U.S. Department of Housing and Urban Development
Southwest District Office of Inspector General
1600 Throckmorton, Room 404
Post Office Box 2905
Fort Worth, Texas 76113-2905
(817)978-9309 FAX (817)978-9316
HTTP://WWW.HUD.GOV/OIG/OIGINDEX.HTML

January 2, 1998

98-FW-202-1806
1997-00881-01

MEMORANDUM FOR: Luz E. Solis Day, Director, Office of Public Housing, 6JPH

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

SUBJECT: Housing Authority of the City of Brownsville, TX
Comprehensive Grant Accounting, Procurement, Equipment Inventories, and Cost Allocation

Because of local newspaper articles indicating loss or theft of Authority-owned refrigerators, we conducted a limited review at the Housing Authority of Brownsville, Texas (Authority). Since the Authority used Comprehensive Grant funds to purchase the refrigerators, along with other appliances, equipment, paint, and construction materials, our review primarily focused on the Authority's ability to account for and safeguard such items. In addition, we also performed limited testing of the Authority's procurement practices and made inquiries regarding the Authority's method for allocating costs to its various HUD funded programs.

A five member Board of Commissioners governs the operations of the Authority's 1,040 Low-Rent units and 1,400 Section 8 units. The Mayor of the City of Brownsville, Texas, appoints the Board members. The Board is responsible for setting overall policy and hires an Executive Director to administer the day-to-day operations of the Authority within the Board's adopted policies. At the time of our review, the Board did not extend the employment contract of Ernesto Pena, its Executive Director. Also, subsequent to our review, the Mayor has appointed at least 3 new Board members. The Board is in process of hiring a new Executive Director. All references to the Executive Director in this memorandum refer to Mr. Pena.

During the period covered by our review, we noted the Authority was not in full compliance with HUD requirements for: (1) adequate safeguarding of its equipment and materials inventory; (2) proper accounting for use of Comprehensive Grant Program funds; (3) procurement of goods and services; and (4) allocation of costs attributable to more than one HUD-funded program. In addition, our review identified instances where Authority employees were used to conduct non-Authority business while being compensated with public funds.

Within 60 days please provide, for each recommendation made in this audit related memorandum: (1) the corrective action(s) taken; (2) the proposed corrective action(s) and date to be completed; or (3) why action is considered unnecessary. Also, please furnish copies of any correspondence or directives issued as a result of this review.

These findings and our recommendations are as follows:

1. Authority does not adequately safeguard equipment and materials

The Authority was not adequately safeguarding equipment and materials it purchased with Comprehensive Grant funds. The Housing Authority did not: (a) maintain a complete inventory of the materials and equipment it purchased or (b) perform periodic physical inventories. The Authority kept detail inventory records only for refrigerators, stoves, and water heaters. Further, the Authority did not restrict employee access to its storage areas, maintain logs or other records for issuance/use of construction materials, establish custodial responsibility for tools/equipment, or conduct periodic physical inventories to reconcile to its accounting records for these assets. Consequently, the Authority could not hold its staff accountable for proper use of or for any theft or loss of the equipment and materials.

HUD Regulations[1] require governmental recipients of HUD funds to have effective control and accountability for cash, real and personal property, and other assets. Further, HUD requires recipients to adequately safeguard all such property and assure that it is used solely for authorized purposes. HUD guidelines[2] for meeting these Regulatory requirements note that key internal controls include accurate inventory systems and security of property. The guidelines note that detailed written policies and procedures for internal control are essential for the smooth operation of the Authority. Such controls also ensure that all property and assets are safeguarded from unauthorized access. Appendix A of the guidelines states that equipment records must be maintained for nonexpendable equipment, which include the asset cost and sufficient description for identification of the equipment for purposes of the annual physical inventory.

