



U.S. Department of Housing and Urban Development  
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September 25, 2001

**2001-FW-1809**

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

*/SIGNED/*

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

SUBJECT: Jefferson Parish Housing Authority  
Limited Procurement Review  
Jefferson Parish, Louisiana

We performed a limited procurement review of the Jefferson Parish Housing Authority (Authority). As a result of a request for assistance, we reviewed six procurements made by the Authority between 1996 and 2000. The contracts reviewed included: (1) SAT Development; (2) Paragon Accounting; (3) Robert Wallbillich, CPA; (4) IWG, L.L.C; (5) Louisiana Housing Development Corporation; and (6) Nova Financial.

Our review objectives were to determine whether the Authority: (1) followed procurement policies; and (2) received all contracted services.

To accomplish our objectives, we reviewed applicable HUD regulations; Office of Management and Budget Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" (Circular A-87); the Authority procurement policies. Also, we interviewed contractors, Authority officials and HUD personnel. Further we reviewed and analyzed Authority files.

For the six contracts reviewed, the Authority violated its procurement policies and federal requirements. Furthermore, the Authority may not have received a benefit from the contracted services. The Board Chairman's (Chairman) involvement in these procurements directly contributed to the violations. The Authority should ensure it follows its policies and federal requirements. Specifically, it should solicit proposals, perform cost analysis, obtain Board and HUD approvals when necessary, and maintain records to detail the procurement history. Furthermore, the Authority should support the cost or reimburse HUD at least \$13,000 for the unreasonable amount paid to a contractor and \$499,058 for three contracts where the Authority did not receive any apparent benefit. The Authority should also perform a cost analysis for all six contracts. For those contracts where the Authority paid more than the cost analysis, the Authority should reimburse its programs for the excess costs.

Due to the Chairman's actions, HUD should seek administrative sanctions against him. Furthermore, HUD should consider whether to take similar actions against other Board members who went along with the Chairman in violating HUD and Authority requirements.

We provided a draft of the report to the Authority's Executive Director and Chairman on August 30, 2001. In a September 5, 2001 letter, the Authority's Executive Director concurred with the results of the draft memorandum. However, the Authority's general counsel<sup>1</sup> disagreed with the draft memorandum in a September 10, 2001 letter. Also, the Chairman disagreed with the draft memorandum in a September 10, 2001 letter. We considered their responses in developing the final report.

Within 60 days please give us, 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 directive issued because of this memorandum report.

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

Attachment

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<sup>1</sup> Rodney Bordenave Boykin & Ehret.

## ATTACHMENT

**Background.**

The Jefferson Parish Housing Authority (Authority) operates 200 public housing units throughout Jefferson Parish. Its offices are located at 1718 Betty Street in Marrero, Louisiana. The Authority is an independent government agency run by a Board of Commissioners (Board), appointed by the Parish President. The Authority manages the low-income housing program under the provisions of the consolidated Annual Contributions Contract (ACC). The ACC, between the Authority and HUD, required the Authority to provide low-income housing to eligible residents. HUD provided funds for the operation and maintenance of the low-income program.

The Authority also served as contract administrator for 2,680 Section 8 vouchers. The Authority received an administrative fee from HUD for administering the vouchers.

The nine Board members oversaw the management and operation of the Authority and established policies and procedures for the Authority. The Executive Director, who served as the Board's secretary and treasurer, managed the day-to-day activities of the Authority. According to HUD, the role of the Chairman of the Board encompassed the following:

- Preside at all meetings;
- Ensure the Board stays focused on agenda;
- Encourage each member to voice their views; and
- Act as liaison between the Executive Director and the Board.

HUD procurement regulations required the Authority to foster open competition and to ensure the attainment of quality service. The Authority's procurement policy required it to follow HUD requirements and State and Local law.

We received complaints that the Authority improperly procured specific contracts and limited our review to those contracts. We conducted our fieldwork between February 28, 2001, and March 6, 2001.

***The Board Chairman's Actions Directly Contributed to the Authority Violating Procurement Requirements.***

The Chairman used his position and support on the Board to: (1) sole-source contracts and (2) bypass the Authority, the Board, and HUD for approval. The Chairman let contracts to hire a former Board member and acquaintances.

