AUDIT REPORT

LOW RENT HOUSING PROGRAM
CASH AND PROCUREMENT CONTROLS

HOUSING AUTHORITY OF THE CITY OF HOUMA
HOUMA, LOUISIANA

2002-FW-1002

SEPTEMBER 18, 2002

OFFICE OF AUDIT, REGION 6
FORT WORTH, TEXAS

Issue Date
September 18, 2002
Audit Case Number
2002-FW-1002

TO: Catherine D. Lamberg
Director, Troubled Agency Recovery Center, PB2

/SIGNED/

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

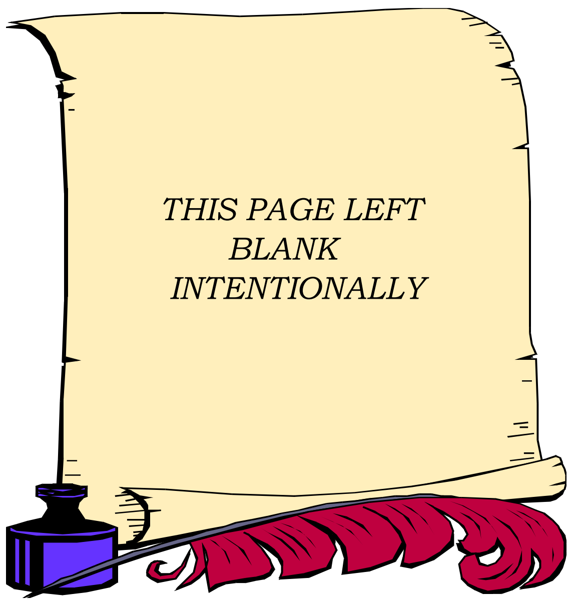
SUBJECT: Low Rent Housing Program, Cash and Procurement Controls
Housing Authority of the City of Houma
Houma, Louisiana

We performed an audit of the Housing Authority of the City of Houma (Authority). The purpose of the audit was to determine whether the Authority maintained adequate controls over cash and procurement. Specifically, we determined whether the Authority: (1) expended funds for eligible activities; (2) accounted for collections and deposits; and (3) complied with federal and Authority procurement requirements.

The report contains four findings requiring follow-up actions by your office. We will provide a copy of this report to the Authority.

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

Please call William W. Nixon, Assistant Regional Inspector General for Audit, at (817) 978-9309 if you or your staff have any questions.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Executive Summary

We performed an audit of the Housing Authority of the City of Houma (Authority)'s low rent program. The purpose of the audit was to determine whether the Authority maintained adequate controls over cash and procurement. Specifically, we determined whether the Authority:

(1) Expended funds for eligible activities;
(2) Accounted for collections and deposits; and
(3) Complied with federal and Authority procurement requirements.

The Authority had inadequate controls and management over cash and procurement.

The audit concluded the Authority had inadequate controls and management over cash and procurement. Specifically, the Authority improperly procured $1.1 million in contracts; paid $240,077 in ineligible and unsupported expenditures; did not deposit tenant receipts totaling at least $48,201; and allowed employees to abuse their positions.

As a result of poor management, lax oversight, and a failure to follow requirements, the Authority mismanaged HUD funds and may have exposed the funds to fraud, waste, and abuse.

Recommendations

We are recommending HUD take action to ensure the current management has the necessary policies and procedures in place to limit future mismanagement; the Authority support or repay the unsupported or ineligible expenditures discussed in the findings; and that HUD should take any warranted administrative sanctions.

The Authority generally agreed with the findings.

We provided the draft copy of the audit report to the Authority on June 19, 2002. We held an exit conference on July 18, 2002, with the Executive Director of the Authority and an official of the HUD Troubled Agency Recovery Center.

The Authority provided its signed response and attachments to our findings.[1] We have summarized and evaluated the applicable areas in the individual findings. We have included the entire response as Appendix B. Generally, the Authority concurred with the findings and offered actions it would take to address the recommendations. The Authority

[1] Dated August 15, 2002.

contends the Authority's previous administration caused the conditions cited in the report. In addition, the Authority believed HUD contributed to the problems experienced at the Authority. The Authority stated problems identified in the report were reported to HUD as far back as 1997-1998 and the damage caused by the former administration and board members could have been minimized and contained if proper HUD oversight was in place.

We appreciate the Authority’s assistance and cooperation with OIG staff throughout the course of the audit.

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Abbreviations

HUD	U. S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget

Introduction

Background

The Housing Authority of the City of Houma (Authority) is a political subdivision of the State of Louisiana incorporated in 1966. The Terrebonne Parish President appoints a five-member Board of Commissioners who provides oversight of the Authority's operations. The Authority manages 600 Public Housing units at two sites: Bayou Towers and Senator Circle. Bayou Towers is a high-rise facility, designated as elderly/handicapped living. Senator Circle is a low-rise development, designated as multifamily living. The Authority maintains records at its administrative office located at 7491 Park Avenue, 1st floor of the Bayou Towers high rise.

The Authority received the following funding from HUD:

Type of funding	***1998***	***1999***	***2000***
Operating Subsidy	$845,906	$815,048	$664,957
Capital Funding	$464,495	$530,491	$1,100,863
Drug Elimination		$131,964	
Totals	**$1,310,401**	**$1,477,503**	**$1,765,820**

Based upon information submitted to HUD, HUD considered the Authority a high performer[2] in 1998 and 1999; however, the Authority received a score 36 out of 100 on HUD's assessment in 2000.

In 2000, both the Executive Director and the Assistant Executive Director left the Authority. The Executive Director left on indefinite medical leave in August 2000. The Authority's Board of Commissioners officially terminated the Executive Director in September 2001. The former Assistant Executive Director quit abruptly in September 2000. Furthermore, the Board of Commissioners have also seen turnover.

Since March 2001, an Assistant Executive Director has managed the day-to-day operations.[3] Due to conditions at

2 HUD considers a housing authority a high performer if it receives a score of 90 or higher.
3 In May 2002, the Board of Commissioners voted to promote the Assistant Executive Director to Executive Director.

the Authority, HUD's Troubled Agency Recovery Center took over the supervision of the Authority in January 2002**.**

Audit Objective

Our overall objective was to determine whether the Authority maintained adequate controls over cash and procurement. Specifically, we determined whether the Authority:

- Expended funds for eligible activities;
- Accounted for collections and deposits; and
- Complied with federal and Authority procurement requirements.

To accomplish the audit objectives we:

- Reviewed relevant HUD regulations and guidelines;
- Examined records maintained by the Authority;
- Reviewed the Authority's accounting records, financial and budget reports, and operating procedures;
- Reviewed a non-representative selection of contracts;
- Analyzed the Authority's computer information using computer assisted auditing software; and
- Interviewed Authority personnel, HUD officials, Independent Auditors, Board of Commissioners, consultants, and others possessing knowledge regarding the Authority's operations.

Audit Scope and Methodology

We conducted the audit in accordance with generally accepted governmental auditing standards. As discussed in the findings, the Authority's books and records were in poor condition and the Authority could not supply all the information needed to complete our audit. Throughout the audit, we reviewed various computer-generated data. Specifically, using computer-assisted auditing software we sorted, analyzed, and evaluated the Authority's financial records. However, we could not satisfy ourselves that these records were complete or accurate. We did not test the reliability of any other computer-generated data.

Audit Period

We conducted our fieldwork between April 2001 and March 2002. Our audit period generally covered the period from January 1, 1998, through June 30, 2001, with the scope expanded as necessary.

The Authority Sole-Sourced $1.1 Million in Contracts

The Authority sole-sourced 16[4] of the 20 contracts reviewed.[5] In addition to poorly procuring the contracts, the Authority: (1) did not perform proper procurement administration; (2) did not maintain procurement files; (3) did not perform price/cost analyses;[6] and (4) disregarded HUD instructions to approve and pay contract awards.[7] Also, the Authority failed to monitor the work of contracts totaling $949,204.

As a result of not following requirements, it did not know whether it received quality service for a reasonable price under the contracts. The Authority should establish and implement proper procedures to procure goods and services. Further, the Authority should repay HUD ineligible and unsupported amounts.

The Authority had a duty to award contracts competitively.

According to 24 CFR 85.36, "…all procurement transactions will be conducted in a manner providing full and open competition. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies: the item is available from a single source, emergency, competition determined inadequate and HUD authorizes the noncompetitive proposals."

Further HUD Handbook 7460.8 allowed the Authority to use the noncompetitive proposals method, in exceptional cases, provided it prepares a written justification, follows HUD regulations, and obtains any required HUD approval.[8]

The Authority sole-sourced contracts totaling $1.1 million.

In a non-representative selection of 20 contracts, the Authority sole-sourced 16 of the contracts reviewed. The contracts totaled $1,174,211. The contracts sole-sourced included: Armand Communications, Bayouland YMCA, Bergeron & Lanaux, Bolden Exterminators, Carmon Consulting, Cintas, Crescent Guardian, Estes & Associates, Houma Police, Legier & Materne, Marcello & Associates,

4 The 16 contracts totaled $1,174,211.
5 The Authority could not provide a listing of all contracts procured during the audit period.
6 A price/cost analysis was only performed in one instance.
7 In two instances, the Authority paid $207,156 after HUD told them to cease payments.
8 HUD Handbook 7460.8, paragraph 2-6.

