



U.S. Department of Housing and Urban Development
Southwest District Office of Inspector General
819 Taylor Street, Suite 13A09
Fritz G. Lanham Federal Building
Fort Worth, Texas 76102
(817)978-9309 FAX (817)978-9316
<http://www.hud.gov/oig/oigindex.html>

May 10, 2000

00-FW-202-1803

MEMORANDUM FOR: Chet Drozdowski
Director, Office of Public Housing, 6HPH

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

SUBJECT: Leesville Housing Authority
Citizen Complaint
Leesville, Louisiana

Our office reviewed a complaint concerning the Leesville Housing Authority (Authority) relating to its use of Comprehensive Improvement Assistance Program (CIAP) funds. The complainant alleged that the Executive Director improperly used Authority funds to roof his personal residence. Also, the complainant alleged that the Authority prematurely replaced the roofs on its buildings and did not follow applicable procurement requirements in using CIAP funds.

To substantiate or refute the allegations, we interviewed HUD staff, Authority personnel, and contractors. We also reviewed and analyzed relevant documentation supplied by HUD, the Authority, its Executive Director, and contractors.

The Executive Director provided documentation to invalidate the claim that he used Authority funds to roof his personal residence. However, the Authority could not support the need to re-roof buildings within 5 to 7 years. Therefore, the Authority may have used \$333,452 in CIAP funds ineffectively. Further, the Authority did not follow procurement requirements in the purchase of roofing materials (\$174,547), security screen doors and windows (\$242,000), and architectural and engineering firms (\$54,275). Without proper procurement, it is unknown if the Authority received the best quality of goods and services at the lowest possible costs. The Authority also failed to follow hiring procedures when it filled the supervisor/trainer positions.

The Authority failed to adequately determine and document the necessity of its CIAP projects. The Authority obtained the funds to complete the roof replacements by either canceling or substantially reducing other projects. Further, the Authority lacks an understanding of procurement laws to ensure that funds are used effectively and economically.

We recommend that the Authority either supports its need to replace the roofs or repay the funds that it spent ineffectively. The Authority needs to develop and implement a procurement policy that is consistent with HUD requirements and State law. The Authority also needs to ensure that it documents the need for its CIAP projects, and that it does not repeatedly request funding for projects that it cancels or reduces. Further, the Authority needs to strengthen its internal controls relative to the order, receipt, and payment of goods.

Within 60 days, please furnish this office, for each recommendation in this memorandum, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to this memorandum.

If you have any questions, please call me or William Nixon, Assistant District Inspector General for Audit, at (817) 978-9309.

Background.

We received a complaint on the Leesville Housing Authority (Authority) regarding the improper use of its Comprehensive Improvement Assistance Program (CIAP) funds. Specifically, the complainant alleged the Authority: installed a metal roof on the Executive Director's personal residence; prematurely replaced roofs; and did not follow applicable procurement requirements.

The Authority operates 194 housing units in 89 buildings. HUD competitively awards CIAP funds to Public Housing Agencies for modernization of its public housing units. The Authority received \$500,000 of CIAP funds in 1996. It used \$304,476 of these funds to install new metal roofs on all of its 89 buildings.

The Authority performed the metal roofing work as a Resident Initiative Project. The Authority purchased the materials, and the residents performed the installation after training and supervision by knowledgeable contractors. The costs included: \$201,000 for materials; \$66,600 for resident labor; and \$36,900 for supervisor/trainers. During the same period of time, the Executive Director acquired the same metal roofing on his personal residence, installed by the same roofers that worked on the Authority housing units.

The Authority is located at 213 Blackburn Avenue, Leesville, Louisiana. We performed our review in May 1999.

Executive Director's Provided Support for the Roof on His Personal Residence.

We did not substantiate the complainant's allegation that the Executive Director used Authority funds to roof his house. The Executive Director replaced the roof on his residence in February 1997, following the completion of the first phase of roofing at the Authority. He obtained the roofing materials for his residence from the same vendor the Authority used. Further, he utilized the same supervisor/trainer and residents that did the work at the Authority. The Executive Director provided documentation to support that he paid for the materials and labor costs of the roof on his residence. However, to avoid any appearance of impropriety, the Executive Director should more clearly separate his personal business from that of the Authority.

