



Issue Date	January 3, 2000
Audit Case Number	00-AT-204-1002

TO: George C. Smith, Director, Office of Public Housing, 4GPH

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

SUBJECT: The Housing Authority of the City of Meridian  
Audit of the Grant Programs  
Meridian, Mississippi

We completed an audit of the Housing Authority of the City of Meridian. Our audit objective was to determine whether the Authority administered its grants in accordance with the Department of Housing and Urban Development (HUD) requirements.

We focused our audit to evaluate the Authority's controls and procedures over its administration of its grants awarded for fiscal years 1994 through 1997. We also performed a limited review of the Authority's procurement activities. This report presents three findings that detail the Authority's need to improve 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) corrective action taken; (2) the proposed corrective action and a planned implementation date; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued as a result of the audit.

Should you or your staff have any questions, please contact me or Sonya D. Lucas, Assistant District Inspector General for Audit, at (404) 331-3369. We are providing a copy of this report to the Housing Authority of the City of Meridian.



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# Executive Summary

We completed an audit of the Housing Authority of the City of Meridian. Our audit objective was to determine if the Authority complied with HUD's requirements in its administration of HUD grant programs.

Our review disclosed significant weaknesses in the Authority's ability to support the eligibility of its grant activities and its procedures relating to contracting and procurement. Specifically, the audit disclosed:

- The Housing Authority of the City of Meridian spent \$228,877 of Public Housing Drug Elimination Program (PHDEP) grant funds on drug prevention activities that were unsupported. This occurred because the former Executive Director disregarded HUD's rules and regulations regarding the use of PHDEP grant funds. In addition, the Authority did not require vendors to provide the necessary documentation to support invoice payments. As a result, we were unable to determine the level of resident participation, or the benefits received by the Authority residents.
- The Authority spent \$110,225 on ineligible and unsupported activities related to its After School Youth Development Program. This occurred because the former Executive Director disregarded HUD's eligibility requirements for the PHDEP grants. He believed that the PHDEP funds should be used to serve the entire low-income community, both public housing and non-public housing residents. As a result, the Authority did not properly serve the targeted residents.
- The Authority did not procure contracts in accordance with HUD's requirements or perform adequate contract oversight and monitoring. Deficiencies disclosed during our review of 20 contracts identified: (1) inadequate contract administration; (2) improper solicitation and awarding of contracts; (3) inadequate procurement records; and (4) inappropriate contract terms. This occurred because the Authority did not have a centralized procurement function and did not always follow the procurement requirements. As a result, the Authority had no assurance that they were receiving the necessary services to accomplish program objectives.

We presented our findings to the Authority and HUD's Mississippi State Office officials during the course of the audit. We held an exit conference on November 23, 1999. The Authority generally agreed with the findings in this report.

The Authority provided written comments on November 19, 1999. HUD's Mississippi State Office of Public Housing provided written comments and suggested recommendations to each of the three 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 recommend HUD require the Authority to: repay HUD for all ineligible costs; provide proper supporting documentation for unsupported costs; and implement procurement policies and procedures to ensure proper contract administration, contract execution, and effective monitoring.

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# Table of Contents

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Management Memorandum	i
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Executive Summary	iii
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Introduction	1
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## Findings

1	The Authority Improperly Charged Grant Funds for Expenditures That Were not Adequately Supported	3
2	The Authority Improperly Spent Grant Funds on its After School Youth Development Program	9
3	Controls Over Procurement Needed Improvement	15

---

Management Controls	21
---------------------	----

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Follow Up On Prior Audits	23
---------------------------	----

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## Appendices

A	Schedule of Ineligible and Unsupported Costs	25
B	Summary of Procurement and Contract Administration Deficiencies	27
C	Audit Comments	29

## D Distribution

37

### **Abbreviations:**

CFR	Code of Federal Regulations
EMC	East Mississippi Center for Educational Development
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
PHDEP	Public Housing Drug Elimination Program

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# Introduction

The Housing Authority of the City of Meridian is a public corporation organized under the laws of the State of Mississippi. Its primary mission is to provide low-income housing for qualified individuals.

The Authority is governed by a five member Board of Commissioners whose members are nominated by the Mayor of Meridian and approved by the Meridian City Council. The Board is responsible for setting Authority policy, approving an annual operating budget, and hiring an Executive Director. During our review, the Executive Director was terminated and the Chairperson of the Board of Commissioners, Dr. Judith H. Miller, was serving as acting Executive Director.

HUD's Mississippi State Office in Jackson, Mississippi, has the responsibility for overseeing the Authority.