McGlinchey Stafford, P. Miller & Associates, Simplex, Vinson Guard Service, and Waste Management.

The Authority failed to prepare a written justification and obtain HUD approval as required for the 14 noncompetitive contracts. The Authority provided written justification for just two sole-sourced contracts: McGlinchey Stafford and Legier & Materne. However, the Authority neglected to get the required HUD approval. HUD did not grant approval and as a result, HUD considered the contracts with McGlinchey Stafford and Legier & Materne and Bergeron & Lanaux improper. In an August 1, 2001 letter to the Authority, HUD told the Authority to cease "payments to these firms for services provided." The Authority ignored HUD's warning. As of August 17, 2001, the Authority paid $207,156 to the two service providers.[9] The Authority should follow HUD's instruction and direction and cease making improper procurements and payments.

With respect to architectural services, the Authority did not advertise for the services. The Authority contacted Marcello & Associates directly. The Authority did not retain files regarding its procurement of Marcello & Associates. Marcello & Associates provided contract files dating back to August 6, 1997. The Authority hired the firm to perform design services for both sites, Senator Circle and Bayou Towers. However, in 1998 and 1999 Marcello & Associates submitted addenda, which the Authority accepted and paid. The Authority allowed Marcello & Associates to add on services without competition or a new contract. Authority files showed the Authority continued to make payments to Marcello & Associates until June 2001. The Authority paid Marcello & Associates a total of $107,603 from January 1998 to June 2001. The contract and addenda during the same period totaled $99,930. Marcello & Associates billed the Authority for $11,980 for work where no valid contract exists. The Authority should not make payments to contractors that are not supported by valid contracts.

The Authority also overpaid for security services. From January 1998 to August 2000, the Authority simultaneously paid two security service providers to perform security

[9] HUD originally considered the contract with Begeron & Lanaux improper, but in October 2001, allowed the Authority to pay the firm.

patrol service. The Authority procured the services of both Vinson Guard Service and the Houma Police Department without the benefit of competition. The Authority disregarded both HUD and the Authority procurement requirements. The contract amount not only required HUD review and approval, but the noncompetitive nature of the contracts also required it. The Authority did not provide written justification or obtain HUD approval. The Authority paid 41 Houma police officers $265,040 from January 1998 to June 2001. During the same period, Vinson Guard Service received a total of $242,145, for a total of $507,185. Based upon the files, it did not appear the Authority controlled the contracts. The Authority could not provide a reason for this level of security service. For the period, the Authority expended 5 percent of its funds on security services. It does not appear cost effective to pay a total of $507,185 for two different providers to perform effectively the same services. The Authority should evaluate the need for and level of security services and follow procurement requirements in obtaining and monitoring them.

As another example, in May 2000, the former Executive Director decided to obtain a summer youth program. The former Executive Director directly contracted with Bayouland YMCA. The former Executive Director did not consider any other service providers. The Authority paid Bayouland $26,109 for the summer program. Again, the former Executive Director did not follow the Authority and HUD regulations concerning procurement of services. Furthermore, Terrebonne Parish offered similar services as Bayouland YMCA for free. However, the former Executive Director failed to submit the Authority application to the Terrebonne Parish officials, and as a result the Authority missed the deadline. Accordingly, the Authority should repay the $26,109 to HUD.

By excluding other service providers, the Authority effectively sole-sourced the contract awards and as a result, the Authority restricted competition and lessened the assurance that it obtained quality services. For instance, it did not appear the Authority received quality auditing service from Estes & Associates. In October 1999, the former Executive Director contracted with Estes & Associates to provide audit services for the fiscal year ending September 30, 1999. However, HUD noted significant problems in the quality of Estes & Associates' work during a quality assurance review. HUD's review concluded Estes & Associates did not perform audits and attestation services in accordance with standards. Furthermore, the Authority received an unqualified opinion from Estes & Associates on the September 30,1999 audit. In comparison, Bergeron & Lanaux disclaimed an opinion in the September 30, 2000 audit. The report contained 23 financial statement findings. The Authority paid Estes & Associates $14,900 from 1998 to March 2000. It appears the Authority wasted these funds. The Authority should ensure it receives a quality product by monitoring and following proper procurement.

The Authority did not perform cost analyses.

The Authority did not perform cost analyses for 15 of the 20 contracts reviewed, totaling $1,169,726. HUD required the Authority to perform a cost analysis on every procurement to ensure the prices paid are reasonable. This is particularly true for sole-source procurements. In the 15 cases where the Authority did not perform a cost analysis, the Authority sole-sourced the contracts. Since the Authority failed to perform cost analyses, they cannot justify the reasonableness of the payments made to the contractors.

According to HUD requirements,[10] the Authority "must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation...A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders."

HUD should require the Authority to justify the costs it paid on contractors. The Authority should return any amount considered unreasonable. Further, HUD should ensure the Authority prepares a cost analysis for all future procurements.

[10] 24 CFR 85.36 (f)(1).

The Authority did not perform proper contract administration.

The Authority failed to properly monitor 14 of the 20 contracts reviewed (70 percent). Not only did the Authority not monitor the work of the contractors, but it consistently renewed the contracts as well, thereby repeating the cycle. HUD required[11] the Authority to ensure the supplies, services, or construction under contract were performed in an acceptable manner. The Authority did not meet this requirement.

For instance, the Authority originally contracted with Bolden Exterminators in 1986 through a competitive proposal. From 1995 until 2000, the Authority simply renewed the pest control contract without competition. According to residents' complaints, the apartments still had pests after Bolden performed the monthly pest control service. Had the Authority monitored the work of Bolden, they would have known whether the services were effective. If the Authority had monitored the contract, it could have taken action to ensure the services were effective or addressed the resident's concern. The Authority paid Bolden a total $26,600 in 2000.

Furthermore, the Authority did not ensure that contracts were current and properly executed. The Authority continued to make payments on the following expired contracts:

<u>Marcello & Associates</u>[12]- the contract expired in 1997, but Marcello submitted an addendum in May 1998 for design services at the sites and again in 1999 without the benefit of a new contract. The Authority paid Marcello & Associates $107,603 from January 1998 to June 2001.

<u>Miller & Associates</u>[13]- the contract expired on October 1, 2000, and the Authority continued to make monthly payments of $950, as late as June 2001.

The Authority should follow HUD requirements and ensure it has current contracts and it reconciles its payments to the services rendered under the contract. The Authority needs to maintain information on the contracts. Also, HUD

[11] HUD Handbook 7460.8.
[12] They provided architectural services.
[13] They provided fee accounting services. Considering the condition of the books and records, HUD and the Authority should closely monitor this contractor.

should require the Authority to reconcile and support its payments to these contractors.

The Authority did not document procurement history.

The Authority could not provide a procurement history for 14 of 20 contracts reviewed. HUD required the Authority to "maintain records sufficient to detail the significant history of procurement."[14] While performing the review, contractors had to be contacted to supply basic information regarding the contracts. Types of information that the Authority's files lacked included: invitation for bids, bid sheets, request for proposals, cost analyses, funds certification, independent cost estimate, technical evaluation plans, contracts, and payments. The Authority staff should attend training on procurement and the importance of maintaining orderly files. Considering the importance of procurement to the proper functioning of the Authority, the Authority should consider establishing a standard organization and checklist for procurements. The following table details the results of the audit.

[14] 24 CFR 85.36 (b)(9)

SUMMARY OF NONCOMPETITIVE CONTRACTS					
Name of Contractors	**Contract Procured Properly**	**Amount of Contract**	**Cost Analyses Performed**	**Contract Work Monitored**	**Procurement History Documented**
Armand Communications	No	$1,800	No	No	No
Bayouland YMCA	**No**	**26,109**	**No**	**No**	**Yes**
Bergeron & Lanaux	No	23,964	No	Yes	No
Bolden	**No**	**89,025**	**No**	**No**	**No**
Carmon Consulting[15]	No	16,700	No	No	No
Cintas	**No**	**4,485**	**Yes**	**N/A**	**No**
Crescent Guardian	No	75,146	No	No	No
Estes & Associates	**No**	**14,900**	**No**	**No**	**No**
Houma Police	No	265,040	No	No	No
Legier & Materne	**No**	**184,554**	**No**	**Yes**	**Yes**
Marcello & Associates	No	107,603	No	No	No
McGlinchey Stafford	**No**	**22,602**	**No**	**Yes**	**Yes**
P. Miller & Associates	No	40,110	No	No	No
Simplex	**No**	**21,580**	**No**	**No**	**No**
Vinson Guard Service	No	242,145	No	No	No
Waste Management	**No**	**38,448**	**No**	**No**	**Yes**
	TOTAL	**$1,174,211**			

Auditee Comments

The Authority's complete written response is at Appendix B. The Authority agreed with most of the recommendations. In agreeing with the recommendations, the Authority provided actions it will take to correct the conditions noted. The Authority maintained that many of the conditions cited occurred as the result of previous management.

