AUDIT REPORT

HOUSING AUTHORITY OF THE

CITY OF TUPELO, MISSISSIPPI

HOUSING PROGRAMS OPERATIONS

2002-AT-1002

JULY 3, 2002

OFFICE OF AUDIT, REGION IV
SOUTHEAST/CARIBBEAN

Table of Contents

Exit

audit report

Issue Date
July 3, 2002
Audit Case Number
2002-AT-1002

TO: William L. Radau, Acting Director, Office of Public Housing, Mississippi Office, 4GPH

Sonya D. Lucas

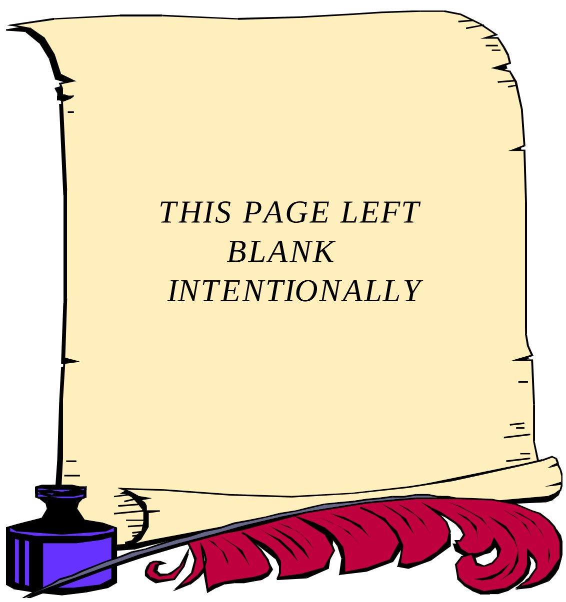
FROM: for Nancy H. Cooper
Regional Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Housing Authority of the City of Tupelo
Housing Programs Operations
Tupelo, Mississippi

We have completed an audit of the Housing Authority of the City of Tupelo's (Authority) operations. The audit was initiated in response to a request from the Department of Housing and Urban Development's (HUD) Mississippi State Office of Public Housing regarding the Authority's questionable financial condition associated with its participation in a limited partnership. Our audit objectives were to determine whether the Authority was operating its housing activities in accordance with HUD requirements and had established controls to assure effective and efficient administration of program funds. Our report includes five significant monetary findings totaling over $1.3 million.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days, please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Should you or your staff have any questions, please contact me or Sonya D. Lucas, Assistant Regional Inspector General for Audit, at (404) 331-3369.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Executive Summary

We completed an audit of the Housing Authority of the City of Tupelo's operations. We conducted the audit in response to a request from HUD's Mississippi State Office of Public Housing. HUD had concerns with the Authority's questionable financial condition and its involvement with Tupelo Apartment Homes, L.P., a Mississippi limited partnership. Our objectives were to determine whether the Authority was operating its housing activities in accordance with HUD requirements and had established controls to assure effective and efficient administration of program funds.

We determined the Authority: (1) improperly advanced public housing program funds for non-Federal development activities; (2) did not maintain its conventional low-income housing in good repair and condition; (3) did not spend its Comprehensive Grant Program (CGP) funds, as approved; (4) inappropriately pledged its assets as collateral for loans; and (5) did not adequately control its appliance inventory.

Our Audit Disclosed

The Housing Authority of the City of Tupelo improperly advanced over $1.4 million of public housing program funds for non-Federal development activities from 1998 to 2001. The funds were advanced to cover operating and rehabilitation deficits for a private development, until tax credits were approved. The former Executive Director instructed the staff to make the advances, which violated the Annual Contribution Contract (ACC). The Authority received repayments of $707,884 between January 1999 and October 2000. However, the Authority's General Fund account is still owed $728,159. As a result, the advances reduced the public housing program funds available for operating expenses and placed the funds at risk of possible non-repayment.

The Authority did not maintain its conventional low-income housing in good repair and condition. We inspected 25 units which all contained numerous Housing Quality Standards (HQS) violations. Of the 25 units inspected, 12 were vacant and 13 were occupied. The deficiencies were caused by lack of routine and preventive maintenance, failure to spend CGP funds as approved, and a lack of management and maintenance efforts to rehabilitate the units. As a result, the Authority did not provide decent, safe, and sanitary housing to its residents.

Contrary to HUD's requirements, the Authority did not spend its CGP funds on work approved for its Northside development and did not obtain HUD's approval for any budget revisions. The former Executive Director improperly certified that the Annual Statements were accurate and the work was completed. As a result, CGP funds totaling $293,544 were spent without adequately documenting the eligibility of the costs and $331,665 was budgeted for work previously completed.

The Authority pledged its assets as collateral for loans totaling $1,148,029. The former Executive Director violated the ACC and the Declaration of Trust agreement. These actions occurred because the Board of Commissioners did not: (1) adequately monitor the non-profit and limited partnerships; (2) ensure transactions related to the entities adhered to Federal regulations; and (3) maintain prudent judgment concerning its affiliated entities. The lack of Board oversight resulted in liabilities for non-Federal activities and conflicts of interest, which unjustly enriched private developments at the Authority's expense.

The Authority did not adequately control its inventory of appliances. The fixed assets inventory was not current and appliances had not been inventoried for over 2-years. The Inventory Control Clerk stated that in 1999 she was advised to cease accounting for those assets and their locations. As a result, there was an increased risk that assets could be stolen, mishandled or diverted.

Recommendations

We recommend that you require the Housing Authority of the City of Tupelo to: (1) seek reimbursement of the $728,159 owed from the Tupelo Apartment Homes, L.P.; (2) discontinue further advances to the Tupelo Apartment Homes, L.P.; (3) complete all inspections and correct all HQS violations; (4) provide supporting documentation or reimburse the CGP $293,544 for unsupported expenditures; (5) provide supporting documentation for the $331,665 or reimburse the CGP funds; (6) pursue removal of the guaranty for all loans; and (7) reinstate fixed assets inventory system. We also recommend that you debar the former Executive Director from future participation in HUD related programs.

We presented our findings to the Authority and HUD officials during the audit. We provided a copy of the draft report to the Authority and HUD's Mississippi State Office on June 3, 2002, for their comments. We discussed the report with the officials at the exit conference on June 14**,** 2002. The Authority provided written comments on June 14, 2002. The Authority's comments are summarized in the findings and included in their entirety as Appendix F.


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Table of Contents

Appendices

Abbreviations

ACC	Annual Contributions Contract
CGP	Comprehensive Grant Program
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
LP	Limited Partnership
PHDEP	Public Housing Drug Elimination Program

Introduction

The Housing Authority of the City of Tupelo was organized pursuant to the U.S. Housing Act of 1937 to provide safe, sanitary, and affordable housing for qualified individuals.

A five member Board of Commissioners appointed by the Mayor of the City of Tupelo governs the Authority. The Board is responsible for signing contracts, reassigning or terminating key personnel, and setting income limits. The Board adopts its own budgets and has sole title to, and residual interest in, the assets of the housing programs. The Board receives Federal financial funding and must comply with requirements of the funding source.

The former Executive Director, Harmon C. Pippin, served from May 1991 to May 2001. The current Executive Director is Dr. Hickman M. Johnson. He served as interim Consulting Executive Director from May 29, 2001, until his permanent appointment on December 12, 2001. The Chairperson of the Board of Commissioners is William Smith.

HUD's Mississippi State Office in Jackson, Mississippi, Office of Public Housing is responsible for overseeing the Authority. The Authority's financial records are maintained primarily at its central office located at 701 South Canal Street, Tupelo, Mississippi. The Authority owns and manages four project developments consisting of 407 units. Additionally, the Authority is the Section 8 Housing Assistance Payment contractor between HUD and a Section 8 owner.

The Authority's major program activities included administering Low Rent Housing, as well as HUD's CGP, Section 8, and Public Housing Drug Elimination Program (PHDEP). For calendar year 2000, the Authority received $501,890 of HUD operating subsidy, $517,324 as the Section 8 Housing Assistance Payment contractor, $766,518 of CGP funds, and $140,100 of PHDEP funds.

Audit Objectives

Our objectives were to determine if the Authority was operating its housing activities in accordance with HUD requirements and had established controls to assure effective and efficient administration of program funds.

