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AUDIT MEMORANDUM
2002-CH-1801

January 29, 2002

MEMORANDUM FOR: Thomas S. Marshall, Director of Public Housing Hub, Cleveland
Area Office

FROM: Heath Wolfe, District Inspector General for Audit, Midwest

SUBJECT: Housing Authority Of The City Of Evansville
Hotline Complaint
Evansville, Indiana

We completed a review of the Housing Authority of the City of Evansville. The review resulted from an anonymous complaint to our Hotline. The objectives of our audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations were followed.

The complainant's specific allegations were: (1) the Housing Authority's former Chief Executive Officer committed racial and sexual discrimination, and harassment against the Authority's residents and employees, and minority owned businesses; (2) the Authority's Board of Commissioners and its former Chief Executive Officer conducted a smear campaign against members of the Evansville community with the intent to slander and diminish the financial opportunities available to the members; (3) the Authority's Interim Director of Section 8 and Staff Attorney violated community members' and Authority employees' civil rights; (4) the Authority and its corporations failed to follow applicable procurement requirements in the award of contracts for the demolition of Lincoln Gardens, development of Lincoln Estates, and the cleaning of the Authority's housing units; and (5) the Authority improperly established corporations. The complainant also alleged that the Authority misused funds by allowing the: (1) abandonment of the renovation to the Authority's former offices, and the purchase and renovation of property located at 500 Court Street for the Authority's new offices; (2) Authority's former Chief Executive Officer to live in the penthouse apartment located at 500 Court Street and to utilize the Authority's basement for his own personal use; (3) demolition of Lincoln Gardens when financing for the construction of Lincoln Estates was not determined; (4) sale of the property where Lincoln Gardens

was located to one of the Authority's corporations; (5) residence located at 620 Washington Avenue, which was planned to provide housing for people with AID's, not to be established after the property was purchased and allowed stained glass windows to be removed from the property at the request of the Authority's former Chief Executive Officer and a Commissioner; (6) the Authority's playground equipment to be moved to a school where one of the Authority's Commissioners was principal, rather than to a church who requested the equipment; (7) threat of eminent domain to purchase property for a community shopping center; and (8) the Authority's former Chief Executive Officer and Interim Director of Section 8 to receive pay raises that were excessive.

The Housing Authority was established under the laws of the State of Indiana. A seven member Board of Commissioners governs the Housing Authority. The former Chairman of the Board is Jack Buttrum. His term expired on December 31, 2001. The Authority's Board has not elected a new Chairman as of January 23, 2002. The Board's Vice Chairman is Lu Porter. During our audit, the Authority's former Chief Executive Officer John W. Collier resigned effective February 2, 2001. The Authority's current Executive Director is Paul L. Fletcher. The Authority's books and records are located at 500 Court Street, Evansville, Indiana.

As of October 17, 2001, the Housing Authority operated seven HUD programs: (1) a Public Housing Program consisting of 1,049 units; (2) a Section 8 Program consisting of 1,612 units; (3) a Comprehensive Grant Program; (4) a Public Housing Drug Elimination Grant Program; (5) an Economic Development and Supportive Services Grant Program; (6) a Resident Opportunities for Self Sufficiency Grant Program; and (7) a Homebuyers Program. The Authority also operated six non-HUD programs: (1) a Subsidized Housing Program; (2) a Development Fund Program; (3) a Youth Sport Grant Program; (4) a Substance Abuse Council Grant Program; (5) an Arts Grant Program; and (6) the Washington Court Program.

To accomplish our audit objectives, we interviewed: HUD's staff; State of Indiana and City of Evansville officials; the Authority's current and former Commissioners, current and former employees, and contractors; and members of the Evansville community. We analyzed the Authority's: audited financial statements for the periods ending December 31, 1998 and December 31, 1999; meeting minutes of its Board of Commissioners; By-Laws; Articles of Incorporation; Certificates of Limited Partnership; Agreements of Limited Partnership; cancelled checks; purchase orders; vendor and contractor files; Accounts Payable Invoice History Listings; Accounts Payable Listings; bank statements; journal entries; Section 8 Program tenant files; Annual Statement/Performance and Evaluation Report on Replacement Reserve and Five-Year Action Plan for the Comprehensive Grant Program; the HOPE I Program files; personnel files; Fiscal Year 2000 cost allocation plan; and policies and procedures.

We also reviewed: HUD's files for the Authority; Parts 24, 85, 963, and 968 of Title 24 of the Code of Federal Regulations; Office of Management and Budget Circular A-87; the Consolidated Annual Contributions Contract between HUD and the Authority; the Section 8 Annual Contributions Contract for the Rental Certificate and Rental Voucher Programs between HUD and the Authority; the November 1990 Public Housing Agency Commissioners Program Integrity Bulletin; HUD Handbook

1378.0; HOPE I Implementation Grant Agreement between HUD and the Authority; and Title 36 of the Indiana Code. We judgmentally selected 11 of the Housing Authority's employees whose salaries were charged to the Authority's various programs to determine the time they spent related to the programs.

We did not address three of the complainant's allegations since they related to issues that are not in the scope of our authority. The three allegations were: the Housing Authority's former Chief Executive Officer committed racial and sexual discrimination, and harassment against the Authority's residents and employees, and minority owned businesses; the Authority's Board of Commissioners and its former Chief Executive Officer conducted a smear campaign against members of the Evansville community with the intent to slander and diminish the financial opportunities available to the members; and the Authority's Interim Director of Section 8 and Staff Attorney violated community members' and Authority employees' civil rights.

We found that the Housing Authority's former and current management staff, and its Board of Commissioners did not sufficiently exercise their responsibilities to effectively manage the Authority. Specifically, the Housing Authority's management staff and/or its Commissioners: (1) misused \$911,283 in funds (HOPE I sales proceeds and Comprehensive Grant Program) to purchase and renovate its administration building; (2) improperly awarded three consulting contracts worth over \$70,000 and \$10,368 in fringe benefits to its former Chief Executive Officer; (3) awarded five cleaning contracts that totaled \$199,605 without full and open competition and/or when conflicts of interest existed; (4) inappropriately acquired, developed, and disposed of property for the Emporia Project; (5) did not exercise sound management practices over steel purchased for construction work; and (6) did not establish an acceptable cost allocation plan to support the allocation of costs among the Authority's programs. As a result, HUD lacks assurance that the Housing Authority's resources were used to the maximum extent to benefit low and moderate income tenants.

We presented our draft findings to the Housing Authority's current Executive Director and HUD's staff during the audit. We held an exit conference with the Authority's Executive Director and former Chairman of the Board on November 2, 2001. The Authority provided written comments to our findings. The Authority agreed with all of the draft findings. The complete text of the Housing Authority's comments is in Appendix B with the exception of eight attachments/exhibits that were not necessary for understanding the Authority's comments. A complete copy of the Authority's responses with the attachments/exhibits was provided to HUD's Director of the Cleveland Area Office of Public Housing Hub. A copy of this memorandum was provided to the Authority's Executive Director and Vice Chairman of the Board.

Within 60 days, please provide us, for each recommendation made in this memorandum, 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. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please have them contact me at (312) 353-7832.

The Housing Authority Was Not Operated According To Program Requirements

The Housing Authority of the City of Evansville's former and current management staff, and its Board of Commissioners did not sufficiently exercise their responsibilities to effectively manage the Housing Authority. Specifically, the Housing Authority's management staff and/or its Commissioners: (1) misused \$911,283 in funds (HOPE I sales proceeds and Comprehensive Grant Program) to purchase and renovate its administration building; (2) improperly awarded consulting contracts and fringe benefits to its former Chief Executive Officer; (3) awarded five cleaning contracts without full and open competition and/or when conflicts of interest existed; (4) inappropriately acquired, developed, and disposed of property for the Emporia Project; (5) did not exercise sound management practices over steel purchased for construction work; and (6) did not establish an acceptable cost allocation plan to support the allocation of costs among the Authority's programs. The Housing Authority's former and current management staff, and its Board of Commissioners were not aware of Federal requirements, State of Indiana law, and the Housing Authority's policies to ensure the Authority was operated according to program requirements. As a result, HUD lacks assurance that the Housing Authority's resources were used to the maximum extent to benefit low and moderate income tenants.

HUD's Regulations

24 CFR Part 24.110 permits HUD to take administrative sanctions against employees and board members of recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation and are authorized by 24 CFR Parts 24.300, 24.400, or 24.700, respectively. HUD may impose administrative sanctions based upon the following conditions:

- Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);
- Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance or guarantee, or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee (limited denial of participation);

- Violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment);
- Any other cause so serious or compelling in nature that it affects the present responsibility of a person (debarment); or
- Material violation of a statutory or regulatory provision or program requirements applicable to a public agreement or transaction including applications for grants, financial assistance, insurance or guarantees, or to the performance of requirements under a grant, assistance award, or conditional or final commitment to insure or guarantee (debarment).

Responsibilities Of Board Of Commissioners And Management Staff

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Authority's management staff and employees to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

The responsibility for carrying out the Commissioners' policies and managing the Housing Authority's day-to-day operations rests with the Authority's principal management staff. In particular, the management staff must maintain the Housing Authority's overall compliance with its policies and procedures and Federal, State, and local laws.

Funds Were Misspent To Purchase And Renovate The Administration Building

The Housing Authority's former Chief Executive Officer and former Director of Operations did not follow the HOPE I Implementation Grant Agreement, HUD's regulations, and the Consolidated Annual Contributions Contract regarding the use of funds for the Authority's administration building. The Housing Authority improperly used HOPE I sales proceeds to purchase

the building located at 500 Court Street for its administration offices. The Authority also misused Comprehensive Grant Program funds to renovate the building after it was purchased (See Finding 2).

The Authority's Former
Chief Executive Officer
Inappropriately Received
Consulting Contracts And
Fringe Benefits

The Housing Authority's Board of Commissioners failed to ensure that HUD's regulations, Office of Management and Budget Circular A-87, the Consolidated Annual Contributions Contract, the Section 8 Annual Contributions Contract, State of Indiana law, and/or the Authority's policies were followed regarding contracts with and payments to its former Chief Executive Officer. Specifically, the Housing Authority and Washington Court Redevelopment Corporation, a non-profit organization established by the Authority to provide housing to low and moderate income individuals, improperly awarded consulting contracts to the Authority's former Chief Executive Officer. The Housing Authority also paid its former Chief Executive Officer \$10,368 for monetized vacation time, sick leave, and personal leave. The payment of the monetized time and leave was not reasonable and necessary to the Housing Authority's operations (See Finding 3).

The Authority's Contracting
Process Needs To Be
Improved

The Housing Authority's former Chief Executive Officer, current Director of Asset Management, and a current Commissioner did not ensure that the Authority followed HUD's regulations, the Consolidated Annual Contributions Contract, State of Indiana law, and the Authority's Procurement Policy regarding the award of cleaning services for its housing units and offices. The Housing Authority awarded two contracts for cleaning services when conflicts of interest existed. The Housing Authority also did not competitively award three cleaning contracts to a resident-owned business (See Finding 4).

The Authority's Actions
Regarding The Emporia
Project Were Improper

The Housing Authority's former Chief Executive Officer and the current Interim Director of Section 8 did not follow HUD's regulations, the Consolidated Annual Contributions Contract, and/or HUD Handbook 1378.0 regarding the acquisition, development, and

disposition of property for the Emporia Project. Specifically, the Housing Authority: improperly used HUD funds to acquire, develop, and dispose of property; misused its eminent domain authority related to the purchase of property; and failed to publicly solicit bids when it disposed of the property. The Housing Authority also failed to obtain HUD's approval to acquire and sell the property (See Finding 5).

