U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
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October 9, 2002

MEMORANDUM NO.
2003-AT-1801

TO: Larry Knightner, Director, Office of Public Housing, 4EPH

FROM: Nancy H. Cooper
Regional Inspector General for Audit, Region 4, 4AGA

SUBJECT: South Carolina Regional Housing Authority No. 3
Barnwell, South Carolina

INTRODUCTION

At your request, we completed a review of South Carolina Regional Housing Authority No. 3 (Authority) and the associated nonprofit, Southeastern Housing Foundation (Foundation). Your request resulted from grievances filed by the Executive Director and Director of Management alleging various improprieties in Authority operations. Our objectives were to assess whether federal funds were misused and whether improprieties existed in Authority operations or finances.

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

If you have any questions, please contact Terry Cover, Assistant Regional Inspector General for Audit, or Dennis Durick, Senior Auditor, at (404) 331-3369.

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SUMMARY

The Authority's Executive Director (ED) and Director of Management (DM) took advantage of their positions, and inadequate oversight by the Authority and Foundation Boards, to financially benefit themselves, their families, and friends at the expense of both entities. The ED and DM violated the Annual Contribution Contract with HUD by executing an illegal agreement between the Authority and the Foundation that provided financial and administrative support to the Foundation, including the use of Authority funds to finance the Foundation's operation. The Foundation owed the Authority $210,524 for operating costs as of January 31, 2002. Furthermore, the ED and DM collected over $958,738 in development and other fees on Foundation property purchases. As a result, the financial positions of the Authority and Foundation were materially weakened.

Authority salary payments totaling $161,000, consulting fees totaling $65,357, and credit card purchases totaling $71,049 were not adequately documented. Timesheets for salaried employees did not identify daily schedules nor hours worked on HUD funded and other programs. Hours worked by the ED and DM could not be confirmed because they seldom worked on site. Documentation for consulting fees and credit card charges did not identify the goods or services purchased and/or the business necessity for the cost. As a result, the Authority could not document whether these charges were reasonable and necessary for its operations.

The Authority executed contracts totaling $341,835 and purchased a luxury automobile for approximately $38,000 without following Authority procurement policies. The Authority awarded a payroll-processing contract, renewed four lawn care contracts, and purchased a luxury automobile without obtaining the required number of bids or price quotations. As a result, the Authority had no assurance that it obtained the best prices for the goods and services it procured.

The Foundation owed the State of South Carolina $185,459 in excess funds that it received from the State's Housing Trust Funds grant program. The Foundation did not use the funds as intended and did not have the funds to return to the State. Since the Authority is currently operating the Foundation, it may have to resolve the Foundation's debt with the State.

On August 29, 2002, we met with Authority and Foundation Board members, the Authority executive staff, Authority attorney, and the HUD Director of Public Housing, South Carolina State Office, to discuss our draft findings and recommendations. On August 28, 2002, the Authority provided draft comments on the four findings. On October 7, 2002, the Authority provided its final written comments on the draft report (see Appendix B). The Authority generally agreed with our findings and recommendations. They requested word changes for clarification and provided documentation that resulted in minor changes to the draft report. We incorporated the Authority's comments into the report.

SCOPE AND METHODOLOGY

We reviewed HUD's files, and the fiscal year 2001 Independent Auditor Reports for the Authority and the Foundation. We interviewed HUD, Authority, and Foundation personnel regarding the general operations of the Authority and the Foundation, alleged improprieties, and any other improprieties known to them. Allegations brought to our attention by HUD's Office of Public Housing included:

- The Executive Director received unapproved incentive pay, an unnecessary automobile, and legal fees from the Authority.

- The Executive Director had undue control over the Foundation Board of Directors and was demanding excessive attorney and development fees from a proposed project.

We reviewed minutes of the Authority Board meetings and Authority timekeeping and procurement policies. We also obtained and analyzed financial records for the Authority and the Foundation to identify and test any large or unusual transactions. Our review covered the period of July 2000 through March 2002.

Based on information provided by Authority employees, we reviewed specific contracts for compliance with procurement requirements. We also obtained and reviewed closing statements for property purchases made by the Foundation. Our review was not intended to meet all requirements of generally accepted governmental auditing standards. Our review was limited in scope to issues identified in: (1) complaints provided to us by your office, and (2) information provided by Authority personnel regarding misuse of federal funds or improprieties in the Authority's management or financial activities. Based on information identified during our review, we reviewed documentation for credit card charges, consulting fees, and the Foundation's use of South Carolina Housing Trust Fund grants. We conducted our review from February 2002 to June 2002.

