AUDIT REPORT

JACKSON STATE UNIVERSITY

HISTORICALLY BLACK COLLEGES

AND UNIVERSITIES GRANTS

JACKSON, MISSISSIPPI

2004-AT-1002

FEBRUARY 18, 2004

OFFICE OF AUDIT, REGION 4
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audit report

TO: Armand W. Carriere, Deputy Director, Policy Development and Research, Office of University Partnerships, RU

Sonya D. Lucas

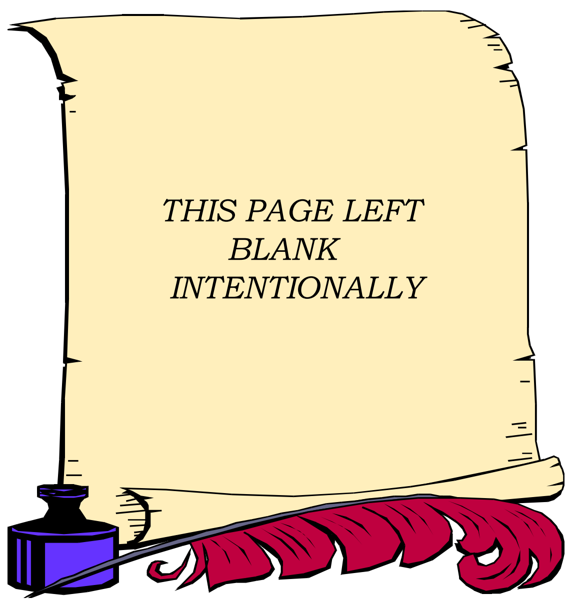
FROM: Sonya D. Lucas
Acting Regional Inspector General for Audit, 4AGA

SUBJECT: Jackson State University
Historically Black Colleges and Universities Grant
Jackson, Mississippi

We completed an audit of Jackson State University's (University) Historically Black Colleges and Universities (HBCU) grants. The audit was initiated in response to a request from the Department of Housing and Urban Development's (HUD) Office of University Partnerships, regarding the results of an April 2002 monitoring report concerning inadequate controls over the University's grant administration. Our audit objectives were to determine whether the University complied with Federal laws, HUD's regulations and other requirements; and had adequate controls to assure efficient, effective, and economical administration of its grant activities. Our report includes two findings.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) 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.

Should you or your staff have any questions, please contact me at (404) 331-3369.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Executive Summary

We completed an audit of the University's Historically Black Colleges and Universities grants. We began the audit in response to a request from HUD's Office of University Partnerships, regarding the results of an April 2002 monitoring report concerning inadequate controls over the University's grant administration. Our audit objectives were to determine whether University complied with Federal laws, HUD's regulations and other requirements; and had adequate controls to assure efficient, effective, and economical administration of its grant activities.

Our assessment showed that the University did not achieve its goal of increasing homeownership opportunities for low-and-moderate-income individuals, a primary goal of its HBCU grants, and did not have adequate controls over its procurement and contracting activities.

Our audit disclosed

The University did not achieve the goal of its Homeownership Program to increase homeownership opportunities for low-and-moderate-income individuals in the area surrounding the University. The University spent over $1.36 million or 60 percent of its $2.26 million grants. Only 4 of the 30 houses proposed were completely rehabilitated. The University did not perform adequate analytical reviews to determine the feasibility to acquire and rehabilitate the properties or the financial viability of proposed projects. The University did not consider cost estimates or select the most cost effective projects for acquisition and rehabilitation. As a result, the funding may not have best served the interest of low-and-moderate-income persons as intended. Grant funds totaling $10,300 were ineligible and $129,683 were unsupported. HUD needs to recapture the fund balance of $898,235.

The University's procurement practices did not comply with Federal procurement and contracting requirements, or State requirements. The University improperly procured $765,084 of goods and services without adequately documenting the procurements, or having a contract administration system. The contract deficiencies included: (1) improperly soliciting and awarding contracts; (2) awarding sole source procurements; and (3) not adequately performing cost and price analyses. The deficiencies occurred because University officials were not fully aware of Federal requirements; relied on State guidelines, which did not meet Federal requirements; and did not have adequate written procedures for its grant programs. As a result, HUD lacked assurance that the

University obtained goods and services at the most advantageous terms.

Recommendations

We recommend you suspend disbursements and disallow the use of grant funds until the University can demonstrate accountability and compliance with the grant agreements. We also recommend that you require the University to reimburse HUD for ineligible costs of $10,300, determine the eligibility of $894,767 in unsupported costs, and recapture the remaining grant balance of $898,235.

We presented our results to the University and to HUD officials during the audit. We provided a copy of the draft report to the University and to HUD's Office of University Partnerships on November 7, 2003, for their comments. We discussed the report with the officials at the exit conference on December 4, 2003. The University provided written comments on February 5, 2004. The University's comments are summarized in the findings and included in their entirety as Appendix B. The attachments are available upon request.

Table of Contents

Abbreviations

CFR	Code of Federal Regulations
EBC	Education Building Corporation
HBCU	Historically Black Colleges and Universities
HOOP	Home Ownership Opportunities Program
HUD	U.S. Department of Housing and Urban Development
University	Jackson State University

Introduction

The HBCU Grant Program was established by Title I of the Housing and Community Development Act of 1974. The program provides grants to HBCUs to expand their role and effectiveness in addressing community development needs including neighborhood revitalization, and housing and economic development in their localities.

To be eligible for funding, every HBCU funded activity must meet one of the Community Development Block Grant Program's three national objectives. Every activity, except program administration and planning, must either:

- Benefit low and moderate income persons; or
- Aid in preventing or eliminating slums or blight; or
- Address a need with a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community.

The deteriorated condition of the University community has made it susceptible to crime and drugs. The dilapidation and housing abandonment has lead to commercial and economic decline. The need for the community to increase home ownership, reduce the extent of substandard housing, eliminate excessive abandoned and vacant housing, provide a greater supply of affordable housing, improve neighborhood infrastructure, eliminate blight, and reverse the community's decline were high priority objectives of the City of Jackson community organizations. The University operated a project called the Home Ownership Opportunities Program (Project HOOP), which addressed local housing and economic development needs. The HOOP was a collaborative community development and revitalization project to address the housing rehabilitation and homeownership issues for low-and-moderate-income families. The primary goal of the project was to increase homeownership opportunities for low-and-moderate-income individuals, families, and the homeless. Also, a Revolving Acquisition and Rehabilitation Fund would be established and the proceeds from the sales of the homes renovated would replenish the account and make it possible to acquire and rehabilitate 10 to 15 homes annually.