Sound Management Practices Were Not Exercised By The Authority Over Its Construction Steel

The Housing Authority's former Chief Executive Officer and its current Director of Special Programs did not follow HUD's regulation, Office of Management and Budget Circular A-87, and the Consolidated Annual Contributions Contract regarding steel purchased for construction work. Specifically, the Housing Authority used \$17,278 in Comprehensive Grant Program funds to purchase the steel for construction work on its former administration offices located at 411 South East 8th Street. The Housing Authority stopped the work because it purchased a building located at 500 Court Street for its offices. As of July 2001, the Housing Authority had not made a decision regarding the unused steel. In addition, \$1,730 in steel decking rusted and was discarded because it was not fit for use (See Finding 6).

A Cost Allocation Plan Was Not Established To Sufficiently Allocate Costs To The Authority's Various Programs

The Housing Authority's former Chief Executive Officer and its current Director of Finance did not follow HUD's regulation and Office of Management and Budget Circular A-87 regarding the establishment of an acceptable cost allocation plan to support the allocation of costs among the Authority's programs. Specifically, the Housing Authority did not charge employees' salaries and fringe benefits to all of the Authority's programs that received their services. The Authority also failed to allocate non-salary costs to its various programs (See Finding 7).

The Authority's Staff And Board Were Not Aware Of Program Requirements

The Housing Authority's former and current management staff, and its Board of Commissioners lacked procedures and controls over its programs to ensure that they were operated according to Federal requirements, State of Indiana law, and the Authority's

policies. The management staff included the Housing Authority's: former Chief Executive Officer who consults to various public housing authorities; the former Director of Operations who is now Deputy Executive Director of the Rochester Housing Authority in Rochester, New York; the current Director of Asset Management; the current Interim Director of Section 8; the current Director of Special Programs; and the current Director of Finance. In these capacities, the current and former management staff controls a substantial portion of or can influence the use of HUD funds. As a result of the actions or inactions by the Housing Authority's former and current management staff and its Board of Commissioners, HUD lacks assurance that the Housing Authority's resources were used to the maximum extent to benefit low and moderate income tenants.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 48 and 49, contains the complete text of the comments.]

The Housing Authority agrees that its former and current management staff did not sufficiently exercise their responsibilities to effectively manage the Authority. The Housing Authority also agrees that its Board of Commissioners did not effectively monitor the operations of the Authority's staff. Therefore, the Housing Authority will obtain training for: its current management staff regarding Federal requirements, State of Indiana law, and the Authority's policies so that its programs are operated correctly; and its Board of Commissioners regarding their roles and responsibilities in monitoring the Authority's operations.

The Housing Authority supports the OIG's recommendation that HUD consider taking appropriate administrative action against the Authority's former Chief Executive Officer and former Director of Operations.

OIG Evaluation Of
Auditee Comments

The actions planned by the Housing Authority, if fully implemented, should improve its management staff and Board of Commissioners' administration of the Authority's programs.

Recommendations

We recommend that the Director of the Cleveland Area Office of Public Housing Hub assure that the Housing Authority of the City of Evansville:

- 1A. Obtains training for its current management staff regarding Federal requirements, State of Indiana law, and the Authority's policies so that its programs are operated correctly.

- 1B. Obtains training for its Board of Commissioners regarding their roles and responsibilities in monitoring the Authority's operations. If the Commissioners fail to improve their monitoring efforts, HUD should consider taking administrative sanctions against the applicable Commissioners as permitted by 24 CFR Part 24.

We also recommend that the Director of the Cleveland Area Office of Public Housing Hub:

- 1C. Take appropriate administrative action against the Housing Authority's former Chief Executive Officer and former Director of Operations as permitted by 24 CFR Part 24.

The Authority Misspent Funds To Purchase And Renovate Its Administration Building

The Housing Authority of the City of Evansville did not follow Federal requirements regarding the use of funds for its administration building. Specifically, the Housing Authority improperly used \$750,000 in HOPE I sales proceeds to purchase the building located at 500 Court Street for its administration offices. The Authority also misused \$161,283 in Comprehensive Grant Program funds to renovate the building after it was purchased. According to the Housing Authority's former Chief Executive Officer and the former Director of Operations, they were not aware that the Authority was prohibited from using HOPE I sales proceeds and Comprehensive Grant Program funds to purchase or renovate the building. As a result, funds were not used in an efficient and effective manner.

Federal Requirements

The HOPE I Implementation Grant Agreement, between HUD and the Housing Authority of the City of Evansville, required the Housing Authority to use sales proceeds from the initial sale of units to eligible families for the cost of a homeownership program. The costs include operating expenses, improvements to the project, business opportunities for low-income families, supportive services related to the homeownership program, additional homeownership opportunities, and other activities approved by HUD, either as part of the approved application or as subsequently approved by HUD.

24 CFR Part 968.125 requires that after HUD approves a public housing authority's modernization program and enters into an Annual Contributions Contract amendment with the authority, the authority will under take the modernization activities and expenditures set forth in its Comprehensive Grant Program Annual Statement/Five-Year Action Plan.

24 CFR Part 968.105 defines a modernization project as the improvement of one or more existing public housing developments under a unique number designated for that modernization program. For each modernization project, HUD and the public housing authority will enter into an Annual Contributions

Contract amendment requiring low-income use of the housing for not less than 20 years from the date of the amendment.

Section 9(C)(1) of the Annual Contributions Contract, between HUD and the Housing Authority of the City of Evansville, says the Authority may withdraw funds from the General Fund only for the payment of the costs of development and operation of the projects under Contract with HUD.

The Authority Misspent
\$750,000 In HOPE I
Proceeds

Contrary to the HOPE I Grant Agreement, the Housing Authority used sales proceeds to purchase its administration building located 500 Court Street.

In October 1994, HUD awarded a \$348,381 HOPE I Grant to the Housing Authority. The Grant was awarded to provide affordable homeownership to residents of the Authority. To increase resident homeownership, the Authority sold 15 Public Housing units between January 1995 and December 1995.

The Housing Authority received \$819,049 in HOPE I sales proceeds from the sale of the 15 units. The \$819,049 consisted of \$721,830 in mortgage proceeds and \$97,219 in HOPE I funds to reimburse the Authority for closing costs. In January 1997, the Authority used \$750,000 of the HOPE I sales proceeds to purchase its administration building. However, the HOPE I Grant Agreement limited the Housing Authority's use of the sales proceeds to funding the Authority's homeownership initiatives.

The Housing Authority's former Chief Executive Officer and the former Director of Operations said they were not aware that the Authority was prohibited from using HOPE I sales proceeds to purchase the administration building. The former Director of Operations said HUD was aware that the Authority used the sales proceeds to fund the purchase. However, the former Director did not notify HUD of the purchase until December 1997, 11 months after the purchase was completed. The Housing Authority's notification to HUD's Indianapolis

Public Housing Program Center occurred after the Center requested information from the Authority regarding the use of the HOPE I sales proceeds to purchase the building.

HUD's Indianapolis Public Housing Program Center conducted a review of the Housing Authority in May 1999. The purpose of the review was to determine whether the Housing Authority's use of the HOPE I sales proceeds was proper and to follow-up on a citizen complaint against the Authority. HUD's Coordinator of the Indianapolis Public Housing Program Center said his Office concluded that the Housing Authority improperly used the sales proceeds to purchase the building. However, he said his Office did not issue the results of the 1999 review because OIG planned to conduct an audit of the Housing Authority.

The Coordinator of HUD's Indianapolis Public Housing Program Center said his Office did not approve the purchase of the building. He also said his Office would not have approved the use of the HOPE I sales proceeds to purchase the building if the Authority had requested HUD's approval. HUD closed out the Authority's HOPE I Grant in April 1997. As a result, HOPE I sales proceeds were not used in an efficient and effective manner. The Authority also has fewer funds to promote resident homeownership.

The Authority Improperly
Used Comprehensive Grant
Funds To Renovate Its
Administration Building

Contrary to HUD's regulation and the Annual Contributions Contract, the Housing Authority used Comprehensive Grant Program funds to renovate its administration building after the building was purchased.

As previously mentioned, the Housing Authority purchased a building located at 500 Court Street to house its administration offices. The purchase was completed in January 1997. Since the building was previously a funeral home, the Authority decided to renovate the building.

The Housing Authority's renovation work to the administration building was not included in its Five-Year Comprehensive Grant Action Plan dated June 20, 1996. The Housing Authority's Action Plan included such items as new computer software and renovation work of bathrooms and kitchens at the Authority's Buckner Towers. All of the items in the Action Plan were completed.

The renovation work of the Housing Authority's administration building occurred between February 1997 and June 1997. The Authority's maintenance staff and contractors performed the work. The Authority used \$161,283 in Comprehensive Grant Program funds to pay for the work. However, the Housing Authority was not permitted to use Grant funds to pay for the work since the building was not under the Annual Contributions Contract with HUD.

HUD's regulation and the Annual Contributions Contract require the Housing Authority to use Comprehensive Grant Program funds to pay for expenses of projects covered by the Contract. The Authority's former Director of Operations said he was not aware that the Authority was prohibited from using Grant funds to renovate the administration building. As a result, the Authority did not use its Grant funds in an efficient and effective manner.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 51 and 52, contains the complete text of the comments.]

The Housing Authority agrees that its former Chief Executive Officer and former Director of Operations misspent funds to purchase and renovate its administration building. Therefore, the Housing Authority will: reimburse HUD from non-Federal funds for the improper use of the HOPE I sales proceeds to purchase its administration building or the Authority will implement a HUD approved plan that will outline the

use of the non-Federal funds to promote resident homeownership; reimburse its Comprehensive Grant Program from non-Federal funds for the improper use of Grant funds to renovate the administration building; and (3) implement procedures and controls to ensure the Authority follows Federal requirements when purchasing and renovating property.

Additionally, the Housing Authority is seeking to fully utilize its administration offices. Should the Housing Authority discover that its more cost effective to relocate to another facility, the Authority will follow appropriate procedures and request HUD's approval prior to any relocation. The Housing Authority will also: follow appropriate procedures and promptly request HUD's approval prior to any sale or lease of its administration building; institute a procedure whereby future property purchases and/or major renovations will be presented to and reviewed by a three person committee comprised of the Authority's Board; and submit proposed purchases to HUD for final review and/or approval.

OIG Evaluation Of
Auditee Comments

The actions planned by the Housing Authority, if fully implemented, should improve its procedures and controls to ensure the Authority follows Federal requirements when purchasing and renovating property.

Recommendations

We recommend that the Director of the Cleveland Area Office of Public Housing Hub assure that the Housing Authority of the City of Evansville:

- 2A. Reimburses HUD \$750,000 from non-Federal funds for the improper use of HOPE I sales proceeds to purchase its administration building or implements a plan acceptable to HUD that outlines the use of the \$750,000 in non-Federal funds to promote resident homeownership.
- 2B. Reimburses its Comprehensive Grant Program \$161,283 from non-Federal funds for the

improper use of Grant funds to renovate the Authority's administration building.

- 2C. Implements procedures and controls to ensure the Authority follows Federal requirements when purchasing and renovating property.