BACKGROUND

The Authority was organized under the laws of the State of South Carolina to provide affordable housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal Agencies. It is responsible for administering 798 public housing units and 530 Section 8 vouchers in eight counties.

On May 6, 2002, the Housing Authority Board terminated both the ED and the DM, and their wives, the Executive Director and Director of Property Management at the Foundation.

The Foundation was organized April 30, 1976, under the laws of the State of South Carolina, to provide, on a nonprofit basis, housing for lower income families where no adequate housing exists for such groups. The Authority serves as the Parent Agency, and as such, provided financial and managerial support to the Foundation. Any net earnings beyond those necessary for the retirement of project debt or to carry out low-income housing projects were not to inure to the benefit of any person or entity other than the parent entity, the Authority.

The former ED served on the Foundation's Board from inception until his resignation in July 1997. In addition, the former DM became a member of the Foundation's Board in March 1996, and served until July 1997 when he resigned. The former DM signed documents as the Foundation's Executive Director from July 1996 until being replaced by his wife in May 1999.

The Foundation began purchasing properties in June 1998 and had purchased 17 multifamily projects, 4 single-family houses, and 1 duplex, for a total of 675 housing units. Most of these units were existing project based Section 8 or Farmers Home Administration subsidized units. Thus, the purchases did not add any additional low and moderate-income housing stock in the region. The Foundation took on $14,325,300 in debt to finance these purchases.

REVIEW FINDINGS AND RECOMMENDATIONS

FINDING 1 - AUTHORITY'S EXECUTIVE DIRECTOR AND DIRECTOR OF MANAGEMENT TOOK ADVANTAGE OF WEAK OVERSIGHT FOR PERSONAL FINANCIAL GAIN

The Authority's former ED and DM took advantage of their positions and weak oversight by the Authority and Foundation Boards to financially benefit themselves, their families, and friends. The ED and DM also violated the HUD Annual Contribution Contract by executing an agreement between the Authority and the Foundation to provide financial and administrative support to the Foundation.

- The Foundation owed the Authority $210,524 for operating costs as of January 31, 2002,
- The ED and DM improperly collected over $958,738 in development and other fees on Foundation property purchases,
- The ED approved a salary incentive payment to himself for $21,619 without Board approval,
- The ED and DM collected rent from the Foundation for office and warehouse space,
- The DM hired relatives in violation of the Annual Contribution Contract,
- The wives of the ED and DM each collected salaries of up to $49,500 annually as Foundation managers,
- The DM improperly assigned HUD Section 8 vouchers to Foundation projects,

As a result, the financial positions of the Authority and the Foundation were materially weakened.

Boards Were Hand Picked and Provided No Oversight

The Authority's Board did not take an active role in the operation of the housing authority. The Board met only once a year, which was insufficient to oversee housing authority operations and activities. Although the Board conducted business during the annual meeting, we observed the meeting was festive with lunch being served to members. Because of its regional nature, the State Legislature appoints the Authority's board members. According to Authority staff, any person may nominate a person to serve on the Board, however, no one ever did. The staff stated that only the ED nominated the board members to the State Legislature and the State Legislature always approved the ED's nominations.

The ED also handpicked the Foundation's Board. The Board consisted of relatives of the ED and DM and persons who worked for the ED, such as a clerk in the ED's law office, and the ED's handy man. According to the Foundation staff, board meetings were never held. Instead, the ED would prepare a resolution he wanted passed and have a member of his staff hand deliver the resolution to the board members for signature.

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Agreement Between the Authority and the Foundation Violated the Annual Contribution Contract

The Authority's and the Foundation's Boards entered into a Memorandum of Agreement reaffirming the Authority as the Foundation's parent agency. The agreement provided that the Authority would assist the Foundation with management and financial support until it could stand on its own. The agreement violated Section 9(C) of the Annual Contribution Contract which restricts use of Authority general funds to the costs of development and operation of its projects, the purchase of investment securities as approved by HUD, and other such purposes specifically approved by HUD. The Memorandum of Agreement dated July 1, 1996, was not approved by HUD. The Agreement was to be assessed annually to measure the sufficiency of the Foundation to operate on its own. Authority officials stated that, to their knowledge, no annual assessment had ever been performed.

