admitted a new limited partner, THOF III, whose general partner is the Texas Housing Finance

⁶ The terms “Troubled” and “High Performer” relate only to HUD’s assessment of the Low Rent Program and not to Section 8. During that period HUD used the Public Housing Management and Assessment Program to assess the Authority’s performance in the Low Rent Program.

Corporation. The Authority Board minutes do not reflect any record of a vote to withdraw their interest from the Granada Apartments, Ltd. Thus, it appears the former Executive Director acted on his own to withdraw the Authority from the partnership.

On February 23, 1999, the UHDC Directors adopted resolutions to amend the By-laws of the Corporation, terminate the terms of and replace certain Directors, and to not require the Directors to be Authority Board members. The resolutions passed by a 60 percent vote, although, based on the original By-laws, such resolutions would have required a 66 percent favorable vote for passage. Currently no Authority Commissioners serve on the Board of Directors of UHDC. The former Executive Director of the Authority remained the Secretary/Treasurer of the UHDC and has control of the bank accounts and custody of the UHDC records.

The resolutions that passed on February 23, 1999, did not have the required two-thirds votes by the Directors as required by the original UHDC Corporate By-laws. Therefore, the resolutions that severed the relationship with the Authority may not be valid. The Authority may need to consider legal action against UHDC to collect the \$49,143, regain control of the UHDC Board of Directors, and recover its interest in the Granada Apartments, Ltd. Whatever the outcome, we are recommending the Authority repay HUD \$44,441, as part of the \$262,925 in unearned Section 8 funds requisitioned, and \$4,702 to the Low Rent Program from nonfederal funds for funds the UHDC used and still owes the Authority.

Authority travelers did not follow its Board approved travel policies.

As previously noted, the excessive administrative expenses in the Section 8 Program and the questioned costs in the Low Rent Program included travel. The travel was for the former Executive Director, Commissioners, and employees. The expenses relating to UHDC, other housing projects, and unsupported costs include \$40,490 of the travel costs. Not only did the Authority violate HUD regulations they also did not follow their own travel policies regarding advances. The Authority issued 183 travel advances during the audit period. The travelers in only eight instances filed a travel voucher to reconcile the differences between the advance and actual costs. The Authority personnel policies

allow travel advances for officials and employees for traveling out-of-town. The policies require the traveler to submit a travel voucher no later than 30 days after the travel is completed. If the traveler does not submit a voucher, the traveler is abusing the advance system and can be placed on a reimbursable basis only. We are recommending the Authority ensure that all travel is eligible under the program requirements and that they follow their own travel policies.

The Authority is in severe financial condition.

The former Executive Director’s actions have placed the Authority in severe financial distress and have bankrupted the Authority’s Section 8 Program. The Authority has consistently increased the deficit in its Section 8 Program since 1993. Now it owes HUD \$262,925 in over-requisitioned funds and the Low Rent Program \$76,583 for excessive administrative expenses and questionable costs. At the end of the 1994 fiscal year, the Authority’s Section 8 Programs had a combined deficit of \$51,859. This is because the Authority has consistently charged administrative expenses to the programs in excess administrative fees earned. The current financial condition has affected the Authority’s ability to provide future housing opportunities for the citizens of Uvalde. The table below shows the Authority’s expenditures have exceeded its administrative fee earned each year since 1993 by \$15,000 to \$74,000 to reach the current deficit of \$370,747 in the Section 8 Programs.

FYE	Administrative Fee Earned	Total Administrative Expenses	Excessive Administrative Expenses	Administrative Fee Reserve Balance ⁷
06/30/1993	\$ 61,721	\$ 87,310	(\$ 25,589)	\$47,884
06/30/1994	64,120	107,299	(43,179)	(\$51,859)
06/30/1995	75,608	90,762	(15,154)	(\$53,997)
06/30/1996	74,656	106,092	(31,436)	(\$116,133)
06/30/1997	74,204	118,010	(43,806)	(\$218,308)
06/30/1998	68,818	92,699	(23,881)	(\$297,859)
06/30/1999	66,902	140,466	(73,564)	(\$370,747)
TOTALS	\$486,029	\$742,638	(\$256,609)	

HUD requested the Authority to submit a workout plan and rejected the first one the Authority submitted. It called for a pay back period of 10 years. The workout plan should

⁷ HUD adjusts the Authority’s Administrative Fee Reserve Balance when they approve the Year End Settlement Statements.

show how the Authority plans to bring the Section 8 Administrative Fees Reserve into a positive balance and how they plan to reimburse the Low Rent Program for the funds they used to pay Section 8 housing assistance payments. They also say it is difficult to gage how long it will take the Authority to pay back HUD and the Low Rent Program.