The Authority maintains its records at 2425 E. Street, Meridian, Mississippi. The Authority owns and manages 17 public housing developments, consisting of 1,297 units. In addition, the Authority administers two New Construction and two Substantial Rehabilitation Section 8 properties.

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## Audit Objectives, Scope and Methodology

Our audit objective was to determine if the Authority administered its grant programs in compliance with HUD requirements.

To accomplish the objective, we tested for compliance with program requirements. We interviewed Mississippi State Office of Public Housing program officials, current and former Authority staff, and contractors. Specifically, we reviewed the controls and procedures over the administration of the grants awarded for fiscal years 1994 through 1997; reviewed grant applications, grant agreements, financial records and reports; and reviewed monitoring reviews conducted by HUD's Mississippi State Office. To test for the eligibility and proper support for the Authority's expenditures, we judgmentally selected transactions from the Authority's financial records; performed a limited review of the procurement activities focusing on the award and contract administration phases; and reviewed 20 contracts from the Authority's contract register as of August 1999.

Our audit primarily covered the period of October 1994 through April 1999. We extended the period as necessary. We performed on-site work from July through September 1999. We conducted our audit in accordance with generally accepted government auditing standards.

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# The Authority Improperly Charged Grant Funds for Expenditures That Were Not Adequately Supported

The Authority spent \$228,877 of PHDEP grant funds on drug prevention activities that were unsupported. This occurred because the former Executive Director disregarded HUD's rules and regulations regarding the use of PHDEP grant funds. In addition, the Authority did not require vendors to provide the necessary documentation to support invoice payments. As a result, we were unable to determine the level of Authority resident participation or benefits received by Authority residents.

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## Criteria

Title 24 Code of Federal Regulations (CFR), part 961.1 and part 761.1 state the purpose and scope for the Public Housing Drug Elimination Program is to eliminate drug-related crime and the problems associated with it in and around the premises of public and Indian housing developments. Title 24 CFR 961.26 (b) and 761.30 (b) further state that terms of the grant agreement may not exceed 24 months, unless an extension is approved by the local Field Office. The maximum extension allowable for any grant is 6 months. In addition, 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.

According to the 1996 PHDEP Notice of Funds Availability, PHDEP funds may be used for drug prevention programs designed to reduce the use and distribution of illegal drugs in or around the premises of the housing authorities. The Notice further states that the goals of the drug prevention program are best served by focusing resources directly upon Housing Authority resident/families.

Office of Management and Budget Circulars A-87, Cost Principles for State, Local, and Indian Tribal Governments, provides that costs should be reasonable, necessary, and adequately supported. These circulars provide that personnel costs must be supported by payroll documentation approved by a responsible official. Where the employee works multiple

activities, the salary distribution must be supported by personnel activity reports signed by the employee.

HUD Procurement Handbook for Public and Indian Housing Authorities, 7460.8, Paragraph 4-33 (c) states that for competitive proposal contracts the Authority will request the offerors to submit cost breakdowns. The Authority will be required to perform a cost analysis in order to determine the reasonableness of costs.

Background

Public Housing Drug Elimination Program grants are awarded for 2 year periods. The Authority received grant awards for 1994 through 1997. The Mississippi State Office and HUD Headquarters granted extensions for all of the grants except 1997. This resulted in the 1994, 1995, and 1996 grants running concurrently. The 1994 grant closed in June of 1998, the 1995 grant closed May 1999, and the 1996 grant was due to terminate in March of 2000.

Unsupported expenditures

A review of PHDEP transactions disclosed that the Authority did not support grant funds for the following items:

<u>Description</u>	<u>Unsupported</u>
Boys & Girls Club of Meridian	\$106,500
Meridian Police Department	51,000
East Mississippi Center for Educational Development (EMC)	22,792
Salaries	29,471
Rent/Phone	18,992
K-Mart	122
<b>Total</b>	<b><u>\$228,877</u></b>

The Authority used PHDEP grant funds to pay salaries and other expenses of the providers it entered into agreements with to provide drug prevention activities for its residents. It did not obtain payroll and employee activity reports, activity rosters, or participant sign-in sheets to support payments to these drug prevention providers. In some cases, it paid invoices without time sheets or dates in which a particular service was rendered. Examples of some of the unsupported expenditures from our sample included:

**Boys and Girls Club of Meridian**

In 1988, the Authority contracted with the Boys and Girls Club of Meridian to implement and operate a Boys and Girls Club program at one of the public housing sites. We determined that the Boys and Girls Club made no distinction between public housing residents and other community residents when invoicing the Authority. The Director of the Boys and Girls Club said that although a majority of their kids come from public housing, a small portion also comes from the surrounding community. He said that it was his understanding that the public housing youth received priority. He further stated that they did not have a system in place to track what funds were spent on public housing youth versus the youth outside of public housing.