The ED and DM authorized the use of the Authority funds to operate the Foundation in violation of the Annual Contribution Contract. The Foundation was a non-profit organization created by the Authority to develop low-income housing within the Authority's jurisdiction. The Authority improperly advanced about $123,864 per month to the Foundation to pay for employees, supplies, and equipment needed to operate and maintain properties owned by the Foundation. Although the Foundation was generating rental income and received proceeds from the purchase and financing of multifamily and single-family properties, it did not fully reimburse the Authority each month. Instead, the Foundation made partial payments, leaving a 19 month average balance due the Authority of $207,061. Authority records indicated that the Foundation owed $210,524 as of January 31, 2002.

The ED and DM Collected $958,738 From Foundation Property Purchases

The Authority's ED and DM used the Foundation to benefit themselves, collecting over $958,738 in cash from the Foundation's property purchases. The payments were identified as development fees, legal fees, and title insurance commissions. The payments were made at loan closing from escrow accounts and were never posted to the Foundation's records. The closing documents for property purchases were not filed at Foundation offices but were kept at the ED's law office. The ED and DM received these fees while drawing generous salaries from the Authority. The Authority's Board was not aware that the ED and the DM were receiving these payments.

The ED Approved Incentive Pay For Himself Without Board Approval

The ED requested and approved $21,619 of "incentive back pay" for himself that was not approved by the Board. According to the ED, the payment was incentive pay that he had not received for the last 5 years. To be eligible for an incentive payment under the Authority policy, an employee's name must be included on a list that is reviewed and approved by the Authority's Board at the end of each fiscal year. We reviewed Board minutes for the last 2 years. The ED was not included in the Board's resolutions approving incentive program participants. The ED requested and approved the payment through the DM. The DM asked the ED to approve the payment and, at the same time, instructed Authority staff to process the payment.

Rent Was Paid to the ED And DM

The Foundation paid the DM approximately $800 per month plus utilities for rent of office space located in the DM's home. Records indicated that the Foundation paid the DM a total of $11,200 between January 2001 and January 2002. Authority personnel told us that the DM and his wife used the office to conduct Foundation business. The Foundation also leased office and warehouse space from the ED through his wife's real estate company for approximately $1,800 per month. This space was utilized for daily operations of the Foundation. The Foundation paid $23,781 for the warehouse and office space to the ED's wife's real estate company between January 2001 and February 2002. The Foundation's files did not document how the rent amounts were determined and whether they were reasonable. Office space at the DM's house appears to be unnecessary because space was available at the office and warehouse rented from the ED's wife. Furthermore, the total rents paid are questionable because the transactions were controlled by and benefited the payees: the ED, DM and their wives.

Relatives And Friends Hired at the Authority and the Foundation

The ED and DM hired several relatives and friends, at least three of which violated the Annual Contribution Contract. The Annual Contribution Contract states that the Authority may not hire an employee in connection with a project under the Annual Contribution Contract if the prospective employee is an immediate family member of an employee of the Authority who formulates policy or who influences decisions with respect to the project(s). The term "immediate family member" is defined as the spouse, mother, father, brother, sister, or child (whether related as a full blood relative, or as a "half" or "step" relative, e.g., a half-brother or stepchild).

The DM hired his two sons, a stepbrother, and a niece to work at the Authority. One son was first hired as an employee of the Authority, and later promoted and given a raise by the DM and transferred to work for the Foundation. The other son was on a leave of absence to attend school. Further, a long-time friend of the ED (and wife of a former law partner) was hired for a job at the Authority. The employee had been given multiple raises and served only 3 months of her 6-month probationary period before being given permanent employee status.

The ED and DM also arranged for their wives to work at the Foundation and the DM hired his daughter-in-law, and another stepbrother to work for the Foundation. Except for the two wives, all other Foundation employees were hired and paid by the Authority.

Wives Were Hired and Paid Exorbitant Salaries

The ED and DM further enriched themselves and burdened the Foundation by having the Foundation's Board hire their wives as the Foundation's Executive Director and Director of Property Management. The wives were paid a starting salary of $40,000 per year (later increased to $49,500) for minimal work, which we were told, consisted primarily of signing checks. We noted during our review, that the DM's wife also signed some closing documents on property purchases as the Foundation's Executive Director. In a letter to a local bank, the ED

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stated that the DM's wife's "…job [Foundation Executive Director] consisted basically of nothing. All she really did was monitor the money along with [the ED's wife.]"

