Audit Report

District Inspector General for Audit
South/Caribbean District

Report: 98-AT-206-1004 *Issued: March 31, 1998*

TO: Harold E. Saether, Director, Office of Public Housing, 4APH

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

SUBJECT: Housing Authority of the City of Atlanta
Audit of Low Income Housing
Atlanta, Georgia

We completed an audit of the Housing Authority of the City of Atlanta's (HACA) Low Income Housing Program. We conducted our audit to determine whether the Authority administered its activities in an efficient, effective, and economical manner, and in compliance with the Department of Housing and Urban Development (HUD) requirements.

We focused our audit to evaluate the areas of procurement, finance, payroll, private management fees, and special considerations to Board members. This report presents five findings that detail the Authority's needs to improve its operation in these areas. Also, the findings show the Authority has taken proactive steps toward correcting the cited deficiencies.

Within 60 days, please give us a status report for each recommendation in the report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Sonya D. Lucas, Assistant District Inspector General for Audit, or Stephen Nolan, Senior Auditor at (404) 331-3369. We are providing a copy of this report to the Authority's Executive Director and Chairman of the Board of Commissioners.

Executive Summary

We completed an audit of the Housing Authority of the City of Atlanta. Our objective was to determine if the Authority administered its Low Rent Public Housing Program in an efficient, effective, and economical manner, and in compliance with the terms and conditions of its Annual Contributions Contract (ACC), HUD regulations, and other applicable laws and regulations. We focused our review on the Authority's management of procurement, finance, payroll, private management fees, and special considerations to Board members.

Specifically, the audit disclosed:

- **Procurement** The Authority did not have an effective centralized procurement function. The deficiencies included: improper contract administration, solicitation deficiencies, improper contract modifications, inadequate procurement records, and prohibited contract terms. As a result, the Authority paid ineligible costs of $106,286 and did not have complete documentation to support $518,457 paid to contractors. After we began our review, the Authority initiated changes in its procurement department, but further improvement was needed.

- **Finance** The Authority needed to improve controls over its financial management system. The Authority lacked adequate cash controls and had poor financial records. Consequently, the Authority used $572,966 of Federal funds for unauthorized purposes and the books and records did not accurately reflect a true and complete accounting of its financial position.

- **Payroll** The Authority did not maintain proper accounting controls over its payroll function. The Authority did not: (1) file tax forms timely, (2) remit tax payments timely, and (3) maintain a proper separation of duties. As a result, it paid $56,611 for penalties and interest; had an outstanding obligation of $60,596 for taxes, and an outstanding obligation of $678,426 for penalties and interest.

- **Private Management Fees** The Authority paid $21,201 more in management fees than the management agent services contracts allowed. The Authority staff were aware of these differences, but did not follow contractual agreements with management agents nor amend the contracts to reflect current practices.

- **<u>Special Considerations to Board Members</u>** The Authority provided special considerations to three residents who served on the Board of Commissioners. Authority officials made loans of $5,300 to or on behalf of one Resident Commissioner and one resident who later became a Commissioner. It allowed another resident to enter a repayment agreement of $8,962 after discovering the resident had falsified eight annual income verification forms. The Authority forgave $15,052 of the outstanding $24,014 owed by this resident. Consequently, a potential conflict of interest existed because the Resident Commissioners' ability to make clear, unbiased decisions in formulating and approving Authority policy had been compromised.

We presented our findings to the Authority and HUD's Georgia Office officials during the audit. We held an exit conference on March 18, 1998. The Authority generally agreed with the findings in this report.

The Authority provided written comments to our findings and has taken action to correct the cited deficiencies. HUD's Georgia Office of Public Housing and the Authority provided suggested recommendations to each of the five findings. We considered the comments and suggested recommendations in finalizing the report.

The Authority's comments are summarized within each finding and included in their entirety as Appendix C. We did not include the supporting documentation submitted with the Authority's comments, but will make it available upon request.

We recommend HUD require the Authority to: repay HUD for all ineligible costs and unresolved unsupported costs; develop and implement controls and procedures to ensure compliance with procurement and contract administration requirements; develop and implement fiscal controls to ensure proper reporting; develop procedures to ensure private management fees are paid according to contracts; adopt policies restricting special considerations to Board members and for making recommendations to the Mayor for prospective Board members; provide training to resident Board members on their responsibilities and duties; and develop other avenues of assistance independent of the Authority's operations to address emergency requests for assistance from residents.

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Abbreviations:

ACC	Annual Contributions Contract
ADP	Automated Data Processing, Incorporated
APD	City of Atlanta Police Department
CFR	Code of Federal Regulations
HACA	Housing Authority of the City of Atlanta
HUD	Department of Housing and Urban Development
IPA	Independent Public Accountant
OIG	Office of Inspector General
RFP	Request for Proposal
TIPA	The Integral Partnership of Atlanta

Introduction

BACKGROUND

The Housing Authority of the City of Atlanta is an independent entity organized in 1938 under the laws of the State of Georgia. Its primary purpose is to provide decent, safe and sanitary housing for persons of low income in Atlanta.

The Mayor of Atlanta appoints a seven member Board of Commissioners to govern the Authority. The Board is responsible for setting Authority policy, approving an annual operating budget, and hiring an Executive Director. The Executive Director, Renee Glover, is responsible for the Authority's day to day operations.

The Authority maintains its records of operations at its central office at 739 West Peachtree Street in Atlanta, Georgia. At June 30, 1997, the Authority administered 42 public housing developments, consisting of 9,870 units. It previously administered 14,530 units before it began demolishing units. HACA employed 694 employees at December 31, 1997.

HUD designated the Authority as a troubled Public Housing Authority on November 5, 1990. HUD took this action because of prolonged management problems involving excessive vacancies, poor maintenance, and poor rent collection. Under the current Authority's administration, HACA improved its operations. HUD removed the Authority from its troubled list on January 26, 1998. As a condition of being removed from the troubled list, HUD required an Improvement Plan for the areas that the Authority performed poorly under the Public Housing Management Assessment Program. Those areas included vacancies; unit turnaround; modernization; work orders; annual inspections of units and systems; and financial management. HUD determined that the Authority should remain under close monitoring until further improvement is evidenced.

The Authority's 1997 fiscal year end annual operating expenditures for its low income housing program totaled $60,417,350. The Authority's actual operating receipts from tenant rent and other income totaled $19,827,158 and its operating subsidy from HUD totaled $40,816,922. Since its troubled declaration in 1990, the cumulative funding provided by HUD exceeded $1 billion for the Low Rent and Section 8 Programs.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The objective of our review was to determine if the Authority administered its activities in an efficient, effective, and economical manner, and in compliance with the terms and conditions of its Annual Contributions Contract, HUD regulations, and other applicable laws and directives.

To accomplish the objectives, we tested for compliance with program requirements, interviewed the Authority's staff and HUD personnel, and reviewed Authority records. Specifically, we tested 19 contracts totaling $15,907,908 selected from leads developed during our survey for compliance with procurement and contract administration requirements; judgmentally selected and tested various disbursements for eligibility and support; evaluated the Authority's controls over fiscal systems, payroll processing, and payment of private management fees; and analyzed financial reports submitted to HUD.

Our audit covered the period January 1, 1995, through June 30, 1997, but the period was extended as necessary. We conducted on-site work from September 1997 through February 1998. We conducted our audit in accordance with generally accepted government auditing standards.

Findings

Finding 1

The Authority Needed to Improve the Procurement Function

The Authority did not have an effective centralized procurement function. The deficiencies included: improper contract administration, solicitation deficiencies, improper contract modifications, inadequate procurement records, and prohibited contract terms. HUD requires HACA to maintain a contract administration system, provide full and open competition, maintain adequate documentation, and follow procurement procedures. The Authority lacked capacity in its procurement department. As a result, the Authority paid ineligible costs of $106,286 and did not have complete documentation to support $518,457 paid to contractors (See Appendix A). After we began our review, the Authority initiated changes in its procurement department, but further improvement was needed.

PREVIOUS HUD REVIEWS

Previous HUD reviews showed long-standing problems in HACA's procurement function. HUD's October 1993 review noted an inadequate internal control system over the procurement system, inadequate procurement records, restricted competition among vendors, and inappropriate contract modifications. HUD attributed these deficiencies to the lack of a centralized procurement function. HUD's April 1997 review of modernization programs showed similar deficiencies such as inadequate procurement records and improper contract modifications. Our review confirmed that the procurement deficiencies continued to exist.

SCOPE OF OUR REVIEW

Our review of 19 contracts included 14 contracts procured by HACA and 5 contracts procured by The Integral Partnership of Atlanta (TIPA). Initially, we selected 10 of the 14 HACA procured contracts during our audit survey. At HUD's request, we selected four additional modernization contracts to examine the Authority's performance after the April 1997 HUD modernization review. In addition, we selected the five TIPA procured contracts. As program manager, TIPA procured contracts on behalf of the Authority and was governed by the same procurement laws and regulations as HACA. We only reviewed the contract administration of the Atlanta Police Department (APD) contract because a prior Authority administration procured the contract.

CONTRACT ADMINISTRATION WAS DEFICIENT

The Authority and TIPA did not require proper supporting documentation before paying two contractors $4,326,549 and did not require one of the contractors, The Alisias Group, to complete the deliverables detailed in the contract (See Appendix A, deficiencies 1-2). The Authority provided support for all but $256,212 in response to this finding.

Title 24 of the Code of Federal Regulations (CFR), Part 85.20 (2) and (6) require that grantees maintain records which adequately identify expenditures and maintain accounting records supported by source documentation. *Title 24 CFR 85.36 (b) (2)* requires the Authority to maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts.

- In the City of Atlanta contract for police services, the Authority did not obtain proper supporting documentation that showed the APD provided the required services. The accounting firmed hired by HACA found that the APD did not have approved time sheets or certified payrolls to support $3,999,843 of the $4,585,000 contract. The Authority obtained approved certified payrolls from the City of Atlanta to support the costs in response to this finding.

