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Audit Report Number	2007-FW-1007
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TO: Jesse Westover  
Director, Office of Public Housing, 6FPH

*Frank E. Baca*  
FROM: Frank E. Baca  
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Jacksonville Housing Authority, Jacksonville, Arkansas, Mismanaged  
Public Housing Capital Fund Program Funding

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited procurements by the Jacksonville Housing Authority (Authority), Jacksonville, Arkansas. The audit addressed U.S. Department of Housing and Urban Development (HUD) allegations of mismanagement at the Authority. Specifically, HUD alleged that the Authority's executive director backdated contracts, giving the appearance that the Authority had obligated funds, to prevent HUD from recapturing 2003 Public Housing Capital Fund program (program) funding. As of October 2006, the Authority had \$281,462 in fiscal years 2003 through 2006 program funding that it had not obligated. HUD had disbursed \$549,244 of the authorized 2000 through 2003 funding to the Authority.

We conducted the audit to determine whether the Authority complied with its procurement policy and satisfied HUD-mandated timeframes for the obligation of program funding.

## What We Found

Due to its mismanagement of the program, the Authority overstated its obligations of fiscal year 2003 program funding in HUD's Line of Credit Control System to prevent HUD's recapture of \$132,788 in funding. Therefore, the Authority did not satisfy HUD-mandated timeframes for the obligation of funding. In addition, it did not comply with its procurement policy regarding soliciting bids, documenting bids, and accepting the work. As a result, it misspent \$164,203 of its funding.

## What We Recommend

We recommend that HUD assist the recently replaced board of commissioners (board) and the new executive director in establishing board oversight and controls to ensure that the Authority implements sound funding plans, enters valid obligations in the Line of Credit Control System, and complies with its procurement policy. This should result in current available funding of \$281,462 being put to better use. HUD also should penalize the Authority for slow obligation of funding, as regulations require. In addition, HUD should direct the Authority to either support or repay HUD for procurements not conducted in conformity with policy and/or supported for which the Authority spent \$164,203 in program funding.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

## Auditee's Response

We provided the Authority with a draft report on March 8, 2007, and requested a written response by March 30, 2007. The Authority provided its written response on March 26, 2007. It sustained the report and reported implementation of controls and other planned measures to address deficiencies. The complete text of the Authority's response can be found in Appendix B of this report.

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## BACKGROUND AND OBJECTIVE

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The Jacksonville Housing Authority (Authority) is a public housing agency in Jacksonville, Arkansas. Until June 2006, the U.S. Department of Housing and Urban Development (HUD) considered it a small, nontroubled public housing agency and allowed it to use capital or operating amounts for eligible capital or operating activities relating to its inventories of 100 low-rent units and 362 Section 8 units. HUD has authorized seven program grants to the Authority since 2000. The grants provided more than \$1.1 million in assistance. A five-member board of commissioners (board) and an executive director, who has seven full-time staff members and a part-time security officer, managed the Authority. In June 2006, the Little Rock, Arkansas, Office of Public Housing disclosed mismanagement at the Authority and in July 2006, reported it to the HUD Office of Inspector General (OIG).

Because of the serious problems and at the urging of HUD public housing officials in Little Rock, Arkansas, the Authority's board forced the executive director to resign. With HUD's help and support, it hired the executive director of the Conway Housing Authority in Conway, Arkansas, to serve as an interim part-time executive director. In addition, all five board members have resigned and been replaced. In January 2007, the new board hired a full-time executive director.

Before the board hired the new full-time executive director, the interim part-time executive director with HUD's assistance resolved the problem of expired funding. Within three months, she solicited sealed bids and contracted to have central heat and air conditioning installed in low-rent units for \$283,720.

In January 2007 HUD public housing officials in Little Rock, Arkansas initiated a Memorandum of Agreement (agreement) with the Authority's new board and executive director to address deficiencies at the Authority. The agreement, among other things, commits the Authority to oversight and monitoring by the board, maintenance of permanent authority records according to laws and regulations, improved procurement practices, obligation and expenditure of program funding within approved implementation schedules, and resolving problems with access and use of HUD systems. The agreement targeted most of the improvements to occur before March 31, 2007.

The audit objective was to determine whether the Authority administered its Public Housing Capital Fund program (program) according to governing requirements. Specifically, we wanted to determine whether the Authority complied with its procurement policy.