[15] A principal in this firm subsequently worked as the Authority's Assistant Executive Director from January through September 2000.

However, the Authority disagreed with the recommendations to repay HUD for the improper contract payments to Legier & Materne and McGlinchey & Stafford. The Authority believes the report issued and documentation obtained by Legier & Materne was useful to HUD, OIG, and the Terrebonne Parish District Attorney's office. Further, it was "crucial in winning each Civil Service Appeal." With respect to McGlinchey & Stafford, the Board of Commissioners appointed the firm as its legal counsel. "This action was deemed an emergency due to on-going staff mismanagement, waste and abuse, to ensure auditors were allowed entry into office to complete annual audit and to obtain verification of employment status of former E.D. and existing staff."

Regarding Recommendation 1B, the Authority stated the Board of Commissioners determined "that the scope of work was required to avoid and prevent additional losses, including the loss of utility services to six hundred families. The determination or 'cost analysis' was completed based upon their limited abilities and knowledge at that time."

OIG Evaluation of Comments

Based upon the Authority's response and additional documentation, we amended the draft report where necessary. The Authority has made strides to correct the conditions noted and hopefully, will continue to make progress by working with HUD's Troubled Agency Recovery Center and implementing the actions promised in its response.

Although the Authority may have benefited from the services of Legier & Materne and McGlinchey & Stafford, this does not justify violating HUD procurement requirements. Further, the Authority provided insufficient documentation to support its assertion that hiring McGlinchey & Stafford was an emergency. To ensure it does not repeat conditions noted in the report, the Authority must follow HUD requirements.

In regards to the Authority's comment on Recommendation 1B, the Authority did not provide any documentation of the Board of Commissioner's determination or the contracts specifically involved.

Recommendations

We recommend the Director of the Troubled Agency Recovery Center require the Authority to:

1A. Repay its programs $207,156 for the improper contract payments made to Legier & Materne and McGlinchey &Stafford.

1B. Determine and repay to its programs any excessive costs on contracts procured without cost analyses.

1C. Cease payments to improperly procured service providers and re-procure the services.

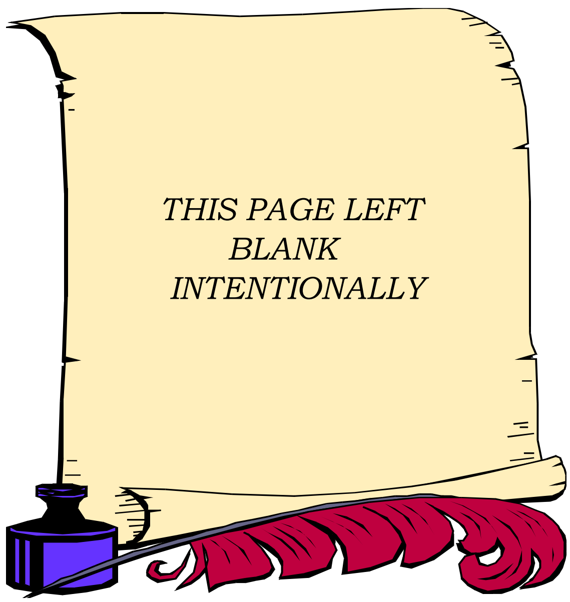
1D. Cease payments on expired contracts. If the services are needed, the Authority should properly procure the services.

1E. Perform a reconciliation of contracts to payments and determine whether contracts are current and have not expired.

1F. Continue to defer to HUD for all procurements of goods and services until such time as HUD determines the Authority can properly procure goods and services.

1G. Provide procurement training to its staff.

1H. Establish such management controls as necessary to ensure compliance with procurement requirements, including maintaining a contract log, filing system, and procurement history.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The Authority Paid $240,077 in Ineligible and Unsupported Expenditures

Due to lax management controls and oversight, the Authority did not minimize its vulnerability to fraud, waste, and abuse. The Authority paid $240,077 for ineligible and unsupported expenditures. The Authority could not support payments of $147,879 (69 percent) of the $214,087 vendor payments reviewed.[16] Of the remaining, $64,716, the Authority ineligibly expended $11,140 (17 percent). Of the $19,941 employees' payments reviewed, the Authority could not support $15,382 (77 percent). Of the remaining $4,559, $4,433 (97 percent) was considered ineligible. Employees, Board members, and other persons used vendor accounts for personal use and/or received or incurred ineligible payments and costs. Other ineligible payments and disbursements totaled $31,982.[17] The Authority could not provide an explanation for $36,390 in checks payable to the Authority, which in most cases the Authority subsequently deposited into the same account on which it was drawn.

HUD required the Authority to expend funds for reasonable and necessary items and to maintain financial records. Specifically, the Authority's Board of Commissioners and Executive Director were responsible for ensuring that systems were in place to measure, monitor, and report program performance. The Authority did not develop and implement written policies and procedures for disbursements to ensure its funds were properly expended. The Authority did not maintain records to identify the source and application of funds provided for HUD-assisted activities. Also, the Authority failed to meet their responsibilities. The Authority should repay the ineligible amounts, either support or repay the unsupported amounts, and develop and implement the necessary controls to ensure it reduces its exposure to fraud, waste, and abuse.

The Authority did not have written policies and procedures for vendor disbursements.

Although HUD required the Authority to have systems in place to measure, monitor, and report program performance, the Authority never established written procedures. The stated procedure for disbursements[18] required employees to request and obtain authorization for purchases from the Office Manager. In other cases, the Executive Director authorized the purchases. Employees obtained products or services with a purchase order and returned the receipt(s) to the Office Manager. The Office Manager remitted payment to the vendor upon receipt of an invoice. Since March 2001, the new Executive Director

[16] A non-representative selection.
[17] $7,129 was also considered ineligible under the review of vendor payments.
[18] Covering the beginning of the audit period, January 1998, until the new Executive Director amended them in March 2001.

has required employees to request and obtain authorization for purchases from the Executive Director. Employees obtained products or services with a purchase order and returned the receipt(s) to the Executive Director for approval. The Accounts Payable clerk remitted payment to the vendor upon approval from the Executive Director and receipt of an invoice.

We tested disbursements to 13 vendors from January 1998 to June 2001 totaling $214,087.[19] Of the $214,087 of disbursements tested, the Authority did not have support for $147,879 (or 69 percent). Further, $11,140 was considered ineligible.

Vendor payments from January 1998 to June 2001

Vendor Name	*Total Reviewed*	*Unsupported*	*Ineligible*
Radiofone/Cingular	**$12,409**	**$6,734**	**$1,710**
A World of Travel	**3,608**		**3,041**
Shell Oil Company	**4,659**	**2,877**	**55**
Mobile Fleet	**1,926**	**1,099**	
Texaco Refining & Marketing	**15,173**	**11,235**	**342**
Frigidaire	**12,225**	**9,510**	
Wal-Mart	**12,025**	**4,795**	**5,215**
Lowe's	**32,472**	**21,572**	**777**
Barrett Interiors	**9,552**	**3,261**	
Great Southern Computers	**36,976**	**16,600**	
Duncan Sports	**5,070**	**4,170**	
The Trophy & Athletic	**3,687**	**3,661**	
General Electric	**64,305**	**62,365**	
TOTALS	**$214,087**	**$147,879**	**$11,140**[20]

The Authority could not provide an accurate record of vendors used from January 1998 to June 2001. The Authority did not maintain a vendor listing. Also, the Authority's accounting system did not differentiate between employee, vendor, and contractor disbursements, for instance, by establishing sub-classification in payables or expenses. Approved purchase orders did not exist for nearly all purchases made by the Authority, although

[19] The Authority did not have a vendor listing; therefore, the total number of vendors was unknown. We made a non-representative selection of vendors from those available.

[20] $7,129 of ineligible payments also discussed under sensitive payments.

purchase orders were referenced on some vendor invoices. The purchase orders provided minimal explanation or information. Due to a lack of adequate management controls at the Authority, the Authority's files were inadequate and extremely disorganized.

For example, the Authority purchased refrigerators and unknown items from General Electric. The Authority paid General Electric $64,305 from January 1998 to June 2001. The Authority did not have receipts or invoices to support $62,365 (or 97 percent) of payments. Further, the Authority did not have an inventory listing that it could use to trace appliances to apartments or location if this is what they purchased.

In another example, the Authority purchased various items from Lowe's.[21] The Authority paid Lowe's $32,472 from January 1998 to June 2001. The Authority did not have receipts or invoices to support $21,572 (or 66 percent) of payments. For instance, the Authority could neither support nor account for the purchase of six "SOS Bali Blinds" at a total cost of $727[22] or three 72x64 mini blinds at a total cost of $49.[23] The Authority did not furnish blinds in the dwelling units. Due to the lax management of the Authority at the time and conditions of the files, it might never be known what the Authority purchased or for whom.