The Chairman sole sourced contracts in direct contrast to federal regulations by not providing sufficient justification and obtaining HUD's approval.<sup>2</sup>

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<sup>2</sup> 24 CFR 85.36(d)(4)(iii).

In 1999, the Chairman executed five of the six contracts reviewed, without review by the contract committee or the full Board. According to the files, the Chairman consistently performed the duties of a contracting officer. These duties included soliciting proposals, awarding, and executing contracts. For instance, when the Authority hired IWG, LLC. to perform investment advisor services, the Chairman solicited three proposals and made the unilateral decision to hire IWG, LLC.<sup>3</sup> The Authority's procurement policy appointed the Executive Director as the contracting officer. However, according to the Authority's Executive Director, the Chairman believed a Board Resolution provided him the authority to circumvent the procurement policy.<sup>4</sup> The Board should not pass resolutions that violate HUD requirements and the Authority's policy. HUD should take necessary actions to ensure Board members do not violate procurement requirements or exceed their authority.

### ***The Authority Sole-Sourced Contracts.***

Of the six contracts reviewed, the Authority could not provide evidence of competition for five contracts. Furthermore, in one instance, it appears the Authority over paid for services by at least \$13,000. The purpose of procurement requirements is to ensure the Authority has fair and open competition.<sup>5</sup> This also requires the Authority to demonstrate that it paid a reasonable price for goods and services. Violating the procurement requirements, the Chairman used his position in these two instances to award contracts without competition possibly costing the Authority an additional \$13,000.

### **Paragon Accounting.**

On December 15, 1999, the Board passed Resolution No. 1226 to hire Paragon Accounting (Paragon) immediately after the resignation of Authority's fee accountant Nova Financial. The Chairman executed the contracts on the same day.<sup>6</sup> The Authority's files did not indicate how it selected Paragon. According to the owner of Nova Financial, the owner of Paragon approached him about the job and requested he recommend her. He did not know how she knew about the job. The owner of Nova Financial did recommend her to the Board at the December 15, 1999 meeting. The Authority files did not indicate that the Board contacted any other company. Also, the Board minutes and Resolution made no reference to the solicitation of other proposals or evaluating competitors.

Furthermore, the Chairman provided Authority officials the Paragon contracts days before the December 15, 1999 meeting for review. However, prior to the attorney reviewing the contract, the Chairman took the contracts back. According to Authority officials, the Board believed the Resolution exempted them from having to seek competition. Nonetheless, the Board did not supply any justification for noncompetitively procuring this contract.<sup>7</sup> Furthermore, the

<sup>3</sup> A principal of IWG, LLC. was a former Board member. The Board member received the contract just over 13 months after leaving the Board. Furthermore, the Board member was reappointed to the Board 5 days after terminating his contract with the Authority.

<sup>4</sup> As discussed elsewhere, this also included the Board's approval of sole-source contracts.

<sup>5</sup> 24CFR 85.36 (c)(1).

<sup>6</sup> Paragon received a contract for the public housing units and another contract for Section 8.

<sup>7</sup> 24 CFR 85.36(d)(4).

Authority did not “maintain records sufficient to detail the significant history of a procurement.”<sup>8</sup> In fact, it did not appear Authority personnel were involved in the solicitation, procurement, or negotiation of fees or terms of its fee accountant.

The Chairman contended the Board approved this contract due to the necessity of obtaining “accounting services without delay.” However, this justification lacks merit. First, Nova Financial assured the Authority that he would stay on until mid February 2000. This would have allowed the Authority to solicit and evaluate other proposals. Second, the contract executed by the Chairman contained the following terms: “the term of this contract shall be for a period of four (4) years from the anniversary date of January 1, 2000 with the Authority having one (1) option to extend this contract for a period of four (4) years.” By terms of this contract, the Chairman executed a long-term contract, not a contract to address an immediate need. Also Authority should have submitted this contract for HUD approval.

Furthermore, the Board Resolution did not provide any support or analysis of the cost of the contract as required.<sup>9</sup> Without a cost analysis, HUD does not know whether the Authority paid a reasonable price for its accounting services.<sup>10</sup>

HUD should require the Authority to properly procure its fee accounting services and justify the cost paid on the contract to date. The Authority should reimburse its program for any amount determined as unreasonable.