From 1995 to 2001, the University was awarded grant funds for Project HOOP as follows:

Grant Year	Awarded
1995	$ 500,000
1996	300,000
1997	400,000
1998	365,897
2000	200,000
2001	500,000
Total	**$ 2,265,897**

A Board of Trustees governs the University, and the University's President administers the University. The Dean of the School of Business served as Project Administrator for Project HOOP and had overall responsibility for ensuring that project goals and objective were achieved. The day-to-day implementation of the project was the responsibility of the Project Coordinator. The University's books and records are maintained at 1400 J.R. Lynch Street, Jackson, Mississippi.

HUD's Policy Development and Research, Office of University Partnerships, is responsible for overseeing the University's administration of the grants.

Audit Objectives, Scope and Methodology

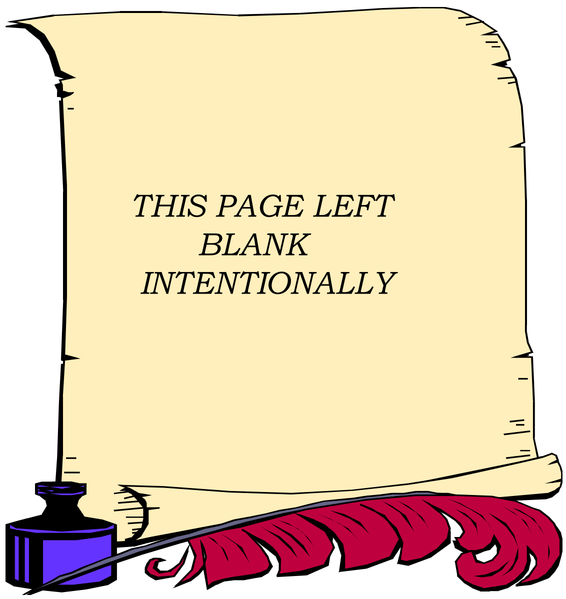
Our audit objectives were to determine whether the University complied with Federal laws, HUD's regulations and other requirements; and had adequate controls to assure efficient, effective, and economical administration of its grant activities.

To accomplish the objectives, we tested for compliance with program requirements. We tested the University's established controls for effective and efficient administration of $2.26 million of HBCU funds granted from 1995 to 2001. We interviewed HUD's Office of University Partnership and Community Planning and Development Division officials and current and former University staff. We reviewed University files and records; related HUD files; regulations governing the program; the controls and procedures over the contracts awarded from January 1995 through May 2003; and the University's general controls, including lines of responsibility, duties, accounting system, and procedures.

Since the University did not maintain a listing of its HOOP properties, we requested the University prepare a list of the properties acquired by program year. The listing identified the status (rehabilitation completed, under rehabilitation, occupied, vacant, vandalized, or demolished) of each of the 19 properties acquired with HUD grant funds for 1995 to 1998. We reviewed property records and made site visits to 16 of the 19 properties, located in Jackson, Mississippi that the University acquired; and performed detailed inspections of 2 of the 4 houses that were completely rehabilitated. The property records were reviewed, and site visits and inspections of properties were performed to determine compliance with grant program requirements, and to assess the progress of the grant activities. We also performed site visits to verify the status of the properties and observe the exterior conditions of the properties. We selected the two houses for inspection that had the most recent rehabilitation work completed.

The University did not maintain a contract administration system that readily identified contracting activities, or obligations per contractual agreements. We requested the University compile a summary of the contracts let from October 1995 to July 2003. The University awarded 10 contracts valuing $580,437, and had started work on 8 of the contracts which had a total value of $435,237. To test for procurement compliance, we selected and reviewed 8 of 10 contracts awarded over $15,000 between January 1995 and May 2003, and transactions paid to one legal firm without a contract totaling $184,647. The results of our tests apply only to the items selected and cannot be projected to the universe or population.

Our review generally covered the period January 1995 through December 2002. We extended the period as necessary. We performed our on-site work between March and July 2003. We conducted our audit in accordance with generally accepted government auditing standards.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Jackson State University Did Not Achieve its Goal of Increasing Homeownership Opportunities

The University did not achieve the goal of its Homeownership Program to increase homeownership opportunities for low-and-moderate-income individuals in the area surrounding the University. The University spent over $1.36 million or 60 percent of its $2.26 million grants. Only 4 of the 30 houses proposed were completely rehabilitated. The University did not perform adequate analytical reviews to determine the feasibility to acquire and rehabilitate the properties or the financial viability of proposed projects. The University did not consider cost estimates or select the most cost effective projects for acquisition and rehabilitation. As a result, the funding may not have best served the interest of low-and-moderate-income persons as intended. Grant funds totaling $10,300 were ineligible and $129,683 were unsupported. HUD needs to recapture the fund balance of $898,235.

Criteria

The HBCU Program Grant Agreements for 1995 to 2001 state that the goal of the Jackson State University Homeownership Program is to increase homeownership in the area surrounding the University. The rehabilitated properties will be sold to low-and-moderate-income individuals. The University will select vacant units for rehabilitation based on the following criteria: (1) standard, but requiring minimum repairs; (2) deteriorated, but can be rehabilitated; (3) can be easily upgraded to meet HUD's Minimum Property Standards; (4) currently in compliance with the national environmental policies; and (5) adherence to HUD's Uniform Relocation and Acquisition Guidelines. The units that preliminary appraisals and cost estimates indicate are the most cost effective will be selected for rehabilitation.

The HBCU Program Grant Agreement Provisions, revised November 2001, provide in the scope of work section that the grantee is required to furnish necessary personnel, materials, services, equipment, facilities (except as otherwise specified in the award document) and do all things necessary or incidental to the performance of the work established in the Project Management Work Plan. The grantee shall not be reimbursed for costs incurred in the performance of work in excess of that award amount.

In the event grantee incurs costs in excess of the prescribed amount, the excess shall be borne entirely by the grantee.

Title 24 Code of Federal Regulations (CFR), Part 84.62 provides that HUD can impose on the recipient corrective and remedial actions for failure to comply with the terms and conditions of an award. HUD may take one or more of the following actions, as appropriate in the circumstances: (1) temporarily withhold cash payments pending correction of the deficiency by the recipient or more severe enforcement action by HUD; (2) disallow (deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance; (3) wholly or partly suspend or terminate the current award; (4) withhold further awards for the project or program; and (5) take other remedies that may be legally available.