The Director also stated that his staff was told by Authority officials that they were not employees of the Authority, and therefore did not need to submit time sheets, activity reports, or sign-in sheets with their invoices. The Boys and Girls Club submitted invoices to the Authority monthly for services rendered, staffing, supplies, and equipment. As a result, \$106,500 of PHDEP grant funds were expended inappropriately and without the necessary supporting documentation.

**Meridian Police Department**

The City of Meridian provided security liaisons on a monthly basis to patrol the public housing sites. The City did not provide the Authority with incident reports, crime statistics, or weekly and monthly reports, as set forth in its contract. During our review we identified instances in which invoice payments were withheld from the City of Meridian until documentation was received. Overall, the Authority expended \$51,000 of PHDEP grant funds to pay the City of Meridian for security services without receiving adequate supporting documentation.

### **Salaries**

During our review, we identified unsupported salary payments totaling \$19,615 in which the Authority did not maintain time sheets to support prorated salaries and fringe benefits of some of the housing operations staff. Based on documentation provided, neither the Secretary nor the Director of Housing Operations maintained time sheets or activity reports to support the amount of time spent on drug elimination activities during the period of July 1997 through April 1998. Additionally, the authority transferred salary costs of \$9,856 from the 1995 PHDEP grant to the 1996 PHDEP grant. The journal voucher did not provide reasonable justification for the transfer or the activities performed for the PHDEP grant. As a result of these transactions, \$29,471 PHDEP funds were charged improperly.

### **East Mississippi Center for Educational Development (EMC)**

The Authority contracted with EMC for six teachers to provide instruction at the Learning Well Centers. EMC billed the Authority on a monthly basis documenting sites and dates in which its teachers provided instruction to housing residents. The EMC did not submit the quarterly attendance and participation reports, or the reports for each participant containing daily comments and suggestions as specified in the contract. Consequently, the Authority spent \$22,792 of PHDEP grant funds to pay EMC without receiving any reports, time sheets, or other pertinent documentation about the program.

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The Authority employees stated that the former Executive Director required them to pay invoices and other expenditures regardless of whether supporting documentation was provided. As a result, the Authority paid \$228,877 for activities that were not adequately supported.

Excerpts from the Housing Authority of the City of Meridian's comments on our draft findings follow. Appendix C contains the complete text of the comments.

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### Auditee Comments

The Authority generally agreed with the finding. However, it is the Authority's opinion that it was unfair to characterize the entire \$106,500 as unsupported since the primary activities of the Boys and Girls Club took place on Housing Authority's property and a majority of the children participating were public housing residents.

Also, the Authority believes it was unfair to characterize the entire \$51,000 as unsupported for the Meridian Police Department, since many of the reports had been received by the Authority. In fact, far more than a majority of the reports had been received since 1997 although some were not timely submitted.

Regarding the salaries, a budget revision was requested to reflect an allocation of the time spent by the Director of Housing Operations and the Secretary on PHDEP activities. The budget amendment was approved by HUD.

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### OIG Evaluation of Auditee Comments

The unsupported payments totaling \$106,500 and \$51,000 respectively, were based on a sample of invoices selected for review. The invoices were not adequately supported, therefore the amounts were considered unsupported.

Although, the Authority obtained approval from HUD to allocate staff salaries to the PHDEP grants, proper documentation was not maintained by the staff to support the allocation of staff time.

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### Recommendations

We recommend that you require the Authority to:

- 1A. Provide proper supporting documentation or repay the \$228,877 of unsupported costs.

- 1B. Implement its procurement policies and procedures for contract administration to ensure proper oversight and effective monitoring of service providers.

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# The Authority Improperly Spent Grant Funds on its After School Youth Development Program

The Authority spent \$110,225 on ineligible and unsupported activities related to its After School Youth Development Program. This occurred because the former Executive Director disregarded HUD's eligibility requirements for the PHDEP grants. He believed that PHDEP funds should be used to serve the entire low-income community, both public housing and non-public housing residents. As a result, Authority did not properly serve the targeted residents.

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## Criteria

Title 24 CFR, part 761.1 states that one of the purposes of the PHDEP is to eliminate drug-related crime and problems associated with it in and around the premises of Federally assisted low-income housing, and public and Indian housing developments. In and around is defined as within, or adjacent to, the physical boundaries of a housing development.