#### Robert Wallbillich, CPA.

Authority’s files showed it had contracted with Robert Wallbillich, CPA (Wallbillich) as early as 1990. The Chairman, disregarding federal requirements by not soliciting other proposals or obtaining HUD approval, renewed the \$16,000 audit services contract with Wallbillich at the end of every 3 years until 1998.<sup>11</sup> In August 1999, Wallbillich submitted a proposal requesting \$24,000 to perform Generally Accepted Accounting Principles (GAAP) conversion as required by HUD’s Real Estate Assessment Center. Wallbillich requested this proposal in addition to the existing contract for \$16,000. The Chairman accepted and executed the \$24,000 proposal without competition and without the approval of the Board. The Chairman did not perform the required cost analysis and the Authority does not know if it paid a reasonable price for these services. Based upon similar sized housing authorities in Louisiana, it appears the Authority may have paid at least \$13,000 more for auditing services.<sup>12</sup>

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<sup>8</sup> 24 CFR 85.36(a)(9).

<sup>9</sup> 24 CFR 85.36 (f).

<sup>10</sup> During 2000, the Authority paid Paragon \$92,734.

<sup>11</sup> 24 CFR 85.36(d)(4)(iii).

<sup>12</sup> Cost of Wallbillich contract \$40,000 less the cost of the next highest fee \$27,000 equals \$13,000.

## Comparison of Housing Authority's Auditor Fees

Housing Authority <sup>13</sup>	Number of Units	Auditor fees <sup>14</sup>
Jefferson Parish	<b>200 Conventional Units</b>	\$40,000
	<b>2680 Section 8 Units</b>	
Lake Charles	<b>835 Conventional Units</b>	\$27,000
	<b>1950 Section 8 Units</b>	
Shreveport	<b>934 Conventional Units</b>	\$19,980
	<b>2939 Section 8 Units</b>	
Lafayette	<b>572 Conventional Units</b>	
	<b>940 Section 8 Units</b>	\$9,000
Monroe	<b>1522 Conventional Units</b>	
	<b>1450 Section 8 Units</b>	\$7,000

HUD should require the Authority to properly procure its auditing services and justify the excess cost paid on the contract to date. The Authority should reimburse its program for any amount determined as excess cost.

Further, the Authority paid Wallbillich \$24,000 for the GAAP conversion, but Nova Financial,<sup>15</sup> not Wallbillich, performed the conversion. According to Wallbillich, the Chairman decided to have Nova Financial do the GAAP conversion. Wallbillich paid Nova Financial the \$24,000. The Chairman exceeded his authority in sole-sourcing this contract to Wallbillich and then requiring Wallbillich to contract with Nova Financial.

### ***Authority Did Not Receive Benefit from Contracts.***

Due to poor procurement practices and the involvement of the Board, the Authority may have paid for services not performed. The poor procurement practices included a lack of competition and cost analysis. In three instances, it did not appear the Authority received a benefit from the contracts. HUD should require the Authority to support its expenditures in terms of benefit received or reimburse its programs.

### **SAT Development.**

In August 1996, the Chairman signed a planning and execution contract with SAT Development Company, L.L.C. From August 1996 through April 1998, the Authority paid SAT Development \$389,751 to prepare and submit a HOPE VI and tax credit applications. In July 1997, SAT Development submitted the HOPE VI application package late to HUD Headquarters. As a result, HUD did not consider the Authority's application. The Authority appealed HUD's decision based upon weather conditions in New Orleans. In denying the Authority's appeal,

<sup>13</sup> All housing authorities are located in the State of Louisiana.

<sup>14</sup> The amount includes the cost of the GAAP conversion. For Shreveport Housing Authority, the GAAP conversion cost \$3,000.

<sup>15</sup> Longtime Fee Accountant.

HUD noted the Housing Authority of New Orleans submitted its applications on time; therefore, the Authority should have also been able to submit its application on time.

In July 1998, the Authority requested SAT Development to resubmit the HOPE VI application. However, SAT Development never responded to the Authority's request. In October 1998, the Authority placed SAT Development in default of its contract. In April 1999, the Chairman appointed the "SAT Development Refund Committee" to recover monies paid to them. As of May 18, 2001, the Authority has not recovered any money from SAT Development.

As with other contracts, the Authority did not obtain proposals from other companies nor did it perform a cost analysis. The purpose of the contract was to submit an application for HOPE VI and obtain funding. As such, the Authority should not pay SAT Development when it failed to submit the application on time.