In 1995 and 1996, Authority maintenance employees and others had keys and access to the warehouses where the Authority stored appliances and materials. The Authority also did not: (a) keep a log or other record for incoming or outgoing materials or (b) establish custodial receipts from employees for tools and equipment assigned to or within their control. The Authority also did not take annual physical inventory of its appliances, tools, equipment, and building materials. Thus, the Authority did not have adequate records and controls to safeguard its assets against loss or theft.

The Authority's Finance Director noted that the Authority conducted its last physical inventory of assets in 1992, but did not reconcile the count with Authority accounting records. The Authority's Procurement Clerk stated that she did an annual inventory of equipment and materials up to December 1994, but it was discontinued under the current Executive Director. However, at the request of the Deputy Executive Director, she did an inventory of materials at the main warehouse in 1996, but did not include other locations where the Authority had stored

---

[1] Standards for financial management systems (24 CFR 85.20).

[2] Public and Indian Housing Low-Rent Technical Accounting Guide, 7510.1, May 1996.

materials. In addition, the Authority inventoried its appliances in June 1996 and found that six refrigerators were missing from the warehouse where Authority records indicated they were stored.

Since the Authority did not restrict access to the storage areas, the Authority had no basis for holding any specific employee responsible for the loss or theft of the refrigerators. After the Authority discovered the missing refrigerators, the Authority limited access to the main warehouse where appliances are stored to only two employees.

Authority accounting records showed that the Authority expended $307,339 from its 1992 through 1994 Comprehensive Grant funds for equipment. We judgmentally selected 15 items totaling $68,689 (22 percent of total) consisting of: (a) vehicles acquired with 1992 and 1994 Grants; (b) computers acquired with the 1993 Grant; and (c) a backhoe, riding mower, trencher, and table saws acquired with the 1994 Grant.

Although we located all 15 of these items, the Authority's lack of inventory controls or periodic physical counts for its tools, equipment, and building materials provides no assurance that equipment and tools have not been lost or stolen.

Further, in the absence of such controls, the Authority is not in a position to detect such loss or theft, especially small tools and building materials, which do not have serial numbers and could disapper without notice. Even if the Authority detected missing tools and equipment, the lack of custodial control for these items precludes the Authority from holding any specific employee responsible. Also, as more fully described in finding 2, the Authority's lack of adequate records for the scope and location of modernization work does not provide a basis for safeguarding construction materials from excessive waste, theft, or loss.

Recommendations:

We recommend you require the Authority to enhance its internal controls over inventory by:

1A. Preparing detail equipment inventory records with sufficient description for identification of the equipment for purposes of physical inventory;

1B. Establishing a system for control of materials, supplies, and appliances, a reasonable dollar threshold for (a) secure storage with limited access and (b) appropriate records for requisitioning and showing location for installation/use of these items;

1C. Implementing a system requiring custodial receipts, at a reasonable dollar threshold, for equipment within the control of specific employees or supervisors showing they accept responsibility for providing reasonable safeguards against loss or theft; and

1D. Conducting a physical inventory of all tools, equipment, and materials within the established dollar thresholds, reconciling the physical count to detailed inventory records, and the conduct of annual physical inventories thereafter.

2. Authority cannot support accuracy of Comprehensive Grant Program expenditures

The Authority uses the force account[3] method for modernizing its units with Comprehensive Grant funds. Consequently, it incurs costs for labor and materials for each grant funding year. However, the Authority did not maintain adequate, accurate, or complete records to identify the scope of work being performed and the units being modernized. Therefore, the Authority and HUD has no assurance that the Authority: (a) is adequately accounting for Comprehensive Grant Program costs; (b) properly allocating costs to the appropriate Grant; and (c) is ensuring that staff are held accountable for excessive loss or the theft of construction material.