Jackson State University did not achieve its homeownership goal

The University did not fulfill its grant requirements of increasing homeownership in the area surrounding the university by acquiring, rehabilitating, and selling properties to low-and-moderate-income individuals. Under the original grant agreements, the University planned to acquire and rehabilitate 38 houses; however the agreements were amended, due to legal complications with titles, heirs, and easements for properties selected. Therefore, the number of houses planned was reduced to 30 as shown below.

Grant Year	Houses Planned	Houses Acquired	Houses Rehabilitated
1995	8	9	4
1996	4	4	0
1997	4	4	0
1998	4	2	0
2000	4	0	0
2001	6	0	0
Totals	30	19	4

From the $1.36 million of grant funds disbursed, the University only acquired 19 houses, and only completely rehabilitated 4 houses. The University did not sell or identify eligible potential buyers for the houses that were rehabilitated. Renters occupied 3 of the rehabilitated houses while 12 were vacant and boarded up, and the remaining 4 houses were demolished by the City of

Jackson because of the slum and blighted condition of the properties. However, the grant agreement required the purchase of properties for rehabilitation not demolition. Therefore, $10,300 of the HUD 1995 grant funds disbursed for the properties demolished resulted in ineligible grant costs.

The University will not have adequate funds to acquire and rehabilitate the number of houses required for each grant year. The University did not complete the rehabilitation on all houses acquired from 1995 to 1998, although all HUD grant funds from 1995 to 1996 were spent as shown below.

Grant Year	**Amount Budgeted**	**Amount Expended**	**Amount Available**
1995	$500,000	$500,000	$ 0
1996	300,000	300,000	0
1997	400,000	223,731	176,269
1998	365,897	214,248	151,649
2000	200,000	21,286	178,713
2001	500,000	108,397	391,603
Totals	$2,265,897	$1,367,662	$898,234

Additionally, the University disbursed $21,286 and $108,397 from 2000 and 2001 HUD grant funds respectively, but did not acquire or rehabilitate any properties for those years. As a result, HUD grant funds of $129,683 for 2000 and 2001 was unsupported. The remaining $898,235 for the 1997 to 2001 HUD grants was not disbursed. The additional HUD grant costs for 1995 to 1998 (excluding the costs questioned in Finding 2) were used for expenses related to the grants, such as salaries, fringe benefits, travel, indirect costs, etc., and we determined the costs were adequately supported.

The University did not perform analytical reviews to determine whether it was feasible to acquire and rehabilitate the properties, or whether proposed projects were financially viable. The University officials did not use the recommendations of its rehabilitation/construction analysts or use its technical staff when selecting properties. The Rehabilitation Specialist informed the HOOP Director that certain houses selected were too dilapidated for rehabilitation and some should have been demolished instead of rehabilitated. However, University officials wanted the HUD grant funds spent on houses in the surrounding community, even though the Rehabilitation Specialist pointed out that rehabilitation would be too costly. The Associate Professor of Construction Management was included on the grant application as the Rehabilitation Coordinator for the HOOP project, but he was not used or asked to participate in the HOOP project. Additionally, the University did not perform cost estimates and select the most cost effective projects for acquisition and rehabilitation. Instead of applying cost effectiveness and other selection criteria specified in the grant agreements, all properties selected by the HOOP Director required substantial rehabilitation. The HOOP Director stated that all of the houses in the neighborhood were deteriorated and they had no choice but to select properties that required costly substantial rehabilitation. The University's files did not support why they selected properties requiring substantial rehabilitation.

As a result, the University did not significantly increase home ownership opportunities for low-to-moderate-income individuals in the targeted area around the University. Since it selected the most costly projects for rehabilitation, the University did not have sufficient funds to rehabilitate as many properties as was proposed by its grants. Also, because the market value of the completed houses was far less than the cost of acquiring and rehabilitating them, each house if sold would be sold at a substantial loss. For example 1437 Everett Street appraised for $47,000 after the University paid a total of $71,818 acquiring ($4,900) and rehabilitating ($66,918) the property. The HOOP Director stated that the selling price would possibly be reduced below $47,000 depending on the debt to income ratio of any potential buyer. According to the Rehabilitation Specialist, except for the appraised value of the HOOP houses, the highest appraised value for the houses in the targeted community was $28,000. The HOOP Director's justification for continuing to acquire and rehabilitate houses for greater costs was because the neighborhood would eventually stabilize and economic development would be attracted to the area.

Due to the lack of sales, funds were not available for the Revolving Acquisition and Rehabilitation Fund, as proposed. With only four houses available for sale, it appears unlikely that the University will generate an adequate fund to permanently fund the acquisition and rehabilitation of 10 to

15 homes annually that was anticipated. Further, because the University was not timely rehabilitating and selling the houses it was acquiring, the University was maintaining an inventory of vacant and boarded up houses that may have contributed to, instead of eliminating, the crime and vagrancy in the area. The photo below is an example of two boarded up houses in the inventory.

1606/8 and 1602/4 Cox Street

Auditee Comments

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

"HUD should continue disbursements and allow the use of remaining grants funds to complete the goals of program years 1997, 1998, 2000, and 2001 for the following reasons: 1. We are formulating a draft "Work Out" Plan to be completed by April 1, 2004 to guide and facilitate the effective and efficient achievement of the goals of Project HOOP. The "Work Out' Plan would provide the structure to monitor our administrative and construction activities on a monthly basis. 2. We have moved the administration of the project to the Office of EDGA…. 3. The primary focus of Project HOOP for the remaining grants will be changed to housing rehab/reconstruction….

"All HUD Funds Used Were For Allowable, Eligible activities under the terms of the grants. Even though cease work orders were devastating to completing construction goals. Project HOOP nevertheless continued to build partnerships and to conduct homeownership education classes. **We were never advised to stop or cease other program activities for which we incurred administrative and operational costs**… Throughout the project, JSU utilized several strategies to achieve the goal of creating home ownership opportunities. The strategies consisted of five distinct tasks…. It should be noted: "Rehabilitate Houses" is only one of the five tasks. The point is, "…increasing homeownership opportunities" involves a variety of activities clearly spelled out in all of Project HOOP's proposals….