Housing Choice Vouchers Were Assigned Without HUD Approval

The Foundation owned 17 multifamily projects consisting of 669 units. Twelve projects were 100 percent Section 8 subsidized and were usually fully rented. The five unsubsidized projects were harder to rent. Two of the projects, Deer Run and Landmark Towers, were especially hard to rent. In order to increase the income at these projects, the DM instructed Authority Section 8 staff to assign 30 tenant based housing choice vouchers to the two projects. Approval to assign the units to specific projects was not sought from HUD as required by Title 24 of the Code of Federal Regulations (CFR) 983.3 and 983.4. According to Section 8 staff, applicants applying for Section 8 subsidy at the two projects were awarded the assigned vouchers. Thus, applicants at the two Foundation projects received preference over other applicants on waiting lists because the 30 vouchers were not available for other locations. The Acting Executive Director stated that other vouchers were available for applicants at other projects. The Acting Executive Director also stated that the practice of assigning Section 8 units was stopped after the DM was suspended.

The Authority and Foundation Financial Positions Were Adversely Impacted

The Authority has incurred an average $123,000 monthly cost of funds and services advanced to the Foundation, and has incurred salaries for the ED, DM, and their friends and relatives that were of questionable benefit (see also Finding 2.) The Authority may not be able to collect the $210,524 owed to it by the Foundation as of January 31, 2002.

The Foundation's proposed budget for its fiscal year ending June 30, 2002, projected a cash shortage of $63,992. The budget did not include repayment to the Authority ($210,524 as of January 31, 2002) and $185,459 owed to the State of South Carolina (see Finding 4). These debts increase its probable fiscal 2002 cash shortfall to $459,975. Mortgage debts financed the $958,738 collected by the ED and DM from property transactions, thus increasing the Foundation's annual cash outflow required to service mortgage debts.

AUDITEE COMMENTS

The Authority generally agreed with the Finding. They stated that although the Board met only once a year, they relied on their auditors to tell them if anything was wrong with the Authority's operations. They stated that the Board was aware that the Foundation was purchasing properties, however, they were not aware that the ED and DM were profiting from these purchases. They stated that now the Board is meeting monthly.

Authority officials requested that some wording in the report be revised to clarify (1) actions taken by some Authority staff and (2) the improper assignment of housing choice vouchers.

Authority officials stated that the amount due the Authority from the Foundation had been included in the Foundation's budget under the maintenance line item, thus reducing the Foundation's projected deficit.

OIG EVALUATION OF AUDITEE COMMENTS

We revised the wording in the report to clarify actions by some of the Authority's staff and other wording as requested.

We discussed the Foundation's budget deficit with the Authority' Finance Director. After the discussion, the Finance Director agreed that the amount due the Authority from the Foundation was not included in the Foundation's budget. Thus, we made no change in the report regarding the budget deficit.

RECOMMENDATIONS

We recommend that HUD:

1A. Monitor Board of Commissioner actions (meeting minutes, resolutions, etc.) to ensure it is actively monitoring and directing the Authority operations and finances.

1B. Require the Authority to collect $210,524 due from the Foundation and discontinue advancing services and funds to the Foundation.

1C. Require the Authority to recover the $21,619 salary incentive paid to the ED without Board approval.

1D. Require the Authority as parent entity to direct that the Foundation seek to recover the $958,738 paid to the ED and DM from property purchases.

1E. Require the Authority as parent entity to direct that the Foundation seek recovery of $11,200 paid to the DM for unnecessary office space, and provide adequate support for the reasonableness of rental payments to the ED's wife or seek recovery of $23,781.

1F. Require the Authority to discontinue the hiring of relatives and friends of managers.

1G. Perform a comprehensive management review of the low rent-housing program including the Section 8 Program.

Note:

HUD should coordinate with our office before initiating collections under recommendations 1C, 1D, and 1E.

FINDING 2 - SALARIES, CONSULTING FEES, AND CREDIT CARD PURCHASES WERE NOT ADEQUATELY DOCUMENTED

Authority salaries totaling about $161,000, consulting fees totaling $65,357, and credit card purchases totaling $71,049 were not adequately documented. Timesheets for salaried employees documented only the total weekly hours worked. The timesheets did not identify daily hours, nor hours worked on HUD funded and other programs. Consulting fees were paid for work that could not be substantiated, and documentation for credit card bills identified the nature of charges, but receipts or other documents identifying the goods or services purchased and the business necessity or benefit to the Authority were often not available. As a result, the Authority could not document whether these charges totaling $297,406 were reasonable and necessary for its operations.

Salary Payments Were Not Fully Documented

Attachment A, Section C, Basic Guidelines, of OMB Circular A-87 Revised, *Cost Principles for State, Local and Indian Tribal Governments*, states:

Factors affecting allowability of costs: To be allowable under Federal awards, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
b. Be adequately documented.