- HACA paid The Alisias Group $326,706 without obtaining adequate supporting documentation or requiring it to complete all contract deliverables. HACA paid invoices that did not detail the quantity of hours worked and the applicable hourly rate for each employee under the three contracts with The Alisias Group. Under contract #96-005, The Alisias Group charged a flat daily rate of either $800 or $1,000. Under contract #96-069 and the TIPA procured contract, The Alisias Group charged a flat monthly fee of $7,500 for each contract. Also, the Authority did not require The Alisias Group to provide the written deliverables that were specified in two contracts because it verbally changed the scope of work. The Alisias Group did not deliver: (1) a comprehensive implementation plan to improve communications, (2) a strategic implementation plan to improve the image of the Authority, (3) policies and procedures for major events and crisis management, and (4) a strategic plan for short and long-term information dissemination. The Authority explained that the new scope changed the deliverables to goals which were accomplished by the contractor. Also, the Authority obtained $70,494 of supporting documentation for services provided under the revised scope of work in contract #96-005 as a response to this finding.

SOLICITATION DEFICIENCIES

The Authority and TIPA did not advertise the solicitation for six contracts, limited the response time to less than 15 days for seven solicitations, and did not adequately describe the statement of work in one case (See Appendix A, deficiencies 3-5). These actions may have limited competition.

Title 24 CFR 85.36 (c) (1) requires all procurement transactions be conducted in a manner providing full and open competition. *Title 24 CFR 85.36 (d) (3) (i) and HUD Handbook 7460.8 Rev-1, Chapter 2, Paragraph 2-5 (A)* require requests for proposals be publicized in local newspapers or trade journals. The sample procurement policy provided in *HUD Handbook 7460.8 Rev-1, Appendix 1* recommends solicitations remain open for a minimum of 15 days.

Examples of the solicitation deficiencies are presented below.

- The Authority did not advertise the $128,705 Duckett and Associates contract, but solicited bids from a selected list of vendors. HACA awarded the contract on October 1, 1997, after it began to change its procurement operations.

- The Authority limited the response time from 2 to 14 days for 7 solicitations. As a result, the Authority may have received fewer bids because of the limited response time.

No Other Bids	-	2 Contracts
1 Other Bid	-	3 Contracts
2 Other Bids	-	2 Contracts
Total		7 Contracts

- The Authority did not adequately define the scope of work in the solicitation for the forensic accountant to review the APD contract. A prospective bidder notified HACA that it did not have sufficient information about the Authority's needs to submit a bid proposal. The Authority did not revise the request for proposal to clarify its needs.

IMPROPER CONTRACT MODIFICATIONS

HACA did not properly execute 16 modifications for 8 contracts in our review (See Appendix A, deficiencies 6-9). HACA did not complete a cost analysis for 14 modifications and substantially changed the scope of work for 2 contracts. It modified a contract after additional work had been performed and the contractor had been paid.

HUD Handbook 7460.8 Rev-1, Chapter 6, Paragraph 6-10 defines contract modifications as changes in any of the contract terms within the scope of the contract. Changes such as increasing the number of items being purchased or other types of new work are not considered within the scope of the contract and are not authorized. *Title 24 CFR 85.36 (f)* requires the Authority to perform a cost analysis in connection with every procurement action including modifications to determine its reasonableness. The Authority's *Contracts and Procurement Policy Statement* dated September 27, 1995, states that all contracts or contract modifications over $100,000 shall be approved by the Board.

Examples of improper contract modifications are presented below.

- HACA did not complete a proper cost analysis for 14 modifications. The Authority executed three modifications to the original $13,750 Draper and Associates contract increasing it to $846,607. HACA did not complete a cost analysis for the first and third modifications. The Authority did not perform a proper cost analysis before it executed the second modification. Ten days after the modification, the Authority obtained hourly rates for Draper's proposal, but did not independently assess the number of hours required for the scope of work. In addition, the Authority changed the scope of work from an assessment of the project management function to the contractor performing project management services.

- The Authority modified The Alisias Group contract after the payment for services was made. The contract ran from February 12, 1996, to December 20, 1996. By September 1996, the Authority had paid the contractor $115,420 or $17,420 over the contract amount. To justify the excess payment, the Authority modified the contract for the $17,420. However, the Authority did not execute the modification until March 1997 after the contract term had expired and after the contractor had performed the services.

INADEQUATE PROCUREMENT RECORDS

The Authority and TIPA did not maintain complete and proper documentation in their procurement files (See Appendix A, deficiencies 10-14). The Authority and TIPA did not document: the rationale for the method of procurement used for 13 contracts, a cost estimate and/or price analysis for 13 contracts, the number of bids received for 2 contracts, the basis for the contract selection or contract price for 4 contracts, and that profit was negotiated as a separate element of price in 3 contracts. In two cases, HACA could not locate any procurement documentation.

Title 24 CFR 85.36 (b) (9) requires that grantees maintain records sufficient to detail the significant history of each procurement. *Title 24 CFR 85.36 (f) and HUD Handbook 7460.8, Rev-1, Chapter 3, Paragraph 3-15* require HACA to make independent estimates before receiving bids or proposals and to perform a cost or price analysis in connection with every procurement action to determine the reasonableness of the proposed contract price. *Title 24 CFR 85.36 (f) (2)* requires the Authority to negotiate profit as a separate element of price.

Examples of inadequate procurement records are presented below.

- HACA executed two contracts with The Alisias Group, but did not document its rationale for the method of procurement or the basis for the contract selection. The Authority did not receive any other bids and did not complete a cost analysis for the assessment of the Public Affairs Department contract. Also, HACA did not complete a cost analysis for either the original $90,000 Public Affairs contract or its $90,000 option year. Consequently, the Authority did not determine the reasonableness of the contract amounts.

- The Authority did not document its negotiated profit as a separate element of price for the TIPA contracts. The Authority documented the amount of profit earned by TIPA for the contract as a response to this finding.

- The Authority could not provide any documentation on the procurement of the Ben Hill Roofing contract except for a portion of the contract and the plans and drawings for the roof replacement. Also, the Authority did not maintain the solicitation file for Request For Proposal (RFP) #96-119 in connection with the Draper and Associates contract. The Authority found the Ben Hill Roofing contract files and the solicitation file for RFP #96-119 as we were leaving the audit site.

HACA explained that the procurement files did not contain all of the required information because some documents may be maintained outside of the procurement department or some documents were never completed. The additional documentation was not provided.

PROHIBITED CONTRACT TERMS USED

The Authority and TIPA executed prohibited contract terms (See Appendix A, deficiencies 15-16). The Authority executed the TIPA contract for Program Management with a percentage-of-cost compensation clause. TIPA executed a contract with The Alisias Group for services that were required under another Authority contract.

24 CFR 85.36 (f) (4) states that the cost plus a percentage of cost and percentage of construction cost methods of contracting shall not be used. *24 CFR 85.36 (b) (4)* states the grantee and subgrantee procedures will provide for a review of proposed procurements to avoid purchase of unnecessary or duplicative items.

- The Authority paid TIPA $131,272 using a percentage of construction cost clause in its Program Management contract for Techwood and Clark Howell. HACA allowed a 2.5 percentage of construction costs as a construction management fee. In response to this finding, HACA properly amended the contract to eliminate the prohibited clause and established a fixed fee for construction management.

- HACA paid $106,286 to The Alisias Group for duplicate services. The Authority contracted with The Alisias Group to provide public affairs services for all Authority activities. TIPA also contracted with The Alisias Group to perform marketing and communication services for the Olympic Legacy Program that were required under the Authority's original contract with The Alisias Group.

HACA officials stated that procurement deficiencies resulted from a lack of capacity in the procurement department.

REVIEW OF RECENTLY EXECUTED CONTRACTS

After the April 1997 HUD review, HACA implemented new procurement procedures and hired a new Director over its Contracts and Procurement Department. We noted fewer procurement deficiencies in the four contracts executed after May 1997. However, procurement deficiencies continued to exist and included such items as: not documenting the rationale for choosing procurement methods, not performing cost analysis, not advertising solicitations, and limiting the response time on solicitations. Also in August 1997, the Authority executed the third modification for $480,000 to the Draper and Associates contract. In the modification, HACA changed the scope of work and did not complete a cost analysis.

AUTHORITY COMMENTS

Generally, the Authority agreed that systematic problems existed in the procurement department and that the procurement department lacked capacity to perform its most basic functions. HACA officials stated that every aspect of the Authority needed improvement, so the new Executive Director set as first priority the improvement of the delivery of services to residents. The Authority stated the procurement department was the last department to undergo a strategic plan to improve both the capacity of staff and the execution of procurement and contracting functions. HACA officials stated changes have begun including: hiring of new procurement personnel, implementing a new Contract Administration and Grant Management software module, implementing new procedures that utilize checklists, and training both procurement staff and staff that interact with the procurement department.

Although the Authority generally agreed with the finding, it disagreed with certain examples presented in the finding. In particular, HACA stated it was not required to advertise the Duckett and Associates contract solicitation because the initial cost estimate was below $100,000. Also, HACA stated The Alisias Group contract executed by TIPA did not represent a duplication of services. HACA stated its contract (#96-069) did not cover the Olympic Legacy Program, but agreed it needed to amend the contract to clarify this point.

OIG EVALUATION

The Authority has taken proactive steps toward correcting long-standing procurement deficiencies. We changed the presentation of certain issues in the finding based on our discussion with HACA officials at the exit conference held on March 18, 1998, and based on the Authority's written comments provided on March 20, 1998, in response to the draft finding. However, we did not change the presentation of the finding for the Duckett and Associates contract or the duplication of services issue with The Alisias Group. For the Duckett and Associates contract, HACA should not have totally relied on a cost estimate to drive whether the solicitation was advertised. HACA should have realized its cost estimate was too low when the bids were received. Therefore, HACA should have canceled the solicitation and advertised a new solicitation. For The Alisias Group contract, we believe the TIPA procured contract represented a duplication of services.