"JSU should be allowed to move forward and utilize the remaining balance of $898,235 from the 1997, 1998, 2000, and 2001 grants for the reasons: 1. **New Management Structure**. Project HOOP has been transferred to the Office of EDGA under the leadership of Dr. Roy DeBerry who reports directly to the President…. 2. **Work Out Plan**. We will recommend a "Work Out" Plan in consultation with HUD/HQ to facilitate timely and accurate completion goals…. **The neighborhood needs Project Hoop**. Some of the oldest housing units in Jackson are located in the target area….

"Jackson State University is accountable…. In the past, HOOP was administered by the newly formed Jackson State Educational Building Corporation. Protocol for the University, past and present, is for the Office of Grants and Contracts to administer all grants. The present administration will insure that protocol is followed….We are also working closely with our General Counsel to insure that program activities remain inside federal guidelines while we measure, report, and monitor program performance."

OIG Evaluation of Auditee Comments

The University presented a willingness to work with HUD to resolve the deficiencies, and documented constructive improvements in its program management that were made or planned for implementation.

The University's proposal to use the remaining grant funds to complete houses already acquired violates the terms of the grant agreements. The grant agreements required that a specific number of houses be rehabilitated and made available for sale. Each grant agreement required that all costs incurred by the University, in excess of the amount prescribed by the grant agreement, be paid entirely by the University. The proposed "Work Out" Plan would, in part, allow the University to use funds from grant years 2000 and 2001 for costs that should be paid by the University. In addition, the proposal would allow the University to use remaining HUD grant funds to complete activities required for grants years where funds have been spent without completing the houses required for those grant years. Therefore, the proposal would violate the terms of the grant agreements and places additional HUD funds at risk, rather than curing the violations discussed in the findings. Unless the University can demonstrate to HUD that it can comply with the terms and conditions of the grants, HUD should suspend and disallow the use of grant funds as recommended.

The University did not adequately support the eligibility of the $129,683. The University did not demonstrate why it was necessary and reasonable to spend most of the grant funds on administrative activities related to increasing homeownership opportunities, rather than rehabilitating houses and making them available for sale. The University needs to demonstrate that the $129,683 was expended for necessary and reasonable grant purposes.

Recommendations

We recommend that HUD:

1A. Suspend disbursements and disallow the use of grant funds, pursuant to Title 24 CFR 84.62.

1B. Require the University to reimburse HUD $10,300 of the grant funds, for the demolished houses.

1C. Require the University to determine the eligibility of the $129,683, consisting of $21,286 disbursed from the 2000 grant funds and $108,397 disbursed from the 2001 grant funds, then reimburse HUD any ineligible costs.

1D. Recapture the remaining balance of $898,235 from the 1997, 1998, 2000, and 2001 grants.

1E. Work with the University to develop a plan for the houses acquired. If the project continues, the University must provide funds for the necessary personnel, materials, services, equipment, and facilities for the performance of the work set forth in the Project Management Work Plans to complete the required houses for the 1995 and 1996 grants.

1F. Require the University to demonstrate accountability and compliance with the grant agreements for any grant awards.

Jackson State University Did Not Follow Proper Procurement Requirements

The University's procurement practices did not comply with Federal procurement and contracting requirements, or State requirements. The University improperly procured $765,084 of goods and services without adequately documenting the procurements, or having a contract administration system. The contract deficiencies included: (1) improperly soliciting and awarding contracts; (2) awarding sole source procurements; and (3) not adequately performing cost and price analyses. The deficiencies occurred because University officials were not fully aware of Federal requirements; relied on State guidelines, which did not meet Federal requirements; and did not have adequate written procedures for its grant programs. As a result, HUD lacked assurance that the University obtained goods and services at the most advantageous terms.

Procurement requirements

Title 24 CFR 85.36 Section (b)(1) states that grantees and subgrantees should use their own procurement procedures that reflect applicable State and local laws and regulation, provided that procurements conform to applicable Federal law. Section (b)(2) states that grantees and sub-grantees will maintain a contract administration system that ensures contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. Section (c)(1) requires that all procurement transactions be conducted in a manner providing full and open competition, including prohibitions against placing unreasonable requirements on firms in order for them to qualify to do business and any arbitrary action in the procurement process. Section (b)(9) requires the grantee to maintain sufficient records to show the significant history of the procurement. The records shall document the rationale for the method of procurement, selection of contract type, contractor selection or rejection. Section (f)(1) states that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action.

Office of Management and Budget Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations, Subpart C, paragraph 45 requires some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability. Paragraph 46 states that procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price. Paragraph 47 states a system for contract administration shall be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract and to ensure adequate and timely follow up of all purchases. Recipients shall evaluate contractor performance and document, as appropriate, whether contractors have met the terms, conditions and specifications of the contract.

The Mississippi State Code of 1972 requires that purchases over $15,000 (exclusive of freight and shipping charges) may be made to the lowest and best bidder after advertising for competitive sealed bids once each week for two (2) consecutive weeks in a regular newspaper published in the county or municipality in which such agency or governing authority is located.

Competitive procedures were not followed or documented

The University created the Education Building Corporation (EBC) to acquire and rehabilitate housing units for use in the Home Ownership Opportunities Program. EBC contracted services totaling $765,084, which included rehabilitation construction ($580,437) and legal ($184,647), without soliciting bids, or performing or documenting cost or price analysis for the contracts. Further, the legal services procurement was sole source without competitive prices or proposals. The University did not maintain a contract register or a management information system to track contract activities, contract amounts, or obligations per contractual agreement. As a result, the University and its EBC disregarded the procurement procedures and incorrectly obtained goods and services without full and open competition.

EBC used four contractors for eight rehabilitation contracts that were awarded from October 1995 to July 2003. EBC procured the rehabilitation contracts by soliciting bids from a small group of contractors that were on its approved contractors list, instead of advertising for bids, as required by the Mississippi State Code. The University's policy required that a contractor be placed on the inactive bidders list if they failed to respond to three consecutive invitations to bid. If the contractor remained inactive for 60 days then the contractor would be removed from the bidders list. The policy restricted outside contractors from bidding and limited the list to 16 contractors, of which 7 were solicited for bids.

The University did not have case files for the properties detailing the complete history of each rehabilitated property. The Project Director, from various sources where records were filed by subject area, compiled the requested case files. Also, at our request, the HOOP Director prepared a table summarizing the information for contracts let from October 1995 to July 2003. EBC spent $151,600 acquiring 19 substandard properties that it planned to rehabilitate. From 1995 to 1997, the University and EBC entered into rehabilitation contracts totaling $580,437 to rehabilitate 10 of the 19 properties. Payments totaling $315,171 were made from the 1995 to 1997 HUD grant funds for 8 of the 10 rehabilitation contracts.