The Authority must develop and implement adequate written policies regarding vendor disbursements modeling federal laws and regulations. In addition, the Authority must develop a vendor log and an adequate inventory of assets. The Authority should account for missing assets and take necessary action to recover the assets. Additionally, the Authority should support or repay the ineligible and unsupported amounts.

[21] A home improvement store.
[22] November 25, 2000.
[23] April 24, 2000.

The Authority could not support $15,382 of payments made to employees and $4,433 of payments were determined ineligible.

Of the $19,941 disbursements to seven employees tested,[24] the Authority did not have support for $15,382 (77 percent) and payments of $4,433 (22 percent) were determined ineligible. The Authority did not have adequate written policies and procedures for employee disbursements. Furthermore, Authority employees were able to circumvent good business practices. The Authority's 1999 written travel policy, adopted by the Board of Commissioners, was very vague and only specified allowances for meals as 'reasonable amounts' and a set rate for mileage reimbursement. The Executive Director decided who could travel. The Office Manager reviewed employee's travel vouchers. The Executive Director then signed the reimbursement checks for submission to employees.

The ineligible payments of $4,433 were paid to an Office Manager at the Authority for expenses incurred while attending college ($4,294) and for other miscellaneous purchases such as dance supplies and planners ($139). At the Authority's January 2000 Board of Commissioner's meeting, the Authority proposed to reimburse or pay tuition and book costs for management personnel for training in courses in the area of Business Management/ Administration, Accounting, and Finance or Public Administration. The motion was unanimously accepted. However, the Authority neither adopted a Board Resolution nor written procedures on the subject. Contrary to subjects listed in Board discussions, the Authority reimbursed the Office Manager for courses in Sociology, Communications, Humanities, Philosophy, and History. The Authority needs to clarify its intent including how such expenses will be paid. Further, the Authority should reimburse its program for the $4,433.

Former staff, Board members, and others misused funds.

The former Executive Director, former Assistant Executive Director, employees, Board members, and other persons used vendor accounts for personal use and/or received or incurred ineligible payments and costs totaling $31,982. OMB Circular A-87 C.1.a states: "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost..."

[24] Transactions were selected from January 1998 to June 2001.

The former Executive Director misused funds.

The former Executive Director misused $3,052. In June 2000, only 1 month before the former Executive Director went on extended medical leave, the former Executive Director used funds to pay airfare to take a personal trip. In addition, while on medical leave, the former Executive Director continued to use the Authority vehicle, cellular phones, and gas credit cards. The Authority could not provide an explanation or documentation of approval supporting the former Executive Director's personal use of the Authority vehicle, cellular phones, and gas credit cards while on medical leave.

The former Executive Director inappropriately traveled at the Authority's expense in June 2000.[25] The travel cost the Authority $2,314. OMB Circular A-87 Attachment B 41a states: "Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official business." The former Executive Director traveled from June 7 to June 14, 2000. The former Executive Director traveled to Kansas City, Minneapolis, and Washington, D.C. Before June 11, 2000, only one party traveled. Travel on June 11, 2000, included a second party evidenced by two tickets, both originating from Minneapolis at approximately the same time, with different destinations of New Orleans and Washington, D.C.

Travel Itinerary for former Executive Director

DATE	FROM	TO	LEAVE	ARRIVE
6/7/00	New Orleans	Kansas City	10:40 a.m.	2:09 PM
6/8/00	Kansas City	Minneapolis/ St. Paul	7:35 p.m.	9:03 PM
6/11/00	Minneapolis/ St. Paul	Washington, DC	1:15 p.m.	4:39 PM
	Minneapolis/St. Paul	New Orleans	1:10 p.m.	3:49 PM
6/14/00	Washington, DC	New Orleans	8:00 p.m.	9:35 PM

The former Executive Director used the Authority vehicle, cellular phones, and credit cards while on medical leave.[26] In February 2001 at the Board of Commissioner's request,

25 The former Executive Director went on extended medical leave in July 2000.

26 An article dated January 4, 2001, disclosed the former Executive Director remained in possession of the Authority vehicle, cellular phones, and gas credit cards while on extended medical leave.

the former Executive Director returned the Authority vehicle, cellular phones, and gas credit cards.

The former Executive Director should not have used the Authority's two cellular phones while on extended medical leave. Usage for the cellular phones totaled $341.[27] Further, many of the calls did not appear to pertain to Authority business. For instance on August 12, 2000, the former Executive Director placed a call to Anchorage, Alaska. The minutes used totaled 146 (over 2 hours). In addition, based upon the roaming charges on the November 2000 and January 2001 invoices, it appeared the former Executive Director used the cellular phone while in Tulsa, Oklahoma, and Minneapolis, Minnesota.

The former Executive Director should not have used the Authority's two gas credit cards while on extended medical leave. Usage for the gas credit cards totaled $398.[28] The former Executive Director used the cards for purchases such as gasoline, car wash, oil change, and other miscellaneous items.

The former Assistant Executive Director misused federal funds.

It appears the former Assistant Executive Director (Assistant) misused $727 of federal funds. The Assistant used funds to pay airfare for a personal trip. OMB Circular A-87 Attachment B.41.a states: “Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official business.” The Assistant inappropriately traveled in July 2000. The Assistant departed on a Saturday and returned the next day. The Assistant’s itinerary showed the Assistant lodged at a Marriott at the leisure rate. The Authority believed the Assistant may have attended a training seminar but did not provide supporting documentation. The Authority paid $727 for the trip.

[27] From August 2000 to March 2001.
[28] While on extended leave, the former Executive Director should have returned the Authority’s vehicle.

Travel Itinerary for Assistant

DATE	FROM	TO	LEAVE	ARRIVE
July 29, 2000 (Saturday)	New Orleans	Salt Lake City	7:55 a.m.	10:15 AM
July 30, 2000 (Sunday)	Salt Lake City	New Orleans	8:25 p.m.	12:40 AM **(Monday)**

The Assistant worked at the Authority from January 2000 to September 2000. The Assistant's personnel file did not contain information regarding status of employment, hire date, or termination date. The Authority's Board minutes did indicate intentions of hiring an Assistant Executive Director but did not reflect any confirmation of hiring an Assistant Executive Director.

Board member misused federal funds.

The former Chairman of the Authority's Board of Commissioners (Chairman) continued to use the Authority's cellular phone from January 2001 to March 2001, after the Chairman's term ended in December 2000. The Chairman should not have used the Authority's cellular phone after his term ended.[29] Furthermore, the Chairman did not obtain authorization to obtain cellular phone services. The cellular phone plus service cost the Authority $1,237 from September 2000 to March 2001.

The Chairman purchased and signed a contract for cellular service with Authority funds in September 2000. The Chairman used the cellular phone extensively and many calls occurred between 6:00 p.m. and 5:00 a.m., after normal Authority business hours. For instance, the Chairman placed a phone call at 1:10 a.m. in December 2000. In addition, based upon the roaming charges on the December 2000 and January 2001 invoices, it appeared the Chairman used the cell phone while in Tulsa, Oklahoma. The former Executive Director also incurred roaming charges in Tulsa, Oklahoma, in January 2001.

Council on Aging misused federal funds.

Staff at the Council on Aging used the Authority's Wal-Mart credit card to make purchases to fund the Council on Aging's activities. The staff made many purchases totaling $1,980. In addition, the staff received payments from the Authority totaling $131. The Authority, when asked, could not provide an explanation or documentation of approval

[29] The Chairman returned the cellular phone upon the Authority's request in March 2001.

for the transactions. The Authority should reimburse its program for this cost.

Louisiana Democratic Party received unallowable contributions.

The Authority purchased two tickets, costing $250, to attend a dinner party hosted by a political party. OMB Circular A-87 states: "Contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable." It further states: "Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable." Clearly, the Authority should not have used HUD funds for this expenditure.

Additional compensation and use of services to employees and others cost the Authority $24,605.

Eighteen Authority employees received multiple checks for certain pay periods and/or misused vendor services without explanation or written approval in the Authority's records. In addition, other parties received compensation without explanation or written approval in the Authority's records. The Authority, when asked, could not provide an explanation or written approval supporting these groups of payments.

OMB Circular A-87 required the Authority to maintain documentation reflecting an after-the-fact distribution of actual activity and account for the total activity for provided compensation.

The Authority could not provide an explanation for checks payable to the Authority totaling $36,390.

The Authority could not explain a total of $36,390 in checks written to itself. In some instances, checks were used to transfer money from one Authority account to another Authority account. Authority officials explained the Authority collected large amounts of cash from tenants for rent, utilities, previous balances, security deposits, court fees, maintenance fees, and other charges on a regular basis. During rent collection, the Authority needed large amounts of cash on hand to cash Social Security and payroll checks; submitting the difference between the rent charge and the amount of the check.[30] The Authority produced checks payable to the Authority. The current Executive Director stated the Authority cashed the checks using tenant collections.

[30] The Authority should not act as a bank.

