



U.S. Department of Housing and Urban Development
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April 26, 2000

00-FW-202-1802

MEMORANDUM FOR: Judy Wojciechowski, Director
Troubled Agency Recovery Team 2, PB2

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

SUBJECT: Alexandria Housing Authority - Agreed upon procedures

On June 7, 1999, I agreed with HUD New Orleans Field Office's recommendation that the Alexandria Housing Authority (Authority) retain an Independent Public Accountant to perform an Agreed Upon Procedures audit of the Authority's administration/management and operations.

The Authority retained William Daniel McCaskill, CPA to perform the agreed upon procedures. The CPA issued his final report on December 6, 1999. The report addresses serious problems at the Authority. Furthermore, the New Orleans Field Office sent the Authority a memorandum, dated March 1, 2000, detailing the required actions needed to correct deficiencies noted in the report. The New Orleans Field Office has been in the process of clearing these findings.

The report identified serious internal control weaknesses and mismanagement at the Authority including:¹

- Potential leave abuse by the former Executive Director;
- Not following procurement requirements;
- Lack of controls over fixed assets and property disposition;
- Lack of controls over inventory;
- Dispute with the City over its payments in lieu of taxes;
- Questionable payments made for the former Executive Director's annuity; and
- Misallocation of costs among its various programs.

The above conditions jeopardize the effective and efficient operation of the Authority and make the Authority susceptible to waste and abuse. As a result, we have decided to control the following recommendations under the Departmental Automated Audits Management System (DAAMS). We have made recommendations that address the conditions cited in the report. Furthermore, we have made the recommendation that HUD take administrative action against the

¹ We have attached a copy of the report.

former Executive Director. We base this recommendation upon the appearance that the former Executive Director abused his leave. The former Executive Director may have directed staff to pay for his annuity benefits, which were substantially more than the benefits paid for other employees. These conditions demonstrate a lack of business integrity on the part of the former Executive Director.² Also, we attribute many of the problems identified in the report to the Executive Director's management of the Authority. We believe his actions or his failure to take appropriate actions indicate a violation of HUD requirements so serious as to affect the integrity of the Authority's operations.³

We recommend that HUD:

- 1A. Take immediate administrative sanctions against the former Executive Director.
- 1B. Ensure that the Authority follows all applicable procurement requirements.
- 1C. Require the Authority to determine the appropriate amount of annual leave owed to the former Executive Director and take necessary measures to recapture any overpayments made to the former Executive Director.
- 1D. Require the Authority to maintain accurate leave balances for all employees, including senior management and ensure that the Authority's Board Chairman approves all leave of the Executive Director.
- 1E. Require the Authority to establish, implement, and maintain accurate controls over its fixed assets and inventories.
- 1F. Ensure that the Authority complied with the Internal Revenue Service requirements relating to payments made for the former Executive Director's annuity.
- 1G. Require the Authority to reimburse HUD programs for any excess or ineligible payments made for the former Executive Director's annuity.
- 1H. Require the Authority to resolve its dispute with the City over its payments in lieu of taxes.
- 1I. Require the Authority to properly allocate insurance costs between its programs. If the Authority has used HUD program funds to improperly pay the insurance costs on properties not included under the Annual Contributions Contract, the Authority should reimburse HUD programs for the amounts.
- 1J. Require the Authority to properly allocate costs among the various programs that it operates.

* * * *

² 24 CFR 24.305(a)(4)

³ 24 CFR 24.305(b)

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

**HOUSING AUTHORITY OF THE CITY OF ALEXANDRIA
ALEXANDRIA, LOUISIANA**

**INDEPENDENT ACCOUNTANTS REPORT
ON APPLYING AGREED-UPON PROCEDURES**

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Board of Commissioners
Housing Authority of the City of Alexandria
Alexandria, Louisiana

US Department of Housing and Urban Development
Office of Public and Indian Housing
New Orleans, Louisiana

We have performed the procedures enumerated below, which were agreed to by the Housing Authority of the City of Alexandria (PHA) and the US Department of Housing and Urban Development (HUD), solely to assist the users in evaluating management's assertion about the PHA's compliance with Federal and State laws and regulations as well as with the PHA's policies regarding

- 1) PHA Procurement
- 2) Attendance and Leave
- 3) Fixed asset controls and disposition
- 4) The use of Modernization Funds for non-PHA purposes
- 5) Other matters that came to our attention that may be of help to the PHA if they are reported on

during the 24 month period ending 7-31-99, included in it's representation letter dated August 13, 1999. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. PROCUREMENT

Interview staff and research documentation concerning procurement.