The Former Chief Executive Officer Improperly Received Consulting Contracts And Fringe Benefits

Contrary to Federal requirements, State of Indiana law, and/or the Housing Authority of the City of Evansville's requirements, the Housing Authority's former Chief Executive Officer received consulting contracts and fringe benefits. Specifically, the Housing Authority and Washington Court Redevelopment Corporation awarded professional services contracts to the Authority's former Chief Executive Officer when a conflict of interest existed. Washington Court Redevelopment Corporation is a non-profit entity established by the Housing Authority and receives Section 8 rental assistance for low-income housing under contracts with the Authority. The Housing Authority also used \$10,368 in HUD funds (Public Housing and Section 8 Administrative Fees) for unnecessary and unreasonable fringe benefits. The problems occurred because the Housing Authority lacked procedures and controls to ensure that contract awards and/or fringe benefits expenses met Federal requirements, State law, and/or the Authority's requirements. As a result, HUD funds were not efficiently and effectively used. HUD and the Housing Authority also lack assurance that contract awards were subject to full and open competition.

Federal Requirements

24 CFR Part 85.36(b)(3) states no employee or officer of a grantee will participate in the selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when the employee or officer has a financial or other interest in the firm selected for award. Grantee's officers or employees are prohibited from accepting anything of monetary value from its contractors.

24 CFR Part 85.36(b)(9) requires grantees and subgrantees to maintain records sufficient to detail the significant history of a procurement, such as the rationale for the method of procurement and the basis for the contract price. Part 85.36(c)(1) requires that all procurement transactions be conducted in a manner providing full and open competition.

24 CFR Part 85.36(d)(4) states procurement by noncompetitive proposals may be used only when the

award of a contract is not feasible under small purchase procedures, sealed bids, or competitive proposals. In addition, noncompetitive proposals may only be used after solicitation of a number of sources and competition is determined to be insufficient.

Section 19 of Part A of the Consolidated Annual Contributions Contract, between HUD and the Housing Authority of the City of Evansville, states the Housing Authority may not enter into any contract in connection with a project under this Contract in which any employee or officer has an interest, direct or indirect, during his or her tenure or for one year thereafter.

Section 2.13 of the Section 8 Annual Contributions Contract, between HUD and the Housing Authority of the City of Evansville, states that neither the Housing Authority nor any of its contractors may enter into any contract or arrangement in connection with the Program in which an employee of the Authority, who formulates policy or who influences decisions with respect to the Program, has an interest, direct or indirect, during his or her tenure or for one year thereafter.

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs be necessary and reasonable for proper and efficient performance and administration of Federal awards.

State Of Indiana Law

Section 36-7-18-11 of the Indiana Code states an employee of a housing authority may not have any direct or indirect interest in a contract for services to be furnished or used in connection with any housing project.

Authority's Requirements

Section 1.4(C) of the Housing Authority's October 21, 1999 Procurement Policy requires that procurements other than small purchases (less than \$25,000) will be publicly solicited, an adequate time period will be provided for the preparation and submission of bids or proposals, and notice of contract awards will be made to the public. Section 1.4(D) requires that the Housing Authority's solicitations be made in accordance with 24 CFR Part 85.36 and State of Indiana law. Section 1.7 requires the Authority to seek full and open competition in all of its procurement transactions.

Section 2.4(A) of the Housing Authority's October 1999 Procurement Policy requires procurements to be conducted competitively to the maximum extent possible. Procurements by noncompetitive proposals may be used only when the award of a contract is not feasible using small purchase procedures, sealed bids, or competitive proposals, and one of the following applies:

- The item is available only from a single source, based on a good faith review of available sources;
- An emergency exists that seriously threatens the public health, welfare, or safety; endangers property; or would otherwise cause serious injury to the Housing Authority;
- HUD authorizes the use of noncompetitive proposals; or
- After solicitation of a number of sources, competition is determined to be inadequate.

Section 2.4(B) of the Authority's October 1999 Procurement Policy states procurements based on noncompetitive proposals will be supported by a written justification. Section 2.4(C) states the reasonableness of the price for all procurements based on noncompetitive proposals will be determined by performing a cost analysis. Section 6.2 requires the Authority's officers and employees to avoid any conflict of interest in the selection or award of any contract, and avoid any financial or other conflict of interest.

Section 18 of Part A of the Housing Assistance Payments Contracts for Section 8 Tenant-Based Assistance through HUD's Rental Voucher Program, between the Housing Authority of the City of Evansville and Washington Court Redevelopment Corporation, prohibits any employee of the Housing Authority who formulates policy or who influences decisions with respect to the program from having any direct or indirect interest in the contract or in any benefits or payments under the contract, during the employee's tenure or for one year thereafter.

The Housing Authority's 1997 Personnel Manual provides the necessary guidance to the Authority's officials, supervisors, and employees so that everyone clearly understands what is expected of them. Page 2.17 of the Manual states that sick leave accrued in excess of 120 days will not be paid. Any sick leave that is unused at the date of termination of employment will not be paid. Page 2.18 of the Manual states that an employee who resigns or is discharged prior to receiving his earned vacation time will receive pay in lieu of his vacation. Vacation time may be accumulated from year to year, but the accumulated vacation time may not exceed 30 days (240 hours).

Conflicts Of Interest Existed
In Contracts Awarded To
The Former Chief Executive
Officer

Contrary to Federal requirements, State of Indiana law, and the Housing Authority's requirements, the Authority's former Chief Executive Officer was awarded consulting contracts. The Housing Authority and/or Washington Court Redevelopment Corporation awarded professional services contracts to the Authority's former Chief Executive Officer between October 17, 2000 and February 5, 2001. Washington Court Redevelopment Corporation is a non-profit entity established by the Housing Authority and receives Section 8 rental assistance for low-income housing under contracts with the Authority. A conflict of interest existed with the former Chief Executive Officer at the time of the awards since he was an employee or a former employee of the Housing Authority.

The Housing Authority executed an October 17, 2000 contract with the former Chief Executive Officer to retain him as a consultant effective January 1, 2001 or at the actual hire date of a new Chief Executive Officer for the Authority. The contract states that the former Chief Executive Officer will be available on a call as needed basis for consultation and advice for such matters as a planned 24 unit senior complex and various entrepreneurial activities currently underway at the Authority. Per the contract, the former Chief Executive Officer was to receive \$30,000 for services provided through December 31, 2001. The contract did not indicate a specific number of hours to be worked by the former Chief Executive Officer. As of October 12, 2001, the Authority had not paid the former Chief Executive Officer for consulting services.

The Housing Authority's former Chief Executive Officer resigned from the Authority effective February 2, 2001. The Authority executed another consulting services contract with the former Chief Executive Officer effective February 5, 2001 to serve as the Interim Chief Executive Officer until a new Chief Executive Officer was obtained. The contract states that the former Chief Executive Officer will be responsible for the overall operations of the Authority. The contract also specifies that the former Chief Executive Officer will receive \$1,500 to work a minimum of 20 hours per week. As of October 12, 2001, the Housing Authority had paid the former Chief Executive Officer \$4,500 (\$3,375 from Public Housing and \$1,125 from Section 8 Administrative Fees) for consulting services under the February 2001 contract.

Washington Court Redevelopment Corporation executed a December 18, 2000 contract with the former Chief Executive Officer to retain him as a consultant effective February 1, 2001. The contract states that the former Chief Executive Officer's duties will include: establishing the Corporation's offices; hiring and firing of staff; overseeing the Corporation's general business; and providing other consulting services. Per the contract, the former Chief Executive Officer was to

receive \$40,000 per year, all expenses, and a management incentive of two percent of any new grants or financing received by the Corporation. The contract did not indicate a specific number of hours to be worked by the former Chief Executive Officer. As of October 12, 2001, the Corporation had paid the former Chief Executive Officer \$18,620 for consulting services and expenses.

The Housing Authority and Washington Court Redevelopment Corporation did not: competitively award the consulting contracts; prepare a cost analysis of the services; maintain records sufficient to detail the significant history of the procurement; or maintain documentation to support the justification of the noncompetitive awards. The Housing Authority and the Corporation initiated action in September 2001 to terminate the contracts and recapture any funds paid to the former Chief Executive Officer after we questioned the appropriateness of the contracts. As of October 31, 2001, the former Chief Executive Officer had not repaid the Housing Authority or the Corporation for the consulting fees received.

HUD Funds Were
Inappropriately Used To
Benefit The Former Chief
Executive Officer

The Housing Authority paid \$10,368 in HUD funds (Public Housing and Section 8 Administrative Fees) to the former Chief Executive Officer for 596 hours of excessive vacation, sick, and personal leave time. The payment of the monetized leave time was not reasonable and necessary low-income housing expense, and was not available to be used for other low-income housing purposes as required by HUD's regulation and Office of Management and Budget Circular A-87. The payment was also not permitted by the Authority's Personnel Manual.

The Authority's Board Was
Not Aware Of
Requirements

The Housing Authority lacked procedures and controls to ensure that contract awards and/or fringe benefits expenses met Federal requirements, State of Indiana law, and/or the Authority's requirements. The Housing Authority's Chairman of the Board said the Board was not aware of the Federal, State, and the Authority's conflict of interest requirements. The Authority's

Chairman also said he was not aware that the Authority's Personnel Manual prohibited the payment of unused sick time and limited the payment of vacation time to employees. As a result, HUD funds were not efficiently and effectively used. HUD and the Housing Authority also lack assurance that contract awards were subject to full and open competition.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 53 to 55, contains the complete text of the comments.]

The Housing Authority agrees that contrary to Federal requirements, State of Indiana law, and/or its requirements, the Authority's former Chief Executive Officer received consulting contracts and fringe benefits. Therefore, the Housing Authority will: take any and all appropriate action to recapture the consulting fees that were improperly paid to the former Chief Executive Officer or the Authority will reimburse the improper fees from non-Federal funds to the appropriate programs; and implement procedures and controls to ensure the Authority and its contractors follow Federal requirements, State law, and/or the Authority's requirements when awarding contracts and paying fringe benefits.

The Housing Authority made significant attempts to recover and/or recapture the consulting fees that were improperly paid to the former Chief Executive Officer. The Authority was unsuccessful in its written demands for repayment of the fees. Consequently, the Authority and Washington Court Redevelopment Corporation filed a lawsuit against the former Chief Executive Officer. We requested the Vanderburgh Circuit Court declare as void and unenforceable the consulting contracts and order the former Chief Executive Officer to repay any monies received under the contracts. Subject to resolution of the lawsuit, any and all appropriate repayments of the consulting fees will be made at that time.

The Housing Authority reimbursed from non-Federal funds the \$10,368 in unnecessary and unreasonable fringe benefits paid to the former Chief Executive Officer on November 8, 2001. The Authority will continue to work diligently to further implement procedures and controls to ensure the Housing Authority and its contractors follow Federal requirements, State of Indiana law, and/or the Authority's requirements when awarding contracts and paying fringe benefits.

OIG Evaluation Of Auditee Comments

The actions planned by the Housing Authority, if fully implemented, should help ensure that the Housing Authority and its contractors follow Federal requirements, State of Indiana law, and/or the Authority's requirements when awarding contracts and paying fringe benefits. Based upon the documentation provided by the Housing Authority, we removed the recommendation for the Authority to reimburse from non-Federal funds for the unnecessary and unreasonable fringe benefits paid to the former Chief Executive Officer.

Recommendations

We recommend that the Director of the Cleveland Area Office of Public Housing Hub assure that the Housing Authority of the City of Evansville:

- 3A. Takes any and all appropriate action to recapture the \$23,120 (\$4,500 from the Housing Authority and \$18,620 from Washington Court Redevelopment Corporation) for consulting services and/or expenses that were improperly paid to the former Chief Executive Officer. If the Housing Authority is unable to recapture the money, the Authority should reimburse the improper fees from non-Federal funds to the appropriate programs.
- 3B. Implements procedures and controls to ensure the Housing Authority and its contractors follow

Federal requirements, State of Indiana law, and/or the Authority's requirements when awarding contracts and paying fringe benefits.