Auditee Comments

Comments by Former Executive Director

The former Executive Director in a written response dated December 22, 1999, attributes the current financial situation to a \$200,000 embezzlement by his predecessor (see Appendix B). In addition to the theft, the Authority paid unpaid vendors, delinquent federal payroll taxes and penalties, and large amounts of bank overdraft fees. The Authority also paid the bank \$5,000 to reproduce canceled checks related to the investigation.

The former Executive Director also said that the over-requisitioning of Section 8 funds was due to the lack of affordable housing stock in Uvalde. Section 8 customers had a difficult time finding rental units in Uvalde causing the Authority to be under leased. The Authority incurred excessive administrative expenses over administrative fees earned because of the under leasing of units.

To address the lack of affordable housing in Uvalde, the former Executive Director used Section 8 and Low Rent funds. The former Executive Director said HUD told the Authority to diversify by seeking funding from other agencies. Thus, the Board and Authority used Section 8 and Low Rent funds to apply for funding for the various housing projects including the Tax Credits used to construct the Granada Apartments owned by UHDC. UHDC borrowed Section 8 funds from the Authority to purchase the site for the construction of the Granada Apartments.

Comments by Interim Executive Director

The interim Executive Director provided a tentative response to the finding on October 13, 2000 (see Appendix

B). She said the Authority Board of Commissioners and the former Executive Director responsible for overseeing the operations during the period of the questionable expenditures are no longer serving or working for the Authority.

The Board of Commissioners fired the former Executive Director on February 10, 2000, and appointed Ms. Virginia Limon as the interim Executive Director. As the interim Executive Director she increased Section 8 leasing by 23 percent to maximize income and has initiated several cost cutting measures to immediately reduce operating cost.

The measures have:

- Reduced administrative office and travel expenses to keep within budgets;
- Reduced staff salaries to agree with HUD approved amounts; and
- Eliminated unnecessary expenses that have been identified.

The interim Executive Director is working closely with the Board of Commissioners and HUD to keep them informed of the financial condition of the Authority. She:

- Provided each Commissioners with the appropriate HUD Contracts, Regulations, Handbooks and OMB Circulars;
- Instructed the Fee Accountant to monthly prepare for HUD and the Board reports showing a detailed income, expense, balance and status for each program; and
- Is working closely with the Fee Accountant and HUD to establish an acceptable budget and timeline for the reimbursement of funds to HUD and the Low Rent Program.

The interim Executive Director will be proposing additional corrective actions to the Board of Commissioners concerning the legal action against UHDC including the collection of the funds owed Authority. A recommendation will also be made to the Board to revise the current travel polices to clarify procedures on the issuance of travel funds.

The complete responses from the former and the interim Executive Director are contained in Appendix B.

**OIG Evaluation of
Comments***Evaluation of Comments by Former Executive Director*

The response by the former Executive Director does not change our position in the report. The former Executive Director agreed the Authority used over-requisitioned Section 8 funds and Low Rent funds for other housing purposes and spent more money than they had earned. We reviewed all available documentation relating to the embezzlement including the United States District Court Judgment and Independent Audit Reports of the Authority. The results of our review did not show that the embezzlement by the prior Executive Director caused the current financial condition of the Authority.

Evaluation of Comments by Interim Executive Director

Comments by the interim Executive Director appear responsive and indicate the Authority has begun taking positive corrective actions to reduce administrative costs, increase administrative fees earned, and operate within program budgets.