According to the 1996 PHDEP Notice of Funds Availability, PHDEP funds may be used for drug prevention programs designed to reduce the use and distribution of illegal drugs in or around the premises of the housing authorities. The Notice further states that the goals of the drug prevention program are best served by focusing resources directly upon Housing Authority resident/families.

Office of Management and Budget Circulars A-87 provides that costs should be reasonable, necessary, and adequately supported. These circulars provide that personnel costs must be supported by payroll documentation approved by a responsible official. Where the employee works multiple activities, the salary distribution must be supported by personnel activity reports signed by the employee.

## Background

The Authority implemented an After School Youth Development Program in 1997. The Authority entered into a Memorandum of Agreement with the Meridian Public School System to carry out the After School Program. In this agreement, the Meridian Public School System agreed to provide at no cost to the Authority the use of public school facilities. The Meridian Public School System also agreed to provide building utilities, maintenance and custodial services.

School administrators, instructors, transportation staff, secretaries, and program evaluators were selected by the Meridian Public School System to participate in the After School Program. Since the After School Program was not going to be located within the physical boundaries of the housing developments, the Meridian Public School System also agreed to provide buses for transporting students to and from the After School Program.

The Authority agreed to purchase equipment, materials, and supplies for the After School Program. Also, the Authority agreed to reimburse the Meridian Public School System for the mileage and transportation expense of the buses.

The Authority entered into individual contracts with the staff that the Meridian Public Schools selected to participate in the After School Program. The After School Program began in March 1997 and continued through the 1997-1998 and 1998-1999 school years.

Using PHDEP grant funds, the Authority funded the majority of the costs for the After School Youth Development Program held at the Meridian Public Schools. The After School Youth Development Program served both public housing and non-public housing students.

A review of 24 transactions disclosed the Authority inappropriately expended or did not support grant funds for the following items:

<u>Description</u>	<u>Ineligible Costs</u>	<u>Unsupported Costs</u>
Kate Griffin Junior High School (Supplies)	\$ 97	
K-Mart Stores (Supplies)	437	
Meridian Public School	615	\$ 65,805
Jitney Jungle (After School Snacks)	630	
Carver Middle School	1,418	
Harris Elementary School Payroll 3/17 - 5/15/97	6,134	
Carver Middle School Payroll 3/17 - 5/15/97	9,898	
Carver Middle School Payroll 6/97 - 7/21/97	<u>16,626</u>	<u>8,565</u>
<b>TOTALS</b>	<b><u>\$ 35,855</u></b>	<b><u>\$ 74,370</u></b>

## Ineligible costs

During a 1997 review by the Mississippi State Office, it was determined that both public housing and non-public housing students were being served at the After School Program. In an April 17, 1998, memo to the Authority, the Mississippi State Office expressed concerns regarding the eligibility of the non-public housing students. As a result, PHDEP funds were frozen and the After School Program was suspended while the matter was under review by the Mississippi State Office.

The Mississippi State Office required the Authority to provide cost justification for the After School Program. The Authority was required to provide documentation regarding the number of public housing students participating in the After School Program at each school. Based on documentation provided in a 1996 PHDEP budget revision, it was determined that only 34 percent of the students attending the After School Program at Carver Middle School were public housing students. Twenty-nine percent of the students attending the After School Program at Harris Elementary School were public housing students. Sixty-six percent of the students attending the After School Program at Kate Griffin Junior High were public housing students. In total, public housing students accounted for only 41 percent of the students participating in the After School Programs.

Since 59 percent of non-public housing students participated in the After School Program, we determined that only costs that could be attributable to public housing students were eligible expenditures. Therefore, 66 percent of the \$42,337 disbursed on supplies and payroll for the After School Program at the Carver Middle School were ineligible. Seventy-one percent of the \$8,640 expended on payroll costs for the After School Program at Harris Elementary School were ineligible. Thirty-four percent of the \$285 spent on supplies for the After School Program at Kate Griffin Junior High were ineligible. We also determined that snacks, supplies and transportation were provided for non-public housing students. These costs are also considered ineligible. Therefore, the Authority spent a total of \$35,855 in PHDEP funds for ineligible activities.

Unsupported costs

The Authority paid the salaries of the Meridian Public School System staff that participated in the After School Program. The contracts required the staff to submit time sheets weekly to the Authority for review and approval showing days and hours worked. Our review of the payroll for the Carver Middle School staff for the Summer Enrichment Program held during the period of June through July 1997, disclosed that time sheets were not submitted. Also, sign-in sheets of the participants in the After School Program were not maintained by the schools. As a result, \$8,565 of the payroll for this period was unsupported.