Audit Scope and Methodology

To accomplish the objectives, we tested for compliance with program regulations and requirements. We also tested the Authority's established controls for effective and efficient administration of program funds. We reviewed related Authority files and records; Housing Quality Standard (HQS) inspections; appliance inventory records; and HUD's, the independent auditor's, and consultant's studies and reports for years 1999 through 2001. We interviewed Mississippi State Office of Public Housing program officials, Board of Commissioners, Authority staff, and vendors.

To test for HQS compliance, we selected 25 of 197 low-income housing units at the Authority's Northside development to inspect. We selected units from the Northside development because as of May 2001, 83 of 197 units, or 42 percent, remained vacant for an average of 585 days. We did not inspect units at the Authority's remaining three developments, totaling 210 units, since the occupancy rate was 97 percent or higher; and HUD's Real Estate Assessment Center overall scores, as of May 2001, were 75 or higher for those developments.

Our review generally covered the period January 1, 1999, through July 31, 2001. We extended the periods as necessary. We performed our on-site work between August 2001 and March 2002. We conducted our audit in accordance with generally accepted government auditing standards.

Housing Funds Were Improperly Advanced to a Private Development

The Housing Authority of the City of Tupelo improperly advanced over $1.4 million of public housing program funds for non-Federal development activities from 1998 to 2001. The Authority advanced the funds to cover operating and rehabilitation deficits for a private development, until tax credits were approved. The former Executive Director instructed the staff to make the advances, which violated the ACC. The Authority received repayments of $707,884 between January 1999 and October 2000. However, the Authority's General Fund account is still owed $728,159. As a result, the advances reduced the public housing program funds available for operating expenses and placed the funds at risk of possible non-repayment.

Criteria

Section 9, Depository Agreement and General Fund, of the ACC states that the Authority may withdraw funds from the General Fund only for: (1) payment of the costs of development and operation of the projects under ACC with HUD; (2) the purchase of investment securities as approved by HUD; and (3) such other purposes as may be specifically approved by HUD.

Background

The Authority formed a limited partnership with Chevron, as the investor limited partner, to purchase and rehabilitate Tupelo Apartment Homes, a private development, located in the Ida Street district. The purchase and rehabilitation were non-Federal activities. The Ida Street project was designated for funding from a combination of revenue bonds and grants, with Chevron making future capital contributions to the project based on possible tax credits. However, in March 2001, Chevron withdrew from the partnership after reviewing the cost certification audit used for the tax credit qualification. The cost certification audit documented questionable tenant income records. Therefore, the Authority was left to continue the rehabilitation on its own.

The Authority deposited operating subsidies, rent collections, CGP funds, and PHDEP funds into its General Fund account. The Authority maintained funds for its Section 8 Program and the Meadow Creek Apartments private development in separate accounts. The Authority separated the general ledgers to account for funds received and expenditures charged by program. Generally, the Authority made payments from its General Fund account. Therefore, any inappropriate expenditures or advances would come from the public housing program funds.

Ineligible Advances of $1,436,043

From December 1998 to July 2001, the Authority improperly advanced $1,436,043 of public housing program funds for non-Federal development activities. Of the $1,436,043 advanced, $1,398,471 was from the operating subsidy and $37,572 from CGP. The Authority received repayments totaling $707,884; therefore $728,159 remains due to the Authority.

The former Executive Director depleted the Ida Street project's bank accounts and relied solely on public housing funds for the private project's development and operating costs. For example, salaries advanced to the project totaled over $460,000. The Director of Maintenance stated that the entire maintenance staff worked on the Ida Street project at one time. In some cases, staff members were assigned for a year or more. The Director of Maintenance informed us that both he and his predecessor worked full time at Ida Street until the former Executive Director resigned in May 2001.

The advances were to cover funding shortages of the Ida Street project, contingent on a repayment from tax credits. However, the tax credits have not been approved; and the Authority did not obtain HUD's approval for the payments. HUD Officials stated that they would not have approved a request to pay the Ida Street project costs, since it was not covered under the ACC. Without approval, the Authority should have either obtained the funds from other sources or discontinued operating the project. Instead, the Authority continued to advance funds at the expense of the public housing programs, without a funding source for repayment.

The former Executive Director disregarded the requirements and instructed the staff to make the advances and the Fee Accountant to separate the Ida Street expenses from Authority expenses using accounts receivable. The advances reduced the funds available to operate the Public Housing Program, placing the program in financial difficulty. Further, the Authority collateralized its assets for lines of credit/loans totaling more than $1.1 million to finance the non-Federal development activities. The interest and principal payments for the obligations will become due before the year-end. Currently, the Authority does not have any funding sources available to meet the ongoing expenses and obligations. Therefore, the balance of $728,159 is owed to the General Fund account without guaranteed repayment.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix F contains the complete text of the comments.

The Authority generally agreed with the finding. Regions Bank, interim bond trustee, has been apprised of the L.P.'s subordinate obligation. This subordinate obligation includes a note to BancorpSouth Bank and the reimbursement to the Authority of advances made to the L.P. To satisfy this secondary obligation, the L.P. has proposed a restructuring of the existing bond indebtedness which would permit excess cash, after stabilization, to be applied to the subordinate obligation. Also, the Board of Commissioners will not authorize or approve any advances of federal funds to the L.P.

OIG Evaluation of Auditee Comments

We believe the Authority's actions will address the deficiencies.

Recommendations

We recommend that you:

1A. Require the Authority to seek repayment of the $728,159 owed from the Tupelo Apartment Homes, L.P.

1B. Require the Authority to discontinue any future advances to the Tupelo Apartment Homes.

1C. Debar the former Executive Director from future participation in HUD related programs.

Housing Did Not Meet Quality Standards

The Authority did not maintain its conventional low income housing in good repair and condition. We inspected 25 units which all contained numerous HQS violations. Of the 25 units inspected, 12 were vacant and 13 were occupied. The deficiencies were caused by lack of routine and preventive maintenance, and a lack of management and maintenance efforts to rehabilitate the units, including not spending CGP funds as planned. As a result, the Authority did not provide decent, safe, and sanitary housing to its residents.

Criteria

Part A, Section 4 of the ACC states that the Authority's primary mission is to provide decent, safe, and sanitary housing, in a manner promoting serviceability and stability.

The Authority's Maintenance Plan included procedures for annual inspections and preventive maintenance. The preventive maintenance included regular checking and servicing of equipment and systems; and scheduling, painting, restoration, upkeep, rehabilitation, and refurbishing of dwelling units. The Maintenance Plan also required the Executive Director to inspect property on a monthly basis to evaluate management and maintenance procedures.

OIG Inspections

We inspected 25 units at the Authority's Northside development. We selected units from the Northside development because as of May 2001, 83 of 197 units, or 42 percent, remained vacant for an average of 585 days. As of November 2001, 12 units were vacant for more than 1,000 days. The vacancies were particularly significant since the former Executive Director resigned in May 2001 and had utilized the maintenance staff at the non-subsidized Ida Street development for over two years. We did not inspect units at the Authority's remaining three developments, totaling 210 units, since the occupancy rate was 97 percent or higher; and HUD's Real Estate Assessment Center overall scores, as of May 2001, were 75 or higher for those developments. The score for the Northside development was 56.

Vacant Units

We selected two units vacated in years 1997 and 1999 through 2001. We selected three units for 1998, since two units were vacant the same number of days, and selected the only unit remaining vacant since 1996. The 12 units selected were vacant the most days for each year.

The 12 vacant units had a total of 168 HQS violations. The Authority was repairing three of the units, which had an average of seven violations. The remaining 9 units averaged 19 violations. Our inspections concentrated on significant HQS violations.

Each of the units inspected had electrical, security, window condition, and kitchen cabinet violations. Additionally, each of the nine non-repaired units had ceiling condition, wall condition, and floor condition violations. Most of the nine units also had violations regarding appliances and the furnace/water heater (See Appendix B for examples of the HQS violations for the vacant units).

Occupied Units

Due to the numerous HQS violations of the vacant units inspected, we expanded the inspections at the Northside development. We selected 13 occupied units where tenants resided the longest. The selected units included two one-bedroom, four two-bedroom, four three-bedroom, two four-bedroom, and one five-bedroom unit.

As with the vacant units, the occupied units had numerous HQS violations indicating a serious lack of quality annual inspections and preventive maintenance. Many of the units inspected had violations involving the ceiling condition, wall condition, vent hood, and furnace/water heater.

The following provides examples of the violations we found at two occupied units inspected.