Recommendations

We recommend the Office of Public Housing:

- 1A. Require the Authority repay HUD \$262,925 from nonfederal funds for the Section 8 funds they over-requisitioned and spent. Also, identify other additional funds “Due HUD” following HUD’s approval and revision of the Year End Settlement Statements for June 30, 2000;
- 1B. Require the Authority to recover \$49,143 from UHDC for expenses paid on their behalf. The Authority should reimburse \$44,441 to the Section 8 account and \$4,702 to the Low Rent account (We consider the \$44,441 that UHDC owes the Section 8 Programs as part of the \$262,925 the Authority owes HUD and included under recommendation 1A.);
- 1C. Require the Authority to repay the Low Rent Program \$58,799 from nonfederal funds for ineligible transfers

that have not been reimbursed by the Section 8 Program. The Authority should also reimburse the Low Rent Program for any transfers that have occurred from April 2000 to the report date;

- 1D. Require the Authority to provide support for \$13,082 in unsupported costs charged to the Low Rent Program for the audit period and any subsequent unsupported costs from the cut-off date in the audit report. For the amounts the Authority cannot support, those costs should be considered ineligible and be repaid from nonfederal funds;
- 1E. Require the Authority to follow its own travel policies;
- 1F. Monitor the administrative expense levels until satisfied that the Authority is complying with HUD budgets and program requirements by obtaining monthly income and expense reports for Section 8 and Low Rent Programs from the Board of Commissioners;
- 1G. Monitor the Section 8 estimates and requisitions until satisfied that the Authority is not over-requisitioning more annual contributions than is required by obtaining monthly reports on the amount of Section 8 Administrative Fees Earned and Expended and lease-up activity; and
- 1H. Consider taking appropriate administrative sanctions against the former Executive Director for violations of the Annual Contribution Contracts that have affected the integrity of the Section 8 and Low Rent Programs.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls.

We decided the following management controls were relevant to our audit objectives:

- Section 8 Estimates and Requisitions Process
- Program Contracts and Administrative Costs
- Cost Eligibility

We assessed all the relevant control categories identified above, to the extent they impacted on our audit objectives.

Significant Weaknesses.

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, we believe the following items were significant weaknesses:

- The former Executive Director violated the Section 8 Annual Contribution Contract requirements and spent Section 8 funds they had not earned on housing related projects, excessive salaries, unsupported costs, and other excessive administrative costs (finding).
- The former Executive Director manipulated the Section 8 Estimates and Requisitions process to access additional Section 8 funds (finding).

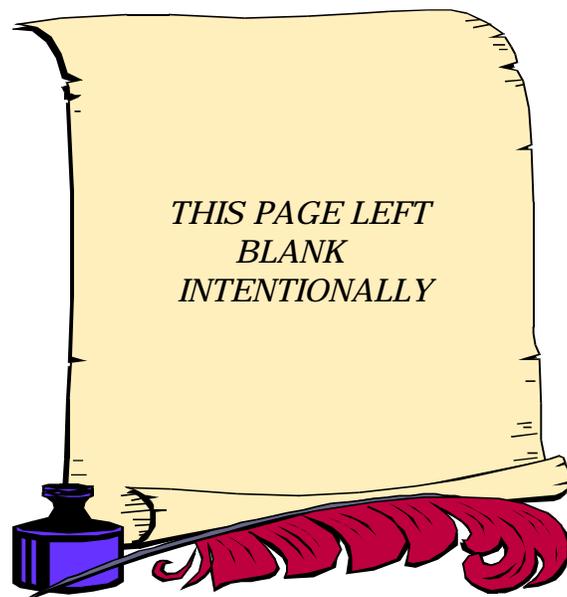
- The former Executive Director violated the Low Rent Annual Contribution Contract requirements and program regulations and spent Low Rent funds on ineligible housing projects, ineligible transfers, and other unsupported costs (finding).

Schedule of Questioned Costs

<u>Issue</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible</u> ^{1/}	<u>Unsupported</u> ^{2/}
1A Section 8 Funds “Due HUD”	\$262,925	
1B Low Rent (Due from UHDC)	4,702	
1C Low Rent (Ineligible Transfers)	58,799	
1D Low Rent (Unsupported Costs)	_____	\$13,082
Totals	<u>\$326,426</u>	<u>\$13,082</u>

¹ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or federal, state, or local policies or regulations.