In some cases, the Authority then included the checks in the daily deposits and deposited them into the same account they were drawn; giving the appearance that the total deposit coincided with the daily tenant receivables report. However, the Authority could not explain how it used the $36,390. Therefore, it should either support this amount or reimburse the program for this amount.

The Authority's files were insufficient.

The Authority could not provide an accurate record of vendors used or employees that received disbursements during the audit period. The Authority did not maintain a vendor listing. The vendor and employee files were extremely disorganized. The Authority's accounting system did not differentiate between employee, vendor, and contractor disbursements (for instance by establishing sub-classification in payables or expenses).

According to the current Executive Director, the Authority's entire payroll records before 2001 were deleted from the accounting system and many files and documents were missing.

Approved purchase orders did not exist for nearly all purchases made by the Authority, although purchase orders were referenced on some vendor invoices. The purchase orders provided minimal explanation and/or information.

The Authority needs to establish and maintain adequate files to ensure it expends funds appropriately. Furthermore, the Board of Commissioners must exercise due diligence in overseeing the activities of the Authority.

Summary of Ineligible and Unsupported

Disbursement Category	Total Reviewed	Unsupported	Ineligible
Vendors/Employees	$234,028	$163,261	$8,444
Sensitive; personal use by:[31]			
Executive Director	$ 3,052		$3,052
Asst. Executive Director	727		727
Board member	1,237		1,237
Outside agency	2,111		2,111
Political contribution,	250		250
Unauthorized payments, Other	24,604		24,605
Unusual (checks payable to the Authority)	$339,035	$36,390[32]	
Totals	**$605,044**	**$199,651**	**$40,426**

Auditee Comments

The Authority concurred with the finding. The Authority stated its "new Administration and Board had inherited the responsibility of correcting numerous known and unknown problems affecting the overall organization and administration of its Low Rent Housing Program." The Authority believed it has and continues to take reasonable steps towards correcting the deficiencies. The Authority offered specific steps it would take to implement the recommendations.

OIG Evaluation of Comments

We are encouraged by the Authority's response. However, in some instances, the current administration could have corrected some of the conditions noted in the finding, for example, establishing and implementing policies and procedures regarding disbursements and maintaining adequate files.

[31] The ineligible payments equal $31,982. The Authority should repay the $31,982 in accordance with Recommendation 2E.
[32] Although 10 percent represented a small portion of the total of the disbursements, please note that the Authority used $300,000 to obtain three $100,000 certificates of deposit. Therefore, of the remaining $39,035, the Authority did not have documentation to support 93 percent of payments.

Recommendations

We recommend the Director of the Troubled Agency Recovery Center require the Authority to:

2A. Support the $147,879 in vendor disbursements or repay its program from non-federal funds.

2B. Repay the $4,011 in ineligible vendor disbursements from non-federal funds.

2C. Support the $15,382 of payments to employees or repay its program from non-federal funds.

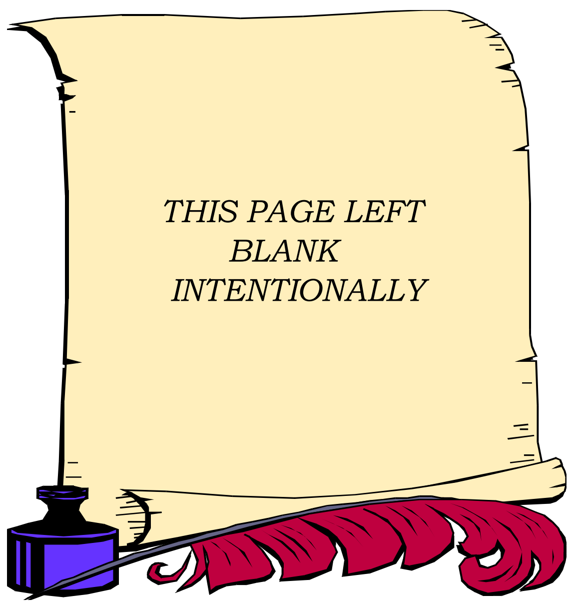
2D. Repay the $4,433 in ineligible employee disbursements from non-federal funds.

2E. Repay the $31,982 in other ineligible disbursements from non-federal funds.

2F. Support the $36,390 in payments to itself or repay its program from non-federal funds.

2G. Seek reimbursement, where appropriate, from employees for funds misused.

2H. Establish and implement the necessary procedures and files to ensure the efficient, effective, and economical use of Authority funds. This includes among other things, file detailing purchases, maintaining inventories, reconciling its certificates of deposits and bank accounts, vendor logs, and employee disbursements.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The Authority Did Not Deposit Tenant Receipts Totaling at Least $48,201

Failing to maintain documentation of tenant receipts, the Authority could not account for $48,201 in tenant receipts. The Authority did not have adequate policies and procedures in place to account for tenant collections and deposits. As a result, the Authority did not account for $48,201 in tenant receipts. In addition, the Authority failed to maintain adequate records to account for rent, laundry, vending, city court fee, and previous balance collections and deposits. The Authority had an inadequate accounting system. Inadequate policies, procedures, and records increased the Authority's susceptibility to fraud, waste, and abuse. HUD should require the Authority to adopt and implement the necessary procedures to safeguard cash collections. Further, the Authority should reconcile the balances of its tenant accounts and make necessary adjustments to the individual accounts.

The Authority did not timely and accurately deposit tenant collections.

A review of 29 daily tenant collections[33] disclosed the Authority did not deposit or properly account for 41 percent of tenant collections.[34] For instance, on November 3, 2000, the Authority collected a total of $27,563 from tenants. However, bank records show the Authority deposited only $20,358 on November 6, 2000. Authority personnel failed to deposit the additional $7,205 on this date. Further inspection of the bank records showed the Authority deposited $7,105 on November 13, 2000, 10 days later. Yet, the Authority could not show if deposits were related. Furthermore, if the deposits were related, the Authority could not provide justification for not depositing the funds for 10 days or what happened to the other $100.

In an egregious example on February 1, 2001, the Authority collected $16,848 in rent collections. Bank records showed a $16,719 deposit made on February 15, 2001, two weeks later. Again, the Authority could not show whether these deposits were related as well. Furthermore, if the deposits were related, the Authority could not provide justification for not depositing the funds for 14 days or what happened to the other $129.

[33] The total non-representative selection included 31 items. The Authority did not have bank records to provide evidence of deposits for two collections selected.
[34] In no instances did the date of collection and date of deposit match. To limit its exposure, the Authority should make deposits prior to the bank closing.

In two instances, the Authority deposited more than it collected for a day. First, on October 1, 1998, the Authority collected $14,055 and deposited $16,832 on October 2, 1998. The Authority could not provide an explanation for $2,777 overage. Second, on December 4, 2000, the Authority collected $16,989. Bank records show the Authority deposited $25,510 on December 5, 2000. Again, the Authority could not account for the $8,521 overage.

The following table shows the 12 instances where the Authority did not timely and accurately deposit rent collections.

Date of Collection	Amount Collected	Date of Deposit	Amount Deposited	Shortage	Overage
10/01/98	$ 14,055	10/02/98	$ 16,832		$ 2,777
10/02/00	23,828	10/03/00	23,608	(220)	
11/02/00	5,880	11/03/00	5,281	(599)	
11/03/00	27,563	11/06/00	20,358	(7,205)	
12/01/00	32,053	12/04/00	24,298	(7,755)	
12/04/00	16,989	12/05/00	25,510		8,521
12/05/00	9,415	12/06/00	8,637	(778)	
02/01/01	16,848	**02/15/01**	16,719	(129)	
02/02/01	21,077	02/05/01	16,317	(4,760)	
03/01/01	18,891	03/02/01	12,866	(6,025)	
03/02/01	24,719	03/05/01	17,633	(7,086)	
03/05/01	17,729	03/06/01	6,895	(10,834)	
TOTALS	**$229,047**		**$194,954**	**($45,391)**	**$11,298**

HUD required the Authority to safeguard cash collections.

According to HUD Handbook 7510.1, the responsibility for safeguarding and accounting for cash rests primarily with the Executive Director. The Authority should have and follow written policies and procedures for management control. HUD further required the Authority to maintain complete and accurate records of all financial management functions. Specifically, HUD Handbook states: "Posting must be made at least monthly to ledger accounts. All records and files must be stored appropriately and all supporting documentation must be maintained in a safe and accessible location."

The Authority did not maintain a cash receipt ledger; consequently, preventing a comparison of collections to the cash receipt ledger. In addition, the Authority could not provide bank statements before October 1998. Therefore, a comparison of rent collections to deposits before October 1998 could not be made.

The Authority has a history of poor controls over rental receipts.

The Executive Director recalled an instance when an Authority employee did not deposit rent collections immediately after the close of business. Instead, the employee kept the cash receipts in her purse until confronted by Authority officials.

In a similar review conducted by Legier & Materne, CPA, they also concluded the Authority did not deposit tenant collections in a timely manner. In their report, Legier & Materne stated during the period of November 1999 to February 2001, the Authority failed to timely deposit $345,126 in tenant collections.