<u>1706 Forbes Circle, #1</u>

We noted HQS violations in at least nine categories. For example, the wall was not repaired after installing the heat duct diffuser (Figure 1). The interior stair step was broken creating a tripping hazard (Figure 2). The bathroom wall was heavily damaged/unsanitary and the toilet seat was broken (Figure 3). Other violations noted related to kitchen cabinets, security, ceiling condition, floor condition, kitchen sink, and furnace.

Figure 1

Figure 2

Figure 3

We also noted that the unit did not have: (1) furrdown for the wall cabinets; (2) a new stove, refrigerator, or water heater; and (3) a water heater cabinet. Generally, these items should have been completed with CGP funds.

1621 Lockridge, #1

In this unit, we noted the kitchen vent hood was unsanitary and a fire hazard (Figure 4). The kitchen cabinets were in disrepair (Figure 5). The bedroom linoleum was hazardously torn with sub-floor exposed (Figure 6). Other violations noted related to security, ceiling condition, and wall condition.

Figure 4

Figure 5

Figure 6

We also noted that the unit did not have furrdown for the wall cabinets or a new stove and refrigerator. Generally, these items should have been completed with CGP funds. Appendix C contains additional photographs of the HQS violations for the occupied units.

Routine and Preventive Maintenance Was Not Performed

The Authority's failure to maintain its units was the major contributor to the poor conditions. Title 24 Code of Federal Regulation 901.30 requires annual inspections of units and all buildings and sites, including structures and systems, to determine short-term maintenance needs, as well as long-term modernization needs. The inspections would allow the Authority to examine the condition of housing stock and initiate actions essential to maintaining decent, safe, and sanitary housing.

The Authority did not perform inspections in 1998. The former Executive Director instructed the staff not to perform inspections, since CGP funds would be used for major unit renovations. However, the CGP renovations did not excuse the Authority from performing the annual inspections, as required. Without the inspections, the Authority could not identify the potential unit deficiencies.

The Authority completed its inspections for years 1999, 2000, and 2001. However, based on our noted violations, the quality of the 1999 and 2000 inspections was poor. Further, when the Authority cited violations, corrections were rarely made. For 2001, the Director of Maintenance conducted the inspections. The quality of the inspections improved, although a few deficiencies were not cited.

The Authority's Maintenance Plan included procedures for annual inspections and preventive maintenance. The preventive maintenance included regular checking and servicing of equipment and systems; and scheduling, painting, restoration, upkeep, rehabilitation, and refurbishing of dwelling units. However, the Director of Maintenance stated that they did not follow the Plan, since annual inspections did not insure proper maintenance was completed and preventive maintenance had occurred. Without appropriate inspections and preventive maintenance, the Authority could not identify, plan for, and systematically correct deficiencies. Our inspections clearly documented the lack of a preventive maintenance.

Insufficient Management Oversight and Planning

The Authority's former Executive Director did not provide adequate oversight and direction, and did not spend the CGP funds as planned for its Northside development. The Maintenance Plan required the Executive Director to inspect the property on a monthly basis to evaluate management and maintenance procedures; the inspection was not performed. In addition to not providing needed oversight and direction, the former Executive Director had the Maintenance staff working at the Ida Street development, a non-sudsidized development. As a result, numerous HQS violations continued, and the Authority did not provide decent, safe, and sanitary housing to its residents.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix F contains the complete text of the comments.

The Authority generally agreed with the finding. Twenty-seven units were inspected during the course of this investigation. Of the 27 units inspected, 14 were vacant and 13 were occupied. Twenty-two of the 27 units were placed in the modernization program and were slated for renovation. Construction has been completed on 8 of the 27 units, bringing them up to HQS. One additional unit will be completed within the next 30-days. Thirteen units are scheduled for fiscal year 2003. Five units are still occupied as of this date. Three transfers will be made when modernization releases completed units. The remaining two units meet HQS.

The Authority conducted an inspection of all units, including systems, and corrected all HQS violations. Correction of deficiencies was a priority. The 2001 average REAC score was 76.5. The February 2002 average REAC score was 94.25. The significant improvement in REAC inspection score is evidence that the Authority has addressed this issue of deficiencies.

The Board of Commissioners adopted a revised Maintenance Policy on March 21, 2002. This policy addresses the following issues: emergency, work orders, general cleaning, unit turnover, inspections and preventive maintenance. Adherence to this policy will guarantee the timely performance of all duties required of that department.

OIG Evaluation of Auditee Comments

Although, we only inspected 25 units, 12 vacant and 13 occupied, we believe the actions are responsive to the finding. If timely and adequately implemented, the actions should essentially correct the deficiencies.

Recommendations

We recommend that you require the Authority to:

2A. Correct all HQS violations noted during our inspections.

2B. Inspect all units, including structures and systems, and correct all HQS violations.

2C. Implement its Maintenance Plan to ensure annual inspections and preventive maintenance are performed.

Comprehensive Grant Program Funds Were Not Spent As Approved

Contrary to HUD's requirements, the Authority did not spend its CGP funds on work approved for its Northside development and did not obtain HUD's approval for any budget revisions. In addition, the Authority did not have the required fiscal year 2000 audit performed to verify the expenditures. The former Executive Director improperly certified that the Annual Statements were accurate and the work was completed. As a result, CGP funds totaling $293,544 were spent without adequately documenting the eligibility of the costs and $331,665 was budgeted for work previously completed.

Criteria

Paragraph 3-6 of HUD's On-Site Confirmatory Review Guidebook 7460.5 G, dated April 1997, states, in part, that CGP Authorities shall expend modernization funds only on work identified in the HUD approved CGP annual statements or obtain prior HUD approval for required budget revisions. Part II of the instructions for preparing the Annual Statements indicate that when all grant funds have been expended, the Authority should complete Part II indicating the actual funds expended.

Background

The former Executive Director submitted Annual Statements, which included the Northside development, to HUD for fiscal years 1996 through 1998. He also signed and submitted the Actual Modernization Cost Certificates applicable to these years, wherein he certified that all modernization work in connection with the Modernization Grant was completed and all information provided was true and accurate. HUD approved the forms in September 1998, April 1999, and June 1999 subject to verification by a fiscal year audit. The former Executive Director also signed the initial fiscal years 1999 and 2000 Annual Statements showing estimated costs. The current Executive Director signed the Cost Certificate and a revised Annual Statement for fiscal year 1999. The Executive Director has not signed or submitted the Cost Certificate for fiscal year 2000.

The 1998 audited financial statements included CGP expenditures paid at the time of the audit for fiscal years 1996 and 1997. The 1999 audit included the paid expenditures for fiscal years 1997 and 1998. The Independent Public Accountant has not completed the fiscal year 2000 audit, as required by Section 7502 (b)(1) of the Single Audit Act. He stated that he was waiting on the Office of Inspector General audit results, rather than duplicate the work.

OIG Inspections

The OIG inspection results for 13 occupied units at Northside confirmed that the Annual Statements and Cost Certificates were inaccurate for some work categories completed and the number of units involved. For instance, seven units did not have new water heater cabinets installed; eight units did not have new water heaters; and no units had the furrdown for the wall cabinets completed. The following describes detailed examples by fiscal years. See Appendix D for the total questionable expenditures.

Fiscal Years 1996-1998 Annual Statements

The Annual Statements included expenditures totaling $247,944 for work items that were not completed or adequately documented to support the costs. With the exception of the covers for combustion air, every other work category reported had questionable costs. For example, the Annual Statements for fiscal years 1996 and 1997 documented the replacement of 380 water heaters at the Northside development, however the development only has 200 units (197 residential units and 3 off-line units used for police housing). Our inspections revealed that many units did not have new water heaters. The Authority's fixed assets inventory records supported that 83 units did not receive new water heaters, resulting in 117 units receiving new water heaters. Therefore, 263 of the 380 water heaters were unaccounted for.

Fiscal Years 1999 Annual Statement

Our inspection results showed that air conditioning was installed as documented. However, concerns were raised about the number of new appliances purchased, since only 1 of the 13 units inspected had a new range and no units had new refrigerators. The Annual Statement cited the purchase of 90 new ranges and 90 new refrigerators. In February 2002, the maintenance staff inventoried the appliances per the inventory records, the Authority only installed 14 new ranges and 14 new refrigerators.

Therefore, the Annual Statement contained expenditures totaling $45,600 which did not adequately document the eligibility of the costs.