The Housing Authority Needs To Improve Its Contracting Process

The Housing Authority of the City of Evansville did not follow Federal requirements, State of Indiana law, and/or the Authority's Procurement Policy regarding the award of contracts for cleaning services to its housing units and offices. In February 1997 and January 1998, the Housing Authority awarded two contracts that totaled \$45,154 in cleaning services when conflicts of interest existed. The Housing Authority also did not competitively award three cleaning contracts between January 1998 and May 1999 for \$154,451 in services to a resident-owned business. The Housing Authority lacked procedures and controls over its contracting process. As a result, HUD funds were not efficiently and effectively used.

Federal Requirements

24 CFR Part 85.36(b)(3) states no employee, officer, or agent of a grantee will participate in the selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when: the employee, officer, or agent, any member of his immediate family, his partner, or an organization which he is employed by, or is about to employ, has a financial or other interest in the firm selected for award. Grantee's officers, employees, or agents are prohibited from accepting anything of monetary value from its contractors.

24 CFR Part 85.36(b)(9) requires grantees and subgrantees to maintain records sufficient to detail the significant history of a procurement, such as the rationale for the method of procurement and the basis for the contract price. Part 85.36(c)(1) requires that all procurement transactions be conducted in a manner providing full and open competition.

24 CFR Part 85.36(d)(2) requires that when the sealed bid method is used, a firm-fixed-price contract is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest price. Part 85.36(d)(4) states procurement by noncompetitive proposals may be used only when the award of a

contract is not feasible under small purchase procedures, sealed bids, or competitive proposals. In addition, noncompetitive proposals may only be used after solicitation of a number of sources and competition is determined to be insufficient.

24 CFR Part 963.12(a) requires public housing authorities to follow 24 CFR Part 85.36(b) and (d) when awarding contracts to resident-owned businesses. Authorities are permitted to limit solicitation to resident-owned businesses. 24 CFR Part 963.12(b) states an award will not be made to a resident-owned business if the contract price exceeds the independent cost estimate required by 24 CFR 85.36(f), and the price normally paid for comparable services.

Section 19 of Part A of the Consolidated Annual Contributions Contract, between HUD and the Housing Authority of the City of Evansville, states the Housing Authority may not enter into any contract in connection with a project under this Contract in which any of the following classes of people has an interest, direct or indirect, during his or her tenure or for one year thereafter: any present or former member or officer of the governing body of the Authority, or any member of the officer's immediately family; and any public official or member of the local governing body who exercises functions or responsibilities with respect to the project(s) or the Authority.

State Of Indiana Law

Section 36-7-18-11 of the Indiana Code states a commissioner of a housing authority may not have any direct or indirect interest in a contract for services to be furnished or used in connection with any housing project.

Authority's Procurement
Policy

Page 1 of the Housing Authority's November 10, 1994 Procurement Policy states that any procurement greater than \$2,500 requires advertisement for a minimum of four times in at least two newspapers for two consecutive weeks. Page 4 of the Housing Authority's 1994 Policy requires that noncompetitive proposals may only be used when: a contract award is not feasible

using small purchase procedures, sealed bids, or competitive proposals; and insufficient competition is found after the Authority has solicited from a number of sources. The Policy also states noncompetitive proposals must be justified with written documentation. Page 6 of the Housing Authority's 1994 Policy requires the Authority's officers and employees to avoid any conflict of interest in the selection or award of any contract, and avoid any financial or other conflict of interest.

The Authority Improperly
Awarded Cleaning
Contracts To A Company
Owned By A City
Councilwoman

Contrary to Federal requirements, State of Indiana law, and the Housing Authority's Procurement Policy, the Authority awarded two contracts to Clean-All for \$45,154 in cleaning services to its housing units. The two contracts were awarded in February 1997 and January 1998, and were paid from the Housing Authority's Public Housing Operating Program. Clean-All was a subsidiary of HMR Corporation, which is owned by a Councilwoman of the City of Evansville. The City Councilwoman exercises functions related to the Housing Authority, thus creating a conflict of interest. Federal requirements, State law, and the Housing Authority's Policy prohibit the Authority to award contracts when a conflict of interest exists.

The Councilwoman's functions include being a member of the Board of Directors of RESPECT, Inc. since 1995. RESPECT, Inc. is a non-profit entity established by the Housing Authority to provide its residents with such services as training and educational opportunities to improve their quality of life. In addition, the Councilwoman voted to approve the City of Evansville's Ordinances F-96-7 and F-97-12 in June 1996 and September 1997, respectively. The Ordinances provided the Housing Authority with over \$100,000 in HOME funds from the City.

The Housing Authority also improperly split the February 1997 contract award between Clean-All and M&W Cleaning Services. The Housing Authority solicited bids until January 29, 1997 for cleaning services to the Authority's housing units. The bid

solicitation did not provide for the splitting of the contract award. Clean-All, M&W, and Partners-N-Grime submitted bids to the Authority. On January 29, 1997, the Housing Authority held a meeting to open the three bids.

The bid meeting was attended by: the Housing Authority's Director of Asset Management and a Commissioner; the City Councilwoman; and representatives of M&W and Partners-N-Grime. M&W was the lowest responsible bidder; however, the Housing Authority's Director of Asset Management said the Authority's former Chief Executive Officer instructed him to split the contract award between Clean-All and M&W. He also said the former Chief Executive Officer told him that M&W lacked the capacity to perform the cleaning services. The Housing Authority's Director of Asset Management and the owner of M&W Cleaning Services said that M&W had the capacity to perform the services. The Housing Authority's files lacked documentation to support that M&W's capacity was insufficient. Since the Housing Authority split the 1997 cleaning contract between Clean-All and M&W, the Authority incurred \$2,970 in additional cleaning expenses.

The Housing Authority improperly awarded the two cleaning contracts to Clean-All because a conflict of interest also existed with one of the Authority's Commissioners. The Commissioner's two sons worked on the two contracts for Clean-All. In addition, the Commissioner was paid by the City Councilwoman to work on her 1999 reelection campaign.

As previously mentioned, the Housing Authority's Commissioner attended the January 1997 bid meeting. The Commissioner said she attended the meeting after receiving complaints that minority contractors were not awarded contracts from the Housing Authority. She said she did not provide the complaint to the Housing Authority's former Chief Executive Officer or any members of the Authority's Board. The Commissioner

The Authority Did Not
Competitively Award
Contracts To A Resident-
Owned Business

said she had not attended a bid opening prior to or subsequent to the January 1997 meeting.

Contrary to HUD's regulations and the Housing Authority's Procurement Policy, the Authority awarded contracts to Sutton Commercial Maintenance Services. The Housing Authority did not competitively award the contracts to Sutton nor did the Authority's files include documentation to support that a noncompetitive award was justified. Therefore, the Housing Authority's award of the contracts was not subject to full and open competition.

The Housing Authority awarded three contracts to Sutton Commercial Maintenance Services for \$154,451 in cleaning services to the Authority's housing units and/or offices. The three contracts were awarded between January 1998 and May 1999, and were paid from the Housing Authority's Public Housing Operating Program. Sutton Commercial Maintenance Services is owned by a resident of the Housing Authority.

For the January 1, 1998 contract, the Housing Authority improperly split the contract award between Sutton Commercial Maintenance Services and Clean-All. The Housing Authority solicited bids for cleaning services to the Authority's housing units. The bid solicitation did not provide for the splitting of the contract award. The Housing Authority received five bids. A bid opening was held on December 8, 1997, and Clean-All was the lowest bidder. However, the Housing Authority's former Chief Executive Officer awarded part of the cleaning services to Sutton at the same price quoted by Clean-All.

The Housing Authority also awarded Sutton Commercial Cleaning Services a second contract in January 1998. The contract included cleaning services to the Housing Authority's offices, and was effective January 12, 1998. The Housing Authority did not advertise a bid solicitation nor did it attempt to obtain price quotations from contractors. Therefore, the

contract was not awarded through full and open competition.

To determine whether the costs of the cleaning services paid to Sutton Commercial was reasonable, we attempted to get price quotations from two cleaning vendors in the City of Evansville. Only one vendor provided us a price quote. The costs charged by Sutton appear within an acceptable range when compared to the one vendor's quote.

The Housing Authority awarded Sutton Commercial Cleaning Services a third contract in May 1999. The third contract was for cleaning services to the Housing Authority's housing units. The Housing Authority advertised a bid solicitation and received three bids. On January 28, 1999, the Housing Authority held a meeting to open the three bids. Dilbeck's Carpet and Janitorial Cleaning Services was the lowest responsible bidder. However, the Housing Authority's former Chief Executive Officer said he decided to award the contract to Sutton at a higher rate than Dilbeck's bid to support resident-owned businesses. As a result, the Housing Authority paid Sutton \$1,547 for excessive cleaning services.

The Housing Authority's former Chief Executive Officer said Sutton Commercial Cleaning Services was the only resident-owned cleaning business. However, the Authority lacked documentation to this claim. The Housing Authority also lacked an organized and concerted effort to determine whether other resident-owned businesses existed to perform the cleaning services. An organized and concerted effort would include such actions as advertising, distributing fliers, or holding meetings concerning the cleaning services.

The Authority's Staff Was
Not Aware Of Federal
Requirements

The Housing Authority lacked procedures and controls over its contracting process to ensure that they met Federal requirements, State of Indiana law, and the Authority's Procurement Policy. The Housing Authority's Director of Asset Management, the former Chief Executive Officer, and the Commissioner involved

with the Clean-All contracts said they were not aware of the Federal, State, and the Authority's conflict of interest requirements. The Authority's former Chief Executive Officer also said he was not aware of HUD's and the Authority's requirements regarding the award of contracts to resident-owned businesses. As a result, HUD funds were not efficiently and effectively used.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 56 and 57, contains the complete text of the comments.]

The Housing Authority agrees that it did not follow Federal requirements, State of Indiana law, and/or the Authority's Procurement Policy regarding the award of contracts for cleaning services to its housing units and offices. Therefore, the Housing Authority will implement procedures and controls to ensure that it follows Federal requirements, State law, and the Authority's Procurement Policy when awarding contracts. The Authority reimbursed its Public Housing Program \$4,517 (\$2,970 plus \$1,547) from non-Federal funds for the additional cleaning costs incurred by awarding the contracts to Clean-All and Sutton Commercial Maintenance Services.

The Housing Authority will continue to utilize the services of its Special Programs Department for all contracting subject to review by the Authority's legal counsel and approval by the Executive Director. The Authority anticipates creating a Capital Improvement and Procurement Department for Fiscal Year 2003. The Department will serve as a safeguard whereby all future contracting would be brought to this Department to be bid out in accordance with regulatory requirements.

OIG Evaluation Of Auditee Comments

The actions planned by the Housing Authority, if fully implemented, should help ensure that the Housing Authority follows Federal requirements, State of

Indiana law, and the Authority's Procurement Policy when awarding contracts. Based upon the documentation provided by the Housing Authority, we removed the recommendation for the Authority to reimburse \$4,517 from non-Federal funds for the excessive cleaning costs incurred by awarding the contracts to Clean-All and Sutton Commercial Maintenance Services.

Recommendation

We recommend that the Director of the Cleveland Area Office of Public Housing Hub assure that the Housing Authority of the City of Evansville:

- 4A. Implements procedures and controls to ensure the Housing Authority follows Federal requirements, State of Indiana law, and the Authority's Procurement Policy when awarding contracts.