Questionable Need for Roof Replacement.

The Authority replaced roofs more frequently than their expected useful life. It could not support the need to prematurely replace these roofs. As a result, the Authority may have ineffectively used its CIAP funds. Further, it appears that the Authority cannot properly plan and execute its CIAP grants.

In 1993, at a cost of \$54,000, a roofing contractor replaced the shingle roofs on 41 of its 89 buildings. Of the 41 buildings, 22 (or 54 percent) were constructed 7 years earlier in 1986. The Authority performed the work under its 1992 CIAP grant. The shingles installed in 1993 had an expected useful life of 20 years, the length of the manufacturer's warranty. According to the roofing contractor, few, if any, of the roofs needed replacement. The Authority could not support

its decision to replace the roofs on the 22 buildings in 1993. As a result, it is unknown whether the Authority effectively used the \$28,976 associated with these 22 buildings.

In 1996 and 1998 the Authority installed new metal roofs on all 89 of its buildings, including the 41 shingled in 1993. The Authority originally requested \$97,000 for the metal roofing project on its 1996 CIAP grant application, which only stated that "80 units of the PHA appear to be weather beaten and/or worn with age." The Executive Director expanded the scope of the project to include all of its buildings (194 units). The Authority did not adequately document the necessity of the project in its grant application or the subsequent \$207,476 budget increase (from \$97,000 to \$304,476).

According to the Executive Director, the roofs needed replacing due to hail damage and faulty construction that caused leaks. He explained that the Authority did not file an insurance claim because it had a \$1,000 per building deductible, and total replacement may not have been deemed necessary. Furthermore, he believed it was more economical to replace all the roofs at one time due to the ongoing resident initiative project. By installing the metal roofs, he believed it would eliminate leaks conclusively. The Executive Director did not provide support for the need to replace the roofs such as pictures, damage reports, or maintenance work orders. The Authority did not perform any analysis of the cost/benefit of repairing versus replacing the roofs or whether it would be more economical to replace all the roofs at one time.

A supervisor/trainer during the 1998 work thought replacing the shingles with metal roofs was "ridiculous." It does not appear reasonable to replace roofs within 5 years, especially since the 1993 roofing materials had a 20-year manufacturer's warranty.

As a result, the Authority should submit adequate documentation to HUD to support the replacement of the roofs or repay the program the \$304,476 spent to replace the roofs on the 194 units.

Funding Obtained from Canceled Projects.

The Authority had the additional funds to replace all of the roofs because it canceled or substantially reduced other projects in its 1996 CIAP grant. The Executive Director requested and obtained CIAP funds for the canceled projects in 1997. For instance, the Authority reduced the funding for a brick siding project from \$170,000 to about \$17,000. The Authority requested and obtained another \$128,000 for the siding project in its 1997 CIAP grant.¹ The Authority repeatedly requested funding for projects that it subsequently canceled or substantially reduced, and then obtained funding for the projects again in the following year. The Authority should better plan and execute its CIAP.

¹ The 1997 siding project was revised to about \$78,000, again making funds available for other projects.

Procurement Regulations Not Followed in the Purchase of Metal Roofing Materials.

The Authority did not follow procurement regulations when it purchased \$174,547 of metal roofing materials². The Authority obtained quotations from a few suppliers, but the Authority did not:

- Maintain records to sufficiently detail the history of the procurements in 1996 and in 1998;
- Document performance of a cost or price analysis to ensure reasonableness of the contract price;
- Document its determination of need or specific requirements, which resulted in quotations for varying requirements that were difficult to compare; and
- Publicly advertise an invitation for bids or a request for proposals.

Procurement regulations³ required that the Authority maintain records sufficient to detail the history of a procurement. The records should include rationale for the method of procurement, selection of contract type, contractor selection, and the basis for the contract price. Furthermore, the Authority should perform a cost or price analysis to determine the reasonableness of the proposed contract price.⁴ The Authority's file did not have adequate documentation.

