



U.S. Department of Housing and Urban Development

District Office of the Inspector General
Richard B. Russell Federal Building
75 Spring Street, SW, Room 700
Atlanta, GA 30303-3388
(404) 331-3369

Audit-Related Memorandum
No. 96-AT-204-1807

January 24, 1996

MEMORANDUM FOR: Arthur L. Wasson, Director, Office of Public Housing, 4IPH

FROM: Kathryn Kuhl-Inclan
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Citizen Complaint
Housing Authority of Bowling Green
Allegations of Travel Fraud and Personal Use of PHA-Owned
Vehicles/Maintenance Staff
Bowling Green, Kentucky

We have completed a review of allegations against the former Executive Director (ED) of the Housing Authority of Bowling Green (HABG). The allegations included travel fraud, personal use of PHA-owned vehicles, and use of HABG maintenance staff for repairs at the ED's personal residence.

An on-site review by your staff and an Independent Accountant (IA) indicated the allegations related to travel were valid, which our review confirmed.

BACKGROUND

HABG operates 4 conventional public housing projects totaling 530 units, and had approximately 40 employees. It is governed by a five-member Board of Commissioners; the Chairperson was Ms. Susie Oldham. Day-to-day activities are carried out by an ED. The ED against whom the allegations were made was employed by HABG in August 1992 and resigned in March 1995. He was previously employed as ED at the Sante Fe, New Mexico, Housing Authority.

SCOPE

The purpose of our review was primarily to determine whether the allegations were valid, and if so, to recommend corrective actions. We also reviewed records and conducted interviews to identify contractors, vendors, employees and officials who may be involved in corruption.

fraudulent activities, conflicts of interest or other illegal activities that detract from the integrity and effectiveness of HUD programs. We interviewed your staff and reviewed HABG files in your office. We visited HABG and interviewed key HABG employees, contractors, unsuccessful construction bidders and other persons as considered appropriate. We made limited reviews of pertinent HABG files and reviewed HABG's internal control system. We conducted our review from July through November 1995.

SUMMARY

Based on a review of approximately 60 percent of the former ED's travel claims of \$4,100, we concluded he falsified documents and made bogus claims for about \$665, or 27 percent of the cost reviewed. Most of the fraudulent claims had been detected by the IA. The Board forced the former ED to resign in part because of prior reviews of his travel, which your office initiated. The former ED left the New Mexico PHA under a similar cloud, charging personal phone calls to the PHA and using sick leave improperly. We are recommending that you issue an LDP against the former ED to preclude similar acts being committed at another PHA, and request HABG to consider filing a claim under its fidelity bond for the bogus claims.

In addition, the former ED executed \$1,240,532 of change orders to an existing contract, increasing it by 475 percent, instead of competitively bidding the work as required by HUD regulations and HABG's own procurement policy. We recommended that you instruct HABG's new ED about future proper uses of change orders.

We found no support for the allegations of personal use of HABG vehicles and maintenance staff.

Details of our findings and recommended corrective actions are in Attachment 1. We discussed the procurement finding with HABG's new ED on November 2, 1995, and provided him a draft of the finding on December 22, 1995. His written comments are included as Attachment 2. We provided a draft of both findings to your office, and considered your comments in the final report.

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

We provided a copy of this memorandum to HABG.

If you have any questions, please contact me at (404) 331-3369 or Rudy McBee, Assistant District Inspector General for audit, at (423) 545-4368.

Attachments:

- 1 - Findings and Recommendations
- 2 - Auditee Comments
- 3 - Distribution

FINDINGS AND RECOMMENDATIONS

Finding 1 - Former Executive Director Falsified Travel Claims

The former ED falsified a significant portion of the travel cost he claimed reimbursement for during his tenure as ED. The ED is no longer employed by HABG, but we believe appropriate administrative sanctions still need to be taken to prevent the ED from repeating similar actions at another PHA.