In 1998, the Authority and the Meridian Public School System entered into a new Memorandum of Agreement in which the Authority agreed to pay \$615 per public housing student participating in the After School Program. We reviewed three invoices paid under the new agreement. We found two invoices that did not have the sign in sheets or attendance sheets required for payment. These two invoices totaling \$65,805 were unsupported.

Excerpts from the Housing Authority of the City of Meridian's comments on our draft findings follow. Appendix C contains the complete text of the comments.

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Auditee Comments

The Authority generally agreed with the finding. A number of sign-in sheets have been found since the audit was completed. Discrepancies noted in this finding have been corrected. The staff was instructed that under no circumstances should payments be made without substantiating documents.

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OIG Evaluation of  
Auditee Comments

We believe the Authority's actions will strengthen controls over the After School Program.

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Recommendations

We recommend that you require the Authority to:

- 2A. Repay HUD from non-federal funds for the ineligible expenses of \$35,855.
- 2B. Provide proper supporting documentation or repay the \$74,370 of unsupported costs.

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## Controls Over Procurement Needed Improvement

The Authority did not procure contracts in accordance with HUD's requirements or perform adequate contract oversight and monitoring. Deficiencies disclosed during our review of 20 contracts included: (1) inadequate contract administration; (2) improper solicitation and awarding of contracts; (3) inadequate procurement records; and (4) inappropriate contract terms. This occurred because the Authority did not have a centralized procurement function and did not always follow all procurement requirements. As a result, the Authority had no assurances that they were receiving the necessary services to accomplish program objectives.

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### Criteria

Title 24 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; Section (b) (9) requires that grantees maintain records sufficient to detail the significant history of each procurement; Section (c) (1) requires all procurement transactions be conducted in a manner providing full and open competition; and Section (f) requires the Authority to perform a cost or price analysis in connection with every procurement action including modifications regardless of the procurement method used.

HUD Procurement Handbook 7460.8, Paragraph 11-1 (A) (1) states that contracts for services whose initial period exceeds 2 years, and any option, extension, or renewal of a contract for services which make the total length of the contracts, as modified, exceed 2 years require prior HUD approval.

### Background

Prior reviews by the HUD Mississippi State Office showed a history of problems in the Authority's procurement function. The Mississippi State Office's April 1998 review of the Authority's grant programs noted procurement deficiencies such as inadequate procurement records, solicitation deficiencies, and inadequate contract administration. Prior reviews of the

Authority's modernization programs also disclosed similar deficiencies.

During our review, we determined that the Authority did not have a centralized procurement function. Some of the Authority's procurement actions were managed by the Procurement Administrator, while the Maintenance and Modernization Departments managed its procurement actions separately. All three groups handled its procurement actions differently. This resulted in a lack of consistency in the application of HUD's procurement requirements.

Inadequate contract administration

The Authority failed to perform adequate contract oversight or monitoring. The Authority did not monitor or assess the performance of its contractors. As a result, the Authority did not have the necessary information to evaluate the effectiveness of its grant programs.

The Authority did not obtain proper supporting documentation before paying contractors. The drug prevention providers did not provide time sheets, sign-in sheets, activity reports or other documentation as stated in their respective contracts.

Also, the Authority did not require that the contractor perform in accordance with the terms, conditions, and specifications of their contracts. For example:

- In the City of Meridian contract for security liaison services, the security liaison officer was required to submit weekly crime statistic reports to the Authority. Our review of the contract files and discussions with Authority staff, disclosed that the security liaison officer did not provide a weekly report as required in the agreement. Monthly reports were provided for some months. The Authority withheld payments for 7 months after the security liaison officer failed to provide monthly reports or perform in accordance with the contract terms.
- The East Mississippi Center for Educational Development contract provided that EMC would submit attendance and participation reports to the

Authority. The Authority paid the EMC invoices without receiving the attendance and participation reports.

A review of the Boys and Girls Club contract disclosed several deficiencies. The Authority entered in a contract with the Boys and Girls Club of Meridian to provide cultural and enrichment activities for the residents. The original contract was procured using Authority operating funds. Although the contract expired in 1989, the Authority continued to pay the Boys and Girls Club. After realizing in 1994 that the original contract had expired, the Authority executed an amendment nearly 5 years after the contract had expired. Also, the Authority paid the Boys and Girls Club from PHDEP grant funds for drug prevention activities without entering into a contract. During our review of invoices, we observed that the Authority was billed for two invoices each month. One invoice was paid from the Operating Budget and the other was paid from PHDEP funds.