According to HUD Handbook 7460.8, the Authority must use either sealed bidding or competitive proposal procedures for contracts that are expected to exceed \$25,000. In addition, regulations⁵ required the Authority to publicly advertise either an invitation for bids or request for proposals; however, the Authority did not do this. The Authority requested quotations from a few suppliers by faxing floor plans of the buildings and requests for total material prices.

Under the work performed in 1996, the Authority did not independently determine its specific requirements. This hampered efforts to compare quotations. In 1998, the Authority apparently determined requirements because the quotations were for the same materials. The Authority received quotations from four suppliers in 1996 and two suppliers in 1998. The Authority did purchase the materials from the lowest quoted price received. However, it is not known whether the Authority could have obtained a lower price if it had properly advertised its purchase of roofing materials.⁶

² The Authority purchased \$26,413 of materials from other vendors, for a total of \$200,960.

³ 24 CFR 85.36(b)(9)

⁴ 24 CFR 85.36(f)(1)

⁵ 24 CFR 85.36(d)(2)(ii) and (d)(3)(i)

⁶ The \$174,547 for roofing materials is included in the \$304,476 questioned above.

Weak Internal Controls for Orders and Payments for Metal Roofing Material

The Authority did not have appropriate controls over the ordering, receiving and payment of roofing materials. To deter misappropriation of assets, a procurement should involve a purchase order, a warehouse receipt, and an invoice that are matched before payment. However, the Authority used the seller's sales order to function as the purchase order and warehouse receipt. Hence, even though the Authority matched invoices with sales orders before payment, it paid invoices without documenting receipt at the job site.

Furthermore, the Authority paid invoices when the seller's sales order did not contain the date of the order, and even when the signature of the person who picked up the order was missing. In addition, the Authority allowed its employees and contracted supervisor/trainers to both place and pick up orders, and paid the invoices without a receipt being verified by another person.

Because the Authority only has a few employees, an ideal segregation of duties is difficult to achieve. However, at a minimum, the order and receipt of goods should be documented by an Authority employee, and the same person should not approve payment.

Procurement Regulations Not Followed in the Purchase of Security Screen Doors and Windows.

The Authority spent approximately \$242,000 for security screen doors and windows with 1992 and 1994 CIAP funds, and deviated from applicable procurement regulations as follows:

- The Authority did not maintain records sufficient to detail the history of the procurements;
- It did not determine or adequately document its specific requirements for the windows, which resulted in quotations for varying requirements that were difficult to compare;
- It did not publicly advertise invitations for bids or requests for proposals;
- There was no evidence that the Authority performed a cost or price analysis to ensure reasonableness of the contract price; and
- The Authority issued purchase orders even though the dollar magnitude required them to have formal contracts.

Contrary to the procurement regulations, the Authority did not publicly advertise invitations for bids or requests for proposals detailing the exact requirements. Also, it did not document the selection of the type of contract (purchase order versus contract), the performance of a cost or price analysis, or the negotiations of a fair and reasonable price.

The Authority obtained bids from two vendors for the door screens, and three vendors for the windows and screens. For the windows and screens, the vendors submitted quotes for

different window sizes and quantities. Further, there was no documentation in the Authority's files to show how the bids compared or to demonstrate how they selected the particular vendor. It is not known if the Authority could have obtained a lower price if it had properly advertised its purchase of screen doors and windows.

The Authority Failed to Follow Regulations in Hiring of Supervisor/Trainers.

The Authority did not publicly advertise positions to supervise/train the residents, and did not use competition in the selection of supervisor/trainers. The hiring practice of these positions was not in accordance with procurement regulations as detailed in HUD Handbook 7460.8 as follows:

- The Authority did not use competition for its procurement of recurring services greater than \$25,000. The Authority did not document any attempt at competition and
- The Authority did not use formal contracts for services with detailed scopes of services. It should have used fixed-price (lump sum or unit price) or time and material contracts with ceiling amounts.