We reviewed the bid tabulations for 7 of the 8 rehabilitation contracts EBC made payments on. We could not locate the bid tabulation for the remaining contract. The 8 contracts totaled $396,680. Change orders were added to the contracts increasing the total to $435,237. Of the 7 bid tabulations examined, two contracts valued at $120,178, were not awarded to the lowest bidders. Also, in these two instances the contract amounts differed from the bid amounts. Further, we determined that amounts were added to the contracts using change orders for items already included in contracts.

At our request, HUD's Community Planning and Development Jackson Office Rehabilitation Specialist inspected two houses on which EBC had performed its final inspections. Rehabilitation was completed on the houses in 2001. We inspected the houses using HUD's Housing Quality Standards manual and the initial work write-ups, which itemized the work to be performed. Work write-ups for each property did not provide specific details on work to be completed. There were several change orders to the work specifications. Some of the change orders were for work that was included in the initial work write-ups. For example, 1437 Everett Street had a change order for the rehabilitation, framing, and foundation work totaling $3,740; however the work was included in the initial work write-up. Therefore, the University was making duplicate payments for work items. Although work write-ups did not provide specific details, all of the work included in the contract was completed by the contractors and was acceptable.

In addition, EBC did not follow procurement requirements for legal services contracts awarded sole source. Payments totaling $184,647 were made from the 1995 to May 2002 HUD grant funds to a legal firm without an executed written contract. We noted that the legal firm's payments included $151,600 for the purchase of 19 properties for rehabilitation. Since there was not a contract between the University and the legal firm, we could not determine what services were to be provided and the charges for the services. The University and EBC used the same firm for its legal services from October 1995 to July 2003.

Overall, EBC did not use a cost or price analysis for the contracts to support the price reasonableness or justify awarding the contracts without competition. Also, due to the lack of documentation identifying the costs involved with each property, the records were not readily auditable. Further, the program was not carried out economically due to the excessive use of change orders. The EBC did not have written procurement procedures for its grant programs. The Vice President for Finance stated that the EBC did not establish written procurement procedures but relied solely on State requirements to procure goods and services. However, the requirements were vague and did not contain the necessary provisions required under Federal procurement regulations such as professional service procurement policies. Senior University officials mistakenly believed that rehabilitation contractors were being procured competitively, in accordance with applicable State law, which required formal competitive bidding for contracts over $15,000. However, bids were only solicited from contractors that were on the active approved bidders list, without any advertising. The HOOP Director said that one of the reasons she did not advertise for bids was because grant funds were not available for advertising. As a result of the University and EBC disregarding procurement requirements, it incorrectly obtained services without full and open competition and limited qualified contractors an equal opportunity to provide goods and services.

Auditee Comments

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

"All HUD grant funds received by the University have been accounted for and were used for the activities outlined in the grants. Presently, we are utilizing JSU policies, State of Mississippi Laws and HUD regulations, whichever is most restrictive, to award contracts….

"Contrary to the OIG's finding, the University did not expend $184,687 in legal fees. Although checks were written to the law firm that amounted to $184,687, only $50,959.48 were actually for legal fees for the period between 1995 and 2003…. Going forward, all Project HOOP contracts for legal services will go through our University's General Counsel for approval.

"JSU utilizes established state and federal policies and procedures for procurement…. Going forward, we are operating the program according to HUD regulations by utilizing State of Mississippi and University (whichever are applicable, i.e., most restrictive)."

OIG Evaluation of Auditee Comments

The University did not provide documentation to support the reasonableness of the $580,437 of rehabilitation contracts that were awarded noncompetitively.

The University indicated that it had improved its controls over legal fees. However, the University did not provide documentation to justify the necessity and reasonableness of the $184,647 paid to the legal firm, or explain why it did not have a contract with the legal firm for the services.

Although the University utilizes established state and federal policies and procedures for procurement, the University needs to establish and implement additional procurement and contract procedures to ensure compliance with 24 CFR 85.36 and other HUD requirements.

Recommendations

We recommend that HUD require the University to:

2A. Provide documentation to justify the reasonableness of the $580,437 for the 1995 to 1997 rehabilitation contracts and the eligibility of the payments disbursed on the contracts. Reimburse HUD the unsupported expenditures.

2B. Provide documentation to justify the reasonableness of the $184,647 for the legal services from October 1995 to May 2002, and reimburse HUD the unsupported expenditures.

2C. Establish and implement policies and procedures for procurement and contact administration to ensure compliance with 24 CFR 85.36 and other HUD requirements. At a minimum the policies and procedures should ensure that: (1) sealed bidding is used when appropriate; (2) the lowest responsible bidder is selected; (3) full and open competition is promoted; (4) sole source procurements are not awarded; and (5) contract administration system is maintained.

Management Controls

In planning and performing our audit, we considered the University's management controls to determine our audit procedures and not to provide assurance on the controls. Management is responsible for establishing effective management controls to ensure that its goals are met. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, 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:

- Effectiveness and efficiency of program operations.
- Eligibility with program requirements.
- Compliance with applicable laws and regulations and provisions of contracts or grant agreements.
- Procurement and contracting procedures.
- Housing rehabilitation procedures.

We assessed the relevant controls identified above by:

- Reviewing the regulations governing the program and University's policies and procedures;
- Interviewing HUD officials and current and former University staff;
- Reviewing the University's program files and controls; and
- Inspecting rehabilitated houses and making site visits to properties.

Significant weakness

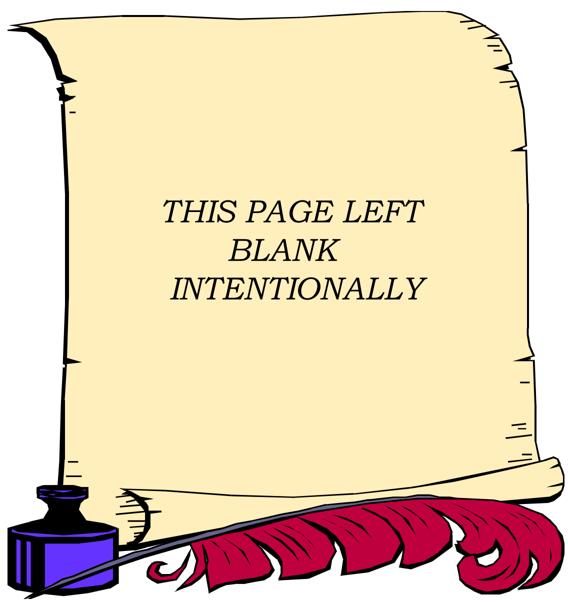
A significant weakness exists if management controls do not provide reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed.