The specified users (the PHA and HUD) clarified this work task by stating "We question if the PHA has been complying with Federal and State regulations and it's own procurement policy and desire the contractor to document this."

Management's assertion for our use for this AUP states "As to procurement, the PHA probably did not comply with all Federal and State laws and regulations as well as the PHA's own procurement policy."

The work done by this firm to perform this work task and the results are as follows:

In order to perform the documentation research as stated in the statement of work, we scanned check registers for the Low Rent Program and the DOT fund (Department of Transportation fund, which the PHA considers to be a State fund not regulated by Federal laws) as well as some Modernization (MOD) transactions. Our testing was for the purpose of determining if the transactions were in compliance with

- A) Federal and State laws and regulations
- B) the PHA's procurement policy.

We randomly chose 25 transactions totaling \$53,523.23 to test. The results of this work is as follows:

8 Transactions totaling \$35,637.67 where no exceptions were noted.

99-1 5 Transactions totaling \$256.28 where sales tax was paid. PHA's are exempt from paying sales tax per State law.

99-2 10 Transactions totaling \$17,159.43 where specific procurement actions are required per the PHA's procurement policy but no procurement documentation was provided to us.

The PHA's procurement policy states "For small purchases in excess of \$1,000.00 but not exceeding \$10,000.00, no less than three (3) offerors shall be solicited to submit price quotations...The names, addresses, and/or telephone numbers or the offerors and persons contacted, and the date and amount of each quotation shall be recorded and maintained as a public record."

99-3 2 Transactions totaling \$469.85 where liquor was purchased and charged to the DOT fund, which the PHA considers to be regulated by State law rather than by Federal law. The Attorney General's office indicates that the purchase of alcohol with State funds may be in violation of LRS 14:140, Attorney General Opinions 96-458, 95-167, and 90-63. This firm makes no legal conclusion on this matter.

We were directed by the specified users to specifically test certain documentation where they indicated possible procurement problems existed. At their direction, we tested 45 transactions and /or contracts totaling \$2,218,987.58. The results of this work is as follows:

99-4 We examined 4 independent audit contracts covering annual PHA audits for 10 years with a total contract amount of \$118,588. We were provided no documentation to indicate that Competitive Procurement policies were followed. The two (2) contracts prior to 1995 were for periods of three years each. The Annual Contributions Contract between the PHA and HUD in effect at that time required HUD approval of any contract in excess of two (2) years. HUD indicates that they did not approve these contracts. Additionally, HUD's position is that PHA's are required to follow 24 CFR 85.36. The PHA's procurement policy states that it follows 24 CFR 85.36. Communication with HUD and HUD OIG reveals that they both feel that all four (4) audit contracts were not in compliance with 24 CFR 85.36 regarding the documentation of competitive proposals.

99-5 We examined two (2) monthly accounting contracts with two (2) separate CPA firms, one (1) being the same firm that performs the annual audit. The contracts were for \$9,600 per year and the other for \$12,900 per year. No competitive proposal documentation was provided us on either of these contracts to enable us to determine if they were in compliance with 24 CFR 85.36.

99-6 We examined the 1998 expenditure for security patrol in the amount of \$105,120. No documentation was provided indicating that the PHA's procurement policy Sections II and III was followed.

99-7 We tested 2 Transactions totaling \$1,967,070 where deductions of \$2,000 and \$2,300 were made to sealed bids. The PHA's engineering firm indicates that this is an acceptable practice allowing the contractor to incorporate last minute changes in subcontractor quotes. We understand that this matter has been referred by HUD to HUD OIG. This firm makes no conclusion on this matter but is simply stating what we found.

99-8 We tested 36 transactions totaling \$5,709.58 which was the payment of employee annual incentive bonuses using the DOT fund. We understand that the PHA calculation of the incentive bonus is strictly based upon the employees longevity, which may violate State law Article VII, Section 14 of the State Constitution. Additionally, the payment of these incentive bonuses may cause some employees to be paid in excess of the amount allowed by State Civil Service.

In order to perform the staff interviews as stated in the statement of work, we obtained a list of PHA employees and the specified users suggested particular employees to interview.