² Unsupported costs are costs questioned by the auditor because the eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future 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.



Auditee Comments



HOUSING AUTHORITY of the city of Uvalde

Low Rent Public Housing • Section 8 Existing • Section 8 Housing Voucher

December 22, 1999

1700 Garner Field Rd.
Uvalde, Texas 78801
830-278-7161

Mr. Lorenzo Garcia
Auditor in Charge
U.S. Department of Housing and Urban Development
Office of Inspector General-Southwest District
800 Dolorosa
San Antonio, Texas 78207

Dear Mr. Garcia:

I find it necessary and appropriate to give you a background as to the financial situation the Uvalde Housing Authority was in when I was hired as Executive Director on February 22, 1993. Approximately three weeks (3) later I discovered embezzlement of funds by the former Executive Director, I found that he had discarded or destroyed many of the canceled checks and other documentation related to the embezzlement. I had to order copies made of the canceled checks from the First State Bank of Uvalde. We spent over \$5,000.00 for copies of canceled checks made by the First State Bank of Uvalde.

The Board of Commissioners of the Housing Authority of the city of Uvalde gave its approval for me to present to the State District Attorney six (6) copies of canceled checks that had been cashed at the H.E. B. store by the former Executive Director. Mr. Rogelio Munoz, State District Attorney presented copies of the canceled checks to the grand jury. The grand jury indicted the former Executive Director, Oscar G. Orona on six (6) counts of theft by embezzlement. Mr. Rogelio Munoz instructed me to continue inspecting all documentation from Fiscal Year 1985 to Fiscal year 1993. As I discovered more canceled checks, I would take them to State District Attorney, Rogelio Munoz. Mr. Munoz decided to bring in the Office of Inspector General because of the large amount of funds involved. The Office of Inspector General assigned Mr. Harry Harris, Special Agent, with O.I.G. in San Antonio, Texas. I turned over all the documentation I had gathered on Oscar G. Orona. Mr. Munoz turned over to Mr. Harry Harris all the documentation in the possession of the State District Attorney's office. Before Mr. Harris left, I asked him how much money had been embezzled. He stated that he had not quite finished with his investigation, but that his figures were at \$200,000.00. I later called Mr. Harris but I was told that he had been assigned to Puerto Rico for five (5) years. I was told that all the documentation had been turned over to Ms. Alicia Ludlum-Assistant Federal District Attorney in Del Rio, Texas. I spoke to Ms. Ludlum and she informed me that Oscar G. Orona would plea guilty, make restitution of \$45,000.00 and serve 15-18 months in the penitentiary. I asked her why Oscar G. Orona was only making restitution of \$45,000.00 when he had embezzled \$200,000 .00. Her response was that is the amount agreed in the plea bargain.

To this date we have received \$25,000.00 from Fidelity and Deposit Company of Maryland and a check for \$225.00 for Oscar G. Orona. I called Oscar G. Orona's probation officer and he stated to me that we would not receive one more cent until Oscar G. Orona paid the costs of court.

Besides all the embezzlement that occurred, there were vendors that had not been paid. I.R.S. Had not been paid for the years 1991 and 1992. We had to pay taxes plus penalty and interest to I.R.S. from present Fiscal Year budgets. Other vendors such as Lumbermart, Alamo Lumber Co., and many other had not been paid. Furthermore, audits had not been performed for Fiscal Years 1991 and 1992. We had the audits done for Fiscal years 1991 and 1992.

The former Executive Director paid large amounts of overdraft fees and overdraft interest to the First State Bank of Uvalde. From July 01, 1992, to February 28, 1993, the former Executive Director paid \$6,613.73 of overdraft fees and overdraft interest.