HUD should require the Authority to support the benefit received from the \$389,751 it paid to SAT or reimburse the program for any excess cost.

#### Louisiana Housing Development Corporation.

In August 1999, the Chairman executed contracts with Louisiana Housing Development Corporation (LHDC) to expand the Family Self Sufficiency Program and to develop affordable housing for low-income first-time homebuyers. According to the Executive Director, the Authority has "yet to see the results of LHDC's efforts." Between August 1999 and January 2000, the Authority paid LHDC \$89,200.

In three instances, the Chairman approved LHDC's invoices for payment, a duty usually reserved for the contracting officer. In at least one instance, the Chairman took delivery of the Authority's \$12,000 payment to LHDC.<sup>16</sup> According to the Executive Director, the Chairman delivered the payment to the principal of LHDC. Nonetheless, the Chairman should not execute a contract, approve payments to the contractor, and deliver the payment to the contractor. This represents a significant control weakness.

If the Authority is not receiving a benefit from this contract, they should terminate it immediately. Furthermore, the Chairman should not sole-source contracts. Due to the poor procurement of the contract, the Authority did not know if it received services at a reasonable cost. Therefore, the Authority should justify the \$89,200 spent on the contract or repay its program.

#### IWG, LLC.

The Authority contracted with IWG, LLC., operated by a former Board member, to perform investment advisory services for the Authority. At the Chairman's direction, IWG, LLC invested the Authority's funds in "short term Treasury Bills with a maximum maturity of two (2) years."

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<sup>16</sup> The Chairman also approved this LHDC invoice for payment.

According to HUD's Public and Indian Housing Director, no other housing authority in Louisiana has an investment advisor. Furthermore, the need for an investment advisor to invest in Treasury Bills is questionable. Between January and May 2000, the Authority paid IWG, LLC. \$20,107 under this contract. IWG, LLC. terminated the contract on July 7, 2000. HUD should determine if the Authority wasted \$20,107 in hiring a former Board member to perform minimal tasks. If so, the Authority should repay its program the \$20,107 paid to IWG, LLC.

***The Chairman Contracted with Associates.***

It appears the Chairman used his position to contract with associates. Board members complained to the Parish President in a letter dated June 26, 2000. Specifically, Board members wrote, "the present leadership has favored a very specific set of individuals with contract awards and all efforts to stop this have fallen by the wayside." According to the Board members, "Request for proposals, solicitations or advertisements for best value for the public interest is nonexistent. We do not believe that this is an oversight but may be a deliberate exclusion to favor certain individuals."

Of the six contracts reviewed, the Chairman was directly involved in awarding three contracts to associates. Specifically:

- **IWG, LLC.** – The owner of this company is a former Board member of the Authority.
- **Paragon** – The owner of this company was rumored to be a companion of a former Board member of the Authority.
- **Nova Financial** – The owner of this company previously worked with the Chairman.

The Authority did not properly procure these contracts; therefore, it does not know if it received the services at a fair and reasonable price. The Chairman's actions and association with the owners at the very least gives the appearance of a conflict of interest. HUD should ensure the Chairman recuses himself from procurements and contracts where a real or an appearance of a conflict of interest exists.

***The Board of Commissioners Did Not Review and Approve Four of the Six Contracts We Examined.***

The Authority violated its Procurement Policy when the Chairman executed contracts without Board approval. As stated previously, the Chairman functioned as the contracting officer, a position designated to the Executive Director. Of the six contracts reviewed, the Chairman executed four contracts without the approval of the full Board. The Chairman should not wield such authority.

The Authority should terminate all contracts that the Chairman executed without the approval of the Board. Also, the Authority should terminate and re-procure contracts where it did not solicit competition.

The following table summarizes the procurements reviewed and problems noted.