Fiscal Years 2000 Annual Statement

The Annual Statement budgeted $331,665 for air conditioning and $85,593 for carpet and paint. However, the air conditioning was included and completed in the fiscal year 1999 Annual Statement. The current Executive Director has not submitted the Cost Certificate to HUD; therefore support should be submitted documenting the $331, 665 spent, which was budgeted for air conditioning.

The Authority's accounting staff stated that the former Executive Director insisted on preparing the Annual Statements and Cost Certificates. While funds totaling $293,544 were spent without adequately documenting the eligibility of the costs, the Authority did not provide adequate housing needs to its residents.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix F contains the complete text of the comments.

We will concede that cost certifications for the years 1996-1999 contain errors. This report indicated that in the 1996 CGP, the Authority proposed to install 200 water heater cabinets. This number was based on insufficient data found in the Physical Needs Assessment (CGP) dated June 24, 1996. The number of current units was 200. However, the consultant failed to indicate in the application, that the water heater cabinets/closets were to be installed only in the two and four bedrooms, since the one, three and five bedroom units had built-in closets. Therefore, the maximum number of water heater cabinets that could possibly be installed was 88. The total funds expended for this work item, as reflected in the cost certification, was $8,800. The per unit cost was in fact greater than the $44 unit cost reflected in this report at Appendix D. In the final estimate, as submitted by Chris Dardaman, dated May 9, 1997, the cost of installing 88 water heater cabinets was $200 per unit. This being the case, the amount budgeted for this item should have been $17,600 instead of the $8,800 as reflected in the budget and the cost certification.

While it would be a laborious process, revised cost certifications for the periods 1996-1999, might substantially reduce this liability. While incurring costs which might have been unapproved, I am confident that the Authority did not incur costs which were disallowed under the terms of CGP. While we are in agreement with the finding that the cost certifications and/or annual statements were incorrectly prepared, the actual amount of questioned costs may be far less than $293,544.

The Authority can submit a revised 2000 Annual Statement. However, since all but $5,290 of the $732,573 was expended prior to April 25, 2001, the revised Annual Statement, deleting the HVAC, will not resolve this finding. The total grant was expended within 5-months of approval. The most plausible explanation for this rather quick depletion of CGP funding is no doubt explained by Finding 1 of this report. Therefore, this amount ($331,665) is included in the repayment sought (Recommendation 1A) from the L.P.

A 2-year audit contract with Brewster & Associates, CPA was executed on June 13, 2000, to audit the records of the Authority for the periods, ending December 31, 1999, and December 31, 2000. The fiscal year 1999 audit was completed, however, to this date, Brewster has failed to complete the fiscal year 2000 audit. A letter was sent to him on April 18, 2002 reminding him of his contract and the need to meet HUD's audit submission requirements. Brewster advised the Authority in a letter, dated April 25, 2002, "we have been in touch with Mr. Max Walls of the HUD IG office and we will not finish our work until they finish with their work. We do not intend to cover the areas that they have audited in depth and have no reason to duplicate the work. Once they are completed with their audit work, we will converse with them, then complete our work."

OIG Evaluation of Auditee Comments

The questioned expenditures totaling $293,544 and $331,665 respectively, were based on Comprehensive Grant cost certificates from 1996 to 1999, check vouchers, and other supporting documentation. The expenditures were not adequately supported or identifiable as Comprehensive Grant expenditures. Additionally, we analyzed the Authority's account receivables account, which documented the funds spent on the Ida Street project, in order to determine the advances (Recommendation 1A). The records revealed that operating subsidy funds included the majority of funds advanced to the Ida Street project. We identified about $37,000 of CGP funds going directly to the Ida Street project. As a result, the $331,665 was not included in recommendation 1A.

The Authority needs to immediately obtain the required fiscal year 2000 audit. Our OIG audit started in August 2001, which was after the time period the Independent Public Accountant, was required to start the contracted fiscal year 2000 audit.

Recommendations

We recommend that you require the Authority to:

3A. Provide proper supporting documentation or reimburse the CGP $293,544 of unsupported expenditures.

3B. Provide proper support for the $331,665 of expenditures for the fiscal year 2000 Annual Statement, or reimburse the CGP funds.

3C. Obtain the required fiscal year 2000 audit or seek other sources to complete it.


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The Authority Inappropriately Pledged Assets

The Authority pledged its assets as collateral for loans totaling $1,148,029. The former Executive Director violated the Annual Contributions Contract and the Declaration of Trust agreement. These actions occurred because the Board of Commissioners did not: (1) adequately monitor the non-profit and limited partnerships; (2) ensure transactions related to the entities adhered to Federal regulations; and (3) maintain prudent judgment concerning its affiliated entities. The lack of Board oversight resulted in liabilities for non-Federal activities and conflicts of interest, which unjustly enriched private developments at the Authority's expense.

Criteria

Part A, Section 7 of the ACC, Covenant Against Disposition and Encumbrances, states, in part, with the exception of entering into dwelling leases with eligible families for dwelling units in the projects covered by this ACC, and normal uses associated with the operation of the project(s), the housing authority shall not in any way encumber any such project, or portion thereof, without the prior approval of HUD. In addition, the housing authority shall not pledge as collateral for a loan the assets of any project covered under this ACC.

Further, the HUD Declaration of Trust agreement requires the Authority to refrain from transferring, conveying, assigning, leasing, mortgaging, pledging, or otherwise encumbering or permitting any transfer, conveyance, assignment, lease mortgage, pledge or other encumbrance of Authority’s assets for a 20-year period without HUD approval.

The Office of the Inspector General’s Program Integrity Bulletin for Public Housing Agency Commissioners states the Commissioners have ultimate responsibility for public housing agency operations including approving policies and procedures, and ensuring that the public housing agency acts legally and with integrity in its daily operations.

Part A, Section 19 of the ACC, Conflict of Interest, prohibits the Authority from entering into any contract or arrangement in connection with any project under the ACC in which any Authority employee who formulates policy or who influences decisions with respect to the project(s), has an interest, direct and indirect, during his or her tenure or for one year thereafter.

Background

The Authority created the Tupelo Affordable Properties System, Inc. as a non-profit corporation to assist in developing low and very low-income housing. The Authority created two limited partnerships through the non-profit, which included the Tupelo Apartment Homes, L.P. and Tupelo II Apartment Homes, L.P. The partnerships purchased and developed properties known as Ida Street and Meadow Creek, respectively. After completion, both properties were to be combined into one low and very low-income housing development. The former Executive Director served as President for each of the affiliated entities. Three of the five Authority Commissioners served on the Boards of either the non-profit or an affiliated entity. See Appendix E for the details of the entities and their relationship to the Authority.

From August 1999 through January 2001, the former Executive Director obtained a series of loans totaling over $1.1 million dollars. The loans were to rehabilitate the Ida Street and Meadow Creek private developments on behalf of the limited partnerships. The former Executive Director obtained each loan from Bancorp South.

Collateralized Loans Totaling $1,148,029

We identified five loan obligations guaranteed by Authority assets. However, the Board of Commissioners improperly approved three of the loans. The loans totaled $1,148,029 as of the former Executive Director's May 2001 resignation.

Board Resolutions for the approved loans indicated that the loan guarantees were in accordance with the Authority's operational rules, regulations, and bylaws to further the mission and goals for low-income housing. However, HUD neither approved nor was aware that the Authority pledged its assets for loans. The description and purpose for each loan is summarized below.

<u>Ida Street Renovation Costs-$500,000</u>

An architect estimated costs of $2,960,577 to rehabilitate the Ida Street development. After discussion with the former Executive Director, the architect reduced the estimate to $2,789,000. However, per the Architect's Application and Certificate for Payment, costs exceeded the estimate and overruns occurred. Per a Board Commissioner, only 96 out of 242 units were completed in 1999 and cash flow was not sufficient to rehabilitate the remaining units. To compensate, the Board guaranteed a $500,000 loan to finish renovation.

The Board did not ensure the guarantee complied with the ACC or Declaration of Trust, which strictly prohibits encumbrances without HUD approval. Instead, the Board authorized the former Executive Director to do whatever was necessary to complete the Ida Street development. His actions resulted in a contingent liability contrary to Federal regulations and agreements.

<u>Meadow Creek Apartments Rehabilitation-$300,029</u>

In November 1999, the former Executive Director obtained a loan to rehabilitate Meadow Creek Apartments. The promissory note showed loan security as the 23 units of the Meadow Creek development and the Authority. Although the board minutes did not reflect the Meadow Creek loan approval, a Board Commissioner confirmed that the Board agreed to guarantee the note with payments payable from Ida Street's cash flow.