Our interviews were conducted to determine if the staff was aware of PHA activities that were not in compliance with

- A) Federal and State laws and regulations
- B) the PHA's procurement policy.

The work done by this firm to perform this work task and the results are as follows:

99-9 On August 12, 1999 or August 13, 1999, we interviewed the MOD Coordinator, taking notes of the interview. The notes reveal that he indicated that the procurement of the 1998 Security Patrol contracts with patrol officers described in the preceding documentation testing had not been done following any guidance included in the PHA's procurement policy or 24 CFR 85.36.

99-10 On August 9, 1999, two (2) firm staff members interviewed the Interim ED, taking independent notes of the interview. He indicated that it was common practice for the Board of Directors to conduct a board meeting, adjourn the meeting, and then retire to a local restaurant whereby meals and alcohol was provided by the PHA. He questioned whether this was a proper use of PHA funds. The PHA attorney indicates that no business was conducted at the restaurant gatherings so the State Open Meetings Law was not violated. If no business was conducted at the restaurant, the issue is raised whether or not the expenditure of public funds is proper. This firm makes no judgement on this matter.

2. ATTENDANCE AND LEAVE

Interview staff and research documentation concerning attendance and leave.

The specified users (the PHA and HUD) clarified this work task by stating "We question if the PHA is now complying with State Civil Service regulations and it's own personnel policy regarding the former Executive Director's leave payments and desire the contractor to document this."

Management's assertion for our use for this AUP states "As to attendance and leave, the PHA probably did not comply with all State Civil Service regulations as well as the PHA's own personnel policy."

The work done by this firm to perform this work task and the results are as follows:

Addressing the matter of leave, in order to perform the documentation research as stated in the statement of work, we examined the following documentation provided by the specified users. Our examination was for the purpose of documenting whether or not PHA activities were in compliance with

- A) State Civil Service regulations
- B) the PHA's personnel policy.

The work done by this firm to perform this work task and the results are as follows:

99-11 We examined letters from the Executive Director to the Board and PHA staff dated May 1999, indicating his intention to begin taking annual leave at that time and to retire effective January 2, 2000.

99-12 We examined a local CPA firm's AUP report addressed to the board dated May 27, 1999 addressing the issue citing the PHA personnel policy, MJF Executive Order 98-23, State Civil Service Commission, Section XXX, and Section XXVI G. and stating that "... under voluntary termination "you may be eligible for payment of accrued annual leave not to exceed 300 hours.""

99-13 We examined board minutes dated May 27, 1999 whereby the board of commissioners voted to permit the ED to begin taking annual leave in May 1999 and to retire effective January 2, 2000.

Addressing the matter of attendance, in order to perform the documentation research as stated in the statement of work, we examined the following documentation provided by the specified users. Our examination was for the purpose of documenting whether or not PHA activities were in compliance with

- A) State Civil Service regulations
- B) the PHA's personnel policy.

The work done by this firm to perform this work task and the results are as follows:

99-14 We examined a letter from the Board Chairman to a HUD staff member in May of 1999, in which the Board Chairman states "Mr. Lanier has never come to the board to ask for any time off, but he takes off weeks at a time and never works on fridays---can be documented by workers for the Housing Authority."

99-15 We examined the ED's attendance and leave records dating back to his employment in 1988. The leave records during this eleven (11) year period reflect that he took leave on 2 occasions, once in 1990 and once in 1991.

99-16 We examined a staff member's calendar which noted leave taken by the ED from May 1997 through 5-13-99. The calendar reflects that the ED took off 259.5 hours during that time period, in direct conflict with the ED's attendance and leave records.

99-17 We examined a letter from the ED to Mr. Drozdowski of HUD staff dated 7-8-98, whereby the ED concludes the letter by stating "I apologize for the delay in this matter. I was on vacation." Review of the ED's attendance and leave records indicates no leave taken at all for the calendar year 1998. Review of the staff member's calendar indicates that the ED was on leave of 40 hours from 6-22-98 through 6-26-98, 16 hours for 6-29-98 and 6-30-98, and 24 hours from 7-1-98 through 7-3-98.

99-18 We examined an Agreed-Upon Procedures report of a local CPA firm dated 5-27-99, which states that "...We were informed of several instances where the Executive Director was gone on an extended periods but no leave slips were completed and no time was eliminated from his leave records."