Based on allegations, the HUD Kentucky State Office requested Buchenberger, Darst & Company, Certified Public Accountants, to do a special review of HABG travel vouchers and policies. The Independent Accountant (IA) performed the review in January 1995 during his regular audit of HABG's financial statements for the year ended September 30, 1994. Excerpts from the IA's February 17, 1995 letter report are as follows:

- HABG's travel policy was to reimburse actual and reasonable meal costs, with receipts required, and actual receipted cost of single occupancy lodging. The IA reviewed five ED travel vouchers for travel between November 1992 and September 1994, for payments totaling \$1,629.
- On a conservative basis, allowing the benefit of doubt on all but clearly bogus and altered items, the IA questioned the validity of \$445 of cost claimed.
- Many meal receipts appeared bogus. Some were generic and in the same handwriting as that in the travel voucher. Some printed from cash register or computer systems had altered dates; the dates and times did not match the dates and times they were supposed to support on travel vouchers; and some showed meals for more than one person (no voucher documented business purpose for guests).
- In one case, tickets used to support meals in Louisville were from a restaurant not located in Louisville. The tickets were altered to hide the restaurant location.
- In another case, meals and other travel costs were claimed when it is doubtful the ED was in travel status, or it appeared he was traveling for personal pleasure. Auto rent and airport parking were claimed for six days for a three day conference.
- The most serious breach was an altered motel bill supporting claimed expenses of \$120 for a night's lodging in Louisville. The actual bill was to a friend of the ED from a motel in Lexington, at a daily rate of \$62. The bill was altered to change the dates, the name (to the ED), and double the amount.

The IA attached a schedule detailing the \$445 by date and type of expense. We reviewed the documentation supporting the IA's analysis and generally agree with his findings. We also interviewed the former ED's friend who confirmed the ED paid for some of her meals and that she altered the motel receipt he used to support the \$120 motel claim. Travel vouchers signed by the former ED contained a certification that all expenses claimed were incurred by the employee in the discharge of official business, and that all data furnished was true and correct.

In addition to the five vouchers, we reviewed two additional vouchers for travel in January and June 1993 totaling \$889. We found questionable claims totaling \$220 similar to those described by the IA. In summary, a combined review of approximately 60 percent of the former ED's total travel claims (\$2,500 of \$4,100) resulted in questionable claims totaling \$665, or about 27 percent of the claims reviewed.

In addition, we queried representatives of the Sante Fe, New Mexico, Housing Authority (HA) regarding the circumstances surrounding the former ED's departure. The Board Chairperson at that time stated the former ED charged about \$600 of personal long distance phone calls to the HA and took 16 hours of sick leave while interviewing for another job. The HA reduced the former ED's check for unused annual leave to reimburse the HA for both the phone calls and the leave.

24 CFR 24.700 authorizes Public Housing Directors to order an LDP for any program participant based upon adequate evidence of, among other things, irregularities in past performance in, or falsely certifying in connection with, a HUD program. The evidence supports fraudulent travel claims and false certifications as to the accuracy of the claims, and therefore supports an LDP against the former ED.

HUD Comments

The Kentucky Director Of Public Housing stated he disagreed with issuing an LDP against the former ED. He summarized prior HUD, IA and HABG Board actions in dealing with the problem, which led to the former ED's forced resignation, and stated this was an administrative matter which had been adequately dealt with and should not be included in the audit report. He stated that an LDP was considered and discussed with staff and attorneys. He chose not to issue an LDP because (1) he feared it would be overturned by an administrative law judge on appeal, because of sympathetic Board members, the relatively small amount of money involved, and the ED's ability to explain the dishonest acts as innocent mistakes; (2) previous LDPs issued had been ignored by other state offices; and (3) the former ED would, in effect, be denied participation in Kentucky anyway once word got out to PHAs in the state about what happened at HABG.

OIG Evaluation of HUD Comments

We see little reason to fear reversal of an LDP given the obvious and flagrant nature of the acts committed. In any event, we disagree that such concern is an adequate basis not to issue the LDP. We discussed the travel claims with the former ED, and he provided no plausible explanation for the bogus claims. Neither do we consider it reasonable to assume, or to use as reasons not to issue an LDP, that the LDP will be ignored or that the ED will be ostracized by other PHAs even without the LDP. Falsifying documents to support claims is a serious offense, which, combined with the former ED's actions at the Sante Fe Housing Authority and statements to us that he planned to seek another ED position, clearly warrants as a minimum the LDP sanction.

Recommendation

We recommend that you:

- 1A. Issue an LDP against the former ED as provided by 24 CFR 24.700.
- 1B. Request the ED to consider filing a claim under HABG's fidelity bond for the bogus travel claims.