Inadequate collection procedures.

The Authority failed to establish and enforce an adequate written policy and procedure for safeguarding the tenant collections. The Authority's policy on collection procedure held the Authority personnel responsible for any shortages that occurred. However, it appears the Authority did little to implement this such as reconciling individual cash drawers to deposits, limiting access of the cash drawers to one employee, or investigating shortages. Basically nullifying the previous statement, the policy continued: "…overages would be placed in an overage fund in the safe for future use." The future use appeared to be shortages. The policy also did not require employees to reconcile the schedule of collections with the bank statements to ensure all collections were deposited. As a result, the Authority neither accounted for tenant collections nor ensured that the cash receipts were protected from loss, misuse, or theft.

The Authority failed to account for city court fees, previous balance fees, laundry collections, and vending collections.

Lax management and inadequate policies and procedures allowed the Authority to collect city court fees and previous balances with no record of the collection of the funds from January 1998 to March 2001. The Authority has since implemented new policies.

The Authority charged city court fees to tenants when the Authority filed eviction notices with the City Court of Houma. Charges for the city court fees ranged from $10 to $70 per eviction notice. In addition, tenants were charged late fees, current month's rent, and next month's rent. Previous balances were charges to former tenants due to unpaid rent, utilities, city court fees, maintenance, and other charges related to the tenant's previous residency at the Authority. The tenant was required to pay any previous balances before the Authority allowed the tenant to move back into a unit.

The Authority had a tenant accounts receivable report that listed former tenants owing money to the Authority. As of October 2001, this report showed 55 former tenants owing the Authority $17,562. However, this report did not include an additional 404 former tenants owing $144,130.[35] The Authority did not appropriately account for these 404 former tenants. Based upon a review of the accounting system records, the Authority recorded the balances owed by these former tenants in the note section of the tenants' history file. In addition, the account activity records, where the balance should have been recorded, for these former tenants reflected a zero balance. As a result, neither the amount in the note section nor the tenant's name appeared on the tenant accounts receivable report. As a result, the amount owed by former tenants was misrepresented. Furthermore, it was possible to delete the note without a trace of the amount owed and/or collected. Consequently, the amount owed and/or collected was easily susceptible to fraud, waste, and abuse.

Since 1997, the Authority knew of problems with city court fees and the need for policies to account for the fees.[36] However, the former Executive Director and the Board failed to correct the problems. The Authority must establish and enforce policies and procedures to ensure it safeguards assets such as cash receipts from unauthorized access. In addition, the Authority must implement clearly defined staff responsibilities and job accountability. Furthermore, the Authority needs to train employees in properly collecting, recording, and depositing receipts.

The Authority did not deposit $2,810 of laundry collections.

A review and comparison of laundry collection records from January 2000 to March 2001 disclosed the Authority did not deposit at least $2,810 in laundry collections. Furthermore, it could not account for $5,368 in vending

[35] The Authority's financial statements only reflected $2,444 of write-offs of accounts receivables from January 1998 to June 2001. Thus, it appears staff may have written off other accounts receivables without the Board of Commissioners' approval.
[36] The City Court of Houma informed the Authority it owed $37,000 for fees not paid from June 1990 through October 1995. A former employee was prosecuted for theft of the funds.

deposits. The Authority did not maintain adequate financial records to support its collections of laundry and vending funds. The Authority was responsible for maintaining financial records that provided supporting documentation for transactions.

The Authority provided token/quarter operated washing machines and dryers and vending machines for tenant use. The Authority did not maintain records of laundry collections prior to October 1999. In addition, the Authority did not maintain records of the vending commission remittances before March 2001. Based upon the available records, it appears the Authority collected $73,886 in laundry collections, but only $71,076 was deposited in the account.

According to bank records, the Authority deposited $10,447 in its vending account from January 1998 to June 2001. In comparison, the Authority's records only account for $5,079, a difference of $5,368.

The Authority must properly account for all receipts and scrutinize differences between collections and deposits.

Auditee Comments

The Authority concurred with the recommendations. The Authority stated it will work with HUD's Troubled Agency Recovery Center to account for all funds and establish necessary policies and procedures to ensure assets are safeguarded. In addition, the Authority has terminated all employees responsible for missing funds and is pursuing legal actions against those parties identified as responsible for the missing funds.

OIG Evaluation of Comments

We are encouraged by the Authority's response and its willingness to work with the HUD's Trouble Agency Recovery Center. However, the Authority did not provide any documentation to support its statements.

Recommendations

We recommend the Director of the Troubled Agency Recovery Center require the Authority to:

3A. Account for the $48,201 or repay the amount to HUD.

3B. Establish and enforce policies and procedures to ensure it safeguards assets such as cash receipts from unauthorized access including reconciling daily collections with deposits, clearly defined staff responsibilities, and making timely deposits.

3C. Adequately train employees regarding receipts according to Authority policies as well as federal and state laws and regulations. Also, it needs to ensure it has the financial expertise needed to handle the day-to-day accounting functions at the Authority.

3D. Consider outsourcing laundry operations or properly accounting for the funds.

3E. Pursue legal and administrative actions against those parties responsible for the missing funds.

We are also recommending the Director of the Troubled Agency Recovery Center:

3F. Take administrative actions against those individuals responsible for the missing funds.

Authority Employees Abused Their Positions

By providing themselves and acquaintances preferential treatment and reduced rents, Authority employees abused their positions. They misapplied HUD requirements and an Authority Resolution to obtain housing at a reduced rate. As a result, Authority employees and acquaintances underpaid rent by $9,446 from January 1998 through June 2001. Furthermore, the employees violated the rights of other Authority applicants by giving themselves and acquaintances preferential treatment.

HUD allowed Authority employees "special consideration" in the form of rent reduction if they are expected to perform services at any time. HUD requirements[37] stated Authority employees "…are entitled to special consideration since they may be expected to perform services at any time." In 1982, the Authority's Board passed Resolution 136 based upon HUD's special consideration clause. It appears the resolution applied to maintenance workers, who may be "expected to perform services at any time." The resolution properly allowed maintenance employees living and working in Senator Circle a reduced monthly rental rate of $65.

The site manager received $2,345 in reduced rental rates.

Two years after she began her employment at the Authority, a site manager moved her family into a unit.[38] The site manager processed the rental application, assessed the rental rate at $65 per month, and moved herself to the top of the waiting list. According to the rent calculations, the site manager should have paid $400 for rent. The site manager took advantage of her position to misinterpret the Board Resolution by only paying $65. From November 2000 until May 2001, the site manager underpaid rent by $335 per month or a total of $2,345.

The site manager gave sister a reduced rate.

Further, in 2000, the same site manager processed a rent reduction for her sister.[39] The tenant relation worker received a $75 rent reduction.[40] In addition to reducing her sister's rent, the site manager also moved her sister up on the waiting list. The Authority could not justify the site manager's actions. Because of the site manager's inappropriate actions, her sister received a total of $2,283 in reduced rent.

37 HUD Handbook 7465.1.
38 September 2000.
39 Employed by the Authority as a tenant relation worker.
40 Her monthly rent decreased from $213 to $138.

Authority staff reduce rent of other employees.

The site manager allowed non-maintenance employees to reside at the Authority at reduced rates without the approval of the Board. In June 1999, the Authority's clerk typist received a reduction in rent from $140 to $65 per month. A review of the clerk typist's tenant files showed the clerk typist received a reduction in rate because she resided at the Authority. The file contained the following annotation: "HA special rent employee required to live in." This note appeared in the tenant files of maintenance employees only. No information in the file supported that the clerk typist worked in maintenance or that she was "expected to perform services at any time." According to rent calculations, the clerk typist should have paid $140 per month until June 2000; after which her rent should have increased to $273 because of a salary increase. The employee received a total reduction in rent of $1,940.

Finally, Authority files showed a tenant relation worker inappropriately modified the application of a tenant/employee in order to reduce the tenant's rental payments. Authority files show that in July 2000, the tenant's income fell from $7,150 to $4,290 and correspondingly, the rent fell from $143 to $71. The files offered no explanation or support for the decrease in income. In September 2000, the Authority hired the tenant as a tenant relation worker. Her salary increased to $14,331 per year; however, her rent remained the same. According to the Authority rental calculations, the rent should have been $322 per month. Because the Authority failed to acknowledge the increase in salary, the employee received a benefit of $2,224 in reduced rent.

RENT UNDERPAID BY TENANTS/EMPLOYEES

Position Title	Employment Date	Rent Paid By Employees	Accurate Rent	Decrease In Rent
Site Manager	01/16/98	$65	$400	$2,345
Tenant Relations	06/01/98	138	400	2,283
Tenant Relations	09/11/00	71	322	2,224
Clerk Typist	07/01/98	65	140	1,940
Laborer	04/15/99	50	268	654
		TOTAL		**$9,446**

The Authority did not follow proper admission procedures.