On March 08 through 10, 1993 a Comprehensive Review-Management and Occupancy was conducted by HUD-San Antonio Office, the review pointed out that the Uvalde Housing Authority had been designated as a **TROUBLED AGENCY** because of the Public Management Assessment Program (PHMAP) score 58.42. A PHA which received a total weighted PHMAP score of less than 60% shall be designated as troubled. For Fiscal Year ended June 30, 1993 the Authority's total weighted PHMAP score was 64.47%, therefore, designating the Authority as standard. For Fiscal Year ended June 30, 1994 the Authority's total weighted PHMAP score was 72.63%, therefore, designating the Authority as standard. For Fiscal Year ended June 30, 1995, the Authority's total weighted PHMAP score was 87.89% and again the Authority was designated as standard. For Fiscal Year ended June 30, 1996, the Authority's total weighted PHMAP score was 98.57% and based on this score, the Authority was designated as a high performer. For Fiscal Year ended June 30, 1998, the Authority's weighted PHMAP score was 100.00 and based on this score, the Authority was designated as a high performer. For Fiscal Year ended June 30, 1997, the Authority's total weighted PHMAP score was 100.00 and based on this score, the Authority was designated as a high performer. For Fiscal Year ended June 30, 1998, the Authority's weighted PHMAP score as 100.00 and based on this score, the Authority was designated as a high performer. For Fiscal Year ended June 30, 1999, the Authority's total weighted PHMAP score was 100.00 but HUD chose to designate the Authority as standard because of the Section 8 deficit and over-requisitioning.

CAUSE:

1. Why has the Authority continued to over-requisition Section 8 funds?

Section 8 requisitions are prepared by the Fee Accountant with information provided by the Uvalde Housing Authority. Because of the lack of housing stock in Uvalde, the Section 8 customers have a difficult time in finding rental units, thus, the Section 8 program has not fully leased for the period covered by the budgets, causing the Uvalde Housing Authority's over-requisitioning of Section 8 funds. Presently, we have 193 Section 8 units under lease and we expect to be at 100% occupancy rate within two (2) months. The increase in occupancy rate is being brought about by the availability of rental units for Section 8 customers created by the

construction of Granada Apartments. We have 58 Section 8 families residing at the Granada Apartments.

2. Why has the Authority continued to incur administrative expenses over the administrative fees earned?

The Uvalde Housing Authority had incurred administrative expenses over the administrative fees earned because of the under leasing of units under the Section 8 Program. Again, this is due to the lack of housing stock in Uvalde for our Section 8 customers. We are now increasing our occupancy rate in the Section 8 Program which increases our administrative fees earned. We have reduced our administrative expenses such as travel, sundry and other administrative expenses.

3. Why did the Authority continued to use Section 8 funds for “housing purposes” such projects related to the Granada Apartments (tax credits), the Home Program and the Farmer’s Home Administration, when the administrative Fee Reserves were in the negative since Fiscal Year 1993?

The Uvalde Housing Authority is cognizant of the lack of safe, decent, sanitary and affordable housing in Uvalde, Texas. HUD in San Antonio had told me and other Housing Authorities at workshops sponsored by HUD that funds for new construction are decreasing every year and are very competitive. So, HUD had told us to diversify by seeking funding from other Federal Agencies and State Agencies. The Uvalde Housing Authority and its Board of Commissioners did just that by using Section 8 funds to apply for funding from the Texas Department of Housing and Community Affairs Low Income Tax Credit Program and Home Program to construct Granada Apartments. The money that the Uvalde Housing Development Corporation borrowed from the Section 8 Program to purchase the site for the construction of Granada Apartments was reimbursed to the Section 8 Program in January, 1998.

The construction of Granada Apartments has made it possible for our Section 8 customers to move into the Granada Apartments. These are Section 8 customers who could not find safe, decent, sanitary and affordable rental housing in Uvalde. The Uvalde Housing Authority was also successful in obtaining \$200,000.00 in First-Time Home buyer Assistance from the Texas Department of Housing and Community Affairs. Eight thousand dollars (\$8,000.0000) was allowed to the Housing Authority to administer the program. I received a letter of commitment for \$3.5 million of Section 502 Direct funding to the applicant from the U.S.D.A.- Rural Development (Enclosed is a copy of letter) Th Uvalde housing Authority through its First Time Home buyer program has assisted nineteen (19) qualified applicants obtain a home through the USDA - Rural Development by providing a maximum of \$5,000.00 per applicant for down payment assistance and closing costs.

4. Why did the Authority use Low Rent funds for “non-Low Rent expenses” such as the projects related to the Granada Apartments (Tax Credits), the Home Program, and the Farmer’s Home Administration?