In order to perform the staff interviews as stated in the statement of work regarding attendance, we obtained a list of PHA employees and the specified users suggested particular employees to interview.

Our interviewing staff was for the purpose of determining if the staff knew of PHA activities that were not in compliance with

- A) State Civil Service regulations
- B) the PHA's personnel policy.

The work done by this firm to perform this work task and the results are as follows:

99-19 On August 9, 1999, August 12, 1999, and August 13, 1999, two (2) members of our staff interviewed three (3) PHA staff members. Both of our staff members were present for these interviews and each took independent notes of the interviews. The PHA staff interviewed on these dates represented that the ED almost never worked on Fridays.

99-20 During the interview of August 9, 1999, we asked to examine the record of the ED's comp time. We were told by the PHA staff member that no record of the ED's comp time existed. We did not discuss these issues with the ED because he was on leave during the time we performed the procedures.

3. FIXED ASSET CONTROLS AND DISPOSITION

Interview staff and research documentation concerning fixed assets control and disposition.

The specified users clarified this work task by stating "We question if the PHA is complying with Federal and State laws and regulations as well as the PHA's own disposition policy as well as whether or not the PHA maintains adequate internal controls over fixed assets and desire the contractor to document this,"

Management's assertion for our use for this AUP states "As to Fixed Assets controls and disposition, the PHA may not have adequate control over fixed assets and probably did not comply with the PHA's own disposition policy."

The work done by this firm to perform this work task and the results are as follows:

In order to perform the staff interviews as stated in the statement of work regarding fixed asset controls, we obtained a list of PHA employees and the specified users suggested particular employees to interview.

Our interviewing staff was for the purpose of determining if the staff knew of PHA activities

- A) not in compliance with Federal and State regulations
- B) that indicates that the PHA maintains adequate internal controls over fixed assets.

The work done by this firm to perform this work task and the results are as follows:

99-21 On August 10, 1999 and August 11, 1999, two (2) firm staff members interviewed the two (2) PHA accounting department staff members, each taking independent notes of the interviews. The accounting department is now charged with fixed asset controls. The staff member responsible for fixed asset controls indicated that there are "...no controls..." over fixed assets.

99-22 On August 10, 1999, two (2) firm staff members interviewed a PHA maintenance department staff member, each taking independent notes of the interview. The PHA staff member indicated that there was no longer a gasoline usage log maintained for the gasoline tank on site.

99-23 On August 11, 1999, a firm staff member toured the maintenance department in the company of a PHA maintenance department employee. When asked about inventory controls over the approximate 75 stoves and refrigerators on site, many still in the shipping crate, the PHA employee indicated that there was no inventory control over these items.

99-24 On August 10, 1999, two (2) firm staff members interviewed two (2) PHA maintenance department staff members, each taking independent notes of the interviews. Both staff members indicated that the stock room containing maintenance materials was often entered at night and that they noted some materials missing the next morning. They indicated that too many PHA employees have keys to the stock room and the maintenance gate itself.

In order to perform the documentation research as stated in the statement of work regarding fixed asset controls, we examined documentation that we thought appropriate to complete the work task.

Our documentation research was for the purpose of determining if the PHA fixed asset controls were

- A) in compliance with Federal and State regulations
- B) adequate for the PHA to maintain internal controls over fixed assets.

The work done by this firm to perform this work task and the results are as follows:

99-25 We examined the PHA's computerized property ledger. The first page of the section containing stoves and refrigerators indicates 8 stoves and refrigerators (out of 50 on the page) with an acquisition date in 1999 recorded at a cost of zero (0).

99-26 We examined the PHA's gasoline log provided to us in 11-99. The latest entries on the log were for 7-99. We were not provided any documentation to indicate that any entries into a log were made subsequent to 7-99.

In order to perform the staff interviews as stated in the statement of work regarding fixed asset dispositions, we obtained a list of PHA employees and the specified users suggested particular employees to interview.

Our interviewing staff was for the purpose of determining if the staff knew of PHA disposition activities that were not in compliance with

- A) Federal and State regulations
- B) the PHA's disposition policy.