Loan repayment from Ida Street funds was unlikely since its cash flow was insufficient. In 1999, the Authority started enforcing tenant policies such as credit checks and not housing convicted felons. As a result, the Ida Street's occupancy rate dwindled from 95 percent to around 10 percent Due to poor occupancy, the development's cash flow was inadequate to meet everyday expenses, as well as additional obligations.

The Board did not properly review Ida Street's cash flow before the guaranty. We did not identify any outside funding sources or plans to obtain funds to pay the Meadow Creek obligation. As a result, the Authority's decision to guarantee the loan was not prudent.

Ida Street Costs Overruns-$200,000

The former Executive Director requested a $200,000 loan to address additional cost overruns for the Ida Street development. As before, the Board approved the loan guarantee without proper oversight.

The Board relied solely on the former Executive Director's status on the Ida Street development. Per a Board Commissioner, the Board had no knowledge that the development's renovation exceeded projected costs.

Apparently, the former Executive Director withheld crucial financial deficiency information, leaving the Board uninformed. As a result, the Board approved the guaranty.

Ida Street Taxes-$62,000

The former Executive Director obtained a $62,000 loan to pay ad valorem taxes for Ida Street. The Board did not approve the loan or its guaranty. The former Executive Director executed the loan pledging Authority's assets as collateral security.

Interest for Prior Ida Street Loans-$86,000

The former Executive Director overrode Board authority in obtaining an $86,000 loan. The loan was to pay interest for prior loans. The Board was unaware that loan payments were due or that the former Executive Director obtained a loan for such payments.

In summary, the Board of Commissioners did not establish sufficient controls to monitor the non-profit and limited partnerships and ensure transactions relating to the entities adhered to Federal regulations. The decisions to guarantee the obligations were not prudent considering the private developments insufficient cash flows. As a result, the former Executive Director and the Board of Commissioners compromised the Authority's assets by incurring contingent liabilities for non-Federal activities.

Conflicts of Interest

The former Executive Director serving in dual capacities for both the nonprofit and limited partnerships represented a conflict of interest. According to Board Resolutions, the Authority's limited partnerships mandated a narrow purpose, essentially to assist the Authority in developing low-income housing. The developments were owned by a limited partnership, with the Authority receiving financial benefits through management fees. We did not observe any evidence that the limited partnerships provided management fees or other financial benefits to the Authority. In fact, the Authority improperly advanced over $1.4 million of public housing program funds for the Ida Street development.

The former Executive Director's activities involving both the limited partnerships and the Authority influenced crucial decisions. While serving these entities, the former Executive Director formulated policy and made day-to-day decisions. However, some of these decisions were not beneficial to the Authority.

For instance, the former Executive Director had knowledge of Ida Street's financial difficulty. Yet, he continued to communicate to the Board that the development was thriving. With the former Executive Director's influence, the Board guaranteed a series of loans for the private developments. However, the Ida Street project was unsuccessful, leaving the Authority with over $1.1 million in liabilities.

Therefore, the former Executive Director's decisions were not in the Authority's best interest, and unjustly enriched the private developments.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix F contains the complete text of the comments.

The Authority will comply fully. The Authority has informally discussed this matter with BancorpSouth and will formally request BancorpSouth Bank to release and/or cancel the guaranty associated with the debt to the limited partnership.

OIG Evaluation of Auditee Comments

The Authority generally agreed with the finding. We believe the Authority's actions will correct the deficiencies and prohibit future encumbrances.

Recommendations

We recommend that you:

4A. Instruct the Authority to pursue removal of the guaranty for all loans.

4B. Require the Authority to ensure its assets are not encumbered without HUD approval.

4C. Assist the Authority in either bringing its limited partnerships into compliance functionally within HUD's regulations and agreements, or abolishing them.

4D. Ensure the Board of Commissioners fulfills its responsibilities and duties, as required.

Controls Over Appliances Were Inadequate

The Authority did not adequately control its inventory of appliances. The fixed assets inventory was not current and appliances had not been inventoried for over 2-years. The Inventory Control Clerk stated that in 1999 she was advised to cease accounting for those assets and their location. As a result, there was an increased risk that assets could be stolen, mishandled or diverted.

Criteria

The Public and Indian Housing Low-Rent Technical Accounting Guide, 7510.1, Section II-3 states, in part, that effective control and accountability must be maintained for all cash, real and personal property, and other assets. The Housing Authority must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Paragraph 15 of the Authority's September 29, 1999, Maintenance Plan, states that the Maintenance/Inventory Clerk shall establish an appliance inventory system. A card shall be kept on each unit with the serial number of the stove and refrigerator in the unit, the date the appliance was placed in the unit, and the date it was removed from the unit. When the appliance becomes inoperable and needs to be sold or salvaged, the clerk shall keep a copy of the serial number and type of disposal.

Appliance Inspections

We inspected 13 occupied units at the Northside development to compare the appliance serial numbers with the fixed assets inventory listing. We determined that the inventory listing was not current or accurate. The listing did not include nine refrigerators and five ranges, and was incorrect for another four ranges. Overall, the listing did not document 58 refrigerators and 51 ranges for the 197 units.

The Inventory Control Clerk stated that in 1999, the Fee Accountant advised her to stop accounting for appliances, if the cost was less than $500. She said the accounting staff ordered appliances over the years, but she was not accounting for them or performing an inventory. Currently, she remains about 1-year behind in updating the inventory list. The Fee Accountant stated the Authority changed its capitalization policy to $500 in 1999, as permitted by generally accepted accounting principles. He said the change pertained to accounting treatment, and should not have precluded maintaining an appropriate inventory list. Regardless, an adequate inventory system was not in place to account for the Authority's fixed assets.

A May 2001 consultant review of the maintenance department included comments stating that the Authority's annual inspection forms should provide space for the equipment serial numbers. The information should be checked against the equipment cards to ensure correct documentation with each unit's inventory. The Authority's annual inspections did not include an inventory of the appliances.

Due to the lack of inventory controls, 70 refrigerators and 99 ranges purchased with Authority's funds were located at the Ida Street non-subsidized development.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix F contains the complete text of the comments.

The Authority has implemented an inventory control procedure. The Authority will conduct an annual inventory of its physical properties.

The partnership has been notified that the Authority will require reimbursement on all refrigerators and ranges improperly purchased with federal funds.

OIG Evaluation of Auditee Comments

The Authority generally agreed with the finding. We believe the Authority's actions will strengthen controls over its inventory.

Recommendations

We recommend that you require the Authority to:

5A. Implement the inventory procedures required in its Maintenance Plan.

5B. Perform periodic physical inventory counts of appliances to ensure effective control and accountability.

5C. Remove the refrigerators and ranges from the Ida Street development or require reimbursement from the partnership.

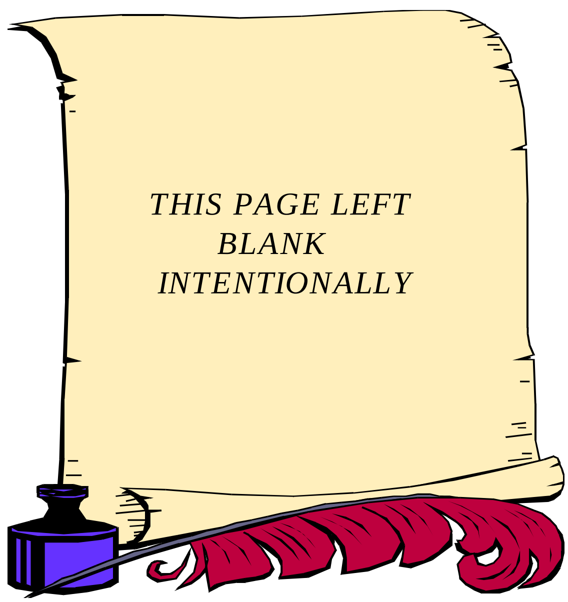


Table of Contents
Exit

Management Controls

In planning and performing our audit, we considered the management controls of the Housing Authority of the City of Tupelo in order to determine our auditing procedures, not to provide assurance on the controls. Management is responsible for establishing effective management controls to ensure that its goals are met. Management controls 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, organization, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Program Operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Validity and Reliability of Data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with Laws and Regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss and misuse.

