
AUDIT REPORT



FAIRFIELD ALABAMA HOUSING AUTHORITY

HOUSING PROGRAMS

FAIRFIELD, ALABAMA

2003-AT-1003

MARCH 24, 2003

OFFICE OF AUDIT, REGION 4



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TO: R. Edmond Sprayberry, Acting Director, Office of Public Housing,
Alabama Office, 4CPH

Sonya D. Lucas for

FROM: Nancy H. Cooper
Regional Inspector General for Audit, 4AGA

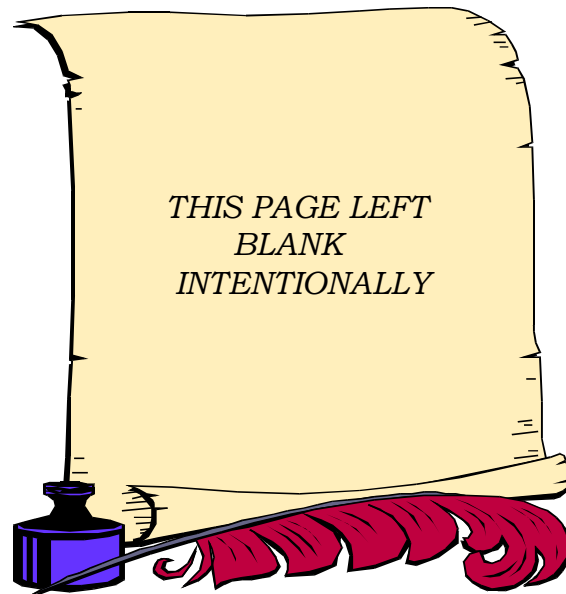
SUBJECT: Fairfield Alabama Housing Authority
Housing Programs
Fairfield, Alabama

We completed an audit of the Fairfield Alabama Housing Authority (Authority). The audit was initiated in response to a request from the Department of Housing and Urban Development's (HUD) Alabama State Office of Public Housing, regarding the possible misappropriation of funds, improper contracting practices, and Section 8 Program violations. Our audit objectives were to determine if the Authority was operating its housing programs in compliance with applicable HUD requirements and had established controls to assure effective and efficient administration of program funds. Our report includes four significant monetary findings totaling \$560,251.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days, please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued related to the audit.

We provided a copy of this report to the Authority's Executive Director and Board of Commissioners.


Should you and your staff have any questions, please contact me or Sonya D. Lucas, Assistant Regional Inspector General of Audit at (404) 331-3369.

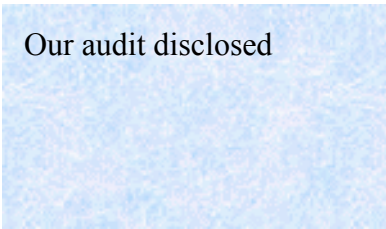


Executive Summary

We completed an audit of the Fairfield Alabama Housing Authority. We conducted the audit in response to a request from HUD's Alabama State Office of Public Housing regarding the possible misappropriation of funds, improper contracting practices, and Section 8 Program violations. Our audit objectives were to determine if the Authority was operating its housing programs in compliance with applicable HUD requirements and had established controls to assure effective and efficient administration of program funds.

We determined the Authority: (1) improperly provided conventional and Section 8 assistance to individuals; (2) had continuing problems in procuring goods and services; (3) did not maintain an adequate system of controls over its general accounting and disbursements; and (4) did not have adequate controls to ensure that travel expenses were necessary, reasonable, adequately supported, and recorded.





Our audit disclosed

The Authority violated HUD's civil rights and program regulations, and its own policy by providing conventional housing and Section 8 assistance to individuals who did not apply and to applicants out of the order in which they applied. The Authority did not: (1) use valid waiting lists to select applicants to participate in its housing programs; (2) directly verify participants' incomes and benefits with the sources, resulting in overpaid assistance totaling \$68,864; and (3) maintain adequate records to provide an audit trail necessary to verify appropriate applicant selections and other transactions. These deficiencies were due to disregard for requirements, an inadequate computer system used to maintain waiting lists, and the lack of adequate written selection and occupancy procedures. As a result, deserving families were denied or not timely provided assistance and, in some cases, housing assistance payments were incorrect. Therefore, neither the Authority nor HUD has adequate assurance that many of the individuals housed in its conventional housing and Section 8 Program were entitled to the assistance received.