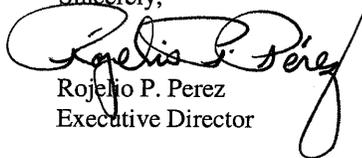
The Uvalde Housing Authority used Low Rent funds for “non-Low Rent expenses “ to bring much needed safe, decent, sanitary and affordable housing to Uvalde. The Granada Apartments has provided a permanent safe, decent, sanitary and affordable housing not only for those customers who qualify under Tax Credit income guidelines but also for our Section 8 customers who could not find rental units in Uvalde.

On November 07, 1997, The Uvalde Housing Development Corporation reimbursed for travel I had performed on behalf of the Corporation as follows: \$2,153.81 to Low Rent, \$5,369.49 to Section 8 Certificate , \$1,582.16 to Section 8 Voucher. The Home Program administered by the Uvalde Housing Authority has made the American dream of owning a home a reality for nineteen (19) Low Income Families. The USDA Rural Development has provided the permanent financing at interest ranging from 1% to 3% for these nineteen (19) Low Income families.

The San Antonio HUD office recommended the Uvalde Housing Authority as a nominee for 1999 HUD Best Practice Award because of the holistic approach to meeting low-income families housing needs using core funding from U.S. Department of Housing and Community Affairs to construct affordable homes for first time home buyers, and to provide no-interest loans so residents could make down-payments and meet closing cost. (Enclosed copies of awards and letter from Assistant Secretary Harold Lucas)

If you have any questions, please call me at (830) 278-7161.

Sincerely,


Rojelio P. Perez
Executive Director

Enclosures



United States
Department of
Agriculture

Rural
Development

101 South Main
Fed. Bldg., Ste. 102
Temple, TX 76501
VOICE: (254) 298-1305
FAX: (254) 298-1477
TDD: (254) 298-1349

July 22, 1997

Mr. Rojelio P. Perez
Executive Director
Uvalde Housing Development Corporation
1700 Garner Field Road
Uvalde, Texas 78801

Dear Mr. Perez:

We have received your letter dated July 14, 1997 concerning the development of approximately 50 lots in Uvalde, Texas.

This development would initially be using Section 502 Direct funding and subsequent development would incorporate Section 502 Guaranteed funding. Presently, you are requesting a commitment for \$3.5 million in Section 502 Direct funding for Phase I of this proposal.

Texas Rural Development, through the Single Family Housing (SFH) Section of the Rural Housing Service, is happy to commit the \$3.5 million, as requested. Please be aware that our funding cycle is by fiscal years. Our fiscal year (FY) starts October 1 and ends September 30. Pooling of funds occurs each year around the middle of August.

The funds we are committing will be for FY 1998. If the project extends beyond this time period, we will continue our commitment for the remaining amount to the next FY. These funds will be committed from the allocation that Texas receives from our National Office. Until a request for obligation of funds is actually processed for an applicant, the actual money would not be available. This commitment is subject to the availability of funds.

We appreciate your request and your interest in our housing programs.

Sincerely,


STEVEN A. CARRIKER
Acting State Director

Rural Development is an Equal Opportunity Lender.
Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, D.C. 20250



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-5000

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

SEP 16 1999

Dear Best Practice Nominee:

The Department of Housing and Urban Development (HUD) Best Practices and Technical Assistance Symposium held in Kansas City, Missouri in July, provided communities, local governments, universities, non-profit organizations, public housing authorities (PHAs), Indian housing agencies, tribes and tribally designated agencies (IHAs), and other agencies with the opportunity to share their community achievements. Thousands of agencies were nominated for Best Practices that demonstrate creative and effective partnerships, projects, management tools, and other techniques that have a significant impact on their communities.

I want to take this opportunity to acknowledge your contribution to this event. Your Best Practice represents the significant contributions PHAs, IHAs and other organizations across the country have initiated to better serve the low income families in their communities. Over 1,000 Public and Indian Housing Best Practices were highlighted during the symposium. These practices will now serve as the foundation for a continuing process to make this information available to communities across the country to enable these communities to provide better, more comprehensive services to their residents while promoting efficiency and effectiveness in the operation of their programs.