The Authority's Actions Regarding The Emporia Project Were Improper

The Housing Authority of the City of Evansville did not follow Federal requirements regarding the acquisition, development, and disposition of property for the Emporia Project. Specifically, the Housing Authority: (1) improperly used \$4,203 in HUD funds (Public Housing Operating Program and Comprehensive Grant Program) to acquire, develop, and dispose of 17 parcels of property; (2) misused its eminent domain authority related to the purchase of five parcels of property; and (3) failed to publicly solicit bids when it disposed of the property. The Housing Authority also failed to obtain HUD's approval to acquire and sell the property. The Authority lacked procedures and controls to ensure HUD funds were properly used and the acquisition, development, and disposition of property met Federal requirements. As a result, HUD funds were not used in an efficient and effective manner. HUD also lacks assurance that the Housing Authority's property transactions were carried out in a fair and equitable manner.

Federal Requirements

24 CFR Part 970.9(a) requires a public housing authority to obtain HUD's approval when disposing of real property and the disposition should be done by public solicitation of bids for not less than fair market value, unless HUD authorizes the negotiated sale for reasons found to be in the best interest of the authority or the Federal government.

24 CFR Part 968.125 requires that after HUD approves a public housing authority's modernization program and enters into an Annual Contributions Contract amendment with the authority, the authority will undertake the modernization activities and expenditures set forth in its Comprehensive Grant Program Annual Statement/Five-Year Action Plan.

24 CFR Part 968.105 defines a modernization project as the improvement of one or more existing public housing developments under a unique number designated for that modernization program. For each modernization project, HUD and the public housing authority will enter into an Annual Contributions Contract amendment requiring low-income use of the housing for not less than 20 years from the date of the amendment.

Section 9(C)(1) of the Annual Contributions Contract between HUD and the Housing Authority of the City of Evansville says the Authority may withdraw funds from the General Fund only for the payment of the costs of development and operation of the projects under Contract with HUD. Section 1 of the Contract prohibits the Housing Authority from acquiring real property without HUD's approval.

HUD Handbook 1378.0, Tenant Assistance, Relocation, and Real Property Acquisition, page 5-5, prohibits housing authorities from advancing the time of condemnation, deferring negotiations or condemnation, or taking coercive action in order to induce an agreement on the price to be paid for the property. Page 5-6 of the Handbook states if a housing authority intends to acquire any interest in real property by exercise of the power of eminent domain, it will institute formal condemnation proceedings.

The Authority Improperly
Used HUD Funds To
Purchase, Develop, And
Sell Property For The
Emporia Project

Contrary to HUD's regulations and the Annual Contributions Contract, the Housing Authority used HUD funds to purchase, develop, and dispose of parcels of property for the Emporia Project. The Housing Authority did not obtain HUD's approval to purchase or sell the property for the Project. The Authority also failed to publicly solicit bids when it disposed of the property.

The Housing Authority purchased 14 parcels of property between May 1997 and June 1998. Three additional parcels of property were donated to the Housing Authority in January 1995. The three donated parcels were adjacent to the 14 parcels. The Housing Authority did not request HUD's approval to purchase the 14 parcels of property.

The 17 parcels of property (14 purchased and three donated) are located near Lincoln Estates, a former public housing site previously known as Lincoln Gardens. Lincoln Estates currently receives Section 8 rental assistance from the Housing Authority. Emporia Incorporated, the purchaser of the property from the

Housing Authority, built a grocery store and a discount store to serve the residents of Lincoln Estates and the surrounding community.

The Housing Authority used \$247,776 (\$238,785 in Section 8 Administrative Fees, \$5,900 in Public Housing Operating Program, and \$3,091 in Comprehensive Grant Program) to acquire, develop, and/or dispose of the 17 parcels of property for the Emporia Project. The development cost of the property included such items as the demolition of buildings, removal of underground gas tanks, and the rezoning of the property to commercial use. In February 1999, the Authority reimbursed its Public Housing Operating Program \$2,663 and Comprehensive Grant Program \$2,125 with monies from its Section 8 Administrative Fees for non-salary costs associated with the Project.

The acquisition, development, and/or disposition cost included time spent by three of the Housing Authority's employees who were paid with HUD funds to work on the Project. The three employees were the Housing Authority's former Chief Executive Officer, current Interim Section 8 Director, and its Staff Attorney. The Authority used \$4,203 in HUD funds (\$3,237 in Public Housing Operating Program and \$966 in Comprehensive Grant Program) to pay the three employees' salaries and fringe benefits while they worked on the Project. As of August 2001, the Housing Authority had not reimbursed its Public Housing Operating Program and the Comprehensive Grant Program for the employees' time spent on the Project.

The Housing Authority sold the 17 parcels of property to Emporia Incorporated in June 1999. The Housing Authority did not request HUD's approval to sell the 17 parcels of property nor did the Authority publicly solicit bids when it disposed of the property.

While the Housing Authority was permitted to use Section 8 Administrative Fee monies on the Emporia

Project, the Authority was not permitted to use Public Housing Operating or Comprehensive Grant Program funds to pay for the acquisition, development, and/or disposition of the property since the property was not under the Annual Contributions Contract with HUD. HUD's requirements also required the Housing Authority to publicly solicit bids when it disposes of property, and to obtain HUD's approval to acquire and sell property.

The Authority Misused Its
Eminent Domain Authority
To Acquire Property

Contrary to HUD Handbook 1378.0, the Housing Authority threatened to use its eminent domain authority to purchase property for the Emporia Project. The Housing Authority had not initiated formal condemnation proceedings declaring that it was necessary to acquire the property using eminent domain.

In December 1997, the Housing Authority started purchasing property for the Emporia Project. The Housing Authority sent letters to the property owners requesting them to sell their property to the Authority. Three owners did not respond to the Housing Authority's request. The three owners owned five parcels of property located at 513, 515, 517, and 521 Lincoln Avenue and 609 South Garvin Street.

The Housing Authority sent letters to the three owners in March 1998 that the Authority was prepared to exercise its eminent domain authority to obtain the five parcels of property.

The Housing Authority's current Interim Director of Section 8 said the Authority's former Chief Executive Officer requested him to use the power of eminent domain to obtain the five parcels. In March 1998, the Housing Authority sent letters to the three owners informing them that the Authority had improperly threatened its eminent domain authority. The Housing Authority withdrew its intent to use eminent domain because the owners and the local media expressed concern about the Authority's ability to exercise its eminent domain authority.

The Housing Authority did not initiate formal condemnation proceedings declaring that it was necessary to acquire the property using eminent domain prior to notifying the three owners. HUD Handbook 1378.0 requires the Housing Authority to institute formal condemnation proceedings if it intends to acquire any interest in real property by exercise of the power of eminent domain.

The Authority's Staff Was
Not Aware Of Federal
Requirements

The Authority lacked procedures and controls to ensure HUD funds were properly used and the acquisition, development, and disposition of property met Federal requirements. The Authority's former Chief Executive Officer and the current Interim Director of Section 8 said they were not aware of Federal requirements regarding the acquisition, development, and disposition of property. As a result, HUD funds were not used in an efficient and effective manner. HUD also lacks assurance that the Housing Authority's property transactions were carried out in a fair and equitable manner.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 58 and 59, contains the complete text of the comments.]

The Housing Authority agrees that it did not follow Federal requirements regarding the acquisition, development, and disposition of property for the Emporia Project. Therefore, the Housing Authority will implement procedures and controls to ensure that it follows the requirements when acquiring, developing, and/or disposing of property. The Authority reimbursed its Public Housing Operating Program \$3,237 and its Comprehensive Grant Program \$966 from non-Federal funds for the cost of acquiring, developing, and/or selling the 17 parcels of property for the Emporia Project.

The Housing Authority agrees that it improperly threatened its eminent domain authority to acquire

property for the Emporia Project. The Authority also did not initiate or institute formal condemnation proceedings declaring it necessary to acquire an interest in the property using eminent domain as required in HUD Handbook 1378.0.

The Housing Authority: intends to present its Board of Commissioners a resolution at an upcoming Board meeting stating that the Authority does not encourage the use of eminent domain; will require that all matters which contemplate the use of formal condemnation proceedings by eminent domain be presented to its Board for review and approval; and will continue to readily implement and follow procedures by promptly requesting HUD's approval prior to the acquisition and/or sale of any and all future property to better ensure compliance with Federal requirements.

OIG Evaluation Of Auditee Comments

The actions planned by the Housing Authority, if fully implemented, should help ensure that the Housing Authority follows Federal requirements when acquiring, developing, and/or disposing of property. Based upon the documentation provided by the Housing Authority, we removed the recommendation for the Authority to reimburse \$4,203 (\$3,237 plus \$966) from non-Federal funds for the improper use of HUD funds to acquire, develop, and dispose of 17 parcels of property.

Recommendation

We recommend that the Director of the Cleveland Area Office of Public Housing Hub assure that the Housing Authority of the City of Evansville:

- 5A. Implements procedures and controls to ensure the Authority follows Federal requirements when acquiring, developing, and/or disposing of property.

The Authority Did Not Exercise Sound Management Practices Over Its Construction Steel

The Housing Authority of the City of Evansville did not exercise sound management practices over steel purchased for construction work. In December 1996, the Housing Authority used \$17,278 in Comprehensive Grant Program funds to purchase the steel for construction work to its former administration offices located at 411 South East 8th Street. The Housing Authority stopped the work because it purchased a building located at 500 Court Street for its offices. As of July 2001, the Housing Authority had not made a decision regarding the use of the steel. In addition, \$1,730 in steel decking rusted and was discarded because it was not fit for use. The Housing Authority's former and current management staff failed to decide whether to use the steel in another project or scrap the steel for its fair market value. As a result, HUD funds were not used in an efficient and effective manner.

Federal Requirements

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office of Management and Budget Circular A-87, Attachment A, paragraph (2)(a)(1), states governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

Section 4 of the Consolidated Annual Contributions Contract, between HUD and the Housing Authority of the City of Evansville, requires the Authority to at all times develop and operate each project in a manner that promotes serviceability, economy, and efficiency.

The Authority's Management Has Not Decided What Action To Take Regarding Its Steel

Contrary to Office of Management and Budget Circular A-87 and the Consolidated Annual Contributions Contract, the Housing Authority's former and current management staff failed to exercise sound management

practices regarding the efficient and effective use of steel purchased for construction work.

In December 1996, the Housing Authority used \$17,278 in Comprehensive Grant Program funds to purchase steel for construction work to its former administration offices located at 411 South East 8th Street. The steel was cut to meet the Housing Authority's specifications and included such items as decking, bar joists, roof framing, and beams. The Housing Authority stopped the work because it purchased a building located at 500 Court Street for its offices.

The Housing Authority's former and current management staff has not decided whether to use the steel for another project or scrap the steel for its fair market value. The Housing Authority's Director of Special Programs said the Authority plans to take possession of the steel from FabCon, the manufacturer of the steel, by the end of August 2001. However, she said the Authority has not decided how to use the steel. The Housing Authority's former Chief Executive Officer said he was not aware of the steel until approximately March 1999. The former Chief Executive Officer did not make any decision regarding the use of the steel prior to his resignation from the Authority in February 2001.

FabCon informed the Housing Authority in 1998 that the steel decking rusted and was no longer fit for use. The Plant Manager for FabCon said the decking was discarded in 1998 since it did not have any salvage value. No one from the Housing Authority confirmed the condition of the decking or that it was discarded until March 2001. The steel decking cost \$1,730. As previously mentioned, the Housing Authority used Comprehensive Grant funds to purchase the steel. As a result, HUD funds were not used in an efficient and effective manner.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 60 and 61, contains the complete text of the comments.]