The Authority and HUD records show the following Comprehensive Grant Program activity for its 1992 through 1996 Grants:

	Funds Approved	Funds Expended
1992	$ 1,560,015	$ 1,560,015
1993	1,741,958	1,741,958
1994	1,793,020	1,570,763
1995	1,720,678	1,332,357
1996	1,432,818	354,822
Totals	$ 8,248,489	$ 6,559,915

HUD requirements for the Program are set forth in 24 CFR 968 and HUD Guidebook 7485.3G, "The Comprehensive Grant Program Guidebook." Appendix 1-6 of the Guidebook states the Authority shall comply with HUD's uniform administrative requirements.[4] The applicable uniform administrative requirements provide that:

- Costs charged to the program be in accordance with Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments;"
- The Authority's financial management system permit: (a) adequate identification of the source and application of funds, (b) appropriate budgetary control of expenditures, and (c) complete, accurate, and current disclosure of the financial results of reported Grant activities.

Under the Comprehensive Grant Program, housing authorities obtain HUD approval for a rolling 5-year comprehensive modernization plan. Housing authorities also submit an Annual Statement setting forth the planned scope of work for the coming funding year and an annual Performance and Evaluation Report for ongoing Grants. HUD generally allows housing authorities to replace planned work in their Annual Statement with other work included in the approved 5-year plan without obtaining HUD approval.[5] However, Paragraph 6-10 of the Guidebook states the housing authority shall have a system in place to record/control all revisions to and all financial obligations against the approved Annual Statement, regardless of whether prior HUD approval is required. Further, the authority shall advise HUD of all revisions, which

[3] A Public Housing Authority's use of labor employed directly by the Authority (24 CFR 968.105).

[4] HUD's uniform requirements are located at 24 CFR 85.

[5] Chapters 4 and 6, HUD Guidebook 7485.3.

occurred throughout the program year where no prior HUD approval was required, in the annual Performance and Evaluation Report. Paragraph 10-10 of the Guidebook requires housing authorities to submit an Actual Modernization Cost Certificate and Final Report upon completion of the activities funded by each annual Grant.

OMB Circular A-87 requires costs to be necessary and reasonable for proper and efficient performance and administration of a Federal Grant. Further, the Circular states costs are allocable to a Grant to the extent of relative benefit to the Grant. The Circular requires all costs allocated to Grants be adequately documented. The Annual Contributions Contract between HUD and the Housing Authority requires the Authority to maintain complete and accurate books of accounts and records.

The Authority was expending significant amounts of Grant funds for construction materials and force account labor to carry out its modernization activities. As noted in Finding 1 and Finding 5, the Authority did not maintain adequate controls over the materials inventory and the Authority paid for force account labor for doing non-Authority work. Therefore, we reviewed the Authority's accounting and other records in an attempt to determine whether costs incurred for the Comprehensive Grant Program were adequately supported in relation to the scope of work undertaken. However, this analysis was not possible because the Authority:

- Did not have accurate cost estimates available for the planned work.
- Recorded a combined cost for labor and materials in its general ledger without maintaining accurate summary records to show where the labor and materials were used; e.g., units and scope of work in specific projects.
- Did not maintain records of the number of units modernized with the 1992 and 1993 Grants, but did keep a record of the number of units for its 1994, 1995, and 1996 Grants.
- For the 1994, 1995, and 1996 Grants, the Authority purchased and charged the cost of materials to one project; but actually used the materials at another project, thus distorting the actual cost attributable to a project's modernization. Therefore, the accounting records did not accurately depict the cost of materials used on a specific project.

Thus, a review of existing records did not permit an analysis of the reasonableness of costs charged to the Grants. To illustrate, we selected the 1995 and 1996 expenditures for kitchen cabinets. The Authority Maintenance Supervisor had prepared a materials estimate for cabinets to be done with 1996 Grant funds, which was $357. He also had a listing of the number of units, by project, which had cabinet work done with 1995 and 1996 Grant funds. However, he did not have a similar estimate for the amount of labor involved. The Authority's subsidiary accounts showed the combined costs of labor and materials for cabinet work. We divided the number of units into the recorded materials/labor cost to arrive at an average cost per unit for each of the projects and in total for the Grant year, with the following results:

- For 1995, the records provided showed 110 units in 9 projects had cabinet work for an average cost of $2,258 - the average by project ranged from $944 to $4,588 per unit;

- For 1996, the records showed 54 units in 3 projects had cabinet work for an average cost of $550 - the average by project ranged from $478 to $1,154 per unit.