Assessment Procedures

We assessed the relevant controls identified above by:

- Reviewing the regulations governing the program;

- Interviewing HUD officials, Authority staff, Board of Commissioners, and vendors;

- Performing unit and appliance inspections;

- Reviewing cash disbursement records and files related to the eligibility and use of HUD program funds;

- Reviewing receipts, deposits, and applicable records and files; and
- Analyzing studies and reports from a consultant and its independent public accountant.

Significant Weaknesses

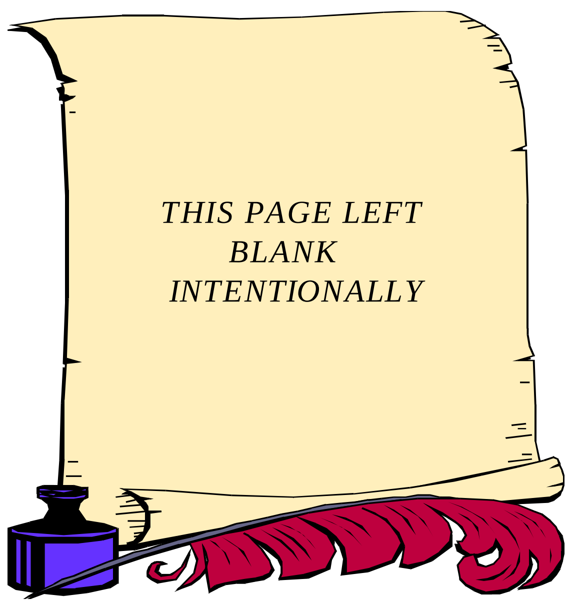
It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

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

- Program Operations The Authority did not maintain its housing units in good repair and condition. (See Finding 2)
- Validity and Reliability of Data The former Executive Director improperly certified that the CGP Annual Statements were accurate and the work was completed. (See Finding 3) The Authority's Board of Commissioners lack of oversight resulted in inappropriate pledging of assets. (See Finding 4) The Authority's fixed assets inventory was not current. (See Finding 5)
- Compliance with Laws and Regulations The Authority improperly advanced over $1.4 million of funds for non-Federal activities, which violated the ACC. (See Finding 1) The Authority did not perform the required inspections for its housing units. (See Finding 2) Contrary to HUD requirements, the Authority did not spend its CGP funds on work approved or obtain HUD's approval for budget revisions. (See Finding 3) The former Executive Director violated the ACC and Declaration of Trust Agreement, by pledging the Authority's assets as collateral for loans totaling $1,148,029. (See Finding 4) The Authority did not adequately inventory its appliances as required by it Maintenance Plan. (See Finding 5)

Table of Contents Exit

- Safeguarding Resources The Authority improperly advanced over $1.4 million for non-Federal activities. (See Finding 1) The Authority did not spend its CGP funds on work approved. (See Finding 3) The Authority pledged its assets as collateral for loans totaling $1,148,029. (See Finding 4) The Authority did not adequately control its inventory of appliances. (See Finding 5)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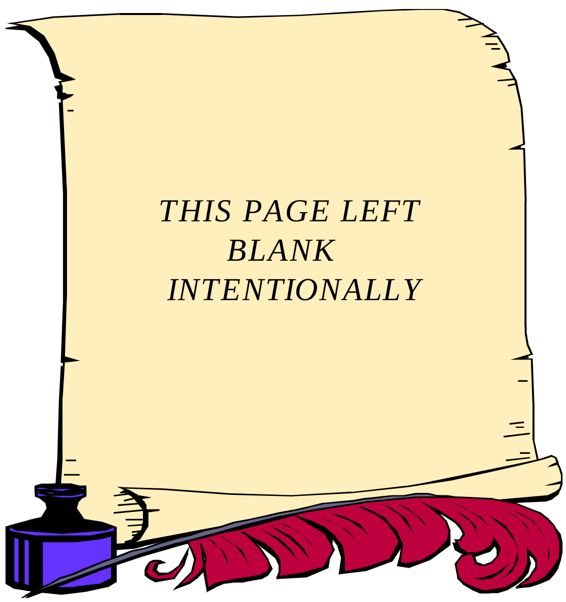
Follow Up On Prior Audits

This was the first Office of Inspector General audit of the Housing Authority of the City of Tupelo.

Brewster and Associates, P.A. completed the last Independent Auditor audit report for the year ending December 31, 1999. The report issued August 24, 2000, did not contain any findings.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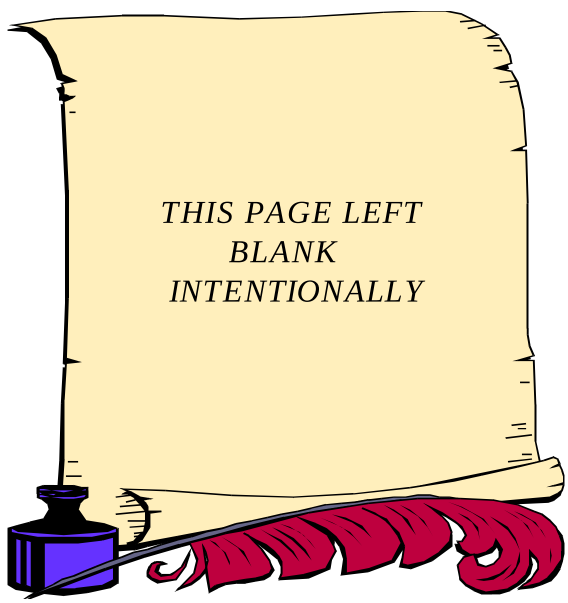
Schedule of Ineligible and Unsupported Costs

Recommendation Number	Ineligible 1/	Unsupported 2/
1A	$728,159	
3A		$293,544
3B		$331,665
Totals	$728,159	$625,209

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

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and 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.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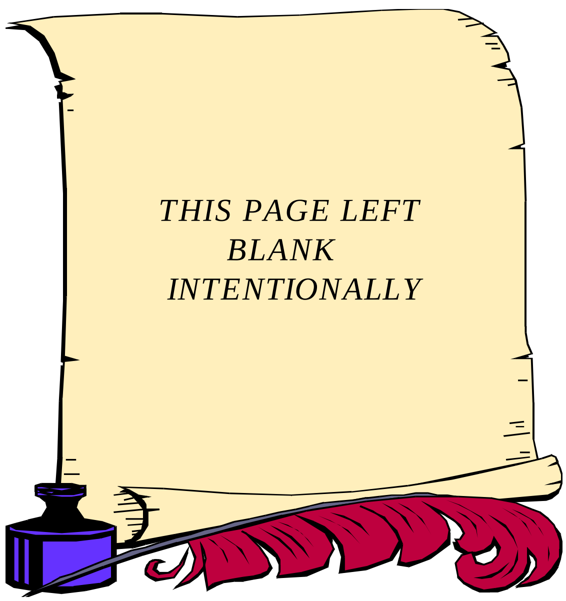
Examples of HQS Violations-Vacant Units

Living room wall was heavily damaged.

Bathroom door was hazardously damaged.

Window was missing perimeter trim.

Hall ceiling was damaged.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Examples of HQS Violations-Occupied Units

Refrigerator was unsanitary.

Washer connection for electrical outlet was missing and wiring exposed.

Walls had peeling paint.

Combustion pipes were not sealed.