Attachment B, Selected Items of Cost, Section 11, Compensation for Personnel Services, h, Support of Salaries and Wages, further defines standards of support regarding time distribution by stating:

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent.
(5) Personnel activity reports or equivalent documentation must meet the following standards:

They must reflect an after-the-fact distribution of the actual activity of each employee,
(b) They must account for the total activity for which each employee is compensated,
(c) They must be prepared at least monthly and must coincide with one or more pay periods, and
(d) They must be signed by the employee.

Work Hours For the ED, DM, and Other Salaried Employees Were Inadequately Documented

Authority staff stated that salaried employees are required to sign a timesheet that is distributed to them for signature. One timesheet covers all salaried employees. After all signatures are obtained, the timesheet is submitted to the ED for overall approval. The ED returned the approved timesheet to the Personnel Manager for appropriation of the payroll. We reviewed the format of the timesheet and found that the timesheet included unused spaces for daily time reporting, but no space was provided for recording daily activities to be charged. All salaried employees had signed the time sheets certifying total work hours each week, but had not identified programs and activities worked on and daily hours worked.

Although the current time reporting system applied to all salaried employees, the ED and the DM worked primarily offsite. The ED worked at his law office, and the DM worked at an office in his home. The ED was paid $70,000 annually for part-time (32 hours per week) employment and the DM was paid $91,000 annually for full-time employment. Since both employees worked offsite, other Authority employees could not confirm or verify the number of hours the ED and DM worked on Authority activities. The Authority staff stated that the ED was never present at the Authority and the DM was present at the Authority 1 day per week. Because the Authority's documentation policy was inadequate, we have not recommended recovery of salaries.

Consultant Payments Were Not Adequately Documented

The Authority paid a consultant $65,357 between July 2000 and March 2002 but had little documentation of the services received. A contract dated January 10, 1999, between the consultant and the Authority and Foundation, provided for the consultant to perform duties for both entities. The duties involved development work for the Foundation and work on the Homeownership Program for the Authority. Authority officials stated that the consultant was to help sell single-family properties under the Homeownership Program. Our analysis of Authority and the Foundation disbursement records found that all payments were made from Authority funds. We reviewed the consultant contract and documentation for two payments. According to the contract, the consultant was to receive $12 per hour for specific duties. However, one invoice for $580 was billed and paid at $15 per hour. This invoice stated that "Consultant Services" were performed between March 11 and March 17, 2002, but did not indicate what services were performed. The acting Executive Director approved this payment. The second payment we reviewed was for $2,490 and included two invoices at $12 per hour. The two invoices were for estimated time during the month of December 2001. Neither of the two invoices stated what work was to be done and the Authority had no further documentation to show what consulting work was done. The former DM approved this payment. Authority staff said that the DM had always approved the invoices. The acting Executive Director said the invoice she approved was paid shortly after the DM was suspended. She said she had just taken over as acting Executive Director and was not aware of the problem.

Credit Card Purchases Were Not Fully Documented

We reviewed $71,049 of payments made on the Authority's American Express credit card account between October 3, 2000, and March 6, 2002. This account had two cards associated with it. The Finance Director held one card and the DM held the other. Charges made by the Finance Director were adequately documented, however, the DM made substantially all of the major charges. Although we could sometimes identify the nature of his charges from annotated monthly statements, there were few receipts or other documents to identify the goods or services charged by the DM, why they were necessary, or how the Authority benefited from them. Hotel receipts were provided, however, documentation for other charges consisted primarily of a copy of the monthly bill with a handwritten explanation of what the charges were for. These expenditures consisted of purchases at retail stores such as Wal-Mart, K-Mart, Best Buy, and Cripple Creek Video. We also noted that the DM's son and stepbrother had access to the account and had made purchases on it.

Travel charges often included pay-per-view movies, room service, and restaurant dining for which the number of people and nature of purchases could not be determined due to the lack of itemized receipts. For example, we noted one Holiday Inn receipt that included room charges for two nights, but also included two transactions totaling $372 to an establishment named First Shot Bar. No itemized receipts were available for these charges. We also noted that charges to the DM's card included hotel bills for two annual conferences that many Authority employees attended. All employee rooms were charged to the DM's credit card. The Authority staff stated that many Board members and employees' spouses were also allowed to attend. Staff also stated that the conferences began on Monday, however, we noted that several employees (and spouses) checked into the hotel on the previous Friday. The conference charges amounted to approximately $20,000 each year. These charges included expenses like pay-per-view movies, long distance phone calls, restaurant dining, and room service. With the exception of the hotel bill, itemized receipts were not available. Without itemized receipts, the Authority was unable to determine which charges benefited the Authority and which were personal in nature.