Based on our audit, we identified significant weaknesses in all relevant control areas. See Findings 1 and 2.

Follow-Up On Prior Audits

This is the first Office of Inspector General audit of Jackson State University's Historically Black Colleges and Universities Grants Program.

Banks, Finley, White and Co. completed the most recent Independent Auditor's audit report for the fiscal year ended June 30, 2002. The HUD grants, which included the HBCU grants, were not selected for testing. Therefore, the report did not contain any findings pertaining to the HBCU Grants.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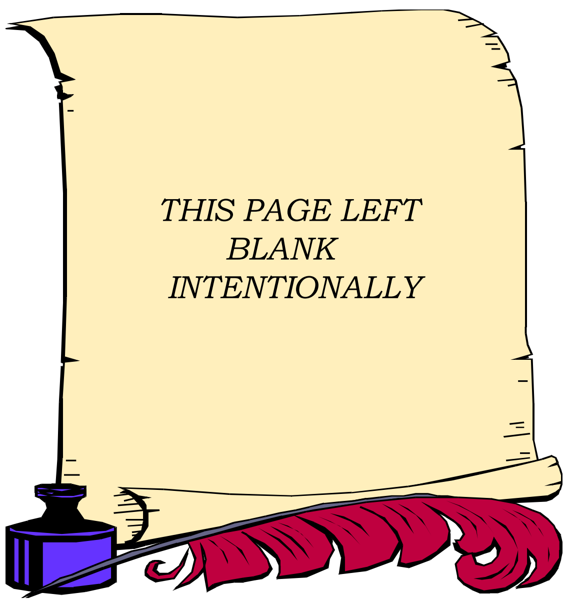
Schedule of Questioned Costs and Funds Put to Better Use

Recommendation Number	**Ineligible**[1]	**Unsupported**[2]	**Funds Put to Better Use**[3]
1B	$ 10,300		
1C		$ 129,683	
1D			$ 898,235
2A		580,437	
2B		184,647	
Total	**$ 10,300**	**$ 894,767**	**$ 898,235**

1/ Ineligible costs are not allowable by law, contract or Federal, State or local policies or regulations.

2/ Unsupported costs are not clearly eligible or ineligible but warrant being contested because of the lack of documentation supporting the need to incur such costs.

3/ Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented. These funds include costs not incurred, and de-obligation of funds.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Auditee Comments

JACKSON STATE UNIVERSITY
JACKSON, MISSISSIPPI 39217

OFFICE OF
THE PRESIDENT

(601) 979-2323
FAX NO. (601) 979-2948

February 5, 2004

Ms. Sonya D. Lucas
Acting Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General for Audit, Region 4
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Ms. Lucas:

We are writing to provide you with our written comments for inclusion in the published report. Should you have additional requirements for information, please feel free to contact us.

Sincerely,

Ronald Mason, Jr.
President

Copy: Dr. Roy DeBerry
Mr. Jerry Watson

Introduction

Jackson State University's (JSU) Home Ownership Opportunities Program (Project HOOP) was created in 1992 and was envisioned to be a comprehensive community development project with the primary focus on the creation of home ownership opportunities for low-to-moderate income families in the Washington Addition neighborhood of Jackson, Mississippi. This neighborhood is contiguous to the University. The neighborhood consists of housing of various types, including one and two family dwellings and apartments that are scattered throughout the area.

Some of the oldest housing units in Jackson are located in the target area, with large numbers of vacant houses. Washington Addition has an urgent need for assistance in improving its housing stock to provide homeownership opportunities and affordable housing for low and moderate-income individuals and families. There is a critical need for housing rehabilitation and revitalization to stabilize this neighborhood. It should be noted that the high rate of poverty creates a challenge in finding and recruiting a pool of eligible, prospective buyers. Large numbers of vacant houses exist in the area. The deteriorated condition of the community has made it susceptible to crime and drugs. The dilapidation and housing abandonment coupled with commercial and economic decline create substantial challenges to community improvement efforts.

What Happened?

All HUD grant funds received by the University have been accounted for and were used for the activities outlined in the grants. It is important to note that the OIG findings are NOT a matter of misappropriation of funds or malfeasance. OIG findings primarily consist of the University's failure to adhere to technical HUD guidelines (i.e. public advertising during the competitive bid process).

In January 1998, Project HOOP received an oral order from Frank Mason, local HUD Office of Community Planning and Development (CPD), to cease all construction activities. It is our understanding that this action resulted from concerns the local HUD/CPD office had with City of Jackson CDBG housing programs. The City's Office of Building Permits was instructed not to issue any construction/rehab permits to Project HOOP until notified by HUD. **This resulted in 30 months of no construction activities.** It should be noted that this cease work order did not include the remaining activities involved in increasing homeownership ownership opportunities, i.e., developing partnerships, property selection and acquisition, and so forth… Consequently, Project HOOP continued to operate and administer the program, absent or minus the construction activities. In June 2000, Project HOOP was granted permission to resume construction activities. Project HOOP began construction activities and proceeded to rehabilitate homes.

Once again, in June 2002, Project HOOP received instructions from HUD to cease all construction activities. Project HOOP continued to operate and execute the grant focusing on the tasks in the proposal with the exception of the construction activities. Approval to restart construction activities was granted by HUD in May 2003. In total, the "cease work" orders lasted for forty (40) months. The loss of time in rehabilitating the houses had far

reaching implications and negatively impacted the program's ability to successfully complete its main goal. Most notably, significant increases in material and labor costs decreased the amount of funds available for housing rehabilitation. During the months that the houses remained vacant, we experienced vandalism, which added to the project's expenses, thereby decreasing the funds available for rehab work. In response to our inability to identify credit worthy, eligible prospective buyers, HUD approved Project HOOP as a lease to purchase program.

Where do we go from here?

In late August 2003, JSU transferred the administration and execution of Project HOOP to the Office of Economic Development and Governmental Affairs (EDGA) to effectuate the scope of work on the projects. Additionally, in September 2003, the University committed an additional $75,000 (salary and benefits) for a Director of Housing and e-City Development, and 25% of the recovered indirect cost toward administrative and programmatic support. Project HOOP is under the administrative purview of Dr. Roy DeBerry, Vice President EDGA, who reports directly to the President of the University. In addition, the Educational Building Corporation has agreed to hire a full time accountant who would be responsible for the accurate and timely reporting and compliance of financial transactions and record keeping for Project HOOP.