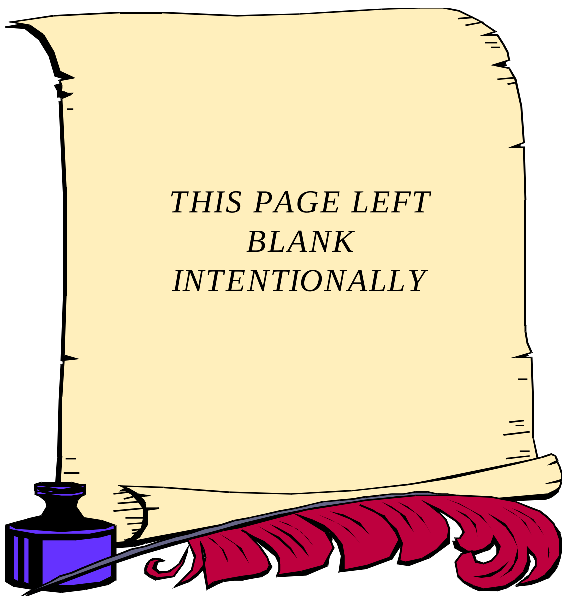


Table of Contents

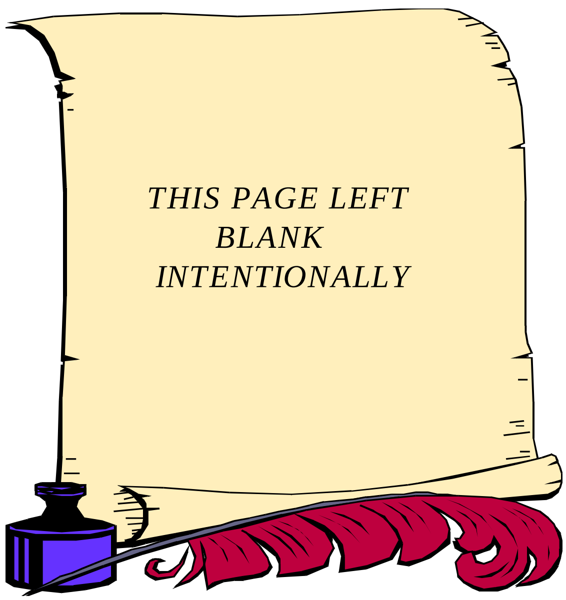
Exit

Schedule of Questionable CGP Costs

Work Category	Fiscal Year	Quantity Reported	Funds Expended	Cost Per Unit	Quantity Installed	Questioned Costs
Install Water Heater Cabinets	1996	200	$8,800	$44	88 (a)	$4,928
Replace Wall Furnaces	1996	200	64,800	324	162 (b)	12,312
Replace Water Heater	1996	200	60,000	300	117 (c)	24,900
Replace Water Heater	1997	180	96,000	533	0	86,616 (d)
Replace Wall Furnaces	1997	136	117,158	861	0 (e)	117,158
Furrdown for Wall Cabinets	1998	102	29,600	290	95 (f)	2,030
Cover for Combustion Air	1998		33,812			0
Install HVAC	1999	200	342,465	1,712	200	0
New Stoves	1999	90	18,900	210	14 (g)	15,960
New Refrigerators	1999	90	35,100	390	14 (h)	29,640
Total Questioned Costs						$293,544

Notes:

a. 88 units had new water heater cabinets.
b. 162 units is the maximum number of units for furnace installations.
c. 83 units did not receive new water heaters.
d. Water heaters were paid in the prior fiscal year. Finding 1 includes ineligible costs of $9,384 for 69 units purchased for the Ida Street development. Therefore, questioned cost is $86,616 ($96,000 – $9,384).
e. Wall furnaces were paid in the prior fiscal year.
f. Cabinet furrdowns were planned for 3, 4, and 5 bedroom units, which totaled 102 units; 7 units did not have the furrdown cabinet completed based on the inspections performed.
g. 14 units had new stoves.
h. 14 units had new refrigerators.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Non-Profit Corporation and Limited Partnerships

The following information explains the Authority and its subsidiaries' involvement in the Ida Street and Meadow Creek non-subsidized developments.

The Housing Authority of the City of Tupelo, Mississippi

The Authority served a number of roles in both the Ida Street and Meadow Creek developments. The Authority was the initial limited partner for Tupelo Apartment Homes, L.P., with planned replacement by Chevron, as invested partner, after tax credit approval. Also, the Authority was the initial limited partner for Tupelo II Apartment Homes, L.P., with plans of combining both Ida Street and Meadow Creek.

The Authority obtained bonds and an Affordable Home Program grant to purchase and rehabilitate Ida Street. The Authority, through a limited partnership, purchased Meadow Creek with a promissory note. The Authority was to serve as manager for both projects.

Tupelo Affordable Properties System, Inc.

Formed by the Authority, Tupelo Affordable Properties System, Inc. is a Mississippi non-profit corporation utilized to develop opportunities for low and very low-income housing. The organization's role in the private developments was to provide social services and serve as developer for the rehab work on both the Ida Street and Meadow Creek projects. Tupelo Affordable Properties System, Inc. was to retain any developer fees incurred from the rehab work of both projects to further its affordable housing goals.

Tupelo Housing Authority/Tupelo Affordable Properties System, LLC

The Authority and Tupelo Affordable Properties Systems, Inc. formed a Mississippi limited liability company to own all stock in Tupelo Apartment Homes, Inc. Tupelo Affordable Properties Systems, Inc. maintained a 99 percent interest; and, the Authority had a 1 percent interest in the organization, which was an Affordable Home Program grant requirement. The organization's primary roles included: (1) electing a Board of Directors for Tupelo Apartment Homes, Inc.; and, (2) approving matters involving Tupelo Apartment Homes, Inc., which required shareholder approval. Tupelo Affordable Properties System, Inc. served as the manager of the company.

Tupelo Apartment Homes, Inc.

Tupelo Apartment Homes, Inc. is a Mississippi for-profit corporation formed solely to act as General Partner for the limited partnerships. Tupelo Apartment Homes, Inc. governed the limited partnership, which included signature authority on all primary documents and transfer of the Affordable Home Program grant to Tupelo Apartment Homes, L.P.

Tupelo Apartment Homes, L.P.

Tupelo Apartment Homes is a Mississippi limited partnership, consisting of Tupelo Apartment Homes, Inc. (general partner) and the Authority (initial limited partner). Chevron U.S.A was to make capital contributions to the partnership based on tax credit approval. Then, Chevron was to replace the Authority as limited partner. The partnership would own the project during a 15-year period for tax credit purposes, with the Authority receiving management fees. After the 15-years expiration period, Tupelo Apartment Homes, L.P. would sell the development to the Authority.

Chevron withdrew from the partnership agreement due to questionable tenant income records, which lead to the Authority not being approved for tax credits. HUD required the Authority to relinquish management of Ida Street in May 2001. Regions Bank, trustee, currently manages the Ida Street development.

Tupelo II Apartment Homes, L.P.

Tupelo II Apartment Homes, L.P. is a Mississippi limited partnership established to purchase and rehabilitate Meadow Creek, a private development, located in the Ida Street district. Tupelo II Apartment Homes, L.P. owned Meadow Creek, with the Authority obtaining management fees. To date, the Authority remains manager of Meadow Creek.

Auditee Comments

HICKMAN M. JOHNSON, PHM
Executive Director

TUPELO HOUSING AUTHORITY

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June 13, 2002

Mrs. Nancy H. Cooper
Regional Inspector General
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U.S. Department of Housing and Urban Development
Region IV Office of the Inspector General
Office of Audit
Richard B. Russell Federal Building
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Atlanta, GA 30303-3388

Re: Audit, Tupelo Housing Authority

Dear Mrs. Cooper:

This is in response to the draft audit of the Tupelo Housing Authority dated, June 3, 2002.

Finding 1- Housing funds were improperly advanced to a private development

Recommendation 1A. Require the Authority to seek repayment of the $728,159 owed from the Tupelo Apartment Homes, L.P.

Response. Regions Bank, interim bond trustee, has been apprised of the L.P.'s subordinate obligation. This subordinate obligation includes a note to BancorpSouth Bank and the reimbursement to the PHA of advances made to the L.P. To satisfy this secondary obligation, the L.P. has proposed a restructuring of the existing bond indebtedness which would permit excess cash, after stabilization, to be applied to the subordinate obligation. This obligation would be paid in six annual installments beginning April 2005.

Recommendation 1B. Require the Authority to discontinue any future advances to the Tupelo Apartment Homes, L.P.

Table of Contents Exit

Mrs. Nancy H. Cooper
June 13, 2002

Page 2

Response. The Board of Commissioners will not authorize or approve any advances of federal funds to the L.P.

Recommendation 1C. Debar the former Executive Director from future participation in HUD related programs.

Response. The PHA is confident that the Field Office will make the appropriate decision in this matter.

Finding 2 -Housing did not meet quality standards

Recommendation 2A. Correct all HQS violations noted during our inspections.

Response. Twenty-seven units were inspected during the course of this investigation. Of the twenty-seven units inspected, fourteen were vacant and thirteen were occupied. Twenty-two of the twenty-seven units were placed in the modernization program and were slated for renovation. Construction has been completed on eight of the twenty-seven units, bringing them up to HQ standards. One additional unit will be completed within the next thirty days. Thirteen units are scheduled for FY03. Five units are still occupied as of this date. Three transfers will be made when Mod releases completed units. The remaining two units meet HQ standards.