RECOMMENDATIONS

We recommend that you require HACA to:

1A. Repay the $106,286 of ineligible costs and provide proper supporting documentation or repay the $518,457 of unsupported costs as listed in Appendix A.

1B. Implement policies and procedures on procurement and contract administration to ensure compliance with CFR 85.36 and other HUD requirements.

1C. Provide procurement training to appropriate personnel that covers contract modifications, contract solicitations, cost estimates, price analysis, and file documentation.

1D. Follow through with its commitment to implement a Contract Administration and Grant Management Module on its computer system.

1E. Implement the use of a planning committee to allow adequate time to properly solicit all procurements.

Finding 2

The Authority Needed To Improve Financial Controls

The Authority needed to improve controls over its financial management system. The Authority lacked adequate cash controls and had poor financial records. HUD required the Authority to safeguard cash and maintain accurate financial records. As a result, the Authority used $572,966 of Federal funds for unauthorized purposes and the books and records did not accurately reflect a true and complete accounting of HACA's financial position.

HACA'S POOR CASH CONTROLS

HACA did not maintain adequate cash controls as evidenced by its practices. It loaned money between funds to cover cash shortages, deposited operating receipts and program income into non-Federal funds, inadequately funded the tenant security deposit account, and held limited funds in investments.

Title 24 CFR 85.20(b)(3) states that effective control and accountability must be maintained for all grant cash. Grantees must adequately safeguard all assets and must assure that they are used solely for authorized purposes. *The Consolidated ACC, Part B, Section 2,* between HUD and HACA states that "operating receipts" shall mean all rents, revenues, income and receipts accruing from, out of, or in connection with the ownership or operation of all projects subject to the ACC. *Title 24 CFR 85.25(a)* defines program income as income from the use or rental of real property acquired with HUD funds and income from loan repayments. HUD requires program income to be used for current costs.

- **Interfund Loans Used** HACA loaned money between funds to cover cash shortages. From July 1, 1996, to February 19, 1997, HACA made 77 such interfund loans. To compound the problem, HACA did not reconcile the interfund accounts until November 1997, 4 months after the fiscal year end. Consequently, HACA used HUD funds to cover cash shortages instead of funding the activities for which the money was drawn.

  For example, HACA borrowed $369,148 from Federal programs for two non-Federal funds, the Unrestricted Fund and the Authority Fund. HUD was not required to regulate or authorize the activities of the two funds. At June 30, 1997, HACA owed the following balances to various Federal programs:

	Federal Program	Amount
Unrestricted Fund	Vacancy Reduction	$206,084
	Low Rent	115,275
	Section 8	10,035
	Development	6,600
	HOPE VI	6,600
	Comprehensive Grant (Year 5)	5,940
	PHDEP	1,980
	Homebuyers	735
	Subtotal	353,249
Authority Fund	PHDEP	8,683
	Enterprise Fund	7,216
	Subtotal	15,899
	Total Owed	$369,148

HACA's combined bank balance at December 31, 1997, for the Unrestricted Fund and the Authority Fund totaled only $136,854. Therefore, HACA did not have the money to repay the $369,148 in loans.

- **Federal Funds Deposited into Non-Federal Account** HACA deposited $203,818 of operating receipts and program income into the Unrestricted Fund Account. The funds included $159,114 from utility refunds, $41,154 from home improvement loans, and $3,550 from leasing roof space at two public housing projects. In addition, HACA could not provide supporting documentation for deposits of $5,176 to the Unrestricted Fund Account.

- **Underfunded Tenant Security Deposit Account** HACA did not maintain the proper cash balance in its security deposit account. The Authority's trial balance showed the Authority owed $102,147 to the tenant security deposit escrow account. HUD requires HACA to fully fund the security deposit account.

- **Investment Accounts Were Low** The Authority showed only $65,000 in its investment account for the Low Rent Program, despite revenues that exceed $50 million annually. HUD does not require a minimum investment amount. However, the low level held in the investment account confirmed the Authority's poor cash position.

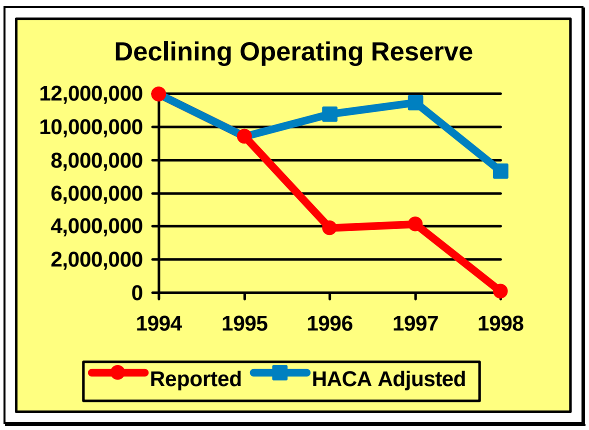
HACA officials stated the former Chief Financial Officer did not provide adequate staff instructions and supervision in the Finance Division. Consequently, HACA used HUD funds for purposes that were not authorized.

POOR CONDITION OF BOOKS AND RECORDS

HACA did not maintain adequate financial records to reflect the Authority's true and accurate financial position. The Authority reported inaccurate operating reserve balances since 1996 and submitted inaccurate 1997 financial reports. Also, the Independent Public Accountant (IPA) audit and HUD's confirmatory review documented poor financial records. Consequently, HACA and HUD did not have accurate financial information to make proper financial decisions.

The Consolidated ACC, Section 15 entitled, "Books of Account, Records, and Government Access," states the Housing Authority must maintain complete and accurate books of account for the Housing Authority projects to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audits. *Title 24 CFR 85.20* further states that grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

- **HACA Reported Inadequate Low Rent Operating Reserves** HACA's operating reserve balance had steadily declined under the Authority's current administration. The June 30, 1994, audited financial statements reflected a $11.9 million balance. At June 30, 1997, the Authority reported its operating reserve had declined to $4.1 million. In the 1998 budget approved by HUD, HACA projected its operating reserve would decline to $64,073.



Our analysis showed an even lower operating reserve balance than that reported by the Authority. The Authority overstated the operating reserve when it overdrew $3.2 million in operating subsidy during 1995 and 1996. After adjusting for this error, we projected a 1998 deficit of $2,078,413 instead of a $64,073 reserve. Because HUD believed HACA would have a deficit budget for 1998, they allowed the Authority to repay the overdrawn funds over 3 years.

HACA officials stated that the Low Rent Program operating reserves were higher than the reports reflected due to errors in the financial records. The Authority revised the 1996 and 1997 operating reserve balance by $6.9 million and $240,287, respectively, for errors made in salary allocations and for utility adjustments. Also, the Authority increased the projected 1998 operating reserve by $1.7 million for utility adjustments and decreased the projected operating deficit balance by $3.7 million. The cumulative effect of these unaudited adjustments was a projected 1998 year end operating reserve balance of $7.3 million. As a result of the erroneous information, HACA did not need the repayment agreement that HUD allowed.

- **Inaccurate Fiscal Year 1997 Financial Reports** The Authority submitted a Statement of Operating Receipts and Expenditures and a Balance Sheet for Section 8 and Public Housing to HUD for June 30, 1997. The report differed from the year-end trial balance supplied to the IPA auditors in December 1997. For example, HACA overstated to HUD its total assets and total liabilities by $18.7 million and $19.6 million, respectively.

- **Other Reviews** The IPA audit and HUD's confirmatory review showed HACA did not maintain adequate financial records. The IPA audit for fiscal year ending June 30, 1996, detailed 35 findings they included: poor or nonexistent documentation; general ledger accounts not reviewed or reconciled; significant differences between supporting documentation and the general ledger that could impair HACA's ability to provide accurate interim financial reporting; and cash accounts not being reconciled on a timely basis. On November 24, 1997, the IPA postponed HACA's June 30, 1997, fiscal year audit because the records were not ready. The IPA resumed their audit in February 1998 after the Authority made corrections.

  In addition, a HUD confirmatory review team conducted an on-site review in November 1997 to verify information under the Public Housing Management Assessment Program. The confirmatory review team stated the general cash balance could not be verified due to the poor condition of HACA's accounting records.

HACA attributed the inaccurate financial records to poor controls in its computerized accounting system and inadequately trained former personnel. The Authority was in the process of correcting its financial records and revising the controls in its computerized accounting system. Also, HACA hired a new Chief Financial Officer and new accounting personnel.

AUTHORITY COMMENTS

The Authority generally agreed with the finding. HACA stated it is in the process of completing a reconciliation of the interfund balances, had implemented procedures for depositing non-rent deposits, and had purchased a Security Deposit Bond to fund the tenant security deposit account. Also, the Authority explained the decline in operating reserves was primarily attributed to the reduction in subsidy for units approved for demolition or which have been demolished. The Authority stated it is not downsizing its housing stock, but repositioning it, and is being penalized in the short-term for implementing a repositioning strategy.

OIG EVALUATION

The Authority has made efforts to correct the deficiencies. If the decline in operating reserves continues, the Authority's ability to meet its operating budget in future years could be affected.

RECOMMENDATIONS

We recommend that you require HACA to:

2A. Repay the $572,966 deposited or loaned to the Unrestricted Fund and Authority Fund.

2B. Repay the $2,142,487 remaining on the repayment agreement immediately.

2C. Develop a cash management and investment strategy to optimize cash flow. The strategy should address the declining operating reserve and disallow the practice of using interfund loans.

2D. Implement policies and procedures that ensure accurate books and records are maintained and HACA provides accurate information to HUD.

2E. Supply information showing a proper Security Deposit Bond has been purchased.

Finding 3

Controls Over Payroll Were Inadequate

The Authority did not maintain proper accounting controls over its payroll function. The Authority did not: (1) file tax forms timely, (2) remit tax payments timely, and (3) maintain a proper separation of duties. We could not accurately assess the reasons for the payroll deficiencies since the Authority had a turnover in its payroll personnel and changed its payroll processing procedures. As a result, the Authority paid $56,611 for penalties and interest; had an outstanding obligation of $60,596 for taxes, and an outstanding obligation of $678,426 for penalties and interest.