Thank you for your support of the HUD Best Practices Symposium. Please accept the enclosed 1999 HUD Best Practices Certificate in commemoration of your contribution to this effort.

Sincerely,


Harold Lucas
Assistant Secretary

Enclosure

BUILDING A BETTER TOMORROW

1999 HUD Best Practice Award

Presented to

Uvalde Homeownership



Uvalde Housing Authority (UHA) developed a holistic approach to meeting low-income families housing needs using core funding from a U.S. Department of Agriculture with funding from Texas Department of Housing and Community Affairs to construct affordable homes for first time buyers, and to provide no-interest loans so residents could make down-payments and meet closing costs. UHA has joined with a development corporation, county and community governments and agencies, State agencies, various educational entities, Fannie Mae, banks, and private businesses to increase affordable housing by reconstructing and revitalizing existing units, and building more rental units as a first step to home ownership. These partners provide direct funding and other support for this effort. The effort has achieved special designation from USDA as an Enterprise Community, increasing their chances for additional funding. Twenty-one single-family dwellings have already been completed and are occupied; additional home ownership and rental units are being built.

July 1999



BUILDING A BETTER TOMORROW

1999 HUD Best Practice Award

Presented to

Home Ownership

Efforts to reduce homelessness are a primary goal of the housing authority. The housing authority will provide first time home buyer assistance to include down payment and closing cost. As funding is being sought, the Community Council of Southwest Texas will provide transportation, meals on wheels, and training for child care. In addition, elderly housing, low income tax credits are being sought. This program has brought the community partnership with a common goal for providing employment and economic opportunities.



July 1999

Date

HOUSING AUTHORITY of the city of Uvalde



Low Rent Public Housing • Section 8 Existing • Section 8 Housing Voucher

1700 Garner Field Rd.
Uvalde, Texas 78801
830-278-7161

October 13, 2000

Mr. Michael Beard
District Inspector General
U.S. Department of Housing and
Urban Development
Southwest District of Inspector General
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

RE: Draft Audit Report of the Housing Authority of the City of Uvalde

Dear Mr. Beard:

As Interim Executive Director of the Housing Authority of the City of Uvalde (UHA), I received a copy of the draft report that was prepared in connection with your audit of the Section 8 and Low Rent Programs of the Uvalde Housing Authority. Written comments concerning disagreements with the report findings and/or actions being taken by the Authority to address the conditions cited in the report were requested. It was noted that this response may be included as an appendix to the final report to be issued by your office.

The following response is provided with the understanding that it is in draft form and is submitted without benefit of review or comment by the Board of Commissioners of the UHA. I am hopeful, however, that a majority of the Board will support the position taken in this tentative response. Before a final response can be submitted to your office, an audit report and a draft response will be presented as an agenda item of a posted public meeting of the Board of Commissioners of the Housing Authority, as required by the Texas Open Meetings Act. A formal response will be provided to your office at the direction of the Board Commissioners.

This response addresses corrective actions that have been implemented as well as proposed actions that are subject to change. The proposed actions may be revised pending further recommendations by the Executive Director, the Board of Commissioners of the UHA, the local HUD Office of Public Housing and legal counsel.

2

- **Since the onset of the audit investigation, the Housing Authority management and the Board of Commissioners for the Housing Authority of the City of Uvalde have taken action to correct some of the deficiencies noted in the draft report :**

The Board of Commissioners, which is responsible for the general management and fiscal oversight of the Housing Authority, has been changed in its entirety from the Board who was in place at the time of the questionable expenditures.

The former Executive Director of the UHA referred to in the draft audit report was fired by unanimous vote at a meeting of the UHA Board of Commissioners on February 10, 2000. The Board subsequently appointed Ms. Virginia Limon as Interim Executive Director to manage the day-to-day operations of the Housing Authority.

Ms. Limon initiated several cost cutting measures to immediately reduce operating costs:

- Removed the postage meter;
- Eliminated mailing packages using "overnight delivery" rates except in extreme circumstances;
- Eliminated long distance telephone charges for anything but business relating to the Low Rent, Section 8 and CIAP/Capital Fund Programs;
- Reduced travel expenses to the amount budgeted;
- Reduced office expenses to the amount budgeted;
- Reduced staff salaries to those agreed upon with HUD (from \$107,200 to \$52,600);
- Reduced the maintenance staff to 1 (previously 2 positions);
- Did not renew memberships in 6 organizations;
- Eliminated meals at Board meetings;
- Eliminated all donations;
- Terminated life insurance benefits of employees

Leasing in the Section 8 program has been increased from 70% to 93%. Ms. Limon is in the process of revising the Section 8 requisitions to 90% of the allowable funding.