## RESULTS OF AUDIT

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### Finding: The Authority Mismanaged Its Program Funding

The Authority mismanaged its program funding by using baseless reporting to prevent recapture of 2003 funding (this is no longer the penalty for slow obligation of funding<sup>1</sup>). It backdated contracts in an attempt to conceal assumed obligations entered into the HUD Line of Credit Control System to prevent recapture of funding by HUD. The Authority did not obligate 90 percent of the 2003 program funding in a timely manner. Further, it did not exercise care and consistency in following its procurement policy to ensure full and open competition in expending funding. It did not use sealed bids for procurements exceeding \$25,000, nor did it record and retain bids solicited and document acceptance of contractors' work as its policy requires.

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**The Former Executive Director Attempted to Backdate Contracts to Conceal \$132,788 in Assumed Obligations**

The former executive director attempted to backdate four contracts to conceal \$132,788 in baseless obligations entered into HUD's Line of Credit Control System. She entered the baseless obligations for fiscal year 2003 program funding before the obligation end date of September 16, 2005. To shield her efforts, she directed staff to prepare four contracts on June 27, 2006, and backdated them to June and September 2005. She also directed staff to contact two contractors and ask them to sign the backdated contracts. Staff could only get one contractor to sign three backdated contracts totaling \$118,716. The contractor stated that he did not note the dates of the contracts signed.<sup>2</sup> In reality, the Authority had not obligated 90 percent of the 2003 program funding before its obligation end date. If it had recorded only its actual obligations, HUD would have penalized the Authority one-twelfth of new assistance for each month the 2003 funding was less than 90 percent obligated.

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<sup>1</sup> Under current sanctions for not obligating funds before the expiration date, HUD will not award assistance for any month during any fiscal year in which the Authority has more than 10 percent of its authorized funding not obligated that has expired. HUD revised the sanction in April 2004.

<sup>2</sup> From an interview and review of payment records, the contractor did not perform the work, and the Authority did not pay the contractor for two contracts totaling \$77,012. For the third contract, the contractor had done the job without a contract; therefore, the Authority had paid the contractor \$42,172.

### **The Responsible Official Did Not Understand HUD Requirements and System Use**

The former executive director apparently resorted to backdating because she did not understand HUD requirements and the use of HUD's Line of Credit Control System. Besides not knowing the penalty for slow obligations of program assistance, she admitted she did not know that the Authority could have transferred funding to the operating account to prevent HUD from withholding assistance. She also admitted to problems in using the Line of Credit Control System. She claimed that she had not been able to obtain help from either HUD or the board. According to the former executive director, the board did not provide requested assistance or otherwise become involved in the process.

### **The Authority Did Not Comply with Its Procurement Policy**

The Authority did not use sealed bids and document procurements, violating its procurement policy. As a result, it could not provide assurance that it satisfied the requirement for full and open competition.

### **The Authority Did Not Use Sealed Bids for Three Procurements Exceeding \$25,000**

Based upon a review of the transaction register prepared by the fee accountant, the Authority paid eight contractors and three suppliers more than \$411,000 during the three-year period ending June 30, 2006. Of these payments, the Authority had three procurements exceeding \$25,000, totaling \$130,033, which required sealed bids. However, it provided no evidence that it used sealed bids. Specifically,

- In August and September 2005, the Authority paid a contractor \$42,172 for installing 100 steel panel doors. However, it did not solicit sealed bids or maintain documentation as required. Further, it did not keep a record of bids solicited or acceptance of work performed.
- In fiscal year 2005, the Authority procured 17 bathtubs for \$34,867 from one contractor. Instead of using sealed bids, it purchased the bathtubs as multiple purchases. Its procurement policy prohibited, unless justified, artificially dividing contract requirements into multiple small purchases.

- In May 2004, the Authority paid a contractor \$52,994 but had no record of the procurement.

Without the required documentation, the Authority cannot provide assurance that it complied with procurement requirements, thereby obtaining the most competitive prices, and confirmed that the work was performed as intended.

The omissions occurred because the former executive director, who was the contracting officer, misapplied the Authority's procurement policy and did not document procurements as required. She believed that she only needed to use sealed bids for contracts exceeding \$50,000 instead of \$25,000 as stated in the procurement policy. She also asserted that she always solicited three quotes, but she did not provide evidence supporting this. In addition, the board provided little oversight of the Authority's contracting activities. The board did not require a review of contracting activities at its monthly meetings, and the executive director did not include them as an agenda item.