CRITERIA

Office of Management and Budget Circular A-87 "*Cost Principles for State, Local, and Indian Tribal Governments,*" Attachment B, Section 20, states that penalties resulting from violations of, or failure of the governmental unit to comply with, Federal and State laws and regulations are unallowable costs.

CONTROLS OVER 1995 AND 1996 PAYROLL WERE INADEQUATE

During the 1995 and 1996 calendar years, the Authority processed its own payroll. In processing the payroll, HACA did not timely file appropriate tax forms and did not timely remit all payroll taxes and unemployment insurance to appropriate Federal and State taxing authorities. The following table shows the taxes, penalties, and interest paid or owed at the time of our review in January 1998.

Tax	Amount Owed	Penalty and Interest Owed	Penalty and Interest Paid
3/95 SUTA[1]			**$ 3,467.10**
4/95 SUTA			**$ 108.58**
3/96 SUTA			**$ 7,721.89**
4/96 SUTA		**$14,657.81**	**$ 401.97**
04/95 GA WH[2]		**$ 4,478.69**	
10/95 GA WH		**$ 5,045.07**	
11/95 GA WH		**$ 4,524.52**	
12/95 GA WH		**$ 4,523.37**	
01/96 GA WH		**$ 4,553.48**	
08/96 GA WH		**$56,936.98**	
1996 FUTA[3]	**$60,596.00**		
3 Q/95 FED WH[4]		**$16,290.46**	
4 Q/95 FED WH		**$243,284.14**	
2 Q/96 FED WH			**$24,882.19**
3 Q/96 FED WH		**$324,131.52**	**$ 3,779.29**
W-2's Missing			**$16,250.00**
Totals	**$60,596.00**	**$678,426.04**	**$56,611.02**

[1] State Unemployment Tax Act
[2] State of Georgia Withholding Tax
[3] Federal Unemployment Tax Act
[4] Federal Withholding Tax

During our review, the HACA had filed all appropriate Federal unemployment, Federal withholding, and State unemployment tax forms, but needed to file forms for 1996 for State withholdings. The Authority was in the process of negotiating a settlement for outstanding penalties and interest. Of the penalties and interest paid, $40,361 was paid from Federal funds and $16,250 was paid from unrestricted funds. However, our review of the unrestricted fund found that Federal funds had been deposited into this account. Therefore, Federal funds paid the penalties and interest indirectly from the unrestricted fund. Penalties and interest are unallowable costs and cannot be paid with Federal funds.

Because of personnel turnover in the payroll area and changes in the payroll processing procedures, we could not make an accurate assessment of the reason for the 1995 and 1996 payroll deficiencies. However, in December 1996, the HACA started using Automated Data Processing, Inc. (ADP) to process its payroll. ADP prepared all tax forms and remitted the taxes and unemployment insurance to the appropriate Federal and State authority. Since HACA started using ADP to process its payroll, all tax forms have been filed timely and all taxes and unemployment insurance have been paid timely.

HACA officials stated there were errors by the Internal Revenue Service in posting payments and obligations to the Authority’s account. Because of these errors the Authority believed it owed only $15,088 in Federal withholding taxes and $60,596 in Federal unemployment taxes. The Authority also believed the penalties and interest for State withholding would be reduced once the year end reconciliation was complete.

SEPARATION OF DUTIES NEEDED

We reviewed the payroll processing procedures implemented at the end of the 1996 calendar year and found the process was adequate except for an improper separation of duties. The individual responsible for entering new employees into the ADP payroll system and entering hours worked each pay period was the same individual that received printed payroll checks from ADP. The person received the checks to compare them to the time sheets. At the time of our review no other individual reviewed the ADP reports, so the Authority was susceptible to this individual entering fictitious employees into the payroll system and collecting the check when received directly from ADP. However, we found no instance of this occurring.

We notified the Executive Director of this weakness and she implemented procedures to have another employee review the ADP reports and compare employees being paid to a current roster of employees. This weakness was corrected in December 1997, before our field work was completed.

AUDITEE COMMENTS

The Authority agreed with the facts of this finding. HACA stated they have implemented controls over the payroll function, have instituted an internal audit function within the Finance Department, and are working toward resolving tax issues from prior periods.

RECOMMENDATIONS

We recommend that you require HACA to:

3A. Repay the $56,611 paid for penalties and interest.

3B. Assure Federal funds are not used to pay any outstanding tax penalties and interest.

Finding 4

The Authority Paid Excessive Management Fees

The Authority paid $21,201 more in management fees than the management agent services contracts allowed. HACA staff were aware of these differences, but did not follow contractual agreements between HACA and the management agents nor did they amend the contracts to reflect current practices.

CONTRACT TERMS FOR MANAGEMENT FEES

HACA executed management agent contracts with 5 management agents for 18 properties. The contracts provided a monthly management fee, between $18 and $24, be paid for each occupied dwelling unit or dwelling unit vacant less than 30 days. Furthermore, the contract stipulated the payment of management fees only for units with rent delinquencies less than 60 days. Management agents submitted monthly vouchers to HACA. Unless HACA officials informed them otherwise, the management agents paid themselves the management fee from the project account.

SCOPE OF OUR REVIEW

We reviewed HACA's payment of management fees to 4 management agents, who managed 17 HACA properties. We tested 8 of the 17 properties. Our test period included the months of April through June 1997.

EXCESSIVE MANAGEMENT FEES PAID

HACA officials allowed management agents to submit monthly management fee expense vouchers that included payments for vacant units and did not include deductions for rent delinquencies of 60 days or more. As a result, HACA paid excessive management fees of $21,201 as follows:

Management Agent	Amount
Pinnacle Realty Management Company	$12,747
Dominium Management Services	7,473
H. J. Russell & Company	897
Lane Company	84
Total	$21,201

Pinnacle Realty Management Company We tested four of six properties managed by Pinnacle Realty Management Company (Pinnacle). We found that Pinnacle submitted management fee vouchers that included the property's total units in the gross management fee earned calculation rather than the number of occupied units, as required by the contract. Furthermore, Pinnacle failed to deduct for rent delinquencies of 60 days or more.

HACA staff responsible for analyzing monthly management fee vouchers knew of these discrepancies and raised questions about making adjustments to management fees for long-term vacancies and rent delinquencies. However, HACA did not adjust the management fees due the management agent. As a result, HACA paid excessive management fees of $12,747 during our 3 month test period.

Dominium Management Services Additionally, we tested one of four properties managed by Dominium Management Services. We found that Dominium submitted management fee vouchers that included management fees for both occupied and vacant units. Dominium calculated the monthly management fees at $24 per occupied unit and $15 per vacant unit. The contract only provided for the payment of management fees for occupied units. According to HACA staff, an HACA official authorized the payment of $15 per vacant unit to the management agent, but did not revise the contract to reflect the verbal agreement. As a result, HACA paid excessive management fees of $7,473 during our 3 month test period.

H. J. Russell & Company and Lane Company We tested three of the seven properties managed by H. J. Russell and Lane Company. We found that Russell and Lane submitted vouchers with minor differences in the calculation of management fees. These variances resulted from small differences in the number of occupied dwelling unit used in the calculation for management fees and the agents' failure to deduct for rent delinquencies of 60 days or more. As a result, HACA paid excess management fees of $981 during our test period.

HACA REVIEW OF VOUCHERS

HACA staff responsible for analyzing monthly vouchers were aware of these differences, but did not follow contractual agreements between HACA and the management agents. HACA staff paid management agents for vacant units and units with rent delinquencies of 60 days or more, while the contracts did not provide for such payment. HACA, in its negotiations with the private management companies, had not anticipated the extent of modernization and site work needed prior to vacancies being prepared and occupied, fire damaged units requiring insurance settlement prior to rehabilitation and rental, units determined to be inhabitable and designated for demolition, and the lack of available funds in the current budget to bring units to "make ready" condition. The Deputy Executive Director for Housing Operations approved the payment of fees to the management companies considering the above conditions, but had not amended the management agreements to incorporate these changes.

As a result, HACA paid excessive management fees of $21,201 for the eight properties selected for review. Our review included the period April 1997 through June 1997. During our review, HACA officials initiated a complete review of all management fees paid and amended the management agreements.

AUDITEE COMMENTS

The Authority agreed that excessive management fees had been paid and was recouping the excess fees from Pinnacle, Lane, and Russell. HACA did not recover any funds from Dominium because the verbal agreement made by the Deputy Executive Director for Housing Operations allowed the fee. HACA amended the Dominium contracts to reflect the prior verbal agreement by HACA and amended all other management agent contracts to allow a fee for long-term vacancies in the future.

RECOMMENDATIONS

We recommend that you require HACA to:

4A. Calculate amounts due for the entire contract period. Also, verify that the appropriate amounts are recaptured including the $13,728 identified during this audit for Pinnacle, Lane, and Russell.

4B. Institute controls to ensure the personnel reviewing vouchers and authorizing payments allow only reimbursements according to contract requirements for each property under private management.

Finding 5

Policies Were Needed For Resident Board Members

The Authority provided special considerations to three residents who served on the Authority's Board of Commissioners. Authority officials made loans of $5,300 to or on behalf of one Resident Commissioner and one resident who later became a Commissioner. The Authority allowed another resident to enter a repayment agreement of $8,962 after it was discovered she had falsified eight annual income verification forms. The Authority forgave $15,052 of the outstanding $24,014 owed by this resident. HACA did not have policies and procedures to govern special assistance to residents or Board members. Consequently, a potential conflict of interest existed because the Resident Commissioners' ability to make clear, unbiased decisions in formulating and approving Authority policy had been compromised.

CRITERIA

Office of the Inspector General Program Integrity Bulletin for Public Housing Agency Commissioners states the Commissioners have ultimate responsibility for public housing agency operations including approving policies and procedures, and ensuring that the public housing agency acts legally and with integrity in its daily operations. It further states that HUD encourages the appointment of Resident Commissioners to solicit views and provide first hand information about needs and services. However, appointment of Resident Commissioners has raised conflict of interest questions. Resident Board members should be prohibited from receiving special considerations simply because they are public housing agency Commissioners. Special considerations that should be prohibited include rent reductions and nonpayment of late fees.