The Housing Authority agrees that it did not exercise sound management practices over steel purchased for construction work. Therefore, the Housing Authority will: take appropriate and timely action to either use the remaining steel for an Authority project or sell the steel for its fair market value; reimburse its Comprehensive Grant Program funds \$1,730 from non-Federal funds for the steel decking that rusted and was discarded; and implement procedures and controls to ensure that it follows Federal requirements when purchasing construction steel for future projects.

The Housing Authority is scheduled to take possession of the remaining steel on August 14, 2001. The Authority's Director of Special Programs recommended that the steel be used in the construction of a new multipurpose building at the Erie Homes Project. In July 2000, the Housing Authority's Construction Department was reorganized to report directly to the Authority's Director of Special Programs. This reorganization was implemented as a safeguard to better ensure that the Housing Authority follows Federal requirements when expending Comprehensive Grant Program funds.

**OIG Evaluation Of
Auditee Comments**

The actions planned by the Housing Authority, if fully implemented, should help ensure that the Housing Authority follows Federal requirements when purchasing construction steel for future projects.

Recommendations

We recommend that the Director of the Cleveland Area Office of Public Housing Hub assure that the Housing Authority of the City of Evansville:

- 6A. Takes appropriate and timely action to either use the remaining steel for a Housing Authority project or sells the steel for its fair market value.
- 6B. Reimburses its Comprehensive Grant Program \$1,730 from non-Federal funds for the steel decking that rusted and was discarded.
- 6C. Implements procedures and controls to ensure the Authority follows Federal requirements when purchasing construction steel for future projects.

The Authority Did Not Sufficiently Allocate Costs To Its Various Programs

The Housing Authority of the City of Evansville did not have an acceptable cost allocation plan to support the allocation of costs among its programs. Specifically, the Housing Authority did not charge employees' salaries and fringe benefits to all of the Authority's programs that received their services. The Authority also failed to allocate non-salary costs to its various programs. Housing authorities must allocate costs to benefiting grant programs. The Authority's Director of Finance and the former Chief Executive Officer said they were not aware that the cost allocation plan has to be supported with documentation to show the basis for allocating employees' salaries and fringe benefits, and non-salary costs to Federal awards. As a result, neither HUD nor the Housing Authority had assurance that costs charged to the Authority's various programs were reasonable in relation to the benefits they received.

Federal Requirements

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office of Management and Budget Circular A-87, Attachment A, requires State, local, and Federally-recognized Indian tribal governments to establish principles to provide that Federal awards bear their fair share of costs. Attachment C of the Circular says governments need a process whereby costs can be assigned to benefited activities on a reasonable and consistent basis. The cost allocation plan provides that process. All cost and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that support the propriety of the costs assigned to Federal awards.

The Authority Lacked An Acceptable Plan

The Housing Authority did not have an acceptable cost allocation plan to support the costs among its programs. The Authority administered both HUD and non-HUD programs. The HUD funded programs include: Public Housing; Multifamily Housing; Homebuyers; Section 8; Comprehensive Grant; and Drug Elimination. The non-

HUD funded programs include: Drug Free Indiana; Washington Court; and Scattered Site Housing.

The Authority's plan did not address the costs of its employees' salaries and fringe benefits.

According to the Housing Authority's Director of Finance, employees' salaries and fringe benefits were allocated during Fiscal Year 2000 based upon the availability of funding or based on estimates made by the Authority's former Director of Operations. The Authority did not have documentation to support the former Director's estimates. Allocating costs to Federal programs based upon the availability of funding among programs and unsupported estimates are not acceptable methods. Housing authorities must document an acceptable cost allocation plan.

We selected 11 of the Housing Authority's employees whose salaries were charged to the Authority's various programs to determine the time they spent related to the programs. Since the Housing Authority did not maintain documentation to support the employees' time, we interviewed the 11 employees to determine the time they spent related to the Authority's programs. Seven of the 11 employees said they spent either more or less time than the percentage the Authority charged to its various programs; three employees said they were unable to estimate how much time they spent on each program; one indicated that the percentage of her salary was properly allocated.

The following table shows the estimated time spent on each program and the percentage of salary and fringe benefits allocated for four of the seven employees who said they spent either more or less time than the Authority charged to its various programs.

Employee	Estimated Time Spent On Program(s)	Percentage Of Salary And Benefits Allocated To Each Program
Director of Asset Management	<ul style="list-style-type: none"> • 100 Percent – Public Housing 	<ul style="list-style-type: none"> • 89 Percent – Public Housing • 11 Percent – Comprehensive Grant
Assistant to the Director of Asset Management	<ul style="list-style-type: none"> • 100 Percent – Public Housing 	<ul style="list-style-type: none"> • 42 Percent – Public Housing • 58 Percent – Comprehensive Grant
Accountant	<ul style="list-style-type: none"> • 85 to 90 Percent – Public Housing • 10 to 15 Percent – Comprehensive Grant 	<ul style="list-style-type: none"> • 54 Percent – Public Housing • 22 Percent – Section 8 • 24 Percent – Comprehensive Grant
Former Director of Human Resources (currently Interim Director of Section 8)	<ul style="list-style-type: none"> • 60 Percent – Non-HUD Programs • 20 Percent – Section 8 • 10 Percent – Public Housing • 10 Percent – Comprehensive Grant 	<ul style="list-style-type: none"> • 45 Percent – Public Housing • 24 Percent – Section 8 • 26 Percent – Comprehensive Grant • 5 Percent – Non-HUD Programs

The Authority also did not allocate non-salary costs such as electricity, water and sewage, trash collection, and property hazard insurance for its administrative office located at 500 Court Street to all of the benefiting programs. The Authority allocated all of the non-salary costs to the Public Housing Program. The Housing Authority's administrative office housed the Authority's employees that spent time working on both HUD funded and non-HUD funded Programs.

The Authority's Director of Finance and the former Chief Executive Officer said they were not aware that the cost allocation plan has to be supported with documentation to show the basis for allocating employees' salaries and fringe benefits, and non-salary costs to Federal awards.

As a result, the Housing Authority and HUD lacked assurance that costs charged to the Authority's various programs were reasonable in relation to the benefits they derived.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 50 and 51, contains the complete text of the comments.]

The Housing Authority agrees that its former Chief Executive Officer did not properly allocate costs to its various programs. Therefore, the Authority will: develop a cost allocation plan in accordance with Office of Management and Budget Circular A-87; reallocate the indirect costs charged to the appropriate programs for Fiscal Year 2000, once the cost allocation plan is developed; and implement procedures and controls to update its allocation plan as necessary.

The Housing Authority is actively reviewing its position and job descriptions to better ensure accuracy and completeness throughout the Authority. During this review and audit process, percentage of time allocations will be determined to more accurately reflect the percentage of time an employee devotes to a particular Housing Authority program. This information will be utilized to coordinate with the Housing Authority's Finance Department to ensure that the Authority's cost allocations reflect the actual time spent by an employee supporting a particular program. After the initial review and audit are completed, the Housing Authority will institute an ongoing three-year program to monitor these compliance related issues. Likewise, all non-salary costs will also be monitored and distributed in conjunction with the appropriate benefiting program or associated salary costs.

The Housing Authority intends to have a cost allocation plan and remedial procedures in place by November 30, 2001.

OIG Evaluation Of Auditee Comments

The actions planned by the Housing Authority, if fully implemented, should help ensure that the Housing Authority follows Office of Management and Budget Circular A-87 regarding the allocation of costs.

Recommendations

We recommend that the Director of the Cleveland Area Office of Public Housing Hub assure that the Housing Authority of the City of Evansville:

- 7A. Develops a cost allocation plan in accordance with Office of Management and Budget Circular A-87.
- 7B. Reallocates the indirect costs charged to the appropriate programs for Fiscal Year 2000, once the cost allocation plan is developed.
- 7C. Implements procedures and controls to update its allocation plan as necessary.

Schedule Of Ineligible Costs

<u>Recommendation</u> <u>Number</u>	<u>Ineligible</u> <u>Costs</u> <u>1/</u>
2A	\$750,000
2B	161,283
3A	23,120
6B	<u>1,730</u>
Total	<u>\$936,133</u>

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

Auditee Comments

December 3, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
77 West Jackson Boulevard, Suite 2646
Ralph H. Metcalfe Federal Building
Chicago, IL 60604-3507

Re: Amended Response of the Housing Authority of the City of Evansville, Indiana, (Housing Authority) to the September 26, 2001 Draft Audit Report of the U.S. Department of Housing and Urban Development Inspector General (HUD)

Dear Mr. Wolfe:

This letter amends and supersedes the Housing Authority's initial response dated October 12, 2001, in reference to your correspondence from the September 26, 2001 Draft Audit Report concerning the HUD Proposed Finding "The Housing Authority Was Not Operated According To Program Requirements". I have reviewed the aforementioned Draft Audit Finding of the Office of Inspector General for Audit, HUD ("Draft Audit Findings") submitted to me and provide the following comments on behalf of the Housing Authority. The Housing Authority's comments are set forth below:

HUD PROPOSED FINDING

"The Housing Authority Was Not Operated According To Program Requirements"

RESPONSE- The Housing Authority agrees that its former and current management staff did not sufficiently exercise their responsibilities to effectively manage the Housing Authority and that its Board of Commissioners did not effectively monitor operations of the Housing Authority staff. Accordingly, the Housing Authority will:

- a. Take appropriate and timely action to ensure that training is obtained for its current management staff regarding Federal requirements, State of Indiana law, and the Housing Authority's policies so that its programs are operated correctly.

- b. Take appropriate and timely action to ensure that training is obtained for its Board of Commissioners regarding their roles and responsibilities in monitoring the Housing Authority's operations.
- c. Supports the recommendation that the Director of the Cleveland Area Office of Public Housing Hub consider taking appropriate administrative action against the Housing Authority of the City of Evansville's former Chief Executive Officer and former Director of Operations as permitted by 24 CFR Part 24.

In particular, the Housing Authority has worked and will continue to work to improve training practices for its current management staff regarding Federal requirements, State of Indiana law, and the Housing Authority's policies in light of HUD's proposed findings that the Housing Authority was not operated according to program requirements. Likewise, the Housing Authority has worked and will continue to work to further its obligation to provide training for its Board of Commissioners regarding their roles and responsibilities in monitoring the Housing Authority's operations. Furthermore, the Housing Authority will continue to work diligently to provide assurances to HUD and the general public that its resources are and will continue to be used to the maximum extent to benefit low and moderate income tenants.

In closing, the Housing Authority would like to thank you and your staff for your diligence and professionalism in conducting this audit. While the Housing Authority is very proud of the work it has done and the services it has been providing, we remain open to suggestions for improvement to our programs and truly appreciate your assistance in further refining and improving our efforts.