### Summary of Procurements

<b>Name of Contractor</b>	<b>Amount Paid to Contractor</b>	<b>Contract Awarded without Competition</b>	<b>Contract Executed without Board Approval</b>	<b>Favoritism</b>	<b>Cost Analysis Performed</b>
<b>SAT Development</b>	<b>\$389,751</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>Paragon Accounting</b>	<b>\$92,734</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>No</b>
<b>Robert Wallbillich</b>	<b>\$40,000</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>IWG, L.L.C.</b>	<b>\$20,107</b>	<b>No</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>
<b>Louisiana Housing Development Corp.</b>	<b>\$89,200</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>Nova Financial</b>	<b>\$92,417</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>No</b>

#### Audit Comments and Evaluation.

In a September 5, 2001 letter, the Authority's Executive Director concurred with the results of the draft memorandum. However, the Authority's general counsel<sup>17</sup> disagreed with the draft memorandum. The general counsel's letter stated after reviewing all six contracts "we are of the opinion that said contracts were in fact awarded in compliance with the existing HAJP procurement policy." The general counsel did note that "some of the past resolutions lacked specificity with regard to the process by which the aforesaid contracts were awarded" and recommended improvements to the Board. Also, the letter stated the procurement policy "has been since substantially revised to conform to the current HUD regulations and pertinent Louisiana law."

In disagreeing with the draft memorandum, the general counsel cited parts of the procurement policy and various Louisiana laws that did not prohibit the Authority or Chairman's actions. However, the memorandum cited HUD requirements the Authority must follow. The general counsel did not address the appropriateness of any of the Chairman's actions. We did not substantially revise the draft memorandum based upon the general counsel's letter.

<sup>17</sup> The firm of Rodney Bordenave Boykin & Ehret.

We agree with the general counsel's recommendation to the Board of creating "a standard board resolution pertaining to professional service contracts, containing specific information on the selection process, tasks to be performed, payment terms and length of the contract." We also agree the procurement policy should conform to HUD regulations and pertinent Louisiana law and the Authority and Board should follow the policy.

In a September 10, 2001 letter, the Chairman responded to the draft memorandum. The Chairman disagreed with the draft memorandum. The Chairman did not believe the Authority violated its procurement policies. The Chairman contended the Board knew and approved of the actions and the Chairman relied upon the advice of the Authority's former counsel. The Chairman executed the "contracts pursuant to the mandates of the Board of Commissioners, pursuant to Board Resolutions, the By-Laws, and with advice of counsel." The Chairman cited differences between procurement of materials and basic services and the procurement of personal services. He contended, "generally speaking, personal service contracts do not require competitive bidding, but do require approval by the Board of Commissioners." The Chairman did not believe the Authority should terminate contracts or that HUD should take administrative actions against him or other Board members. The Chairman and the Executive Director attended procurement training and the Authority updated its procurement policy.

The Chairman cited Board resolutions and the Authority's procurement policy to justify the procurements. However, his response ignores HUD requirements cited in the memorandum. HUD required the Authority's procurement procedures to conform to HUD requirements.<sup>18</sup> While the method of procurement of materials and basic services might differ with the procurement of personal services, the Authority still had the obligation to procure the personal services in a manner "providing full and open competition."<sup>19</sup> The Authority, due to the Chairman's actions, failed to do this. As the table shows, the Authority did not solicit competition for five of the contracts.

The Chairman raised concerns with a comparison of accounting fees of housing authorities. While the fees paid to Paragon appear high, we deleted the comparison in the final report. The Authority still needs to justify the amount it paid to Paragon. We modified the draft memorandum in other areas to clarify the facts and conclusions.

## **Recommendations:**

We recommend HUD require the Authority to:

- 1A. Follow its procurement policy. Specifically, Authority personnel should:
  - Solicit proposals;
  - Perform cost analyses;

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<sup>18</sup> 24 CFR 85.36 (b).

<sup>19</sup> 24 CFR 85.36 (c).

- Obtain Board and HUD approvals when necessary; and
  - Maintain records to detail the procurement history.
- 1B. Either support the additional costs or reimburse HUD \$13,000 for the unreasonable amount paid to a contractor.
- 1C. Either support the services rendered or reimburse HUD \$499,058 for three contracts where the Authority did not receive an apparent benefit.
- 1D. Perform a cost analysis for all six contracts. For those contracts where the Authority paid more than the cost analysis, the Authority should reimburse its programs for the excess costs.
- 1E. Terminate contracts that the Chairman sole-sourced or executed without the approval of the Board.

Further, we recommend HUD:

- 1F. Take administrative sanctions against the Chairman for his actions on these contracts and to protect the Authority from similar future decisions of the Chairman.
- 1G. Determine if other Board members' actions and involvement in these contracts warrant administrative sanctions.

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