RESIDENT COMMISSIONERS APPOINTMENT

The Mayor of the City of Atlanta appoints two Resident Commissioners to serve 1 year terms along with the other five commissioners. HACA officials have no control over who the Mayor appoints to the Board of Commissioners. However, the Authority does provide the Mayor with a list of potential candidates to serve on the Board.

SPECIAL CONSIDERATIONS OF RESIDENT COMMISSIONERS

The first Commissioner served on the Board of Commissioners from May 6, 1996, through April 7, 1997. In July 1994, HUD informed the Authority that this resident was improperly reporting her income. The Authority investigated the matter and found the resident had committed the fraud. The resident worked in a position where she received the mail for her employer. When the Authority mailed the annual income verification forms, she falsified them with a lower income and forged her employer's signature. The Authority found the fraud dated back to 1983 and covered 8 different years. The Authority calculated that the resident owed $24,014 in retroactive rent. This computation did not include late payment penalties nor interest charges.

After the Authority's investigation in 1994, the matter was referred to their legal department for disposition. Authority officials stated that this matter did not receive proper attention due to other priorities. At that time, the current Executive Director had recently been appointed and the Authority was experiencing many transitional changes.

The matter did not resurface until February 1997 when the resident was serving on the Board of Commissioners. Authority officials believed the lack of action on their part had impacted their ability to collect all sums owed. Consequently, the Authority agreed to a repayment agreement for the rents owed within the statute of limitations (from 1992 to 1994) in the amount of $8,962 and forgave the remaining $15,052. The resident agreed to repay $25 per month. At this rate, the no interest debt will be paid in approximately 30 years.

Despite the lapse of time, the Authority did not follow the procedures detailed in the dwelling lease signed by the resident. Section 3 Part 10 of the lease defined retroactive rent and the repayment of retroactive rent as follows:

> "Retro-rent is money I pay if I have not paid enough. This will happen if I did not tell [HACA] everything I should have, if I did not tell [HACA] the truth... I will be allowed to pay the money back by first paying twenty-five percent (25%) of the total and a certain amount each month. I must sign a repayment agreement if [HACA] lets me do this. I understand that any such repayment agreement cannot exceed twelve (12) months."

Since entering into the repayment agreement, the resident has moved out of Public Housing, but she is still obligated to pay.

The second Commissioner served on the Board of Commissioners from April 7, 1997, to October 4, 1997. In August 1996, prior to her tenure on the Board, the Authority paid $2,000 for the funeral expenses of her son. The loan was made from unrestricted funds, which are not Federal dollars. Authority employees made personal donations to repay the loan. The loan was repaid in full in May 1997, after this resident was appointed to the Board.

The third Commissioner served on the Board of Commissioners from January 2, 1996, through April 7, 1997. The resident received a $1,200 loan in April 1996 during her tenure on the Board. Authority officials stated the resident asked for the loan due to an emergency medical condition. The Resident Commissioner repaid the no interest loan during the following 7 months. The Resident Commissioner died in April 1997. The Authority made a $2,100 loan to the family on her behalf to pay for her funeral expenses. Authority employees made personal donations to repay the loan. Both loans were made from unrestricted funds, which are not Federal dollars.

Authority officials stated that the loans for funeral and medical expenses were not meant to influence these Commissioners' decision making ability. Rather, the Authority officials responded to a need of individuals who had no other way to pay these costs.

RESIDENT COMMISSIONERS WERE COMPROMISED

These instances were special considerations not offered to all residents of the Authority. Because each of these residents held a position on the Board of Commissioners, they had the authority and responsibility to approve Authority policies and procedures, and ensure that the Authority acted with integrity in its daily operations. A potential conflict of interest existed because the Resident Commissioners' ability to make clear, unbiased decisions in formulating and approving Authority policy had been compromised. However, we found no evidence that the special considerations offered these Resident Commissioners resulted in any inappropriate actions by the Board.

POLICIES NEEDED TO GOVERN SPECIAL CONSIDERATIONS

The Authority did not have policies to govern special considerations made to residents and specifically to Resident Commissioners. The Executive Director stated she made a decision to help these people because of their length of service to their community and their need for help. The Executive Director stated she did not consider how the assistance would be perceived and vowed no similar action will be made in the future because of the perception.

AUDITEE COMMENTS

Generally, the Authority agreed with the facts of the finding, but disagreed with its wording and presentation.

- The Authority stated it did not intend to influence anyone and did not believe the Resident Commissioners were compromised. In the case of the second and third resident, HACA responded to extraordinary requests for assistance that were emergency in nature. However, HACA officials admitted that there could be an appearance of conflict of interest and had taken steps to assure similar instances are not repeated.

- The Authority stated the funeral expenses were contributions not loans made by Senior Staff and Board members. Because of the emergency nature of the situation, HACA paid the funeral cost from the Unrestricted Fund, which was reimbursed by the contributions.

OIG EVALUATION

Although the Authority may not have intended to influence the residents, their ability to make unbiased decisions had been affected.

The funeral expenses were loans because the funds were advanced from an account controlled by HACA that had to be repaid.

RECOMMENDATIONS

We recommend that you require HACA to:

5A. Adopt a policy regarding special considerations to resident Board members to avoid the appearance of a conflict of interest.

5B. Adopt a policy for making recommendations to the Mayor for prospective Board members.

5C. Provide training to resident Board members on their responsibilities and duties when serving on the Board.

5D. Develop other avenues of assistance independent of the Authority's operations to address emergency requests for assistance.

Internal Controls

In planning and performing our audit, we considered HACA's internal controls in order to determine auditing procedures and not to provide assurances on internal controls. Internal control is the process in which an entity obtains reasonable assurance as to achievement of specified objectives. Internal controls consist of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

We determined that the following internal control categories were relevant to our audit objectives:

- Procurement and contracting
- Reliability of financial systems and reporting
- Payroll
- Private management company fees
- Special considerations to Board members

We assessed these relevant controls. To the extent possible, we obtained an understanding of the Authority's procedures and HUD requirements, assessed control risk, and performed various substantives tests of the controls.

A significant weakness exists if internal controls do not give reasonable assurance that the entity's goals and objectives are met; resource use is consistent with the laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, significant weaknesses existed in the internal controls we tested as discussed in the findings.

Follow-up on Prior Audits

Our prior audit report (94-AT-201-1012) dated March 11, 1994, identified 10 findings in HACA's operation of its Low-Income Housing Program. All findings were cleared.

Our Assessment Review Report (97-AT-201-1814) dated August 8, 1997, provided an evaluation of the Authority's progress in correcting long standing problems and improving management performance related to the Authority's responsibility for providing decent, safe, and sanitary housing. The review disclosed HACA had made progress in improving its operations, but further improvement was needed. The report did not contain findings controlled by HUD.

Also, the independent auditor, Grant Thornton, LLP, issued the financial statement audit report for fiscal year 1996 on July 9, 1997. The audit contained 35 findings related to poor financial management. The report disclosed deficiencies in the Authority's operations that relate to the findings of this report. Specifically, HACA:

- Did not file timely reports or filed inaccurate reports to HUD.
- Could not readily locate supporting documentation for various grant expenditures.
- Did not record all revenue and expenditures in the proper fund.
- Could not locate documentation to support its original subsidy calculation.
- Submitted an invoice to HUD for reimbursement twice for 2 of 38 items.
- Did not disburse grant funds within the required 3 days of receipt for 2 of 38 items.
- Did not obtain proper approval for expenditures for 1 of 38 items.
- Did not sign a Notice to Proceed for 3 of 38 items.
- Did not hold pre-construction conferences to discuss contract requirements for 8 of 38 items.
- Did not obtain HUD approval for procurement actions with only 1 bid or proposal for 3 of 38 items.
- Made final payment with no indication of construction completion for 2 of 38 item.
- Did not document bid advertisement, solicitation, bid evaluation, or performance evaluation for 1 of 38 items.
- Did not perform warranty inspections before paying contractors for 6 of 38 items.
- Paid one contractor under 3 contracts after being deemed non-responsive for 3 of 29 items.
- Did not check the contractor's name against the "List of Parties Excluded from Federal Procurements or Non-Procurement Programs" for all items tested.

- Could not properly support a reimbursement request for 1 of 38 items.
- Could not support its salary allocation.
- Could not locate the tenants accounts receivable detail.
- Did not conduct periodic reviews of contractors for compliance with the Davis Bacon Act.
- Did not reconcile the fixed assets records to the general ledger fixed asset accounts detail.
- Did not review or reconcile many general ledger accounts during the year.
- Posted unbalanced entries because of poor controls in its computer software.
- Could not provide complete supporting documentation for 12 of 99 transactions tested.
- Reported utility consumption used different from that on their compilation worksheet.