Finding 2 - HABG Did Not Competitively Procure Construction Services

HABG did not follow required procurement methods in performing CIAP construction work . HABG added \$1,240,532 of work to an existing contract by change orders, increasing the original contract by 475 percent, instead of competitively bidding the work. Not bidding the work was unfair to other contractors and may have resulted in excessive costs to HABG.

Federal requirements state that procurement by sealed bids is the preferred method for procuring construction when costs exceed \$25,000, and that all procurement must be done in a manner providing full and open competition (24 CFR 85.36(c),(d)).

On December 30, 1992, following sealed bid solicitations, HABG awarded a construction contract for \$330,207 to Lanham Brothers General Contractors, Inc., for work included in HABG's 1992 CIAP grant. However, over the next two years HABG issued 11 change orders totaling \$1,240,532 to the contract, adding work in HABG's 1993 and 1994 CIAP grants. The change orders added a significant amount of work that (a) was similar to work included in the original contract, but cost more per unit, where there was sufficient information to compare costs, or (b) was not included in the original contract. Much of the work should have been rebid, as evidenced by the following examples:

<u>Change Order</u>	<u>Amount</u>	<u>Description</u>
4	\$19,014	Site drainage work not included in original contract. (HABG's procurement policy, based on state law, requires sealed bids for purchases in excess of \$10,000.)
6	96,579	Renovate tub plumbing and paint 189 bathrooms @ \$511 each. Represented significant increase in original contract scope of work; insufficient information to make cost comparison.
6,9	436,757	Convert 23 units into handicap units @ unit costs ranging from \$16,574 to \$22,909 by bedroom size. Original contract included conversion of four units at undeterminable unit costs.
6,9,10	317,094	Construct additional 131 one-bay storage buildings @ \$2,420 each. Original contract cost per unit was \$1,688.

6	40,536	Construct additional 12 two-bay storage buildings @ \$3,378 each. Original contract cost per unit was \$2,245.
10	166,908	Change interiors and install patio doors for 42 units @ \$3,974 each. Original contract did not include patio doors and did not contain unit prices for other items.

The former ED and current HABG staff contended HUD staff verbally assured them it was legal to issue change orders in lieu of bidding the work provided: (1) the work items were similar to those in the original contract; and (2) the contractor agreed to complete the work at the same unit price. Even if true, much of the change order unit costs were either higher or could not be favorably compared to original contract costs.

The HUD Kentucky Director of Public Housing, commenting on our draft finding, advised us he was unsure what was said to HABG staff, but what should have been said based on HUD policy was that change order work must be the same as, rather than similar to, work in the original contract, and be done at the same unit price. He added that HUD's suggested wording for PHA procurement policies states that options for additional quantities may be included in contracts, provided they are included in the solicitation, properly defined and limited, exercised only at the price specified in the contract, and exercised only if more advantageous than conducting a new procurement (Handbook 7460.8, Procurement Handbook for PHAs, Appendix 1, Section V, Paragraph B). Although this same language is included in HABG's procurement policy, such options were not included in the construction contract.

Federal procurement requirements and/or HABG's own procurement policy required HABG to competitively bid most of the \$1,240,532 of work added by change orders to the original contract. Much of the work was the same as or similar to work in the original contract, but higher unit costs (where comparisons were feasible) and significant increases in the scope of work were unfair to other contractors and may have resulted in excessive HABG costs.

Auditee Comments

HABG's ED stated he could not speculate why his predecessor procured the construction work as he did, or what HUD advice was given. However, he advised that in the future he would follow the procurement policies and procedures in HUD Handbook 7460.8. The full text of the ED's comments is in Attachment 2.

OIG Evaluation of Auditee Comments

The ED's comments are responsive to the finding.

Recommendation

- 2A. We recommend that you provide to HABG the substance of your December 28, 1995 comments to us on the draft finding, particularly the information about options for additional quantities includable in contracts, as the new ED may not be familiar with the provisions.

DISTRIBUTION

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Deputy Chief Financial Officer for Operations, FO (Room 10166) (2)
Director, Office of Internal Control and Audit Resolution, FOI (Room 10176) (2)
Office of Public and Indian Housing Comptroller, PF
 ATTN: Audit Liaison Officer (Room 4122)
Associate Director, US GAO, 820 1st St. NE Union Plaza,
 Bldg. 2, Suite 150, Washington, DC 20002
Executive Director, Housing Authority of Bowling Green, 218 Double Springs Road, Bowling
Green, Kentucky 42101