The work done by this firm to perform this work task and the results are as follows:

99-27 On August 9, 1999, August 10, 1999, August 12, 1999 and August 13, 1999 two (2) firm staff members interviewed four (4) PHA staff members, each taking independent notes of the interviews. All four (4) PHA employees indicated that, in 1995, the ED sold two (2) tractors to an individual for a total of \$700. They indicated that the tractors were not advertised for sale and we were provided no competitive bidding documentation. Three (3) of the staff members indicated that the \$700 price was extremely attractive. One (1) of the staff members indicated that the tractors were driven on the buyer's trailer without mechanical assistance, an indication that they were in running condition.

99-28 On August 9, 1999, August 10, 1999, and August 13, 1999 two (2) firm staff members interviewed four (4) PHA staff members, each taking independent notes of the interviews. All four (4) PHA employees indicated that, prior to going on annual leave, the ED purchased from the PHA a TV/VCR set for \$25, and a 12" band saw for \$50. All four (4) staff members indicated that the items were in good condition and there was no competitive bidding documentation provided for our review.

In order to perform the document research as stated in the statement of work regarding fixed asset dispositions, we examined documentation we thought relevant after interviewing PHA employees.

Our document research was for the purpose of determining if the PHA disposition activities were in compliance with

- A) Federal and State regulations
- B) the PHA's disposition policy.

The work done by this firm to perform this work task and the results are as follows:

99-29 We examined the PHA's disposition policy adopted in 1966. Even though State law has changed since 1966, it appears the disposition policy was never changed and is still in effect. The disposition policy states "If the estimated sales value of the personal property offered for sale is less than \$100 the Executive Director may negotiate a sale in the open market after such informal inquiry as he/she considers necessary to insure a fair return to the local authority." "For sales from \$100 to \$1,000 the Executive Director shall solicit informal bids orally, by telephone, or in writing from all known prospective purchasers and a tabulation of all such bids received shall be prepared and retained as part of the permanent record."

99-30 We examined the purchase documents for two (2) tractors later sold to an individual on 2-23-99 and confirmed that they cost \$7,500 each. We asked to review competitive bidding documentation for the original purchase of these tractors in 1995 and were provided no documentation to examine. We examined the Bill of Sale from the PHA to the individual for \$700 dated 2-23-99. We asked for but were provided no documentation regarding the sale of these tractors to determine if the disposition policy had been followed.

4. USE OF MODERNIZATION FUNDS FOR NON-PHA USE

Interview staff and research documentation concerning the possible use of Modernization (MOD) funds for non-PHA use.

The specified users clarified this work task by stating "Staff rumors include the use of Modernization funds for non-PHA purposes and desire the contractor to document this,"

Management's assertion for our use for this AUP states "As to the use of Modernization funds, the PHA may or may not have allowed some Modernization funds to be used for non-PHA purposes."

The work done by this firm to perform this work task and the results are as follows:

In order to perform the staff interviews as stated in the statement of work regarding the use of modernization funds for non-PHA use, we obtained a list of PHA employees and the specified users suggested particular employees to interview.

Our interviewing staff was for the purpose of determining if the staff knew of any specific instances where MOD funds were used for non-PHA purposes.

The work done by this firm to perform this work task and the results are as follows:

99-31 On August 10, 1999 and August 13, 1999 two (2) firm staff members interviewed two (2) PHA staff members, each taking independent notes of the interviews. These employees reported rumors of non-PHA use of MOD funds. However, they had no proof of these rumors and offered no suggestions on how to prove them.

Based on the above, we did not research any documentation on this matter.

5. OTHER MATTERS

Interview staff and research documentation on matters coming to your attention that may be of help to the PHA if they are reported on.

The specified users , when they clarified the work tasks, added a fifth (5) work task requesting reporting on "Any other matters that may come to your attention during the course of your work under this contract that may be of help to the PHA is they are reported on."

Management provided no assertion for our use for this AUP work task.

The work done by this firm to perform this work task and the results are as follows:

In order to perform the staff interviews as stated in the statement of work regarding other matters coming to our attention, we simply made notes of other matters during the course of interviews on the original four (4) work tasks.

Our interviewing staff was for the purpose of determining if the staff knew of any other matters that may be of help to the PHA if we reported on them.