The Maintenance Supervisor explained the discrepancies by stating that the listing of units he had for the work was not accurate and had not been updated for all activity.

Consequently, the poor inventory controls coupled with inaccurate, incomplete, or nonexistent summary records to identify the extent and scope of work being done is conducive to an environment where fraud, waste, and abuse can occur without being detected.

Recommendations:

We recommend you require the Authority to:

2A. Establish and maintain accurate records for all future activity showing the estimated cost for materials and labor for the various work activities to be used for planning and budgeting purposes as well as a benchmark for evaluating the economy and effectiveness of its completed activities; and

2B. Have its Executive Director , Finance Director, and Maintenance Supervisor establish a system for reviewing modernization costs in relation to the benchmark estimate and follow up on and resolve any discrepancies, such as significant variations from the benchmark figures.

3. Authority does not ensure its procurements are based on a reasonable price

Although the Authority's adopted procurement policy meets HUD requirements, the Executive Director had not followed the policy and HUD requirements in procuring goods and services. As a result, HUD and the Authority has no assurance that these goods and services were obtained at a reasonable price. Further, the Authority did not have an effective contract administration system to ensure it: (a) kept adequate records detailing the complete history of each procurement; (b) always incorporated a clear and accurate description of the product or services being procured; (c) had incorporated all the required clauses in the contracts; and (d) could readily identify its contracts including the amounts paid and its remaining obligation to pay on the contracts.

HUD sets forth procurement standards in its regulations and provides guidance to meet these standards in a Handbook including proforma procurement policies and documents.[6] HUD requires housing authorities to adopt procurement policies that are consistent with HUD's standards and State law.[7] The following summarizes HUD and Authority requirements - dollar thresholds are the Authority's adopted amounts for the type of procurement:

---

[6] The Department's procurement regulations which are applicable to all housing authorities regardless of size, are at 24 CFR85-36. HUD Handbook 7460.8, Procurement Handbook for Public and Indian Housing Authorities.

[7] If there are conflicts between the regulations and State law, housing authorities are required to follow the one that is most restrictive.

- Maintain records sufficient to detail the significant history of a procurement to show the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
- Conduct all procurements in a manner to provide full and open competition. Authority policy states for all procurements other than small purchases, public notice is given at least 10 days before solicitation and a minimum of 15 days is allowed for preparation and submission of bids or proposals.
- Perform a cost or price analysis in connection with every procurement action including contract modification.
- Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured.
- Use one of four methods for procurements: (a) small purchases - requires one price quote if the price received is reasonable for $2,500 or less and three price quotes for amounts between $2,500 and $15,000; (b) sealed bids for procurements that lend themselves to a firm fixed price contract - $15,000 or over must be advertised; (c) competitive proposals for personal or professional services - for $15,000 or over and award must be approved by the Board; and (d) noncompetitive proposals can be used only when the contract is infeasible under the other methods and certain specific criteria are met - if over $25,000, submitted to HUD for preaward approval.
- Incorporate several specific provisions, such as: (a) administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, (b) termination for cause and for convenience, and (c) compliance with other Federal requirements, including minimum wages and environmental protections, etc.
- Maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

HUD's procurement Handbook provides guidance on these requirements and provides suggestions to enhance a housing authorities' procurement system. Some key provisions of the Handbook provide:

- Paragraph 2-1 notes that regardless of the method used, housing authorities should plan their contracts in advance and attempt to obtain full and open competition to ensure that quality goods and services are obtained at a reasonable price.
- Paragraph 3-4 notes that although contracting authority flows from the Board through the Executive Director, the Contracting Officer (whether the Executive Director or other employee) bears responsibility at the operating level to perform the required tasks from procurement planning through contract administration and close-out. The Contracting Officer is responsible for ensuring that all contracts awarded comply with the requirements of HUD regulations and the Authority's written procurement policy. However, Paragraph 3-6 notes the Board should ascertain that the housing authority complies with the requirement for a properly trained and experienced procurement staff. Paragraph 3-7 recognizes that there is a significant potential for fraud in the contracting area by noting that where the potential is greatest, the controls also should be the greatest. Further, the Board should be aware of the possibility of fraud, and

understand that this situation calls for continued monitoring by the Board or another responsible official.