Sincerely,

/signed/

Paul L. Fletcher
Executive Director

PF/cs

cc: Brent Bowen, Auditor, Office of Inspector General, Ohio State Office

November 30, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
77 West Jackson Boulevard, Suite 2646
Ralph H. Metcalfe Federal Building
Chicago, IL 60604-3507

**Re: Amended Response of the Housing Authority of the City of Evansville,
Indiana, (Housing Authority) to the June 18, 2001 Draft Audit Report of the
U.S. Department of Housing and Urban Development Inspector General
(HUD)**

Dear Mr. Wolfe:

This letter amends and supersedes the Housing Authority's initial response dated July 27, 2001, in reference to your correspondence from the June 18, 2001 Draft Audit Report concerning the HUD Proposed Findings "The Authority Did Not Sufficiently Allocate Costs To Its Various Programs" and "The Authority Misspent Funds To Purchase and Renovate Its Administration Building". I have reviewed the aforementioned Draft Audit Findings of the Office of Inspector General for Audit, HUD ("Draft Audit Findings") submitted to me and provide the following comments on behalf of the Housing Authority. The Housing Authority's comments are set forth below:

HUD PROPOSED FINDING

"The Authority Did Not Sufficiently Allocate Costs To Its Various Programs"

RESPONSE- The Housing Authority agrees that its former Chief Executive Officer did not properly allocate costs to its various programs. Accordingly, the Housing Authority will:

- a. Develop a cost allocation plan in accordance with Office of Management and Budget Circular A-87.
- b. Reallocate the indirect costs charged to the appropriate programs for Fiscal Year 2000, once the cost allocation plan is developed.
- c. Implement procedures and controls to update its allocation plan as necessary.

In particular, the Housing Authority is actively reviewing its positions and job descriptions to better ensure accuracy and completeness throughout the Housing Authority. During this review and audit process, percentage of time allocations will be determined to more accurately reflect the percentage of time an employee devotes to a particular Housing Authority program. This information will then be utilized to coordinate with the Housing Authority's Finance Department to ensure that cost allocations derived reflect the actual time spent by an employee supporting a particular Housing Authority program. In addition, after completion of this initial review and audit, the Housing Authority will institute an ongoing three-year audit program to monitor these compliance related issues. Likewise, all "non-salary" costs will also be monitored and distributed in conjunction with the appropriate benefiting program or associated salary costs.

- d. The Housing Authority intends to have a cost allocation plan and remedial procedures in-place with its review and audit to be completed by November 30, 2001.

HUD PROPOSED FINDING

"The Authority Misspent Funds To Purchase and Renovate Its Administration Building"

RESPONSE- The Housing Authority agrees that its former Chief Executive Officer and former Director of Operations misspent funds to purchase and renovate its Administration Building. Accordingly, the Housing Authority will:

- a. Reimburse HUD \$750,000 from non-Federal funds for the improper use of HOPE I sales proceeds to purchase its administration building or it will implement a HUD approved plan that will outline the use of the \$750,000 in non-Federal funds to promote resident home-ownership.
- b. Reimburse its Comprehensive Grant program fund \$161,283 from non-Federal funds for the improper use of Grant funds to renovate the EHA's administration building.
- c. Implement procedures and controls to ensure the EHA follows Federal requirements when purchasing and renovating property.

In particular, the Housing Authority is additionally seeking to fully utilize its administration offices located at 500 Court Street. However, should the Housing Authority discover it to be more cost effective to relocate to another facility, the Housing Authority will follow appropriate HUD procedures, and promptly request HUD approval prior to any office relocation. Likewise, the Housing Authority will follow appropriate HUD procedures and promptly request HUD approval prior to any sale or lease of its 500 Court Street building.

Furthermore, the Housing Authority will institute a procedure whereby future property purchases and/or major renovations will be presented to and reviewed by a three (3) person committee comprised of Housing Authority Board members. Then a proposed purchase will be submitted to HUD for final review and/or approval.

- e. The Housing Authority intends to have these remedial procedures in-place and its course of action completed by December 31, 2001.

In closing, the Housing Authority would like to thank you and your staff for your diligence and professionalism in conducting this audit. While the Housing Authority is very proud of the work it has done and the services it has been providing, we remain open to suggestions for improvement to our programs and truly appreciate your assistance in further refining and improving our efforts.

Sincerely,

/signed/

Paul L. Fletcher
Executive Director

PF/cs

cc: Brent Bowen, Auditor, Office of Inspector General, Ohio State Office

November 30, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
77 West Jackson Boulevard, Suite 2646
Ralph H. Metcalfe Federal Building
Chicago, IL 60604-3507

**Re: Response of the Housing Authority of the City of Evansville, Indiana,
(Housing Authority) to the October 31, 2001 Draft Audit Report of the U.S.
Department of Housing and Urban Development Inspector General (HUD)**

Dear Mr. Wolfe:

This letter responds to your correspondence of October 31, 2001 Draft Audit Report concerning the HUD Proposed Finding “The Former Chief Executive Officer Improperly Received Consulting Contracts and Fringe Benefits”. I have reviewed the aforementioned Draft Audit Finding of the Office of Inspector General for Audit, HUD (“Draft Audit Findings”) submitted to me and provide the following comments on behalf of the Housing Authority. The Housing Authority’s comments are set forth below:

HUD PROPOSED FINDING

“The Former Chief Executive Officer Improperly Received Consulting Contracts and Fringe Benefits”

RESPONSE- The Housing Authority agrees that contrary to Federal requirements, State of Indiana law, and/or the Housing Authority of the City of Evansville’s requirements, the Housing Authority’s former Chief Executive Officer received consulting contracts and fringe benefits. Accordingly, the Housing Authority will:

- a. Take any and all appropriate action to recapture the \$23,120 (\$4,500 from the Housing Authority and \$18,620 from Washington Court Redevelopment Corporation) in consulting fees that were improperly paid to the former Chief Executive Officer. Furthermore, if the Housing Authority is unable to

- recapture the money, the Authority will reimburse the improper fees from non-Federal funds to the appropriate programs.
- b. Reimburse from non-Federal funds the \$10,368 in unnecessary and unreasonable fringe benefits paid to the former Chief Executive Officer from the Public Housing (\$5,184) and Section 8 Administrative Fees (\$5,184) that did not meet HUD's regulation, Office of Management and Budget Circular A-87, and the Housing Authority's Personnel Manual.
 - c. Implement procedures and controls to ensure the Housing Authority and its contractors follow Federal requirements, State of Indiana law, and/or the Authority's requirements when awarding contracts and paying fringe benefits.

In particular, prior to the Housing Authority initiating formal litigation against the former Chief Executive Officer, the Housing Authority made significant attempts to recover and/or recapture the \$23,120 (\$4,500 from the Housing Authority and \$18,620 from Washington Court Redevelopment Corporation) in consulting fees that were improperly paid to the former Chief Executive Officer. Correspondences by the Housing Authority to its former Chief Executive Officer addressed contracts the former Chief Executive Officer entered into with the Housing Authority and Washington Court Redevelopment Corporation as void and unenforceable, and further stated that any funds received by the former Chief Executive Officer under any contract between him, the Housing Authority, Washington Court Redevelopment Corporation, or any other subsidiary of the Housing Authority, either during the time he was the Chief Executive Officer or during the following year, must be repaid immediately or legal action would be initiated to recover same. (Attached hereto as Exhibits A, B, and C).

The Housing Authority was unsuccessful in its written demands for repayment of the aforementioned funds from the former Chief Executive Officer. Accordingly, the Housing Authority and its subsidiary Washington Court Redevelopment Corporation then filed a lawsuit against the former Chief Executive Officer requesting the Vanderburgh Circuit Court declare as void and unenforceable the aforementioned consultant contracts, and order the former Chief Executive Officer to repay any monies received under any and all consulting contracts. (Attached hereto as Exhibits D and E). Therefore, subject to resolution of the aforementioned lawsuit filed by the Housing Authority and Washington Court Redevelopment Corporation against the former Chief Executive Officer, any and all appropriate repayments of the \$23,120 will be made at that time. Additionally, the Housing Authority acknowledges that other monies improperly paid in sick leave and personal time to its former Chief Executive Officer during 2001, specifically from January 1, 2001 to February 28, 2001, were inappropriate and intends to recover and/or recapture these funds.

Furthermore, please be advised that the following remedial actions have been taken by the Housing Authority to reimburse from non-Federal funds the \$10,368 in unnecessary and

unreasonable fringe benefits paid to the former Chief Executive Officer from the Public Housing (\$5,184) and Section 8 Administrative Fees (\$5,184). In particular, on November 5, 2001, a payment requisition form regarding said reimbursement was issued to the Finance Department at the Housing Authority to formally initiate remedial measures. On November 8, 2001, the Housing Authority issued Check Number 112068 in the amount of \$10,368.00 to reimburse its Public Housing Operating Program \$5,184.00 and Section 8 Administrative Fees \$5,184.00. Likewise, on November 8, 2001, \$10,368.00 was deposited into the Housing Authority account at Fifth Third Bank as evidenced by deposit slip and further reflected in the Fifth Third Bank's posting date receipt of November 9, 2001. (Attached hereto as Exhibit F).

Finally, the Housing Authority will continue to work diligently to further implement procedures and controls to ensure the Housing Authority and its contractors follow Federal requirements, State of Indiana law, and/or the Authority's requirements when awarding contracts and paying fringe benefits.

In closing, the Housing Authority would like to thank you and your staff for your diligence and professionalism in conducting this audit. While the Housing Authority is very proud of the work it has done and the services it has been providing, we remain open to suggestions for improvement to our programs and truly appreciate your assistance in further refining and improving our efforts.

Sincerely,

/signed/

Paul L. Fletcher
Executive Director

PF/cs

cc: Brent Bowen, Auditor, Office of Inspector General, Ohio State Office

November 30, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
77 West Jackson Boulevard, Suite 2646
Ralph H. Metcalfe Federal Building
Chicago, IL 60604-3507

Re: Amended Response of the Housing Authority of the City of Evansville, Indiana, (Housing Authority) to the September 24, 2001 Draft Audit Report of the U.S. Department of Housing and Urban Development Inspector General (HUD)

Dear Mr. Wolfe:

This letter amends and supersedes the Housing Authority responses dated October 11, 2001, and October 25, 2001, respectively, in reference to your correspondence from the September 24, 2001 Draft Audit Report concerning the HUD Proposed Finding “The Housing Authority Needs To Improve Its Contracting Process.” I have reviewed the aforementioned Draft Audit Finding of the Office of Inspector General for Audit, HUD (“Draft Audit Findings”) submitted to me and provide the following comments on behalf of the Housing Authority. The Housing Authority’s comments are set forth below:

HUD PROPOSED FINDING

“The Housing Authority Needs To Improve Its Contracting Process”

RESPONSE- The Housing Authority agrees that it did not follow Federal requirements, State of Indiana law, and/or the Authority’s Procurement Policy regarding the award of contracts for cleaning services to its housing units and offices. Accordingly, the Housing Authority will:

- a. Reimburse its Public Housing Operating Program \$4,517 (\$2,970 to Clean-All and \$1,547 to Sutton) from non-Federal funds for the additional cleaning costs incurred by awarding the contracts to Clean-All and Sutton Commercial Maintenance Services.
- b. Implement procedures and controls to ensure the Housing Authority follows Federal requirements, State of Indiana law, and the Housing Authority’s Procurement Policy when awarding contracts.

In particular, please be advised that the following remedial actions have been taken by the Housing Authority to reimburse its Public Housing Program \$4,517 from non-Federal funds for the additional cleaning costs incurred by awarding the contracts to Clean-All and Sutton Commercial Maintenance Services. On October 12, 2001, the Housing Authority issued Check Number 111059 to reimburse its Public Housing Operating Program \$4,517. On October 17, 2001, \$4,517 was deposited into the Housing Authority's Low Rent Program account at Fifth Third Bank as evidenced by deposit slip, transaction print out and receipt dated October 19, 2001, attached hereto.