The Authority did not follow any guidelines for admission. However, HUD Handbook 7465.1 required the Authority to adopt admission policies that are consistent and fair. The Authority should have conducted the admission process in a manner in which all persons interested in admission to public housing are treated fairly and consistently.

Contrary to HUD requirements, a site manager manipulated the occupancy process by putting herself above others on the waiting list. The site manager's application date was October 2, 2000. The site manager and her family moved into a unit on September 29, 2000. Furthermore, the site manager reported her brother-in-law's nephew as a dependent on the occupancy application to qualify for a two-bedroom unit. The nephew allegedly resided in Chicago, Illinois. The Authority could not offer any justification for the apparent abuse.

The same site manager also changed her sister's, a tenant relation worker, position on the Senator Circle waiting list, allowing the tenant relation worker to move in ahead of other people on the waiting list. It did not appear the Authority followed any guidelines for tenant admissions. In order to ensure all applicants are treated fairly, the Authority must adopt and follow admission policies consistent with laws and regulations.

Auditee Comments

The Authority agreed to implement the recommendations. The Authority stated it had terminated the employment of those employees involved.

OIG Evaluation of Comments

We appreciate the Authority's response and look forward to the implementation of the recommendations.

Recommendations

We recommend the Director of the Troubled Agency Recovery Center require the Authority to:

4A. Repay HUD $9,446 for underpayment of rent by tenant/employees.

4B. Issue IRS forms 1099 to the employees to reflect unearned income.

4C. Implement written policies regarding admission, rent, and reexamination. The Authority should also implement clearly defined guidelines regarding "special consideration" rent.

Further, we recommend the Director of the Troubled Agency Recovery Center:

4D. Take administrative actions against those individuals involved.

Management Controls

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

Relevant Management Controls

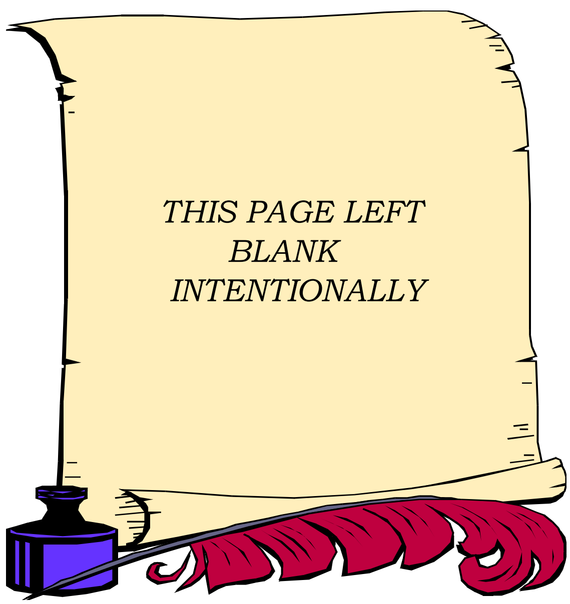
We determined the following management controls were relevant to our audit objectives:

- Adequacy of and adherence to written policies and procedures regarding cash management and procurement.
- Selection, award, and performance of contracts.
- Eligibility and adequacy of records maintained for disbursements to employees and vendors in accordance with laws and regulations.
- Adequacy of records maintained for tenant collections and deposits.

Significant Weaknesses

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses, in that the Authority lacked administrative controls to ensure:

1) The contracts were properly procured in accordance with regulations (Finding 1).
2) The contracts expend funds that are eligible, necessary, and supported (Finding 1).
3) Cash collections and disbursements were protected from waste, fraud, and mismanagement (Finding 2).
4) Cash collections and disbursements were used consistent with the Authority's mission (Finding 3).
5) Records were maintained which adequately identify the source and application of funds provided for HUD-assisted activities (Findings 1, 2, 3, and 4).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Follow Up On Prior Audits

Office of Inspector General Audit Reports

This is the first audit by the Office of Inspector General of the Authority.

Independent Accountant Financial Audit Reports

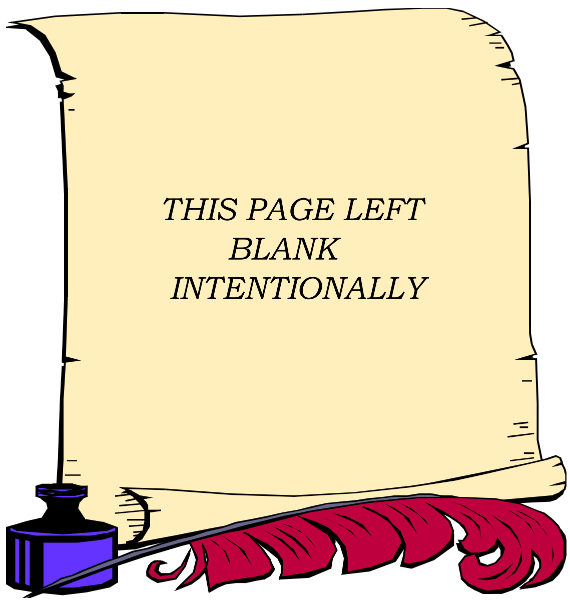
Bergeron & Lanaux

Bergeron & Lanaux, CPAs, issued the most recent Independent Auditor's report for the Authority for the year ending September 30, 2000. The audit contained 23 financial statement findings and 12 federal award findings and questioned costs.

The report disclaimed an opinion on the general purpose financial statements and expressed an adverse opinion on compliance for its major federal award programs because of substantial noncompliance with the requirements of its major programs.

In addition, it reported instances of reportable conditions and material weaknesses in internal controls of the financial statements, in accordance with Governmental Auditing Standards, and over major programs, in accordance with OMB Circular A-133. Also, the report also disclosed instances of noncompliance material to the financial statement during the audit.

The audit showed the Authority had a net operating loss of $1,208,141. Further, questioned costs totaled $13,481 for cash disbursements under the Operating Subsidy and $22,898 for expenditures under the Comprehensive Grant Program.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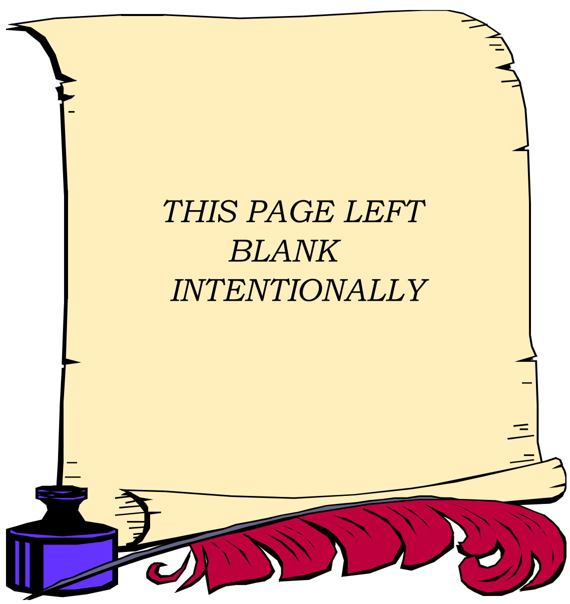
Schedule of Questioned Costs

Issue	Type of Questioned Costs Ineligible [1/]	Unsupported [2/]
1A Improper contract payments	$207,156	
2A Vendor disbursements		$147,879
2B Ineligible vendor disbursements	4,011	
2C Payments to employees		15,382
2D Ineligible employee disbursements	4,433	
2E Other ineligible disbursements	31,982	
2F Payments to Authority		36,390
3A Tenant receipts		48,201
4A Underpayment of rent by tenant/employees	9,446	
TOTALS	$257,028	$247,852

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

2 Unsupported costs are costs questioned by the auditor because the eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation of Departmental policies and procedures.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Auditee Comments

HOUMA-TERREBONNE HOUSING AUTHORITY
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August 15, 2002

MEMORANDUM FOR: D. Michael Beard
District Inspector General for Audit, 6AGA

FROM: Judith A. Escamilla
Executive Director

SUBJECT: Response to Draft Audit

The following response is provided to the draft audit report of the Housing Authority of the City of Houma, issued June 19, 2002.

This new Administration and Board inherited the responsibility of correcting numerous known and unknown problems affecting the overall organization and administration of this Low Rent Housing Program. In establishing priorities, the Board of Directors decided to seek out assistance from HUD to immediately begin to correct problems reported by residents, community leaders and the public. When the requests for assistance were ignored, this board set out to do what any normal citizen would do when faced with the awesome responsibility to immediately respond to the unanswered complaints and lack of cooperation by former staff members.

Under the advice of a Public Trust Officer, the newest appointed member solicited the assistance of an experienced law firm capable of handling Employment and Contractual matters along with the in-house resources to handle any additional legal challenges. The Firm of McGlinchey Stafford, of New Orleans, Louisiana was engaged.

When faced with suspected fraud, mismanagement, and possible theft, the Board then, solicited the assistance of a well renowned firm specializing in Fraud Detection and Operational Studies. The Firm of Legier and Materne, of New Orleans, Louisiana was engaged.