- Paragraph 3-8 states that all housing authorities should have a management information system for procurement (the Handbook notes that the contract register/log can be manual or automated). The system should provide accurate information as to procurement workload, statistics as to key factors such as competition, status of deliveries/progress, etc. The proper management of the procurement function requires the involvement of top management and a mechanism for obtaining timely information regarding the performance of the procurement operation.
- Paragraph 7-1 notes that procurements should have an adequate specification by including a description of the supply, service, or construction item, which tells prospective contractors precisely what the housing authority requires. Further, the description is the essence of a good contract and must be written in plain, precise language to enable prospective contractors to understand the housing authority's needs because if there is an ambiguity, it will normally be interpreted against the housing authority.

HUD's regulations also provide for HUD to place housing authorities on preaward review when their system fails to comply with the HUD's required procurement standards.

Authority staff did not maintain a contract register, log, or other management information system that would allow them to readily identify their contracting activity, contract amounts, or outstanding obligations for unfinished contracts. Therefore, we scanned the Authority's Accounts Payable listings from January 1995 through July 1997 to judgmentally select 10 of the Authority's procurements for review. Using the Authority's adopted thresholds, we selected seven under small purchase procedures between $2,500 and $15,000 (total obligation of $48,099) and another three in excess of $15,000 requiring sealed bids or competitive proposals (total obligation of $159,888). Our review of these procurements disclosed the Authority was generally not following HUD requirements or its own procurement policy in contracting for goods and services. The following summarizes the review results:

	Exceptions	
Requirement	Bids or Proposals	Small Purchases
Sufficient records to detail history	3	7
Independent cost estimate prior to solicitation	3	7
Competitive solicitation	2	6
No or inadequate justification for sole source	3	7
Price analysis and separate profit negotiation	3	7
Clear description of product or services	0	4
Contract included required clauses	3	7

In all 10 cases, the procurements were awarded on a sole source basis. In only two cases did the Authority advertise/solicit more than one vendor. Except for procurement of professional services, the contracts contained an adequate description of the product or services. The exceptions are summarized below.

Procurement history and independent cost estimates

Generally, the Authority lacked complete records to show the rationale for the method of procurement or adequate justification for sole source procurement. Further, the Authority did not include any evidence that it prepared a cost estimate prior to solicitation as a basis to evaluate the contractors' bid/proposed prices.

Sole source - lack of adequate competition

Generally, HUD regulations require competitive procurement of goods and services, which does not permit the use of sole source contracting. However, HUD recognizes that in some narrow cases, procuring goods from a sole source may be necessary. These conditions are: (a) public emergency; (b) available from only one source; or (c) after soliciting a number of sources, competition was inadequate. In permitted cases of sole source procurement, to ensure reasonableness of price, HUD requires housing authorities to perform a price analysis with profit negotiated as a separate component. HUD regulations also list some situations considered to be restrictive of competition, such as: (a) specifying a product by "brand name" instead of an "equal product;" (b) noncompetitive awards to consultants that are on a retainer contracts; or (c) any arbitrary action in the procurement process.

In 7 of the 10 cases, the Authority approached only 1 vendor for the goods and services - in 2 cases involving computer equipment and software, the Authority specified "brand names." In another case, upon expiration of a janitorial service contract, the Authority executed a new contract with the vendor without soliciting other proposals/bids for the service. In the remaining two cases, the Authority did advertise, but only one bid was received in each case. Although these two cases could qualify for sole source procurement, the Authority did not document its rationale for not attempting additional outreach or advertising. In none of the cases, did the Authority ensure reasonableness of price by preparing independent cost estimates, performing a price analysis, or negotiating profit as a separate item.