Furthermore, the Housing Authority will continue to utilize the services of the Special Programs Department for all contracting subject to review by legal counsel, with ultimate approval by the Executive Director who is the designated Contracting Officer for the Housing Authority. The Special Programs Department is currently responsible for the majority of contracting and has been actively assisting other Housing Authority Departments for the past two (2) years to better ensure that procurement requirements in contracting are met and that the Housing Authority follows Federal requirements, State of Indiana law, and its Procurement Policy when awarding contracts. Additionally, pursuant to developing a cost allocation plan in accordance with Office of Management and Budget Circular A-87, the Housing Authority will actively review its positions and anticipates creating a Capital Improvement and Procurement Department for Fiscal Year 2003. It is anticipated that the creation of a centralized Capital Improvement and Procurement Department will serve as a safeguard whereby all future contracting subject to procurement would be brought to this Department, specifically to the attention of the Director of Capital Improvement and Procurement, to then be bid out in accordance with regulatory requirements.

In closing, the Housing Authority would like to thank you and your staff for your diligence and professionalism in conducting this audit. While the Housing Authority is very proud of the work it has done and the services it has been providing, we remain open to suggestions for improvement to our programs and truly appreciate your assistance in further refining and improving our efforts.

Sincerely,

/signed/

Paul L. Fletcher
Executive Director

PF/cs

cc: Brent Bowen, Auditor, Office of Inspector General, Ohio State Office

November 30, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
77 West Jackson Boulevard, Suite 2646
Ralph H. Metcalfe Federal Building
Chicago, IL 60604-3507

Re: Amended Response of the Housing Authority of the City of Evansville, Indiana, (Housing Authority) to the September 18, 2001 Draft Audit Report of the U.S. Department of Housing and Urban Development Inspector General (HUD)

Dear Mr. Wolfe:

This letter amends and supersedes the Housing Authority responses dated October 10, 2001, and October 25, 2001, respectively, in reference to your correspondence from the September 18, 2001 Draft Audit Report concerning the HUD Proposed Finding “The Authority’s Actions Regarding The Emporia Project Were Improper.” I have reviewed the aforementioned Draft Audit Finding of the Office of Inspector General for Audit, HUD (“Draft Audit Findings”) submitted to me and provide the following comments on behalf of the Housing Authority. The Housing Authority’s comments are set forth below:

HUD PROPOSED FINDING

“The Authority’s Actions Regarding The Emporia Project Were Improper”

RESPONSE- The Housing Authority agrees that it did not follow Federal requirements regarding the acquisition, development, and disposition of property for the Emporia Project. Accordingly, the Housing Authority will:

- a. Reimburse its Public Housing Operating Program \$3,237 and its Comprehensive Grant Program \$966 from non-Federal funds for the cost of acquiring, developing, and/or selling the 17 parcels of property for the Emporia Project.
- b. Implement procedures and controls to ensure the Housing Authority follows Federal requirements when acquiring, developing, and/or disposing of property.

In particular, please be advised that the following remedial actions have been taken by the Housing Authority to reimburse its Public Housing Operating Program \$3,237 and its Comprehensive Grant Program \$966 from non-Federal funds for the cost of acquiring, developing, and/or selling the 17 parcels of property for the Emporia Project. On October 12, 2001, the Housing Authority issued Check Number 111060 to reimburse its Public Housing Operating Program \$3,237. On October 17, 2001, \$3,237 was deposited into the Housing Authority's Low Rent Program account at Fifth Third Bank as evidenced by deposit slip, transaction print out and receipt dated October 19, 2001, attached hereto. Likewise, on October 12, 2001, the Housing Authority issued Check Number 111058 to reimburse its Comprehensive Grant Program \$966. On October 16, 2001, \$966 was deposited into the Housing Authority's Comprehensive Grant Program account at Fifth Third Bank as evidenced by deposit slip, transaction print out and receipt dated October 19, 2001, attached hereto.

Furthermore, the Housing Authority agrees that it improperly threatened its eminent domain authority to acquire property in March, 1998 and did not initiate or institute formal condemnation proceedings declaring it necessary to acquire an interest in real property using eminent domain as required in HUD Handbook 1378.0. Accordingly, the Housing Authority intends to present to its Board of Commissioners a Resolution at an upcoming Regular Board Meeting stating that the Housing Authority does not encourage the use of eminent domain and requires that all matters which contemplate the use of formal condemnation proceedings by eminent domain be presented to the Board of Commissioners for review and approval.

Additionally, the Housing Authority will continue to readily implement and follow procedures by promptly requesting HUD approval prior to acquisition and/or sale of any and all future property to better ensure compliance with Federal requirements when acquiring, developing, and/or disposing of property.

In closing, the Housing Authority would like to thank you and your staff for your diligence and professionalism in conducting this audit. While the Housing Authority is very proud of the work it has done and the services it has been providing, we remain open to suggestions for improvement to our programs and truly appreciate your assistance in further refining and improving our efforts.

Sincerely,

/signed/

Paul L. Fletcher
Executive Director

PF/cs

cc: Brent Bowen, Auditor, Office of Inspector General, Ohio State Office

August 6, 2001

Mr. Heath Wolfe
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
77 West Jackson Boulevard, Suite 2646
Ralph H. Metcalfe Federal Building
Chicago, IL 60604-3507

**Re: Response of the Housing Authority of the City of Evansville, Indiana,
(Housing Authority) to the July 23, 2001 Draft Audit Report of the U.S.
Department of Housing and Urban Development Inspector General (HUD)**

Dear Mr. Wolfe:

This letter responds to your correspondence of July 23, 2001 Draft Audit Report. I have reviewed the third Draft Audit Finding of the Office of Inspector General for Audit, HUD (“Draft Audit Findings”) submitted to me and provide the following comments on behalf of the Housing Authority. The Housing Authority’s comments are set forth below:

HUD PROPOSED FINDING #3

“The Authority Did Not Exercise Sound Management Practices Over Its Construction Steel”

RESPONSE- The Housing Authority agrees that it did not exercise sound management practices over steel purchased for construction work in December, 1996. Accordingly, the Housing Authority will:

- a. Take appropriate and timely action to either use the remaining steel for a Housing Authority project or sell the steel for its fair market value.
- b. Reimburse its Comprehensive Grant Program funds \$1,730 from non-Federal funds for the steel decking that rusted and was discarded.
- c. Implement procedures and controls to ensure the Housing Authority follows Federal requirements when purchasing construction steel for future projects.

In particular, the Housing Authority is scheduled to take possession of the remaining steel from FabCon, the manufacturer of the steel, on August 14, 2001. The Housing Authority's Director of Special Programs has confirmed that the remaining steel is to be delivered on August 14, 2001 to a vacant lot area at the Erie Homes Housing Development. This vacant lot is located at the corner of 10th and Oak Streets and will be secured by construction fencing. The Housing Authority's Director of Special Programs has further recommended the steel be used in the construction of a new Multi-Purpose Building at the renovated Erie Homes Housing Development. Furthermore, the Housing Authority first attempted to utilize the steel in its new construction of a twenty-four unit senior citizen public housing building, however its Director of Special Programs stated that the Project Architect said it could not be used in the architectural design of this facility.

- d. The Housing Authority intends to continue to readily implement procedures and controls to ensure it follows Federal requirements when purchasing construction steel for future projects.

Likewise, in July 2000, the Housing Authority's Construction Manager and its Construction Department/Staff were reorganized to report directly to the Director of Special Programs. This reorganization was implemented as a safeguard to better ensure the Housing Authority follows Federal requirements when expending Comprehensive Grant Program funds.

In closing, the Housing Authority would like to thank you and your staff for your diligence and professionalism in conducting this audit. While the Housing Authority is very proud of the work it has done and the services it has been providing, we remain open to suggestions for improvement to our programs and truly appreciate your assistance in further refining and improving our efforts.

Sincerely,

/signed/

Paul L. Fletcher
Executive Director

PF/cs

cc: Brent Bowen, Auditor, Office of Inspector General, Ohio State Office

Distribution

Regional Director, Midwest (2)
 Senior Community Builder/State Coordinator, Indiana State Office
 Director of Public Housing Hub, Cleveland Area Office (2)
 Coordinator of Public Housing Program Center, Indiana State Office
 Secretary, S (Room 10000)
 Deputy Secretary, SD (Room 10100)
 Senior Advisor to Deputy Secretary, SD (Room 10100)
 Assistant to the Secretary for White House Liaison, S (Room 10216)
 Press Secretary/Senior Communications Advisor to the Secretary, S (Room 10226)
 Chief of Staff, S (Room 10000)
 Acting Assistant Secretary for Administration, A (Room 10110)
 Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)
 Director of Departmental Equal Employment Opportunity, U (Room 2112)
 Deputy Chief of Staff for Policy and Programs, S (Room 10226)
 Deputy Chief of Staff for Intergovernmental Affairs, S (Room 10226)
 Director of Center for Faith-Based and Community Initiatives, K (Room 10184)
 Executive Officer for Administrative Operations and Management, S (Room 10220)
 General Counsel, C (Room 10214)
 Acting Assistant General Counsel, Midwest
 Assistant Secretary for Housing-Federal Housing Commissioner, H (Room 9100)
 General Deputy Assistant Secretary for Policy Development and Research, R (Room 8100)
 Assistant Secretary for Community Planning and Development, D (Room 7100)
 President of Government National Mortgage Association, T (Room 6100)
 Acting Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)
 Assistant Secretary for Public and Indian Housing, P (Room 4100)
 General Deputy Assistant Secretary for Public and Indian Housing, P (Room 4100)
 Acting Deputy Assistant Secretary for Public Housing Investments, PT (Room 4138)
 Deputy Assistant CFO for Financial Management, FM (Room 2206)
 Acting Deputy Assistant Secretary for Public and Assisted Housing Delivery, PH (Room 4202)
 Deputy Assistant Secretary for Administration and Budget/CFO, PC (Room 4234)
 Audit Liaison Officer for Public and Indian Housing, PF (Room 5156)
 Chief Information Officer, Q (Room 8206)
 Director of Departmental Operations and Coordination, I (Room 2124)
 Chief Financial Officer, F (Room 2202)
 Director of Audit Coordination/Departmental Audit Liaison Officer, FMA (Room 2206)
 Director of Risk Management, FMR (Room 2214)
 CFO Audit Liaison Officer, FMA (Room 2206)
 Audit Liaison Officer, 3AFI (2)
 Director of Enforcement Center, V (200 Portals Building)
 Acting Director of Real Estate Assessment Center, X (1280 Maryland Avenue, SW,
 Suite 800)

Acting Director of Multifamily Assistance Restructuring, Y (4000 Portals Building)
Acquisitions Librarian, Library, AS (Room 8141)
Acting Director of Federal Housing Enterprise Oversight, O (Room 4011)
Director of Healthy Homes and Lead Hazard Control, L (3206 Portals Building)
Director of National Office of Labor Relations, SL (Room 7118)
Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B 373
Rayburn House Office Building, Washington DC 20515
The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340
Dirksen Senate Office Building, United States Senate, Washington DC 20510
The Honorable Joseph Lieberman, Chairman, Committee on Governmental Affairs, 706 Hart
Senate Office Building, United States Senate, Washington DC 20510
The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn
Building, United States House of Representatives, Washington DC 20515
The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform,
2204 Rayburn Building, United States House of Representatives, Washington DC
20515
Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House
Office Building, Washington DC 20515
Associate Director of Housing and Telecommunications Issues, United States General
Accounting Office, 441 G Street N.W., Room 2T23, Washington DC 20548
Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17th Street,
N.W., Room 9226, New Executive Office Building, Washington DC 20503
Andy Cochran, House Committee on Financial Services, 2129 Rayburn House Office Building,
Washington DC 20515
Executive Director, Housing Authority of the City of Evansville (5)
Vice Chairman of the Board of Commissioners, Housing Authority of the City of Evansville