The Authority did not have any written travel or credit card policies in place prior to March 2002, however, they have now implemented several new policies that govern travel and credit card use, to address these types of situations. We reviewed these policies and determined that, if implemented properly, they should ensure future credit card expenditures are properly documented, and travel expenditures are for appropriate business purposes.

AUDITEE COMMENTS

Authority officials agreed with the finding. They requested that a few wording changes be made to clarify some issues.

Authority officials said that procedures have been initiated to document future payments to the consultant and since the DM is no longer with the Authority, they do not feel they should have to repay the $65,357.

OIG EVALUATION OF AUDITEE COMMENTS

We made appropriate wording changes to the report as requested by the Authority.

We disagree that the Authority does not have to support or repay the $65,357. Termination of the DM does not relieve the Authority from providing documentation to support the consultant payments or repaying the amounts that remain unsupported.

RECOMMENDATIONS

We recommend that HUD:

2A. Require the Authority to implement procedures for salaried employees to document daily work hours and programs and activities charged.

2B. Require the Authority to implement policy to maintain invoices and receipts for all goods and services purchased, and, when not readily apparent, further document the business purpose of expenditures.

2C. Require the Authority to provide adequate documentation for consulting services received or repay $65,357 from non-federal funds.

2D. Require the Authority to provide adequate documentation for the business purpose of credit card charges or repay $71,049 from non-federal funds.

2E. Implement travel policies consistent with the General Service Administration's policies.

FINDING 3 - PROCUREMENT PROCEDURES WERE NOT FOLLOWED

The Authority executed contracts totaling $341,835 and purchased a luxury automobile for approximately $38,000 without following the Authority and Federal procurement policies. The Authority awarded a payroll-processing contract, renewed four lawn care contracts, and purchased a luxury automobile without obtaining the required number of bids or quotations. As a result, the Authority had no assurance that it obtained the best prices for the goods and services it procured.

Three Bids Were Required

Title 24 CFR 85.36 Procurement states:

> (b) Procurement Standards. (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law . . .
>
> (d) Methods of procurement to be followed. (1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 USC 403 (11) (currently set at $100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Section I, Paragraph A of the Authority's Procurement and Disposition Policy, as approved by the Authority Board, states that (1) purchasing for the Housing Authority shall be conducted in a completely fair and impartial manner in keeping with a public service agency and (2) all construction work and demolition or rehabilitation, and every purchase of equipment, supplies, or materials shall be obtained at the lowest, reasonable cost for the quality and specifications required.

Section II, Paragraphs A7 and A8 state that purchases must have a fully executed procurement form. No less than three quotations or proposals must be solicited if the prices are considered reasonable. Payment cannot be made unless an original invoice is submitted. Such purchases must be distributed equitably among qualified sources. Section 3 HUD Regulations must be mandated where permissible. If practicable a quotation shall be solicited from other than the previous source before placing a repeat order. Award shall be made to the offerer providing the lowest acceptable quotation, unless justified in writing based on price and other specified factors, such as architect-engineer contracts. If non-price factors are used, they shall be disclosed to all those solicited. The names, address, and the date and amount of each quotation shall be recorded and maintained as a public record. The Executive Director, Director or his designee has the Authority to approve a purchase not exceeding $25,000 with only one quotation.

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Payroll Service and Lawn Care Contracts Were Not Procured Properly

The DM approved a payroll service contract worth $210,220 per year without seeking competitive bids. The Authority accounting staff stated that the DM arranged for the payroll service and provided the completed contract to them. No documentation was available to show that competitive bidding took place. The Authority terminated the payroll contract and as of July 1, 2002, was processing the payroll in-house.

The Authority also renewed four lawn care contracts worth about $131,615 per year without obtaining bids. Previous lawn care contracts did not provide for renewal, however, review of the current contracts indicated that they were renewed non-competitively, at an increased fee rate. Authority staff stated that they were satisfied with the services they received from their lawn care contractors and thought it was permissible to renew the contracts without rebidding.