Clear description of product or services and required contract clauses

The four contracts without adequate description of the product or scope of services involved the two contracts with the accounting firm, the retainer contract for insurance services, and the private investigator contract. The required clauses vary based on the type of procurement. However, certain clauses generally required but the Authority omitted included: (a) remedies for violation or breach of the contract; (b) access to records by the Authority, HUD and the Comptroller General; and (c) retention of records.

Recommendations:

We recommend that you:

3A. Instruct the Authority to cease procuring goods and services on a sole source basis unless specifically authorized by HUD procurement requirements;

3B. Require the Authority to establish and implement written guidance and staff training to ensure the

3C. Require the Authority to establish an adequate management information system to track contract award, payment activity, and remaining funding obligation;

3D. Evaluate the Authority's corrective action by performing an on-site review of its procurement system or by reviewing on a post award basis a representative sample of procurements in excess of $2,500; and

3E. Place the Authority on a pre-award review if the post award review shows the Authority is still not in compliance with HUD requirements, and continue such pre-award review until such time the Authority demonstrates it has implemented adequate procedures and controls over procurement of goods and services.

4. Authority does not properly allocate joint costs among its various programs

The Authority has not properly allocated its joint administrative salaries and costs to the various programs that these cost benefit, in accordance with Federal cost principles. The Authority used set percentages to allocate joint salaries and some joint costs; but had no documentation or other basis to support the percentage used. Consequently, the Authority cannot support that the costs borne by each of its HUD-funded programs represents the proper cost of that program. Further, although our review did not indicate such a practice, improper methods of allocation can lead to abusive practices whereby costs subject to a fixed grant amount are shifted to other programs to cover funding shortfalls.

HUD generally requires housing authorities to follow the administrative requirements for grants and local governments, which in turn requires governmental entities to follow Federal cost principles[8]. To allocate costs to a Federally funded program, the cost principles provide:

- Costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Costs chargeable or assignable to an award must be allocated in relation to the benefits received.
- When an employee works on multiple grants or programs, the salaries or wages must be supported by personnel activity reports[9]. Agencies are required to use personnel activity reports without regard to whether they are charged as direct or indirect costs.
- Where an agency's indirect costs benefit its major functions in varying degrees, such costs shall be accumulated into separate cost groupings. Each grouping shall then be allocated individually to benefited functions by means of a base which best measures the relative benefit.

[8] HUD Regulation 24 CFR 85.22 requires governmental grant recipients to follow Federal cost principles contained in the Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments."

[9] The activity reports must reflect an after-the-fact distribution of the actual time spent on each grant or program. The report must be prepared and signed by the employee at a minimum of once a month.

The Finance Director stated that the Executive Director had provided the percentages to be used to allocate administrative salaries to the Low-Rent, Section 8 Existing, Section 8 Voucher, and Section 8 Moderate Rehabilitation Programs. The Authority could provide no basis for the allocation and did not maintain personnel activity reports, which is mandated for employees required to charge their time to more than one program.

In addition, the Authority allocates some joint costs on the basis of the number of units in each program while charging other joint costs totally to one program. To illustrate, the costs of postage and office supplies are allocated based on the number of units; whereas the cost of maintenance, cleaning, and utilities for the Administrative building are all charged to the Low-Rent Program. Thus, the Authority was not using an appropriate base for allocating its joint costs. For example, the cost for the cleaning, maintenance, and utilities of the Administrative Building could be allocated to the Section 8 Department on the basis of the square footage occupied and then distributed among the Section 8 programs by the number of units.