Appendices

Appendix A

HACA PROCUREMENT AND CONTRACT ADMINISTRATION DEFICIENCIES

Contract Number	Vendor Name	Contract Date	Contract Amount	Unsupported Amount Paid as of 12/31/97	Deficiencies
N/A	City of Atlanta - APD	04/06/93	$4,585,000		2
N/A	TIPA - Centennial Place	09/28/94	$1,635,000		2,11,13,14
	Amendment 1	05/06/95	$346,600		6,14,15
	Amendment 2	12/01/96	$664,742		9,16
N/A	TIPA - Partnership	03/01/95	$1,275,000		11,14
N/A	TIPA - Hope/Eagen/E. Lake	02/19/96	$1,275,000		11,14
	Amendment 1	12/01/96	$2,074,732		9
96-086	Draper and Associates	07/17/96	$13,750		4,10,11
	Modification 1	12/11/96	$86,010		6,7
	Modification 2	03/21/97	$266,847		6,7
	Modification 3	08/01/97	$480,000		6,7
96-005	The Alisias Group	02/12/96	$98,000	$27,506	1,2,3,4,10,11,12,13
	Modification 1	03/28/97	$17,420	$17,420	2,6,7,8
96-069	The Alisias Group	07/01/96	$90,000	$90,000	1,2,3,4,10,11
	Option Year	07/01/97	$90,000	$15,000	2
97-171	Ben Hill Roofing	03/14/97	$128,000		See Note 1
97-227	CVR Associates, Inc.	06/23/97	$98,150		4,10,11
97-193	Sparta Consulting	04/28/97	$93,977		3,4,10,11,12,13
	Modification 1	07/06/97	$10,000		6
97-209	JHC Corporation	06/11/97	$101,000		
	Modification 1	07/24/97	$1,386		
96-075	John Matthews, CPA	06/17/96	$75,000		3,4,5,10,11,13
98-270	Duckett & Associates	10/01/97	$128,705		3,4,10
97-238	Grasp Enterprises	10/01/97	$117,339		10
Totals			$13,751,658	$149,926	

Note 1: HACA could not locate the contract file during our review, but did locate the file after we completed our site work. Consequently, we did not review this file in our sample.

TIPA PROCUREMENT AND CONTRACT ADMINISTRATION DEFICIENCIES

Contract Number	Vendor Name	Contract Date	Contract Amount	Ineligible Amount Paid as of 12/31/97	Unsupported Amount Paid as of 12/31/97	Deficiencies
TIPA	DPC General Contractors	06/12/96	$935,000			10
	Modification 1	05/16/97	$13,394			6
	Modification 2	07/18/97	$40,744			6
TIPA	DPC General Contractors	06/23/96	$272,740		$272,740	10,11
TIPA	The Alisias Group	07/01/96	$90,000	$90,000		3,10,11,16
	Amendment 1	09/24/96	$25,620			6
	Amendment 2	10/15/96	$12,900			6
	Amendment 3	06/01/97	$90,000	$16,286		6,16
TIPA	Flournoy Construction	03/28/96	$453,000			10,11
	Modification 1	05/01/96	$7,708			6
	Modification 2	07/26/96	$44,342			6
	Modification 3	05/15/97	$75,011			6
TIPA	D.H. Griffin Wrecking	05/17/96	$95,791		$95,791	10,11
Totals			$2,156,250	$106,286	$368,531	

Note 2: The total unsupported amount from HACA and TIPA deficiencies is $518,457. The total ineligible amount is $106,286.

DEFICIENCY EXPLANATIONS:

Deficient Contract Administration

1 - Deliverables not provided by the contractor.
2 - Payments not properly supported.

Solicitation Deficiencies

3 - No evidence that request for proposal was advertised.
4 - Insufficient time for vendors to respond to requests for proposals.
5 - Inadequate Statement of Work.

Improper Contract Modifications

6 - No cost analysis.
7 - New procurement not completed for substantial change in the scope of work.
8 - Modification made after payment.
9 - Amendments not properly approved by the Board.

Inadequate Procurement Records

10 - Rationale for method of procurement and selection of contract type not documented.
11 - No independent cost estimate and/or no cost or price analysis.
12 - Contract file did not contain other bids.
13 - Evaluations did not adequately document the basis for selection or price.
14 - Profit not negotiated as a separate element of price

Prohibited Contract Terms

15 - Prohibited percentage-of-cost method of compensation used.
16 - Contract or its amendment included duplicate services.

Appendix B

Schedule of Ineligible and Unsupported Costs

Recommendation	Amounts Unsupported[5]	Amounts Ineligible[6]
1A	$518,457	$ 106,286
2A		572,966
2B		2,142,487
3A		56,611
4A		13,728
Totals	$518,457	$2,892,078

[5] Unsupported costs are being contested for reasons such as lack of satisfactory documentation.

[6] Costs not allowable by law, contract, HUD or local agency policies or regulations.

Appendix C

Auditee Comments

THE HOUSING AUTHORITY OF THE CITY OF
ATLANTA, GEORGIA

RESPONSE TO

OFFICE OF INSPECTOR GENERAL

DRAFT AUDIT FINDINGS
(DATED MARCH 3, 1998)

MARCH 20, 1998

Response to Finding Number I
The Authority Needed to Improve the Procurement Function

The Housing Authority of the City of Atlanta, Georgia's (AHA) Response to Finding Number I is separated into two parts. Part I includes a contextual overview of the AHA and its strategic development program and responses and recommendations to particular items raised in the Inspector General's Draft Audit Report. Part 11 of this Response identifies outstanding documents related to the deficiencies listed in Appendix I that will be forwarded to the Inspector General's Office.

Part I

A. Overview

In the Scope of Review of Finding Number 1, the Inspector General Office Audit Team (Audit Team) acknowledged that the audit review was limited to contracts procured under the current AHA administration. Although we acknowledge the necessity for auditors to set a bright line date for purposes of conducting an audit, it is unrealistic to expect that problems institutionalized over 30 years could be remedied instantaneously. This type of bright line test does not recognize the myriad of systemic and fundamental problems that plagued the AHA when the new administration began in September 1994. These problems were apparent in every facet of the most fundamental day-to-day operations of the Agency. Every division within the AHA lacked the capacity to perform its most basic functions.

In September 1994, AHA was dysfunctional as a provider of decent, safe and affordable housing with problems so deeply rooted that the much needed improvements were strategically phased to support long term resolution and sustainability. The new Executive Director's first commitment to improve AHA began with the delivery of services to AHA's residents. The wisdom of this strategy is demonstrated by the significant improvement that AHA has achieved over the past three years in its operations. The creation of a Development Division and improvements to the infrastructure in the Design and Construction Management Division and Finance Division were a part of the overall improvement strategy.

The Contracts and Procurement Department is the last department to undergo a strategic plan to improve both the capacity of the staff as well as the execution of the procurement and contracting functions in accordance with 24 CFR Section 85.36. A significant component necessary to understanding many of the deficiencies cited by the Audit Team is the timing of the audit. The audit began just as the Contracts and Procurement Department began its metamorphosis from a barely functioning department to what AHA believes will be a high performing department delivering excellent services.

It is within this context that the Audit Team should begin its assessment of AHA's procurement of The Integral Partnership of Atlanta, The Alisias Group, and Draper and Associates. Each of these contractors has provided strategic services and, as acknowledged by HUD and the Audit Team, true value to AHA. It is AHA's Senior Management's belief that the value, in each case, exceeded substantially the cost paid under each contract.

Concurrently with beginning the process to correct the plethora of problems plaguing AHA's day-to-day operations, AHA Senior Management determined that its dilapidated and aging housing stock must be repositioned in order for AHA to be a viable, self-sustaining provider of affordable housing. This need to reposition the housing stock gave rise to AHA's nationally acclaimed Olympic Legacy Program. The cornerstone of the Olympic Legacy Program is developing mixed-income communities and leveraging AHA's federal funds through strategic partnerships with experienced private sector developers and other partners. AHA and TIPA developed the legal and financial model necessary to create the first mixed-income, mixed-finance community, Centennial Place at the Village of Techwood. At the time the Olympic Legacy Program initiative began, the mixed-finance concept was not included among HUD's accepted development methods. The mixed-finance development method codified in the Code of Federal Regulations in May 1996 did not exist at the inception of the development program in September 1994. In fact, the regulations developed in 1996 are in all significant respects a codification of the process AHA and HUD used to develop the legal and financial model for mixed-income, mixed-finance developments.

Similarly, there were no existing rules or regulations to follow describing the proper procurement of a Program Manager/ Developer and the services and activities supporting this function. In fact, the concept of a "program manager" was foreign to HUD. AHA relied on the business judgement of its Senior Staff in developing the program, without rules and or guidance from HUD. The exigency of the circumstances surrounding AHA's need to develop a program to reposition its housing stock and to obligate funds to avoid recapture by HUD required AHA and TIPA to develop the program using its best business judgment. Clearly, the general acceptance of the mixed-income, mixed-finance development method by HUD, other housing authorities, lenders and developers provides proof that the innovative plan was sound. Neither AHA nor TIPA should be penalized for business decisions that, at the time and under the unique circumstances, seemed to be the appropriate path. Such "hindsight" enforcement of the procurement contract administration rules and regulations will result in a chilling effect on the development of innovative, groundbreaking programs, like the Olympic Legacy Program.

B. Responses and Recommendations

1. AHA has taken the following steps to improve contract administration.

In March 1998, AHA completed the programming and training on its computer system's new software module, Contract Administration and Grant Management. The software contains checks and balances consistent with contract administration compliance requirements according to 24 CFR Section 85.36. The Finance, Design and Construction Management, and Contracts and Procurement departments were recently reorganized. Team members from each department participated in the compilation of the new software system to ensure compliance in all areas of contract administration were addressed. In addition, the system and the training were designed to enforce accountability and compliance. Designated personnel from every department are going to participate in internal procurement and contract administration certification training to ensure compliance with policy and procedures. Periodic audits will be conducted.

The Alisias Group.
AHA agrees that the contract with The Alisias Group needed to be amended and restated because the needs of AHA changed dramatically during the initial 180-day term of the Agreement. The contract commenced on February 12, 1996.

The Olympics were coming within 180 days, commencing July 1996. The high level of interest in public housing from the international press was overwhelming. The tragic death of the child at Perry Homes in May 1996 created an environment and a heightened interest by the press in the operations of the housing authority that could not have been anticipated. The Alisias Group managed these two events in addition to the other day-to-day needs of AHA in an outstanding fashion.

AHA disagrees that deliverables were not generated and provided by The Alisias Group. In fact, The Alisias Group performed services over and above the level of what was required under the contract. The items referred to in this Finding as deliverables in each case were met or exceeded. The deliverables, however, are better characterized as goals and outcomes, and the amended and restated agreement will characterize those items as such. An assessment of the goals and outcomes follows: (1) communications (both internal and external) have substantially improved; (2) the image of AHA locally, regionally and nationally has improved and, in fact, AHA is recognized as the national model for transforming public housing; (3) AHA is much better positioned to manage major events and crises; and (4) AHA has improved considerably its ability to disseminate short and long-term information within and outside of AHA. Although the contract and procurement files relating to The Alisias Group were not in good order, there is no question that The Alisias Group added substantial value to AHA and as stated above, assisted AHA in accomplishing the goals and outcomes contemplated by the Request for Proposal and related contract.