Former staff refused entry of new board members into the Authority's offices to review necessary communications, policies and procedures. Former staff refused to carry out directives given by board members at official meetings. The local Field HUB Office of

Public Housing failed to provide needed assistance to the Board of Commissioners in following HUD Directives.

The Board of Commissioners advertised for an administrator to handle day to day administration. A new administrator began in March of 2001. During the first three months, an OIG Audit began, the Annual Audit for FYE 9/30/00 began and an Operational Study began. Each of these valuable projects produced the same response. This agency needed serious help from HUD.

The new Administration immediately began soliciting assistance from Headquarters to assist in the Recovery Efforts. Requests were made to permit this Authority to receive assistance from the Memphis Troubled Agency Recovery Center. The request was eventually granted and in January of 2002, the HOUMA HOUSING AUTHORITY was assigned to the Memphis TARC.

This Agency voluntarily entered into a Memorandum of Agreement with HUD in May of 2002 and the Recovery Process continues. This agency will continue to work in partnership with HUD to correct the numerous deficiencies identified in all of the released reports along with those we may have not yet identified. We are challenged with the opportunity to serve in this Recovery Process as a team. We recognize that working as a Team, these problems will be resolved together.

The attached pages respond to each of the findings listed in the Draft Report.

Recommendations:

Finding 1

1A. Repay HUD $231,210 for the "illegal" contract payments made to Bergeron & Lanaux, Legier & Materne and McGlinchey Stafford.

A copy of the communication from Ruby Busick, PHRS for the Louisiana HUB Office authorized payment to Bergeron & Lanaux (Copy provided to OIG).

Documents produced by Legier & Materne were provided to HUD, OIG, the Terrebonne Parish District Attorney's office and TARC Teams. This vital information was crucial in winning each Civil Service Appeal, Providing immediate identification of cash flow losses affecting the HA in this critical time period and Providing concrete defense in terminating the contract with the Former E.D.

Actual Documents were produced by Legier and Materne that will greatly assist this agency and HUD in seeking restitution from individuals involved in abuse, waste, and fraud in this low-rent housing program.

McGlinchey & Stafford were appointed by the Board as representation in November 2000 to replace the former legal counsel utilized by the Board of Commissioners. This action was deemed an emergency due to on-going staff mismanagement, waste and abuse, to ensure auditors were allowed entry into office to complete annual audit and to obtain verification of employment status of former E.D. and existing staff.

1B. Determine and repay any excessive costs on contracts procured without a cost analysis.

The Board of Commissioners determined in a Board Meeting held in November 2000 that the scope of work was required to avoid and prevent additional losses, including the loss of utility services to six hundred families. The determination or "cost analysis" was completed based upon their limited abilities and knowledge at that time. The need was identified, the losses were on-going, the lack of administration precipitated the emergency need. The Analysis was completed, however existing staff members required to carry out the proper documentation, failed to ensure the files were documented properly. Those employees have since been terminated.

1C. Cease payments to improperly procured service providers and re-procure the services.

Payments have been ceased. Services will be procured with the assistance of the Memphis TARC.

1D. Cease payments on expired contracts. If the services are needed, the Authority should properly procure the services.

Payments on expired contracts have ceased. Request For Proposals have been issued for Fee Accountants, Architects and other services.

1E. Perform a reconciliation of contracts to payments and to determine whether contracts are current and have not expired.

Reconciliation has been performed. New system in place to track expiration dates of contracts.

1F. Continue to defer to HUD for all procurements of goods and services until such time as HUD determines the Authority can properly procure goods and services.

On-going staff training and assistance from the Troubled Agency Recovery Center is expediting the recovery of this agency.

1G. Provide procurement training to its staff.

Staff are currently being trained by TARC and a new on-site Satellite Interactive Training Site will be open by August 30, 2002 enabling staff to benefit from additional training.

Staff members involved in recommending purchases, processing purchase orders, ordering supplies or services and accounts payable have received training from HUD. Additional monitoring system is in place.

1H. Establish such management controls as necessary to ensure compliance with procurement requirements, including maintaining a contract log, filing system, and procurement history.

Ongoing evaluation of management controls is being performed by TARC. New Policies are being developed and more importantly, implemented. New management controls have been put in place, including a filing system and a procurement history file. Contract log has been developed.

Finding 2

2A. Support the $149,372 in vendor disbursements or repay its program from non-federal funds.

The Housing Authority will continue to research vendor disbursements and provide supporting documentation on any vendor disbursements identified as unsupportable.

2B. Repay the $1,904 in ineligible vendor disbursements from non-federal funds.

The Housing Authority will continue to research vendor disbursements and provide supporting documentation on any vendor disbursements identified as ineligible.

2C. Support the $15,382 of payments to employees or repay its program from non-federal funds.

The Housing Authority will seek reimbursement from employees. Employees have been terminated. HA will request assistance from HUD to complete debarment action where applicable. Employee have been terminated. Collection efforts are on-going.

2D. Repay the $4,443 in ineligible employee disbursements from non-federal funds.

The Housing Authority will seek reimbursement from employees. Employees have been terminated. HA will request assistance from HUD to complete debarment action where applicable.

2E. Repay the $31,980 in other ineligible disbursements from non-federal funds.

The Housing Authority will continue to research each identified ineligible disbursement record and provide supporting documentation as available.

2F. Support the $36,390 in payments to itself or repay its program from non-federal funds.

The Housing Authority will continue to research payments to determine if there exists any supporting documentation on any payments made to the HHA.

2G. Seek reimbursement, where appropriate, from employees for funds misused.

The Housing Authority will seek reimbursement from employees for funds misused

2H. Establish and implement the necessary procedures and files to ensure the efficient, effective, and economical use of Authority funds. This includes among other things, file detailing purchases, maintaining inventories, reconciling its certificates of deposits and bank accounts, vendor logs, and employee disbursements.

The Housing Authority will implement all necessary procedures and maintain files to ensure the efficient, effective and economical use of Authority funds.

Finding 3

3A. Account for the $48,201 or repay the amount to HUD.

The Housing Authority will work with TARC to account for all funds, and establish necessary policies and procedures to ensure assets are safeguarded.

3B. Establish and enforce policies and procedures to ensure it safeguards assets such as cash receipts from unauthorized access including reconciling daily collections with deposits, clearly defined staff responsibilities and making timely deposits.

The Housing Authority will work with TARC to account for all funds, and establish necessary policies and procedures to ensure assets are safeguarded. Policies are currently being enforced to ensure daily collections, deposits and reconciliations are being performed.

3C. Adequately train employees regarding receipts according to Authority policies as well as Federal and State laws and regulations. Also, it needs to ensure it has the financial expertise needed to handle the day-to day accounting functions at the Authority.

Training is on-going and will be monitored with the assistance of the Troubled Agency Recovery Center. Employees have participated in Civil Service training on payroll activities, HUD Procurement Training, and GAAP Accounting procedures.

3D. Consider outsourcing laundry operations or properly accounting for the funds.

The Housing Authority will complete an assessment of the Laundry Operations. Proper Accounting system has been implemented to account for funds and to ensure checks and balances are in place.

3E. Pursue legal action against those parties responsible for the missing funds.

The Housing Authority has terminated all employees responsible for missing funds. The Housing Authority will continue to seek additional legal recourse that may be available. The Housing Authority is pursuing legal actions against those parties identified as responsible for the missing funds. Employees have been terminated.

We are also recommending the Director of the Troubled Agency Recovery Center:

3F. Take administrative actions against those individuals responsible.

Finding 4

4A. Repay HUD $9,446 for underpayment of rent by tenant/employees.

The Housing Authority will require repayment for underpayment of rent by tenant/employees.

4B. Issue IRS forms 1099 to the employees to reflect unearned income.

The Housing Authority will issue IRS Forms 1099 to employees identified in report.

4C. Implement written policies regarding admission, rent and reexamination. Authority should also implement clearly defined guidelines regarding "special consideration" rent.

The Housing Authority has implemented newly written policies. Special Consideration Rent Guidelines will also be developed.

4D. Take administrative actions against those individuals involved.

Employees involved in these finding have been terminated.

Additional information:

Problems identified in this report were reported to HUD as far back as 1997-98. The problems were reported over and over for five years. Some of these problems were reported by residents, staff, councilpersons, and other interested citizens. The damage caused by former administration and board members could have been minimized and contained if proper HUD Oversight was in place.

HUD Administration has contributed to the problems experienced at this agency. We believe that the Field Office employees responsible for investigating the previous five years of complaints should explain why for five (5) years, they could not conclude that a serious problem existed in Houma, Louisiana. Many of the same Fee Accountants, auditors and consultants were used throughout many of the now "Troubled" Agencies in the State of Louisiana.

It is regrettable that the individuals and families receiving housing assistance from this agency will ultimately pay the price involved in correcting the problems that exist at this agency. We have committed to working with the Troubled Agency Recovery Center to put in place proper policies and procedures to ensure that each of the problems identified are corrected.

Distribution

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Houma, Louisiana

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The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs

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