**The Authority Did Not Maintain Documentation to Show Full and Open Competition for Purchases Between \$1,000 and \$25,001**

The Authority did not maintain documentation necessary to show full and open competition in its procurements exceeding \$1,000 but not exceeding \$25,000. For such purchases, its procurement policy required three price quotations with award to the lowest bidder, if not otherwise justified in writing, and a written record of the procurement. It also required inspection of work before payment.

Based upon the payment documents for fiscal year 2006 ending June 30, 2006,<sup>3</sup> the Authority had 12 payments exceeding \$1,000, totaling \$34,171, which did not comply with the procurement policy. Omissions included a record of bids solicited<sup>4</sup> and acceptance of work performed. Three examples show payments of \$10,485 to one contractor without recording the procurements, payments of \$6,493 to another contractor to install flooring in two units without recording bids and work acceptance, and payments of \$6,205 to a third contractor without recording bids.

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<sup>3</sup> The Authority's fee accountant provided fiscal year 2006 disbursement information.

<sup>4</sup> HUD also reported that the Authority did not keep adequate documentation of solicitations in a July 2006 review.

## Recommendations

We recommend that HUD require the Authority to

- 1A. In accordance with its agreement with HUD, establish adequate board oversight and controls to ensure that the Authority implements sound funding plans, enters valid obligations in the Line of Credit Control System, and complies with its procurement policy. The agreement targets completion before March 31, 2007. This should result in current available funding of \$281,462 being put to better use.
- 1B. Enter the valid cumulative obligation data for the 2003 program in the Line of Credit Control System and penalize it the appropriate amount for the months in which 2003 obligations totaled less than 90 percent of the 2003 program funds after the required 24-month timeframe to obligate funding. This would reduce current available funding, which HUD would redistribute to high-performing public housing authorities.
- 1C. Support or repay \$164,203 in improper procurements.



## SCOPE AND METHODOLOGY

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We performed the audit at our field office in Oklahoma City, Oklahoma, and the Authority's office in Jacksonville, Arkansas, from August 2006 through January 2007. The scope of the work was July 1, 2003, through June 30, 2006. To meet the audit objective, we

- Obtained and reviewed background information and criteria related to the Authority's administration of the program.
- Analyzed data from the HUD Line of Credit Control System to determine HUD assistance to the Authority and Authority payment records to determine use of HUD assistance.
- Interviewed the Authority's current and former staff regarding allegations of wrongdoing, program operations, and controls.
- Reviewed contracts identified as backdated.
- Reviewed payments to contractors and suppliers for compliance with procurement policies and procedures.
- Obtained an understanding of the internal control environment to identify potential weaknesses in those internal controls related to the audit objective.

We concluded that computer-processed data provided by the Authority's fee accountant were reasonably reliable for identifying contractors and suppliers paid. We verified 16 of 17 payments listed with payment documentation. The one without documentation had not cleared the bank, and the Authority later voided the payment.

We performed the audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Control

We determined the following internal control was relevant to our audit objective:

- Controls to ensure compliance with funding and procurement requirements.

We assessed the relevant control identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weakness

Based on our review, we believe the following item is a significant weakness:

- The executive director administered program funding and served as the contracting officer without board oversight to ensure compliance with HUD funding requirements and the Authority's procurement policy.

# APPENDIXES

## Appendix A

### SCHEDULE OF QUESTIONED COSTS AND FUNDS BE PUT TO BETTER USE

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Recommendation number	Unsupported procurements <u>1/</u>	Funds be put to better use <u>2/</u>
1A		\$281,462
1C	\$164,203	

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. This represents the \$281,462 that the Authority has available to benefit residents if the board and the Authority establish, implement, and follow the recommended controls.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

Section 8 Rental  
Assistance Office  
(501) 982-2267

**Jacksonville Housing Authority**  
3600 Max Howell Drive  
P.O. Box 734  
Jacksonville, Arkansas 72078

Public Housing  
Rental Office  
(501) 982-3088

March 15, 2007

U.S Department of Housing and Urban Development  
Office of Inspector General, Region VI  
819 Taylor Street, Room 13A09  
Fort Worth, Texas 76102

RE: Jacksonville Housing Authority's Response and Comments regarding Office of  
Inspector General Audit Findings

To Whom It May Concern:

This letter is in response to the findings of the Audit findings conducted by the Office of  
Inspector General that covers expenditures of the Capital Fund Program at Jacksonville  
Housing Authority for the period of July 1, 2003 - June 30, 2006.