The problems experienced with The Alisias Group procurement will be addressed as part of the broader strategy being implemented to address the contracting and procurement procedures of AHA.

Recommendations

It is recommended AHA implement new policy and procedures on contract administration consistent with 24 CFR Section 85.36. A-HA wide training should be conducted on HUD regulations and operating procedures. Period audits should be conducted. AHA should implement its Contract Administration and Grant Management Module on its computer system as discussed above.

2. AHA has taken the following steps to ensure that competition will not be limited.

In preparation for the September 30, 1998 Federal Fiscal Year End, AHA conducted its first grant management planning committee meeting in March 1998. The purpose of the meeting is to plan all future procurements and to produce a procurement schedule setting forth obligation deadlines and to allow sufficient time for proper solicitation and response time. The planning committee meeting also allows for the continued communication of procurement rules according to AHA's newly established policy and procedures.

AHA is implementing the use of a questionnaire when defining the scope of work for all contracts solicited in the future to ensure the most comprehensive scope of work possible is created to reduce the number of bidders/proposers questions. Additionally, AHA has implemented procedures to ensure all bidders/proposers questions are answered in a timely manner prior to the selection of the vendor and the award of the contract. AHA has purchased and installed enclosed bulletin boards in each of its administrative offices lobbies to post solicitations and has put procedures in place to ensure that all solicitations that must be advertised are advertised.

Duckett and Associates.

Under 24 CFR Section 85.36(d)(1), AHA is not required to advertise solicitations where the cost estimate prepared at the time the solicitation is released renders the contract price less than $1 00,000. The cost estimate prepared for the Duckett and Associates Contract at the time that the solicitation was released was $85,000. In cases where the cost estimate is less than $100,000 AHA solicits bids from a selected list of vendors, in accordance with the federal procurement rules. Although the contract was later amended to include services that increased the initial price, this situation indicates that the cost estimate was low, not that AHA attempted to limit competition.

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Recommendation:

It is recommended AHA communicate procurement procedures to all departments and implement the use of a planning committee to allow adequate time to properly solicit all procurements and meet federal fiscal year end obligation requirement in a timely manner. It is also recommended AHA implement procedures to ensure that in the future the scope of work is properly drafted and as definitive as possible. In addition, AHA will ensure that all bidders/proposers questions are answered prior to selection of vendor and award of contract. AHA should post solicitations and advertise solicitations as appropriate.

3. AHA has taken the following steps to ensure that contracts will not be improperly modified.

In response to the 1997 HUD MOD Review and in addition to the technical assistance received during the Inspector General's Audit concerning proper contract modification regulations, AHA has trained its staff and implemented new procedures.

In addition, AHA has requested and received cost estimate and price analysis training from local HUD officials. AHA is implementing procedures and a training program on proper contract administration for its Program Managers.

Draper and Associates. Modification of Asset Management Agreement

The initial scope of work set forth in the Request for Proposal 96-079 and the related agreement ("Program Management Agreement") were broad. During the term of the Program Management Agreement, AHA experienced substantial changes in situations which created the need for greater support from Draper and Associates on an emergency basis. The Executive Director, with concurrence from the Board of Commissioners, made a business decision to move forth with the expanded responsibilities and tasks with Draper and Associates under a modified Program Management Agreement.

The business decision to modify the Program Management Agreement added substantial value to AHA's modernization program. The DCM Division, under Draper's supervision, timely obligated CGP funds, closed out long standing litigation, reorganized and developed standardized procurement and project management procedures. Clearly, AHA's recent designation as a standard mod performer would not have been possible without the outstanding services provided under this Agreement and subsequent modifications. During the period of the Modified Contract, Draper assisted the AHA in resolving long standing contract claims and disputes, saving AHA millions of dollars.

It should be noted that members of HUD's Confirmatory Review Team during the exit conference on November 25, 1998, acknowledged that many of the procedures and methods being used by AHA and Draper constituted "best practices" that should be made known to other housing authorities.

AHA acknowledges that completing a new procurement of a DCM Program Manager is the preferred method for compliance under the Contract and Procurement guidelines. To this end, AHA has released a RFP for Program Manager Services and expects this process to be completed in April with a new contract awarded no later than May 30, 1998.

Board Approval before amending TIPA Contracts. AHA obtained all required approvals from the AHA Board of Commissioners prior to entering into any contract, or amendment thereto, with The Integral Partnership of Atlanta. Specifically, the finding questioned whether AHA had obtained Board of Commissioner approval prior to entering into Amendment No. 2 to the Agreement for Master Planning and Management. This amendment was executed on July 2, 1997 and has an effective date of December 1, 1996. The Board of Commissioners approved this amendment at its meeting on May 27, 1997. The resolution approved by the Board of Commissioners specifically contemplated that the amendment would be effective as of December 1, 1996.

Recommendation:

It is recommended AHA train staff on proper contract modification regulations, cost estimate and price analysis and implement a program for proper contract administration by its Program Managers.

4. AHA has taken the following steps to assure that it will maintain adequate procurement records.

Concurrently with procurements, AHA will document its files to show profit negotiated separately as required by 24 CFR Section 85.36. AHA will also provide greater detail in fee negotiation memoranda to ensure that the negotiations are accurately documented.

TIPA Contracts.

AHA did negotiate profit as a separate element to the TIPA contracts but initially failed to document its files. The file has been documented to identify the amount of profit earned by TIPA. The finding also raised a question regarding apparent inconsistencies between the Fee Negotiation

Memorandum and the final contract price. AHA has also documented the file to explain the apparent discrepancy.

Recommendation:

AHA should develop and implement the use of a checklist reflective of the 24 CFR Section 85.36 procurement records requirements for the compilation and required contents of each procurement file. File maintenance should be performed on all contracts under operating programs with activity during the most recent fiscal audit period. All future procurement files should be compiled in accordance with the checklist and the responsibility of the files' condition should be incorporated into the evaluated job responsibilities of the appropriate procurement personnel.

5. AHA has taken the following steps to ensure that prohibited contract terms are not used.

AHA's procurement and legal departments have compiled standardized forms of contract and procedures for the execution of a contract. As part of the AHA's authority-wide procurement training, proper contracting terms will be reinforced in compliance with 24 CFR Section 85.36.

TIPA Contracts.

AHA did pay TIPA $131,272 using the percentage of construction method for construction management services prior to appreciating that such method was not permitted by regulation. Amendment No. 1 to the Agreement for Master Planning and Management Services provided that TIPA would be paid a fee for construction management services in an amount equal to 2.5% of the cost of the actual work being managed. AHA eliminated all percentage of cost provisions through contract amendments and set fixed fees for such services.

The Alisias Group.

The Audit Team concludes that the AHA/Alisias Contract 96-069 and the TIPA Alisias Contract included duplicative services. In fact, the AHA/Alisias Contract only applies to non-Olympic Legacy Program issues. The TIPA/Alisias Contract specifically addresses issues related to the Olympic Legacy Program. AHA will ensure in the amended and Restated Contract Number 95-005, and in the modification to Contract 96-069, that this distinction is clearly captured.

Recommendation:

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It is recommended AHA standardize their contracts to ensure prohibitive terms are not used. Appropriate personnel should be trained on 24 CFR Section 85.36.

Part II - AHA's Response to Appendix 1

This section of the Response to Finding Number I addresses the deficiencies set forth in the chart in *Appendix I - Procurement and Contract Administration Deficiencies.* Although, AHA has previously responded to each deficiency listed in the Chart, the following deficiencies remain outstanding:

The Alisias Group (Contract 96-006, Contract 96-009, TIPA Contract)
DPC General Contractors (Olympic Parking Revenue only)
DH Griffin (Olympic Parking Revenue only)

AHA will supplement this Response and forward additional documents to the Inspector General's Office as such documents are completed.

Response to Finding Number 2
The Authority Needed to Improve Financial Controls

AHA's Poor Cash Controls

Interfund Loans Used - As noted in Finding Number 2, AHA has reconciled the interfund accounts. AHA is finalizing the interfund balances for the period ending June 30, 1997 pending the completion of the IPA audit for FY97. Once all entries have been completed and the current FY books are updated to reflect all activity to date, it is AHA's intention to close out interfund balances by either repayment or journal voucher offset to consolidate and payoff. AHA is aware of it's option to repay HUD by lowering it's FY99 subsidy by the final interfund balance with the Unrestricted Funds, however, AHA wishes to seek other alternatives to fulfill it's obligation to repay the interfund balances.

Recommendation: It is recommended AHA complete the FY97 audit, update the current year's interfund balances and close out interfund balances between restricted and unrestricted funds.

Federal Funds Deposited into Non-Federal Account - AHA has implemented a new system for non-rent deposits effective March 1, 1998. This system lists all routinely received deposits by month and is maintained by the Controller and used by the Accounting Clerk responsible for making deposits. The deposit log clearly lists what bank account the deposit is to be made to and what general ledger accounts to use to journalize the transaction. Any receipts that are not received and not contained on the log are to be brought to management's attention so they may be properly deposited and journalized, thereby ensuring the depositing of federal funds into non-federal accounts does not re-occur in the future. In addition, the Finance Department's Audit Liaison will test and audit monthly non-rent deposits to ensure procedures are being followed as implemented.

Recommendation: It is recommended AHA implement the use of a deposit register and for management to verify accuracy of the destination and accountability of all non-rent deposits. Routine internal audits of the deposits should be conducted to ensure federal funds are handled appropriately and according to regulations.