Improper solicitation and awarding of contracts

The Authority did not properly solicit the contracts procured with the teachers, assistants, principals, and other Meridian Public School System personnel hired to work at the After School Program. Instead of publicly advertising the positions, the Authority allowed the school system to select the staff to participate in the Authority's After School Program. As a result, the Authority incorrectly obtained professional services through non-competitive procurement without prior HUD approval.

Inadequate procurement records

The Authority did not maintain complete and proper documentation in their procurement files. The contract files did not contain supporting documentation to show that the Authority made an independent cost estimate or performed a cost or price analysis for 3 of the 20 contracts reviewed. (See Appendix B for deficiencies).

Improper contract terms

Our review of the contracts disclosed that the Authority executed contracts with vague contract terms. The contracts did not state specific dates for the contract period. For example, a contract with BCP Inc. showed the following contract period as: *“June 21, 1999, and continuing through the submission period for fiscal year 1995 and fiscal year 1996 PHDEP’s close out reports, provided funds are available.”*

Also, we determined that Authority executed contracts for professional and legal services in which the agreement exceeded 2 years in length without HUD prior approval. The Cooke Communications & Design contract was executed with a 3 year contract period. The Authority did not obtain HUD’s approval prior to executing the contract. According to the HUD Procurement Handbook, contracts for services whose initial period exceeds 2 years require prior HUD approval. Our review of the Authority’s contract register and other Authority correspondence disclosed that seven other contracts had been improperly executed without prior HUD’s approval.

Excerpts from the Housing Authority of the City of Meridian ‘s comments on our draft findings follow. Appendix C contains the complete text of the comments.

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Auditee Comments

The Authority generally agreed with the finding. During the November 19, 1999 Board of Commissioners’ meeting, the Commissioners considered adopting a procurement policy that has been written to conform to 24 CFR 85.36 and HUD Handbook 7460.8

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OIG Evaluation of Auditee Comments

The Authority is in the process of implementing steps toward correcting its procurement deficiencies. We believe these actions will bring about significant improvements in its procurement function.

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**Recommendations**

We recommend that you require the Authority to:

- 3A. Establish a centralized procurement function.
- 3B. Implement its procurement policies and procedures to ensure proper contract administration, contract execution, and effective monitoring.
- 3C. Provide procurement training to appropriate personnel that covers contract administration, contract solicitations, cost estimates, price analysis and file documentation.

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# Management Controls

In planning and performing our audit, we considered the Authority's management controls to determine our audit procedures and not to provide assurance on those controls. Management is responsible for establishing effective management controls to ensure that its goals are met.

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined the following management controls were relevant to our audit objectives:

Eligibility of grant activities

Procurement and contracting

We assessed controls in place. We obtained an understanding of the Authority's procedures and HUD's requirements, assessed control risk, and performed various substantive tests of the controls.

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

Based on our review, we believe that the Authority had significant weaknesses in the management controls we tested. The specific weaknesses are discussed in the findings.

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# Follow Up On Prior Audits

This was the first Office of Inspector General audit of the Authority's grant activities.

The last Independent Auditor's audit report was completed by Moody & Morgan, Certified Public Accountants, for the fiscal year ending March 31, 1998. The report issued June 19, 1998, contained a finding which impacted the objectives of this audit. Finding 98-2 related to unallowable costs charged to the Youth Sports Grant Program. The costs were deemed unallowable due to the fact the services provided did not primarily serve the youth from public housing. This issue was resolved at the time of our review.

Similar issues relating to ineligible charges to grants are reported in the findings section of this report.

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## Schedule Of Ineligible and Unsupported Costs

Recommendations	Ineligible	Unsupported
1A		\$ 228,877
2A	\$ 35,855	
2B	_____	<u>\$ 74,370</u>
Totals	<u>\$ 35,855</u>	<u>\$ 303,247</u>

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

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

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# Summary of Procurement and Contract Administration Deficiencies