Comments:

The Jacksonville Housing Authority agrees with the audit findings in the audit report.  
The previous Executive Director did not follow the Procurement Policy of the  
Jacksonville Housing Authority or the obligation/expenditure requirements of the Capital  
Fund Program. She did not obtain sealed bids for projects that exceeded the \$25,000  
requirement, nor did she document any processes for obtaining quotes or have proper  
contracts in place before the work was conducted and said work was not inspected before  
payment. The previous Executive Director did attempt to backdate contracts to achieve  
the 90% obligation date to prevent HUD from assessing penalties on the 2003 Capital  
Fund grant for late obligation. The previous Board of Directors did not provide oversight  
to assure that the Executive Director was administering the Procurement Policy properly,  
nor did the Board have proper controls in place. The Jacksonville Housing Authority's  
current Board of Commissioners and Executive Director have recently joined the  
Housing Authority and were not in office during the period covered by the audit. They,  
nor staff or residents had any control over the actions noted above.

The Jacksonville Housing Authority has a new Board of Commissioners in place and that  
Board hired a new Executive Director in January 2007. Since that time the JHA has been  
under a Memorandum of Agreement with HUD and has completed 37% of the  
requirements of that agreement. On March 14, 2007 the Board of Commissioners adopted  
new By-Laws (Resolution 07-14), Procurement Policy (Resolution 07-13), and Personnel  
Policy (Resolution 07-12), and is in the process of revising other administration policies

### Comment 1

directing the conduct of all JHA programs. The new Board of Commissioners has been very active and will continue to be very active in addressing these shortcomings and adopting new policies and procedures that will prohibit any future non-compliance issues. The new Executive Director provides to the Board of Commissioners a Capital Fund Report of expenditures, and procurements are discussed and approved at monthly Board meetings and the proper contracts signed by the Chairman of the Board. In addition, contract filing and procurement files will be properly documented in the future so that there is complete understanding of the entire procurement file and process to validate the procurement so as to assure compliance with the Procurement Policy.

On March 14, 2007 the Board of Commissioners met and advised the Executive Director to meet with the City Attorney and begin the process of seeking the bond requirements of the previous Board of Commissioners and the previous Executive Director. On March 15, 2007 the Executive Director met with the City Attorney and this process has been put in place. We submitted to HUD a 2003 CFP Revised budget that was approved by HUD to enable the remainder of the 2003 CFP grant (appx. \$105,000) to be used in the payment for the completion of the AC project, which was procured properly.

The JHA is in the process of trying to validate the costs of the projects and support documentation for the \$164,203 of improper procurements and asked that HUD give us sufficient time to validate these costs. Although these procurements were not made according to the JHA's procurement policy the money was spent on projects for the benefit of the residents at JHA. Should the Jacksonville Housing Authority be required to repay these costs, it will inhibit the JHA from effectively being able to meet the needs of its residents and further limit JHA's ability to update its apartments and buildings. There are other needs such as 504 compliance, renovation of apartments, energy conservation projects, and upgrades to grounds and buildings that are going to be next to impossible to complete with limited or reduced funding.

The actual obligation date for the 2003 CFP grant was August 2006 and not September 2005. There is nothing that the current JHA administration can do to correct this, other than to assure that this will not happen again. We understand that there is a penalty for late obligation of approximately \$140,000, and there are regulations in place for the assessment and handling of such penalty.

Finally, the JHA apologizes to HUD and the Inspector General for the mistakes of the previous administration, and asks you to understand that penalizing this Housing Authority is penalizing the present administration and its residents (which are the public that we serve) and will hinder the current administration from effectively being able to serve them to the fullest.

Sincerely,



Phil Nix  
Executive Director

 Jim Durham (Chairman)

 Mike Wilkinson, (Vice-Chairman)

 Marilyn Canon (Commissioner)

 Addie Gibson (Commissioner)

 Jon Johnson (Commissioner)

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## **OIG Evaluation of Auditee Comments**

**Comment 1** The Authority agreed with the report. Its written comments are responsive to the audit recommendations and include detailed steps it has taken and will take to address deficiencies.