Beginning in September 2003, we spent considerable time transitioning the program from the Small Business Development Center to the Office of EDGA. Activities included:

- ►Review of HUD policies and procedures to insure that the ongoing execution and administration of the program is in accordance with HUD guidelines, policies, and regulations.
- ►Physically transferring the program's records and documents.
- ►Extensive document review to gain a thorough understanding of the project and its history.
- ►Conducting interviews with JSU former HOOP officials and employees to retrieve explicit and tactile knowledge regarding the project.
- ►Completion of construction of two homes and placing families in those homes.
- ►Closing out the 1996 grant.
- ►Establishing relationships with community leaders, community based organizations, community based housing collaboratives, local planning officials, and local and national HUD representatives.

The new Director of Housing and e-City Development is primarily responsible for maintaining the relationships with JSU's Grants and Contracts Office, the Office of Sponsored Programs, Facilities, Finance and Fiscal Affairs, and Procurement. Each of these offices has extensive experience in operating federally funded projects in accordance with the compliance guidelines, applicable laws, regulations and provisions of grant agreements. As we proceed, we are also working closely with our General Counsel to insure that our efforts remain inside federal guidelines while we measure, report, and monitor program performance.

2

We recommend that we develop a "Work Out" Plan in consultation with HUD/HQ. It is expected that a draft of the "Work Out" Plan will be submitted to HUD/HQ by April 1, 2004 along with a request for amendments to the grant agreement. Our "Work Out" Plan will outline monthly goals and the tasks to accomplish those goals. We will recommend that from this point forward, we focus efforts solely on the rehab/reconstruction of houses. We are requesting permission to utilize the remaining funds from the 2000 and 2001 grant years to rehab/reconstruct the houses already in our inventory. This would greatly enhance the chance for successful completion of goals.

In order to further enhance our capacity, we are presently recruiting to fill the allotted program staff (a coordinator and 1-2 graduate students), which we expect to fill by March 1, 2004. In the interim, we have recruited a community resident-volunteer with an interest in housing development in West Jackson and a JSU work-study student to support the administration of Project HOOP. As previously noted, the Educational Building Corporation of has decided to hire an accountant who would assume responsibility for the record keeping and financial reporting of Project HOOP.

Project HOOP has done a superior job in creating and forming community partnerships to support the achievement of its goals. HOOP is a member of the "Jackson Housing Collaborative" along with West Jackson Community Development Corporation, Voice of Calvary Ministries, Habitat for Humanity, and Metro Jackson Housing. HOOP is working closely with the collaborative group of not-for-profit housing organizations to create homeownership opportunities in the West Jackson community.

Project HOOP is not a stand-alone program. Project HOOP is an integral part of the Jackson State University *e-City initiative,* targeting a 5.3 square mile area surrounding the University for human and community development. *e-City* is a comprehensive, university-community development partnership with five major components: education, enterprise, environment, employment, and exercise. As the University grows, so will the community surrounding the University.

3

RECOMMENDATIONS

OIG 1A. Suspend disbursements and disallow the use of grant funds, pursuant to Title 24 CFR84.62

JSU Response: JSU respectfully strongly disagrees with this recommendation.

HUD should continue disbursements and allow the use of remaining grant funds to complete the goals of program years 1997, 1998, 2000, and 2001 for the following reasons:

1. We are formulating a draft "Work Out" Plan to be completed by April 1, 2004 to guide and facilitate the effective and efficient achievement of the goals of Project HOOP. The "Work Out" Plan would provide the structure to monitor our administrative and construction activities on a monthly basis.
2. We have moved the administration of the project to the Office of EDGA. . Project HOOP is under the administrative purview of Dr. Roy DeBerry, Vice President EDGA, who reports directly to the President of the University.
3. The primary focus of Project HOOP for the remaining grants will be changed to housing rehab/reconstruction. There are enough houses in inventory to complete the goals without acquiring new properties. We are requesting permission to utilize the funds from the 2000 and 2001 years to rehab/reconstruct the houses already in our inventory.
4. The University will provide support services and professional staff such as:
    a. An experienced program manager
    b. A dedicated accountant
    c. Internal Audit
    d. General Counsel
    e. Grants Office
    f. Office of Business and Finance

The above referenced offices will insure compliance with HUD and University policies and procedures and applicable state and federal laws. Additionally, the University will utilize its' Facilities Management Department to provide technical assistance to the Project.

OIG 1B. Require the University to reimburse HUD $10,300 of the 1995 grant funds for the demolished houses.

JSU Response: JSU agrees with this recommendation.

4

OIG 1C. Require the University to determine the eligibility of the $129,683, consisting of $21,286 disbursed from the 2000 grant funds and $108,397 disbursed from the 2001 grant funds, and reimburse HUD any ineligible costs.

JSU Response: All HUD Funds Used Were For Allowable, Eligible activities under the terms of the grants.

Even though cease work orders were devastating to completing construction goals. Project HOOP nevertheless continued to build partnerships and to conduct homeownership education classes. **We were never advised to stop or cease other program activities for which we incurred administrative and operational costs.** From its inception, Project HOOP was intended to be more than a "brick and mortar" program. Throughout the project, JSU utilized several strategies to achieve the goal of creating home ownership opportunities. The strategies consisted of five distinct tasks:

Task#1	"…the creation, organization, staffing, and continuation of a Community Development Project Team within Jackson State University's Center for Business Development and Economic Research Center."
Task#2	Property acquisition including identification, selection, and acquisition of property.
Task#3	Recruitment of participants and conducting Home Ownership Education workshops.
Task#4	Rehabilitate houses and improve infrastructure conditions.
Task#5	Sale and finance properties.

It should be noted: "Rehabilitate Houses" is only one of the five tasks. The point is, "…increasing homeownership opportunities" involves a variety of activities clearly spelled out in all of Project HOOP's proposals.

For the Program Year 2000, we paid $55,332.19 in salaries to four program staff members; $13,587.25 for Fringe Benefits; $13,445.72 for IndirectCosts and $500 for an appraisal for a total of $82,865.16. Please note that $61,578.16 came from sources other than HUD.

For the Program Year 2001, we paid $76,131.60 in salaries to four program staff members: $18,965.84 in Fringe Benefits; $18,499.98 in Indirect Costs for a total of $113,597.42. Please note that $5,200.42 came from sources other than HUD.