The Authority did not publicly advertise the supervisor/trainer positions. Payments to supervisors/trainers in 1994, 1995, 1996, and 1997 totaled \$7,205, \$20,660, \$42,398, and \$28,767, respectively.

The Executive Director stated that he contacted area roofing companies about training the residents, but none were interested. He did not provide documentation to show who he contacted or the responses obtained. The Executive Director then offered the positions to personal acquaintances. The hourly rate of \$15 paid to the supervisor/trainers does not appear unreasonable. However, the Executive Director should avoid appearances of favoritism by properly advertising all positions and documenting the results.

Procurement Regulations Not Followed in the Selection of Architectural and Engineering (A&E) Firms.

The Authority did not follow all applicable procurement regulations in the selection of CIAP project Architectural and Engineering (A&E) firms for 1992, 1993, and 1996, which were compensated \$27,360, \$19,000, and \$7,915, respectively. The Authority deviated from applicable procurement regulations as follows:

- The Authority did not maintain records to sufficiently detail the history of the procurements of A&E services. In particular, the Authority did not document why it selected the A&E firms;
- For the 1993 CIAP, the Authority did not document that it publicly advertised a request for proposals;

- The Authority did not perform a cost or price analysis to ensure the reasonableness of the contract price; and
- For its 1996 CIAP, the Authority awarded a sole source contract.

HUD regulations⁷ required competition in the selection of A&E firms. Although the Authority received qualification submittals from various A&E firms for the 1992 and 1993 CIAP projects, the Authority's files did not include a basis for selection. Therefore, the Authority could not show why it selected the A&E firm.⁸ Furthermore, the Authority lacked documentation that it negotiated a reasonable price for the work done by the A&E firms.

The Authority did advertise a request for proposals for the 1996 CIAP project. However, it did not receive any responses. The Executive Director then contacted an A&E firm and issued a sole source contract. The Executive Director did not solicit proposals from other firms as required.⁹ The Authority cannot support its award of a sole source contract to this firm. Additionally, the Authority did not perform a cost analysis on any of the contracts.

As a result, it is not known whether the Authority obtained the most qualified A&E firm at a fair and reasonable compensation.

New Procurement Policies.

The Executive Director explained that the Authority would draft new procurement policies that will be consistent with all state and federal procurement regulations. Authority officials stated that at the time they let the contracts, they were not aware of all of the applicable procurement regulations. The Authority had a very limited one-page procurement policy at the time.

Recommendations:

We recommend your office:

- 1A. Require that the Authority support its 1993 decision to replace the shingle roofs on 22 buildings constructed in 1986, or repay the CIAP the \$28,976 associated with these roofs.
- 1B. Require that the Authority supports the necessity of the metal roofs installed on all 194 of its units, or repay the CIAP the portion of the \$304,476 spent that it cannot justify.
- 1C. Monitor the Authority to ensure that it documents the need for its CIAP projects, and that it does not repeatedly request funding for projects that it cancels or reduces.
- 1D. Ensure that the Authority formulates and implements procurement policies consistent with HUD requirements and State law.

⁷ 24 CFR 85.36(d)(3)(v)

⁸ The same architectural firm received the \$27,360 and \$19,000 contracts.

⁹ 24 CFR 85.36(d)(3)(ii)

- 1E. Require the Authority to implement appropriate internal controls to safeguard its assets.