Procurement Policy Was Not Followed in the Purchase of a Luxury Car

The Authority's procurement policy allows the ED or his designee to make purchases not exceeding $25,000 with only one quotation. It also states that no less than three quotations or proposals must be solicited if the prices are considered reasonable. The ED disregarded the Authority's procurement policy by purchasing a luxury car that cost approximately $38,000 without seeking three quotations or proposals. He placed a down payment on the car, then obtained reimbursement for his down payment from the Authority and instructed them to pay for the car. The Authority's Board did not approve the purchase, and no documentation was available to show that additional quotations were obtained from other sources. The Authority staff stated that they knew nothing about the purchase until they were instructed to pay for it.

The Authority secured the car when the ED was suspended.

AUDITEE COMMENTS

Authority officials disagreed with our statement that no bids were received for the lawn contracts, stating that bids were obtained and were available for review.

Authority officials disagreed that the actual fees paid on the payroll contract totaled $210,220. The Authority provided a spreadsheet showing the total to be $199,170.

OIG EVALUATION OF AUDITEE COMMENTS

The Authority provided bid documents for the lawn contracts but could not explain why the bids were not in the files or provided when we requested them. We learned during our discussion with Authority officials that the bids were thrown out because the bidders were not considered responsible. They stated that new bids were not obtained prior to letting the contracts. Based on these facts, we still consider the Authority in violation of policies requiring competitive procurements.

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We reviewed the documentation supporting the amount of the payroll contract costs. The documentation provided did not support the Authority's computation of the costs. We did not make any changes to the amount of the payroll contract costs.

RECOMMENDATION

We recommend that HUD:

3A. Require the Authority to establish controls to ensure that proper procurement policies are followed in the acquisition of all goods and services.

FINDING 4 - FOUNDATION ACTIVITIES MAY AFFECT THE AUTHORITY

The Foundation owed the State of South Carolina $185,459 in excess funds that it received from a State Housing Trust Funds grant program. The Foundation did not use the funds to rehabilitate housing as intended and did not have the funds to return to the State. Since the Authority is currently managing Foundation operations, it may have to resolve the Foundation's debt with the State.

The Foundation received 11 multifamily rehabilitation grants of $300,000 each, 1 multifamily rehabilitation grant for $294,663, and 2 single family grants totaling $52,294. The grants were awarded through the State's Housing Trust Funds Grant Program administered by the South Carolina State Housing, Finance, and Development Authority. According to a statement from a South Carolina State Housing, Finance, and Development Authority employee, the amount of the grant is based on a cost estimate provided by the grantee. The grants cannot exceed $300,000. Each State grant is to stand on its own and may not be commingled with other State grants. Any funds remaining after rehabilitation work has been completed must be returned to the State. The State does not require a cost certification, however, it does require a certificate of completion before it will release the grant funds to the grantee. The State has the option to inspect a project after it receives the completion certificate.

We examined the 12 multifamily grants and determined that a certificate of completion had been provided to the State for 9 project grants. We examined costs ledgers for the nine completed projects to determine if there were any funds remaining. The Foundation did not spend the total amount of the grant on two projects, resulting in $185,459 that must be returned to the State.

The Foundation's accountant stated that the money was spent on overruns for the other projects. She said she was not aware that the money must be returned to the State.

The Foundation's budget for its fiscal year ending 2002 projected a deficit of $63,992. The budget did not include the $185,459 due the State and $210,524 due the Authority (see Finding 1). It was apparent that the Foundation does not have the funds available to pay these debts. The Authority is currently managing the Foundation and may eventually take over its operations. The debt owed to the State needs to be resolved before the Authority takes over any further responsibility for the Foundation.

AUDITEE COMMENTS

The Authority provided additional documentation to show that the excess Housing Trust Fund funds owed the State should be changed to $185,459.54. In their October 7 response, the Authority stated that discussions with State officials indicate the funds may not have to be repaid.

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OIG EVALUATION OF AUDITEE COMMENTS

We reviewed the documentation provided by the Authority and agreed the balance owed to the State is now $185,459.54. We have revised the balance from $216,620 to $185,459.54. We have also revised the other amounts in the report affected by this change. The Authority should obtain a written ruling from the State Housing Trust about repayment of the grant funds.

RECOMMENDATION

We recommend that HUD:

4A. Require the Authority to sever all financial ties and responsibilities with the Foundation, or develop a plan to assimilate the Foundation and its known liabilities.

SUMMARY OF QUESTIONED COSTS

AUTHORITY FUNDS

Recommendation	Ineligible Costs[1]	Unsupported Costs[2]
1B	$210,524	
1C	21,619	
2C		$65,357
2D		71,049
Totals	$232,143	$136,406

NON-FEDERAL - FOUNDATION FUNDS

Recommendation	Ineligible Costs	Unsupported Costs	Unnecessary Costs[3]
1D	$958,738		
1E		$23,781	$11,200
Totals	$958,738	$23,781	$11,200

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

2 Unsupported costs are costs charged to a HUD program or activity without proper documentation and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials.