Ms. Limon is working closely with the Board of Commissioners to insure each member has the information necessary to make appropriate decisions concerning the Housing Authority:

- Miller and Associates, fee accountants for the UHA, has been instructed to prepare detailed monthly statements that clearly show the financial status of each Housing Authority program. The statements will include the income, expenditures and balance of each program. These financial reports and staff reports detailing the leasing status of the Low Rent and Section 8 programs will be provided to the Board and to HUD monthly.
- Each Commissioner has been provided with the following handbooks:
 - Procurement Handbook for Public and Indian Housing Authorities – HUD Handbook 7460.8 REV. 1;
 - CFR Title 24, Vol. 1, Part 85 – Administrative Requirements for Grants and Cooperative Agreements to State, Local Government; Financial Administration;

3

OMB Circular A-87 – Cost Principals for State, Local and Indian Tribal Governments;
 Consolidated Annual Contributions Contract, Form HUD-53012A and Form HUD-53012B;
 Revised Consolidated Annual Contributions Contract for the Section 8 Rental Certificate and Rental Voucher Programs PIH 98-21.

- The following documents have been ordered and copies will be distributed to each Commissioner upon receipt:
 - Public Housing Agency Administration Practices Handbook 7420.7 for the Section 8 Existing Housing Program, November 1979, Program Participants and HUD Staff;
 - Financial Management System.
- The Board will be informed of all pertinent training that may be available to Commissioners and staff.

The Housing Authority, with the assistance of Miller and Associates, is working closely with the local HUD Public Housing Officials to establish an acceptable budget and time line for the reimbursement of funds to HUD and the Low Rent Program;

The staff has been directed to provide travel vouchers for each authorized trip within 30 days as currently required by Section 11.3 Travel, of the UHA Personnel Policies.

- **The Executive Director will be proposing the following additional corrective actions to the Board of Commissioners of the Housing Authority of the City of Uvalde:**

Concerning the reported finding of the questionable dissolution of the UHA partnership with the UHDC, the Executive Director will request direction from the Board of Commissioners to initiate discussions with legal advisors to determine the current legal status of the partnership. If it is determined by definitive legal opinion that the partnership is intact, recommendations may be requested from legal advisors, insurance risk assessors, fee accountants and HUD concerning the long term viability/liability of maintaining the partnership vs. legally dissolving the partnership. Concerning the funds owed to the UHA by the UHDC, the Housing Authority will continue to aggressively pursue repayment.

The Housing Authority staff will begin research of the “unsupported costs” charged to the Low Rent Program noted in the report. If any of those costs can be considered eligible, the balance of funds owed to HUD may be reduced. The staff will also prepare documentation of maintenance salaries noted as paid from the Low Rent Program that were approved as force account labor. Those salaries were paid from various Comprehensive Improvement Assistance Programs (CIAP) and should not be included as funds to be repaid.

The Executive Director is reviewing Section 11.3 of the Personnel Policies pertaining to travel. A recommendation may be made to the Board of Commissioners to revise the current policy to clarify procedures for the issuance of travel funds. The form currently used, Authorization For Reimbursement of Mileage and Other Travel Related Expense,

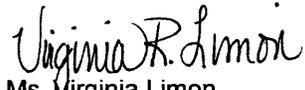
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may be revised to provide more detail concerning the destination, purpose for travel, programs charged, advance payments and reimbursable expenditures.

It is the goal of the Executive Director and the Board of Commissioners to work closely with the local HUD Office of Public Housing to establish the fiscal credibility of the Housing Authority of the City of Uvalde while continuing to provide safe, decent and affordable housing for the local community.

Please contact me if you have any questions concerning this draft response.

Sincerely,



Ms. Virginia Limon
Interim Executive Director

Cc:

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