All of the other program tasks, excluding construction, continued with HUD's full knowledge and approval (from our report submission). According to our records $13,587.25 for Fringe Benefits, $13,445.72 for Indirect Costs and $500 for an Appraisal.

See, Attachment I. Expenditure Breakout Sheet and Copies of a Sampling of Sign-In Sheets from Washington Addition Neighborhood Association Monthly Meetings and Homeownership Education Workshops Attendance Sheets.

5

OIG Finding 1D: Recapture the remaining balance of $898,235 from the 1997, 1998, 2000, 2001 grants.

JSU Response: JSU respectfully strongly disagrees.

JSU should be allowed to move forward and utilize the remaining balance of $898,235 from the 1997, 1998, 2000, and 2001 grants for the reasons:

1. **New Management Structure.** Project HOOP has been transferred to the Office of EDGA under the leadership of Dr. Roy DeBerry who reports directly to the President. Dr. DeBerry has recruited a new and experienced management team which includes Jerry Watson. Mr. Watson, from DePaul University, brings a wealth of experience in the management and administration of HUD community-university partnership grants.

2. **Work Out Plan.** We will recommend a "Work Out" Plan in consultation with HUD/HQ to facilitate timely and accurate completion of goals. It is expected that a draft of the "Work Out" Plan will be submitted to HUD/HQ by March 1, 2004 along with a request for program amendments. Our "Work Out" Plan will outline monthly goals and the tasks to accomplish those goals. We will recommend that we focus efforts solely on the rehab/reconstruction of houses. We are requesting permission to utilize the remaining funds from the 2000 and 2001 grant years to rehab/reconstruct the houses already in our inventory. This would greatly enhance the chance for successful completion of goals.

The neighborhood needs Project Hoop. Some of the oldest housing units in Jackson are located in the target area. Large numbers of vacant houses exist in the area. The deteriorated condition of the community has made it susceptible to crime and drugs. There is a critical need for housing rehabilitation and revitalization to stabilize this neighborhood.

OIG 1E: Work with the University to develop a plan for the houses acquired. If the project continues, the University must provide funds for the necessary personnel, materials, services, equipment, and facilities for the performance of the work set forth in the Project Management Work Plans to complete the required houses for the 1995 to 1998 grants.

JSU Response: We agree.

Please see JSU Response to OIG 1A. (4).

6

OIG 1F: Require the University to demonstrate accountability and compliance with the grants.

JSU Response: Jackson State University is accountable.

1. JSU is a $100 million public institution of higher education
2. JSU is audited annually by the State of Mississippi and has had no audit exceptions in the past four years.
3. JSU maintains a fully staffed Office of Grants Administration.
4. JSU is second largest grant recipient of federally funded grants and contracts among all the Historically Back Colleges and Universities and has a record of effective grants management.
5. JSU maintains an Office of Internal Audit, established by the present administration.
6. In the past, HOOP was administered by the newly formed Jackson State Educational Building Corporation. Protocol for the University, past and present, is for the Office of Grants and Contracts to administer all grants. The present administration will insure that protocol is followed. The Director of Housing and e-City Development is primarily responsible for maintaining the relationships with JSU's Grants and Contracts Office, the Office of Sponsored Programs, Facilities, Finance and Fiscal Affairs, and Procurement. Each of these offices has extensive experience in operating federally funded projects according to the compliance guidelines, applicable laws, regulations and provisions of grant agreements. We are also working closely with our General Counsel to insure that program activities remain inside federal guidelines while we measure, report, and monitor program performance.

OIG 2A: Provide documentation to justify the reasonableness of the $580,437 for the 1995 to 1997 rehabilitation contracts and eligibility of the payments disbursed on the contracts. Reimburse HUD the unsupported expenditures.

JSU Response: All HUD grant funds received by the University have been accounted for and were used for the activities outlined in the grants.

Presently, we are utilizing JSU policies, State of Mississippi Laws and HUD regulations, whichever is most restrictive, to award contracts **(see Attachment II. State Guidelines for Competitive Sealed Bidding)**.

OIG 2B: Provide documentation to justify the reasonableness of the $184,647 for the legal services contract from October 1995 to May 2002, and reimburse HUD the unsupported expenditures.

JSU Response: Legal services is an allowable expense for the HOOP Project and the amount expended was far less than that found by the OIG.

Contrary to the OIG's finding, the University did not expend $184,687 in legal fees. Although checks were written to the law firm that amounted to $184, 687, only $50,959.48 were actually

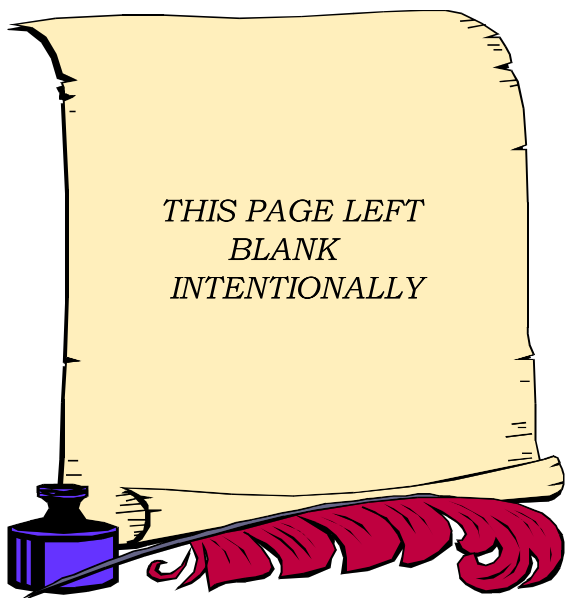
7

for legal fees for the period between 1995 and 2003 **(see Attachment III. Professional-Legal Expenditure Letter by Program Year).** Going forward, all Project HOOP contracts for legal services will go through our University's General Counsel for approval.

OIG 2C: Establish and implement policies and procedures for procurement and contact administration to ensure compliance with 24CFR 85.36 and other HUD requirements. At a minimum the policies and procedures should ensure that: (1) sealed bidding is used when appropriate; (2) the lowest responsible bidder is selected; (3) full and open competition is promoted; (4) sole source procurements are not awarded; and (5) contract administration system is maintained.

JSU Response: JSU utilizes established state and federal policies and procedures for procurement.

(See, JSU Response to OIG 2A). Going forward, we are operating the program according to HUD regulations by utilizing State of Mississippi and University (whichever are applicable, i.e., most restrictive).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