VENDOR/ CONTRACTOR	CONTRACT DATE	CONTRACT AMOUNT	DEFICIENCIES
After School Youth Development Contracts	03/01/97	various	1, 2, 3
Allkill Pest Control	3/24/97	\$2,352.80 per month	6
Aramark Uniform Service	3/24/97	\$4.95 per person per week	6
BCP	06/21/99	\$5,000	5
Bourdeaux & Jones	12/30/96	\$500 per month	6
Boys And Girls Club	04/27/98	\$ 100,700	1, 2
Bradfield Richards & Associates, Architects, Inc.	11/26/96	\$1,000 per month	6
C & A Construction (CGP)	10/23/97	\$1,486,114.00	
Chambers Waste System of Mississippi	4/22/97	\$1,977.36 per month	6
Chambers Waste System of Mississippi	3/25/97	\$7.50 per residence per month	6
City of Meridian (Security Liaison)	08/22/96	\$72,000	1, 2
Connerly Construction (CGP)	01/29/97	\$1,095,000.00	
Cooke Communications (CGP)	03/02/98	\$35,000	4, 6
Dr. Patty Calvert	05/05/98	\$19,925.00	
Dr. Sheila Wallace	05/29/98	\$10,695.00	
East Mississippi Center for Educational Development	03/16/95	\$ 24,000	1, 2, 4
Heller, Blosky & Dabagian	03/27/98	\$11,000.00	
Independent Security Company	12/18/98	\$60,000.00	
Scratch Pest Control	3/10/97	\$1,182.61	6
Young's Lawn Landscaping	03/27/98	1,250 per month	4

## **DEFICIENCY EXPLANATIONS:**

### **Inadequate Contract Administration**

1. Deliverables not provided by the contractor
2. Payments were not supported

### **Improper Solicitation and Awarding of Contracts**

3. Proposals were not solicited

### **Inadequate procurement records**

4. No independent cost estimate or cost/price analysis

### **Inappropriate contract terms**

5. Vague contract terms
6. Contract executed without prior HUD approval

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# Authority Comments

THE HOUSING AUTHORITY OF THE CITY OF MERIDIAN

2425 E Street • Post Office Box 870  
Meridian, Mississippi 39302-0870  
Phone (601) 693-4285 • FAX (601) 693-4491  
TDD (601) 693-4285

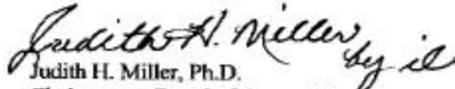
November 18, 1999

Ms. Nancy H. Cooper  
District Inspector General  
For Audit-Southeast Caribbean  
U. S. Department of Housing and Urban Development  
Richard B. Russell Building  
75 Spring Street, SW, Room 330  
Atlanta, GA 30303-3388

Dear Ms. Cooper:

Enclosed is our response to the draft audit report and findings transmitted November 9, 1999.  
If you have any questions, please contact me.

Sincerely,

  
Judith H. Miller, Ph.D.  
Chairperson, Board of Commissioners

JHM/rl

Enclosures

**RESPONSE TO FINDING NO. 1:**

A. Boys and Girls Club of Meridian

The Authority has supported the Meridian Boys and Girls Club since its inception in 1988. This support consisted of affording the Club a place to meet and funds with which to aid its operation. An interview by the Auditors with the Director of the Boys and Girls Club supports the Housing Authority of the City of Meridian's claim that a majority of the children using the Club come from public housing and only a small portion comes from the surrounding community. Since 1994, most of the Boys and Girls Club activities were conducted on Housing Authority property and served, almost exclusively, children from public housing.

Until late 1998, time cards of employees of the Boys and Girls Club were submitted to the Housing Authority. This was stopped after the Internal Revenue Service (IRS) questioned the practice of the Authority making payment to instructors in a similar program as such payments indicated those instructors were employees of the Authority. The Authority felt this was an analogist to what was happening in requiring employees of the Boys and Girls Club to submit time cards to the Authority and therefore that practice was stopped.

In 1997, after a review by the State HUD office, the Authority began requesting the sign-in sheets with the names of the children of public housing participating in programs and activity reports reflecting the Club's activities. When the Boys and Girls

Club did not comply with this requirement, an attempt was made by Meridian Housing Authority staff to withhold funds but payments were approved by the former Executive Director. In early 1999, the Authority began withholding payments until all documentation was received. Based on these items, the Authority is contributing only for public housing use participation.

It is the Authority's opinion that it is unfair to characterize the entire \$106,500.00 as unsupported since it is not disputed that the primary activities of the Club took place on Housing Authority property and, according to the Boys and Girls Club Director, a majority of the children participating were public housing children.