The work done by this firm to perform this work task and the results are as follows:

99-32 On August 9, 1999 two (2) firm staff members interviewed the Interim ED, each taking independent notes of the interview. The PHA staff member questioned whether or not the City was providing police protection to the PHA residents at the same level of service as other City residents. His position was that the PHA has two (2) off duty City policemen on duty at the PHA twenty four (24) hours every day. Since these off duty police officers receive the "first call", and since there rarely are two (2) calls at the PHA at the same time, the question is if the PHA is simply subsidizing the City police department.

99-33 On August 12, 1999, we interviewed the MOD coordinator, taking notes of the interview. He indicated that he was responsible for receiving cash for the sale of surplus equipment, providing a cash receipt for the item, and providing a Bill of Sale for the item. He is not using a pre-numbered receipt book for this task, but agreed doing so may improve internal controls.

99-34 On August 10, 1999 two (2) firm staff members interviewed an accounting department employee, each taking independent notes of the interview. It came to our attention that the DOT fund did not have a budget. State law LRS 39:1304 requires a budget for all State funds. Federal law A-87 requires an entity-wide budget.

99-35 On August 10, 1999 two (2) firm staff members interviewed an accounting department employee, each taking independent notes of the interview. We asked if the PHA had any units in flood zones. The staff member indicated that they did not know and that the PHA has no flood insurance. HUD requires the PHA provide flood insurance on all units in a flood zone. HUD will pay for this insurance as an add on to the Operating Subsidy.

In order to perform the documentation research as stated in the statement of work regarding other matters coming to our attention, we chose documentation to examine based on interviews with PHA staff in performing the first four (4) work tasks and based on other documentation we examined in performing the first four (4) work tasks.

Our documentation research was for the purpose of determining any other matters that may be of help to the PHA if we reported on them.

The work done by this firm to perform this work task and the results are as follows:

99-36 We examined the PHA personnel policy and notes to the PHA's annual financial statements, both of which clearly state that the PHA provides pension benefits for all full time employees through a defined contribution plan and that the PHA's contribution is equal 7% of each employee's compensation. The Ed does not participate in this plan but instead directed PHA staff to pay amounts equal to between 13.7% and 19% of his annual salary to a Life Insurance Annuity. This difference in benefits between staff members may be in violation of A-87. None of the PHA's contributions over the years has been included in W-2 reporting to the IRS. This firm is not a tax firm and make no conclusion but we are simply informing the PHA of the issue.

99-37 We examined MOD documents and the Low Rent operating budget. The MOD coordinator self-admittedly performs many functions not connected to MOD, however all of his salary is charged to MOD. Per A-87, all salaries should be appropriately allocated to the different programs the staff member works on.

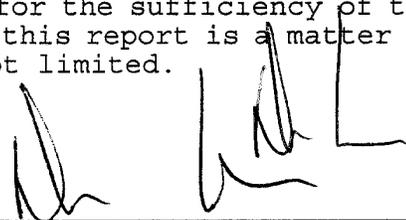
99-38 We requested a copy of the 6-30-99 balance sheet and operating statement to determine if the PILOT was being properly handled. Per HUD regulation, the PHA pays no property taxes but instead pays the City a Payment in Lieu of Taxes (PILOT). In return, per the cooperation agreement between the City and the PHA executed 10-8-41, the City must deliver all required public services to the PHA's developments at no cost. As of 6-30-99, the PHA has withheld \$168,935 of PILOT from the City. The PHA recorded no PILOT expense for the fiscal year ended 6-30-99. We were advised by a PHA staff member on 8-9-99 that the PHA and the City were in a dispute causing the withholding of this payment. Per the Guidebook for Monitoring and Enforcing Public Housing Agency Cooperation Agreements, published by the HUD OIG, page 8 "PHA's should be aware that under the terms of both the Annual Contributions Contract and the Cooperation Agreement, the Federal Government could have reason to institute a cause of action against either the PHA or the local governing body or both, if they cancel or abrogate the Cooperation Agreement without HUD's consent or if either or both fail to comply with their obligations thereunder." On page 13 of the same document it states "The Field Office has the authority to refuse to accept any ineligible expenses as part of the PHA's operating budget. An ineligible expense may be one that was incurred by the PHA to purchase a service that it was already entitled to under its Cooperation Agreement."

99-39 We requested a copy of the operating budget to determine if there was a proper allocation of insurance between the programs. It appears that the DOT houses have insurance but that the cost is being charged to Federal programs in violation of A-87.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

August 13, 1999



William Daniel McCaskill, CPA
A Professional Accounting Corporation

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