DISTRIBUTION

Secretary's Representative, 6AS
 Comptroller, 6AF
 Director, Accounting, 6AAF
 Director, Office of Public Housing, 6APH
 Office of Public Housing, 6HPH
 Saul N. Ramirez, Jr., Deputy Secretary, SD (Room 10100)
 Kevin Simpson, Deputy General Counsel, CB (Room 10214)
 Jon Cowan, Chief of Staff, S (Room 10000)
 B. J. Thornberry, Special Asst. to the Deputy Secretary for Project Management, SD (Rm 10100)
 Joseph Smith, Acting Assistant Secretary for Administration, A (Room 10110)
 Hal C. DeCell III, A/S for Congressional and Intergovernmental Relations, J (Room 10120)
 Ginny Terzano, Sr. Advisor to the Secretary, Office of Public Affairs, S (Room 10132)
 Roger Chiang, Director of Scheduling and Advance, AL (Room 10158)
 Howard Glaser, Counselor to the Secretary, S (Room 10218)
 Rhoda Glickman, Deputy Chief of Staff, S (Room 10226)
 Todd Howe, Deputy Chief of Staff for Operations, S (Room 10226)
 Jacquie Lawing, Deputy Chief of Staff for Programs & Policy, S (Room 10226)
 Patricia Enright, Deputy A/S for Public Affairs, W (Room 10222)
 Joseph Hacala, Special Asst for Inter-Faith Community Outreach, S (Room 10222)
 Marcella Belt, Executive Officer for Admin Operations and Management, S (Room 10220)
 Karen Hinton, Sr. Advisor to the Secretary for Pine Ridge Project (Room 10216)
 Gail W. Laster, General Counsel, C (Room 10214)
 Armando Falcon, Office of Federal Housing Enterprise Oversight (Room 9100)
 William Apgar, Assistant Secretary for Housing/FHA, H (Room 9100)
 Susan Wachter, Office of Policy Development and Research (Room 8100)
 Cardell Cooper, Assistant Secretary for CPD, D (Room 7100)
 George S. Anderson, Office of Ginnie Mae, T (Room 6100)
 Eva Plaza, Assistant Secretary for FHEO, E (Room 5100)
 V. Stephen Carberry, Chief Procurement Officer, N (Room 5184)
 Harold Lucas, Assistant Secretary for Public & Indian Housing, P (Room 4100)
 Gloria R. Parker, Chief Information Officer, Q (Room 8206, L'Enfant Plaza)
 Frank L. Davis, Director, Office of Dept Operations and Coordination, I (Room 2124)
 Office of the Chief Financial Officer, F (Room 2202)
 Edward Kraus, Director, Enforcement Center, V, 200 Portals Bldg., Wash. D.C. 20024
 Donald J. LaVoy, Acting Director, REAC, X, 800 Portals Bldg., Wash. D.C. 20024
 Ira Peppercorn, Director, Office of MF Asst Restructuring, Y, 4000 Portals Bldg., D.C. 20024
 Mary Madden, Assistant Deputy Secretary for Field Policy & Mgmt, SDF (Room 7108) (2)
 Deputy Chief Financial Officer for Operations, FF (Room 2202)
 David Gibbons, Director, Office of Budget, FO (Room 3270)
 FTW ALO, AF (2)
 Public Housing ALO, PF (Room 5156) (2)
 Dept. ALO, FM (Room 2206) (2)
 Acquisitions Librarian, Library, AS (Room 8141)

DISTRIBUTION (Cont'd)

Director, Hsg. & Comm. Devel. Issues, **US GAO**, 441 G St. NW, Room 2474
Washington, DC 20548 **Attn: Judy England-Joseph**

Henry A. Waxman, Ranking Member, Committee on Govt Reform,
House of Rep., Washington, D.C. 20515

The Honorable Fred Thompson, Chairman, Committee on Govt Affairs,
U.S. Senate, Washington, D.C. 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Govt Affairs,
U.S. Senate, Washington, D.C. 20510

Cindy Fogleman, Subcomm. on Gen. Oversight & Invest., Room 212,
O'Neill House Ofc. Bldg., Washington, D.C. 20515

The Honorable Dan Burton, Chairman, Committee on Govt Reform,
House of Representatives, Washington, D.C. 20515

Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human
Resources, B373 Rayburn House Ofc. Bldg., Washington, D.C. 20515

Steve Redburn, Chief, Housing Branch, Office of Management and Budget
725 17th Street, NW, Room 9226, New Exec. Ofc. Bldg., Washington, D.C. 20503

Inspector General, G
Housing Authority of the City of Leesville
Mayor of Leesville
Housing Authority Board
Louisiana State Auditor