3 Unnecessary costs are costs charged to a HUD program or activity that the auditor believes are unnecessary or unreasonable. There may be a need for legal or administrative determination on the eligibility of the costs. Unnecessary costs require a future decision by HUD program officials.

AUDITEE COMMENTS

SOUTH CAROLINA REGIONAL HOUSING AUTHORITY NO. 3

POST OFFICE BOX 1336
BARNWELL, SOUTH CAROLINA 29812

INTERIM DIRECTOR
JANIE B. ROBINSON

TELEPHONE
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October 7, 2002

Ms. Nancy H. Cooper
Regional Inspector General for Audit, Region 4, 4AGA
U.S. Department of Housing and Urban Development
Richard Russell Federal Bldg.
75 Spring Street, SW, Room 330
Atlanta, G A 30303-3388

Re: Audit of South Carolina Regional Housing Authority No. 3 and Southeastern Housing Foundation, Inc.

Dear Ms. Cooper:

The Board of Commissioners of South Carolina Regional Housing Authority No. 3 would like to express its appreciation for the timely and comprehensive audit undertaken by your office. When the Board became aware of certain problems at the Housing Authority and Foundation we requested the assistance of the HUD Inspector General's Office. While the Board understood significant problems existed, the audit report showed that the magnitude of the problems was much greater than anticipated.

The audit report provides that "The Authorities Board did not take an active role in the operation of the housing authority".. The Board in its oversight relied on independent annual audits by certified public accountants and on management information provided by two long-term employees. The two employees, the Executive Director and Director of Management, were suspended and subsequently terminated during the time the audit was conducted. The Board brought in special independent auditors during the HUD audit to confirm the HUD auditors' findings and to provide further information outside the scope of the HUD audit.

The HUD IG Audit Report enumerates numerous major findings, non-compliance issues and operating procedure weaknesses. While concurring in the major findings of the report, the Housing Authority does take exception with three findings:

1. Finding No. 1. Housing Choice Vouchers were signed without HUD approval. We need further clarification on the statement that Section 8 subsidy projects were awarded vouchers not in compliance with 24 CFR 93.3 and 93.4.

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October 7, 2002
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2. Finding No. 2. Consultant payments were not adequately documented. The agreement and guidelines for payment with the consultant were established by the past Director of Management. During the audit the Authority requested and the consultant provided documentation for services provided and the amounts due.

2. Finding No. 3. Procurement procedures were not followed. The Authority possesses documentation verifying that bids were requested and received and have documentation to back up contracts that were extended.

4. Finding No. 4. Foundation activities may affect the Authority. The report states "The Foundation did not spend the total amount of the grant on four projects, resulting in $216,620.00 that must be returned to the State." The Housing trust fund guidelines do not address the requirement of repayment for unexpended funds and our discussions with the Housing Trust Fund Administrator indicate repayment may not be required.

HUD Handbook 2000.06 REV-3 requires the Housing Authority to provide within sixty (60) days 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 future dates. A discussion of the actions to be taken by the Board of Commissioners and the Housing Authority are not permitted at this time; however, the subsequent status reports will provide comprehensive discussions of the actions taken to bring procedures into compliance, correct record-keeping shortcoming, seek restitution and remedial action, and such other actions as the Board finds appropriate.

Very truly yours,

Corrin F. Bowers
Chairman

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Appendix C

DISTRIBUTION OUTSIDE OF HUD

Executive Director, South Carolina Regional Housing Authority No. 3, Barnwell, South Carolina

Sharon Pinkerton, Senior Advisor
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Housing and Telecommunications Issues

Steve Redburn, Chief Housing Branch
Office of Management and Budget

Linda Halliday (52P)
Department of Veterans Affairs

William Withrow (52KC)
Department of Veterans Affairs
OIG Audit Operations Division

The Honorable Joseph Lieberman
Chairman, Committee on Government Affairs

The Honorable Fred Thompson
Ranking Member, Committee on Governmental Affairs

The Honorable Dan Burton
Chairman, Committee on Government Reform

The Honorable Henry A. Waxman
Ranking Member, Committee on Government Reform

Andy Cochran
House Committee on Financial Services

Clinton C. Jones, Senior Counsel
Committee on Financial Services

Jennifer Miller
Professional Staff, House Committee on Appropriations