Recommendation 2B. Inspect all units, including structures and systems, and correct all HQS violations.

Response. The PHA conducted an inspection of all units, including systems, and corrected all HQS violations. Correction of deficiencies was a priority. The 2001 average REAC score was 76.5. The February 2002 average REAC score was 94.25. The significant improvement in REAC inspection score is evidence that the PHA has addressed this issue of deficiencies.

Recommendation 2C. Implement its Maintenance Plan to ensure annual inspections and preventive maintenance are performed.

Response. The Board of Commissioners adopted a revised Maintenance Policy on March 21, 2002. This policy addresses the following issues: emergency, work orders, general cleaning, unit turnover, inspections and preventive maintenance. Pursuant to this revised policy, the Director of Maintenance is charged with the responsibility of establishing measures that will allow the effectiveness of maintenance systems and activities and their evaluation. Adherence to this policy will guarantee the timely performance of all duties required of that department.

Finding 3 - Comprehensive Grant Program funds were not spent as approved.

Mrs. Nancy H. Cooper
June 13, 2002

Page 3

Recommendation 3A. Reimburse the Comprehensive Grant Program $293,544 for ineligible expenditures.

Response. Requiring the PHA to reimburse the CGP in the amount of $293,544 would seriously impair the modernization program and the PHA's attempt to bring ninety depressed units back online and available to those who so desperately need decent, safe, and sanitary housing. To satisfy this claim, future capital funding amounts would have to be reduced. Reducing future CFP funding will almost certainly doom any effort to address HQS deficiencies, since the lack of funding is the most blatant impediment to bringing the developments up to HQ standards.

We will concede that cost certifications for the years 1996-1999 contain errors. These errors, however, are the result of inept reporting, a lack of thorough planning and review, and the PHA's failure to follow acceptable accounting procedures in tracking grant activity. This report indicated that in the 1996 CGP, the PHA proposed to installed 200 water heater cabinets. This number was based on insufficient data found in the Physical Needs Assessment (CGP) dated June 24, 1996. The consultant completing the application, identified the installation of water heater cabinets/closets as an urgent need, rating it #1. The number of current units was 200. However, the consultant failed to indicate in the application, that the water heater cabinets/closets were to be installed only in the two and four bedrooms, since the one, three and five bedroom units had built-in closets. Therefore, the maximum number of water heater cabinets that could possibly be installed was eighty-eight. Had this application and subsequent reports been subjected to a thorough review, this error might not have gone undetected. The total funds expended for this work item, as reflected in the cost certification, was $8,800. The per unit cost was in fact greater than the $44 unit cost reflected in this report at Appendix D. In the final estimate, as submitted by Chris Dardaman, dated May 9, 1997, the cost of installing eighty-eight water heater cabinets was $200 per unit. This being the case, the amount budgeted for this item should have been $17,600 instead of the $8,800 as reflected in the budget and the cost certification.

This is only one of several items where costs were questioned. While it would be a laborious process, revised cost certifications for the periods 1996-1999, might substantially reduce this liability. While incurring costs which might have been unapproved, I am confident that the PHA did not incur costs which were disallowed under the terms of CGP. Prior to the Azalea Garden's project, all CGP funds went directly to PHA owned properties and activities.

Imposing this requirement on the PHA can only compound the problems facing this Agency. A cursory review of the CGP program for the periods 1996-1999, supports the proposition that modernization work was done, although some of the work may not have been identified in the annual plan or submitted to HUD for prior approval. The executive director might have exercised the rule of fungibility, moving forward and/or backward some work items included in the five-year plan. While we are in agreement with the finding that the cost certifications and/or annual statements were incorrectly prepared, the actual amount of questioned costs may be far less than $293,544. Revised cost certifications may remedy this problem. In any

Mrs. Nancy H. Cooper
June 13, 2002

Page 4

case, this recommendation is severe and requiring the PHA to reimburse CGP will cause irreparable harm to the current modernization program. Therefore, the PHA respectfully requests that HUD abate all of the reimbursement payment, or at least that portion from repayment, if it can be shown that the funds were spent on activities performed on PHA owned properties which are covered by the ACC.

Recommendation 3B. Submit a budget revision for the fiscal year 2000 Annual Statement reducing it by $331,665 for the air conditioning, or reimburse the Comprehensive Grant Program.

Response. The PHA can submit a revised 2000 Annual Statement. However, since all but $5,290 of the $732,573 was expended prior to April 25, 2001, the revised Annual Statement, deleting the HVAC, will not resolve this finding.

The total grant was expended within five months of approval. The most plausible explanation for this rather quick depletion of CF funding is no doubt explained by Finding #1 of this report. Therefore, this amount ($331,665) is included in the repayment sought (Recommendation 1A) from the L.P. There is reason to believe that the advances to the L.P. may have reduced the cash available to the PHA for current debt, forcing the PHA to use CF funding to meet these obligations.

Recommendation 3C. Obtain the required fiscal year 2000 audit or seek other sources to complete it.

Response. The PHA agrees with this finding. A two year audit contract with Brewster & Associates, CPA was executed on June 13, 2000 to audit the records of the PHA for the periods, ending December 31, 1999 and December 31, 2000. The FY1999 audit was completed, however, to this date, Brewster has failed to complete the FY2000 audit. A letter was sent to him on April 18, 2002 reminding him of his contract and the need to meet HUD's audit submission requirements. Brewster advised the PHA in a letter, dated April 25, 2002, "we have been in touch with Mr. Max Walls of the HUD IG office and we will not finish our work until they finish with their work. We do not intend to cover the areas that they have audited in depth and have no reason to duplicate the work. Once they are completed with their audit work, we will converse with them, then complete our work."

Finding 4 - The Authority inappropriately pledged assets.

Recommendation 4A. Instruct the Authority to pursue removal of the guaranty for all loans.

Response. The PHA has informally discussed this matter with BancorpSouth and will formally request BancorpSouth Bank to release and/or cancel the guaranty associated with the debt to the limited partnership.

Table of Contents

Exit

Mrs. Nancy H. Cooper
June 13, 2002

Page 5

Recommendation 4B. Require the Authority to ensure its assets are not encumbered without HUD approval.

Response. The PHA agrees with this recommendation and will comply fully.

Recommendation 4C. Assist the Authority in either bringing its limited partnerships into compliance functionally within HUD's regulations and agreements or abolishing them.

Response. The PHA welcomes the assistance of the Field Office in ensuring the viability of the limited partnership.

Recommendation 4D. Ensure the Board of Commissioners fulfills its responsibilities and duties, as required.

Response. The PHA welcomes the assistance of the Field Office in ensuring that the Board fulfills its duties and responsibilities.

Finding 5 - Controls over appliances were inadequate.

Recommendation 5A. Implement the inventory procedures required in its Maintenance Plan.

Response. The PHA has implemented an inventory control procedure.

Recommendation 5B. Perform periodic physical inventory counts of appliances to ensure effective control and accountability.

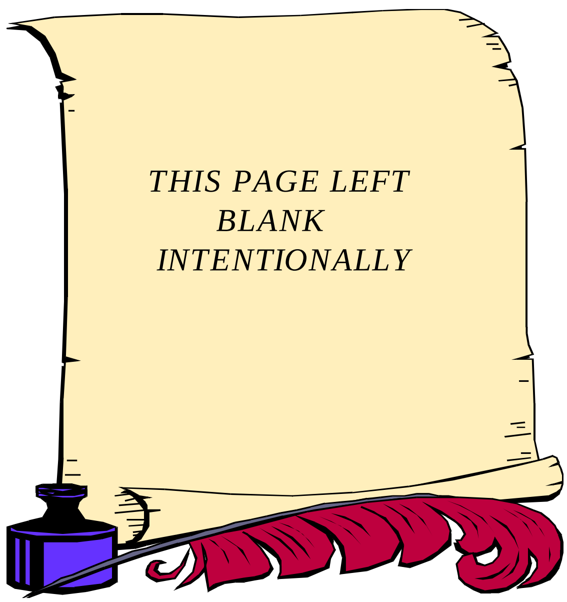
Response. The PHA will conduct an annual inventory of its physical properties.

Recommendation 5C. Remove the refrigerators and ranges from the Ida Street development or require reimbursement from the partnership.

Response. The partnership has been notified that the PHA will require reimbursement on all refrigerators and ranges improperly purchased with federal funds.

Sincerely,

Hickman M. Johnson
Executive Director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