Underfunded Tenant Security Deposit Account - Due to the volume of activity in the Tenant Security liability account, based upon the number of relocations and routine unit turnovers, it was found that a monthly adjustment to the Tenant Security Deposit Account was not sufficient. Alternative means of meeting the State requirement were sought and hence the Authority has purchased a Security Deposit Bond as permitted by the State to fulfill its obligation. The Authority is currently and will remain in compliance with HUD and the State in regard to the Tenant Security Deposit Account without the need for monthly adjustments to the liability account.

Recommendation: It is recommended AHA comply with HUD laws, rules and regulations and with State laws concerning Tenant Security Deposits.

Investment Accounts Were Low - AHA is correcting it's position regarding investments and anticipates being the position to invest the amount of it's operating reserves in late 1998.

Recommendation: It is recommended AHA implement a financial plan to increase its investment accounts inline with its operating reserves.

Poor Condition of Books and Records

AHA Reported Inadequate Low Rent Operating Reserves - AHA agrees the condition of the books and records were poor, however AHA would also like to clarify that it reported financial data for 1996 and 1997 to the best of it's ability at the time due to time constraints otherwise necessary to the completion of a detailed analysis.

AHA hence has completed the analysis of the various accounts and verified the accurate roll forward of the fimd balance and other critical balance sheet accounts. AHA is in the process of finalizing its FY97 IPA audit which will be reflective of the appropriate adjustments.

AHA would like to bring further attention to the operating reserves. As shown by the Inspector General, over the last three years the operating reserves have dropped approximately $4.6 million. It is very important to note that this decline is primarily attributable to the (a) reduction in operating subsidy for units that are both approved for demolition and/or disposition and vacated; and (b) reduction in operating subsidy generally as a result of actions by Congress. As a part of its long-term strategic plan, AHA is repositioning its housing stock to become market competitive and long term sustainable and viable. AHA is demolishing approximately 40% of its housing stock, and rebuilding the communities utilizing several strategies including: (a) mixed-income communities and public/private partnerships; (b) density reduction; (c) dispersal of apartments throughout metro-Atlanta; and (d) homeownership. AHA's long-term strategic plan is consistent with the Clinton Administration's and HUD's plans to demolish 100,000 of the most distressed public housing units and rebuild mixed income, long term sustainable communities that fit well into the local environment. The AHA is not downsizing its housing stock, but repositioning it, and is being fiscally penalized in the short-term for implementing a repositioning strategy. HUD's subsidy rules and regulations do not currently support the Clinton Administration's and HUD's current policies because HUD's rules and regulations regarding operating subsidy have not been updated. This subsidy issue is being confronted by public housing authorities across the country which are implementing similar programs. Although there are short term financial impacts, the AHA believes that the long term benefits of developing market competitive housing will better serve the AHA, its residents and the City of Atlanta and State of Georgia. HUD attempted to provide a remedy through its transitional subsidy rules. The transitional subsidy formula, which does not take certain factors into account that are very critical to the longevity of an agency, does not provide sufficient funds for the AHA or any public housing authority to sustain operations during the repositioning period. AHA is in the process of preparing a request to HUD for additional funding to supplement its operating subsidy to a level prior to implementing its repositioning strategy.

Inaccurate Fiscal Year 1997 Financial Reports - AHA would like to clarify that the report submitted to HUD for the year ending June 3 0, 1 997 and submitted on the due date 45 days after the fiscal year end, was void of any detailed analysis. Subsequent to the preparation of the HUD financial statement and in preparation for the IPA audit, AHA completed a detailed analysis of it's balance sheet accounts and reported this data with a complete audit trail to the IPA auditors. AHA agrees there was a change in the assets and liabilities, both decreased. AHA made adjustments for a change in accounting treatment of its interfund accounts. The accounts were consolidated onto the receivables side of the interfund process thereby reducing both assets and liabilities.

Finally, AHA would like to comment on the meeting with the PHMAP Confirmatory Team and note that although they stated general verification could not be completed due to the condition of the records, they did note publicly that they understood the circumstances and the time consuming tasks that lay ahead for AHA's Finance Department under the direction of its new Chief Financial Officer. They further stated they felt confident based upon AHA's methodical approach to verify and uproot all balances given adequate time, AHA would successfully achieve accurate books and records of account. Such reconciliations have been completed.

Housing Authority of the City of Atlanta

"Helping People Help Themselves" **(404) 892-4700**

Memo

To: Steve Nolan, Office of the Inspector General

From: Renee Lewis Glover

Subject: Responses to Audit Findings

Date: February 4, 1998

The Housing Authority of the City of Atlanta, Georgia (AHA) hereby submits the following responses to the Draft Audit Findings presented to the AHA in your letter dated January 13, 1998.

POLICIES NEEDED FOR RESIDENT BOARD MEMBERS

A. Retroactive Rent

With respect to the matter involving retroactive-rent, the AHA did not act out of fear but on the basis that the statute of limitations had run and under the doctrine of "laches," the resident was legally entitled to have the amount reduced because the AHA probably would not have been able to collect the larger sum in Court. The AHA has been actively taking steps to collect the retroactive-rent amounts and the resident is current under the repayment agreement. AHA has incorporated a Retroactive Rent Policy in both the AIIA Lease and Admissions and Continued Occupancy Policy (ACOP).

B. Extraordinary Requests for Assistance

Your letter set forth three instances in which AHA Senior Staff and/or the Executive Director responded to requests for assistance from residents. In each case, the request was of an extraordinary nature.

With respect to the two separate amounts for the funeral expenses, those amounts were not loans but contributions by AHA Senior Staff members and Board members. Because of the emergency nature of the requests (typically a matter of days), the payment in each case was made through the AHA from the unrestricted fund account 'Me AHA funds were completely repaid. The payment was made. in each case in response to the need expressed by family members or

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residents in the community. There was no intent to influence anyone; the contributions were made to help families in distress.

In the case of the third Commissioner, the loan was made to this resident because of the emergency nature of the request. The resident, who had always been truthful with us, stated she was in unbearable pain and immediate oral surgery was needed to alleviate the pain. The Executive Director responded to this request, again with no intent to influence anything or anyone.

The AHA does not believe that the Resident Commissioners were compromised. With the benefit of 20/20 hindsight, the gestures of kindness may well have generated some goodwill, but there was no quid pro quo stated or expected.

In response to these findings, the Executive Director is making the following recommendations:

(1) The Board of Commissioners should formulate a Policy regarding these emergency situations so that there is no appearance of conflict of interest. Until such policy is formulated, the Executive Director has stated that neither she nor Senior Staff will personally respond to these requests and all such requests must be handled by the Audit Committee of the Board.

(2) Outreach will be made by the AHA's Resident Services Division to local Insurance companies to see if there is any technical assistance that can be provided to the resident groups to advise them regarding burial insurance and other similar matters.

(3) Resident Services will contact other agencies to provide emergency assistance away from the AHA.

THE AUTHORITY PAID EXCESS MANAGEMENT FEES

The management agreements between the AHA and various management companies effective April 1, 1996, did not provide for fees to be paid for "long term vacancies." The AHA staff did not anticipate extensive modernization efforts that would prevent vacant apartments being prepared for move-in within a 30-day period.

Due to exceptional conditions, i.e., fire damages at Jonesboro South, unplanned demolition of 62 units and modernization at McDaniel Glen and extensive modernization at Gilbert Gardens, the Deputy Executive Director for Housing Operations verbally approved the payment of management fees to Dominium Management for such long-term vacancies. The Asset Director during that period, Pat Luczaj, approved payments to Pinnacle Realty Management. The overpayment of fees to Lane Company and H. J. Russell Co. was minor (less than $2,000).

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During the Inspector General audit period, the Housing Operations management staff met with the respective management companies and agreed that the AHA had paid excess fees. The respective management companies and AHA also agreed to modify the respective property management agreements to reflect a fee for certain long-term vacancies.

The modification of the agreements was completed and signed by each affected private management company and the AHA in January 1998. (See Attachments). In addition, the current Asset Director for Housing Operations has communicated to Pinnacle Realty Management that the AHA will make deductions monthly from future fees, through June 1998, to recoup overpayment. (See Attachments). The adjustment to fees paid to Lane Company and H. J. Russell Company will be made from fees due in February 1998.

AHA Recommendation-The Management Agreements should be modified to allow for payment of fees for long-term vacant apartments under the agreed circumstances and any excess payment o should be offset against future fees through June 1998 to recapture any overpayment.

CONTROLS OVER PAYROLL WERE INADEQUATE

As a result of a recent reorganization of the Finance Department under Andrea Hartt, the AHA's Chief Financial Officer, AHA has completely reassessed its fiscal operations, processes and procedures. During the assessment, the AHA revealed all of the control deficiencies as identified by the Inspector General and immediately took action. AHA thoroughly investigated the source(s) of the problems, the errors created in prior attempts to account for payroll activity, cure the outstanding tax reporting requirements from prior years and to initiate a set of internal controls to ensure each payroll cycle and reporting period is completed with accuracy. Payroll duties, functions and procedures have been upgraded to ensure a sufficient separation of duties and an internal audit function has been added in the Finance Department to ensure all processes are completed accurately and according to procedure.

As of this date, AHA is in the final stages of bringing all of the outstanding issues, as notated in the finding, to closure to include a full analysis of the unrestricted fund, correcting all incorrect deposits made of Federal Funds in error due to miscommunications to prior subordinate personnel and ensuring that all penalty and/or interest that have not or will not be abated by the respective federal or state agency is correctly charged to the unrestricted fund. Copies of all of the appropriate documentation to confirm these corrections not previously submitted to the Office of Inspector General will be forwarded to that office once the remaining outstanding matters have been resolved.

AHA Recommendation -- AHA **should upgrade payroll duties, functions and procedures to ensure sufficient separation of duties and implement a Finance Department internal audit function to ensure all processes are completed accurately and according to procedure.**

cc: L. Cassell, A. Hartt, D. Packnett

Appendix D

Distribution

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Public Affairs Officer, G (Room 8256)
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Affairs, United States Senate, Washington, DC 20510-6250
The Honorable John Glenn, Ranking Member, Committee on Governmental
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