Recommendations:

We recommend you require the Authority to establish and implement a system to:

4A. Allocate salaries whose cost benefit more than one program based on activity reports that are signed by the employee and reflect actual time spent on the programs that they benefit; and

4B. Allocate other joint costs using a method that reflects a fair distribution of costs among the various programs that benefit from these costs.

5. Authority needs to strengthen controls over use of Authority staff resources

The Authority has implemented controls over the hours worked by its staff to ensure they are paid for time worked on Authority business. However, on two occasions management staff overrode these control features. In the first case the Executive Director authorized staff to provide assistance, including use of Authority facilities and long distance telephone service, to a real estate broker working to benefit two separate nonprofit companies. The second case involved a supervisor instructing subordinates to show they were working on Authority business when they were actually doing work on private residences. Although management controls cannot fully prevent such activities, the Authority can strengthen its current procedures.

As noted in Finding 1, HUD Regulations require governmental recipients to have effective control and accountability for its assets. Further, HUD requires recipients to adequately safeguard all such assets and assure that they are used solely for authorized purposes. This would include use of staff and other resources. Further, as noted in Findings 2 and 4, HUD requires the Authority to follow Federal cost principles in charging costs to its various HUD- funded activities. These cost principles allow charges to Federal programs only to the extent that such programs benefit from such operating costs.

The Executive Director authorized the use of Authority staff and other resources to assist a broker working to obtain income tax credits from the Texas Department of Housing and

Community Affairs for two nonprofit corporations[10]. This authorization was apparently done primarily to facilitate these two corporations' plans to develop affordable housing. However, although one corporation had approached the Authority to act as management agent for their project, the Board had not yet approved the arrangement. Regarding the second corporation, Authority staff noted that an officer of that corporation was related to the Executive Director. Authority staff said the broker did not utilize a significant amount of staff time or resources for these activities. However, the Executive Director should not have authorized such use without full disclosure to and approval by the Board, especially if it involved a family relationship. Further, even if approved, the costs should have been charged to the Authority's Section 8 Operating Reserves.[11]

During the review, it came to our attention that a maintenance supervisor also had an apparent side business involving fixing up private houses. Further, this supervisor used and paid subordinates, during their off duty time, to work on these houses. However, based on our inquiries, maintenance staff confirmed that they had also been directed, during Authority working hours, to finish up some work on two houses. Further, they said the supervisor instructed them to show on their timesheets that they were working on Authority projects. Under the Authority's payroll system, this supervisor was responsible for approving his subordinates timesheets. On the days these employees worked on the private houses, this supervisor signed the timesheets, which improperly showed them as working on Authority projects. Thus, they were compensated by the Authority for working on the supervisor's private activities. As a result of our review in this area, HUD issued a Limited Denial of Participation to the maintenance supervisor on December 29, 1997.[12]

The Authority can strengthen its management controls in these areas by: (a) ensuring their personnel policy clearly set forth that staff and resources may be used only for Authority business and listing the disciplinary action that can be taken for violation; (b) periodically informing management and staff of this policy; (c) requiring all managers and employees to disclose outside business activities or employment and either prohibit subordinates from working for their supervisor's private business or, if permitted, require their timesheets be approved by another supervisor having knowledge of their activities; and (d) requiring the Executive Director to obtain Board approval before using staff and resources for any housing related activities other than normal Authority business.

Recommendations:

We recommend that you:

5A. Instruct the Authority to make sure that all managers and staff are fully aware that Authority resources can only be used for authorized Authority business; and

---

[10] Tax credits are provided through the State agency as a means to facilitate the development of affordable housing units for low and moderate income families.

[11] HUD establishes a set fee for administering the Section 8 programs. The Operating Reserve generally represents the amount of the earned fee in excess of the Authority's actual administrative costs. HUD permits housing authorities to use the reserves for any housing related purpose.

[12] HUD may take action to protect the Department by issuing Limited Denials of Participation. Such actions are authorized by 24 CFR 24.

5B. Require the Authority to strengthen their management controls over staff resources to ensure such resources are used only for authorized Authority business.