B. Meridian Police Department

The Authority and the City of Meridian in 1995, entered into a contract whereby the City will furnish Police Officers to serve as liaison to the Authority's security patrol. That contract provided that the City Police Department would submit weekly crime reports and incident reports concerning all of the Authority's properties in the City. Due to a lack of personnel, the Police Department stated that is was unable to timely furnish weekly reports to the Authority. Thereafter, the contract between the City and the Authority was modified to reflect the Authority's requirement of monthly crime reports as opposed to weekly reports. At various times, the Authority withheld funds from the City until it received appropriate reports. The Authority is continuing to withhold funds until contractual reports are given to it by the Police Department. As of September 30,1999, Meridian Housing Authority no longer contracts with the Police Department.

The Authority believes it to be unfair to characterize the entire \$51,000.00

payment to the City as unsupported since many of the reports have been received by the Authority. In fact, far more than a majority of the reports have been received since 1997 by the Authority although some were not timely submitted.

C. Salaries

In 1998, based on day-to-day operational experience, recognition was given to the fact that the Director of Housing Operations and the Secretary were both involved in drug elimination activities. A budget revision was requested to reflect an allocation of their time to this program. The budget amendment was approved by HUD on April 30, 1998. A copy of the request and approval are attached.

D. East Mississippi Center for Educational Development (EMCED)

The Authority contracted with the East Mississippi Center for Educational Development (EMCED) for six school teachers to provide instruction at the Learning Well Centers. This contract ended September 30, 1996. Documentation pertaining to the participation in this program has not been found since the Authority moved its central office in the Spring of 1999 from 2305 D Street in Meridian to 2425 E Street in Meridian. A close-out report (see enclosure dated 1995) submitted to Ms. Ruby Busick, Public Housing Director, on January 13, 1995, clearly depicts activities, resident survey and other services performed by Dr. Gary Benton of Mississippi State University. A copy of his letter is attached.

**RESPONSE TO FINDING NO. 2:**

A. After School Youth Development Program

The Authority, in 1997-1998, participated in an After School Program taking place at Carver Middle School, Harris Elementary School and Kate Griffin Junior High School, all public schools within the Meridian Public School System. The Authority failed to require the schools to furnish it with the number of public housing students at each site. The auditors use of a 1996 Public Housing Drug Elimination Program Budget Revision of percent of public housing students at each site is the most reasonable effort that can be made at this time to determine the number of public housing students that were serviced.

A number of sign-in sheets have been found since the audit was accomplished. Those sheets cover months during 1997, 1998 and 1999. Also found was a close-out report consisting of 87 pages. That report is also attached.

Discrepancies noted in this finding have been corrected and the staff instructed that under no circumstances should payments be made without substantiating documents.

**RESPONSE TO FINDING NO. 3:**

**Controls Over Procurement Needed Improvement**

**Background**

During the November 19, 1999 Board of Commissioners' meeting, the Commissioners will consider for adoption a procurement policy that has been written to conform to 24 CFR 85.36 and HUD Handbook 7460.8. The new policy includes procedures that require proper authorization and documentation, as well as issuance of purchase orders and contracts. A copy of this policy is attached.

- (1) Inadequate Contract Administration

*"The Authority did not obtain proper supporting documentation before paying contractors."* Accounting staff presented invoices to the former Executive Director or his designee for approval prior to payment.

(2) Improper solicitations and awarding of contracts

Procurement was made per instructions from the former Executive Director.

(3) Inadequate Procurement Records

The referenced contracts *Cooke Communications and East Mississippi Center for Educational Development* were procured per instructions from the former Executive Director. The other referenced contract for *Young's Lawn Landscaping* did include a cost analysis which was prepared prior to solicitation (see attachment). The award of contract was less than the estimated cost.

(4) Improper Contract Terms

BCP Inc.'s contract was for two reports. The Scope of Service in the contract referenced the RFP language that was more explicit. In the future, the Authority will be more specific in contract language.

In 1996, after the new Annual Contributions Contract (ACC) had been signed, the Authority staff's understanding was that the language which governed the two year contract period had been left out of the new ACC; therefore, contracts written during this period of time were written in excess of two years without prior HUD approval. It was brought to the Authority's attention in September 1997 via staff training, that prior HUD approval is required. Since that time all contracts have been written not to exceed two

years with the exception of any the former Executive Director chose to handle differently (e.g., Cooke Communications). On May 12, 1999, a letter listing the long-term contracts was submitted to the HUD-Mississippi State Office, requesting clarification as to how these should be handled. On May 19, 1999, the HUD-Mississippi State Office determined that due to the time span left on these contracts, it would not be necessary to cancel. The HUD-Mississippi State Office is aware of our current procedures regarding only two-year contracts unless we receive prior HUD approval to do otherwise.

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The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,  
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