The Authority had continuing problems in procuring its goods and services. It did not have a contract administration system, lacked independent cost estimates, inadequately advertised, and had an inadequate history of procurement methods. These problems occurred because the Authority did not fully implement its management controls to ensure continuity of operations when changes in

management occurred. In some cases, the Authority's management disregarded Federal procurement requirements, which denied qualified vendors an equal opportunity to provide goods and services. As a result, the Authority improperly disbursed \$437,146 without assuring prices were reasonable.

The Authority did not maintain an adequate system of controls over its general accounting and disbursements. The Authority's inadequate records did not reflect a \$50,000 receivable owed to its Low Rent-Housing Program. These deficiencies existed because the Authority did not have adequate written accounting and financial management procedures and were unaware of certain deficiencies. As a result, the Authority did not adequately safeguard resources against waste, loss, and misuse. Also, HUD had reduced assurance that the Authority was complying with applicable laws, regulations, and policies.

The Authority did not have adequate controls to ensure that travel expenses were necessary, reasonable, adequately supported, and recorded, as required. The deficiencies occurred because the former Executive Director disregarded requirements and other travelers did not realize the importance of documentation. As a result, ineligible expenses of \$461 and unsupported costs of \$3,780 were charged to the travel or sundry accounts.

Recommendations

We recommend that you require the Authority to: (1) recover overpaid Section 8 assistance payments totaling \$68,864; (2) justify or reimburse from non-Federal funds \$437,146 in unreasonable and unsupported disbursements; (3) seek repayment of a \$50,000 receivable owed by a nonprofit corporation; and (4) reimburse \$461 of ineligible travel expenditures and justify or reimburse \$3,780 charged as travel or sundry expenditures. We also recommend you require the Authority to implement basic controls to ensure its activities are in accordance with applicable HUD requirements.

We presented our findings to the Authority and HUD officials during the audit. We provided a copy of the draft report to the Authority and HUD's Alabama State Office on February 4, 2002, for their comments. We discussed the report with these officials at the exit conference on February 21, 2002. The Authority's comments are summarized in the findings and included in their entirety as Appendix C.

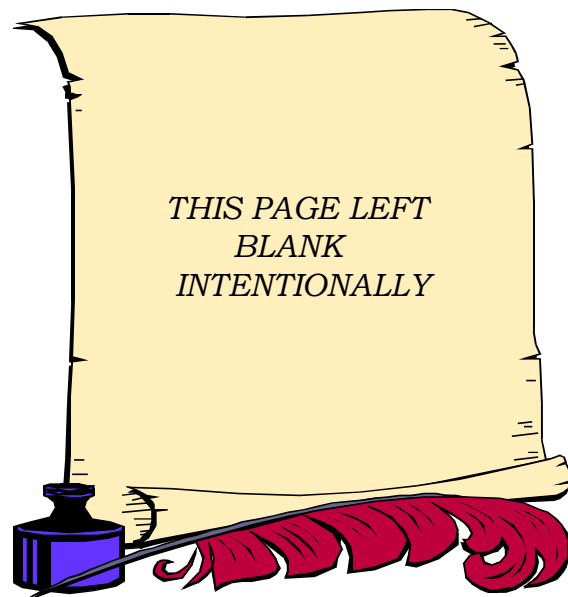


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Abbreviations

CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General

Introduction


The Fairfield Alabama Housing Authority was organized in 1939 pursuant to the U.S. Housing Act of 1937 to provide safe, sanitary, and affordable housing for qualified individuals. The Authority operates under the authority of the U.S. Department of Housing and Urban Development and the State of Alabama.

A five member Board of Commissioners appointed by the Mayor of Fairfield governs the Authority. The Board is responsible for reassigning or terminating key personnel, setting income limits, and contracting authority for procured services. The Board adopts its own budgets and has sole title to, and residual interest in, the assets of the housing programs. The Board receives Federal financial funding and must comply with requirements of the funding source. The Chairperson of the Board of Commissioners is Mattie Gill Jackson.

The former Executive Director, Earnest Scott, served from September 1994 to October 2001. The current Executive Director is Angela Thomas. She served as acting Executive Director from October 22, 2001, until her permanent appointment on January 7, 2002. The Executive Director is responsible for day-to-day operations and formulating policies for the Authority.

HUD's Alabama State Office in Birmingham, Alabama, Office of Public Housing was responsible for overseeing the Authority. The Authority's financial records were maintained at its office located at 6704 Avenue D, Fairfield, Alabama. The Authority owned and managed 302 conventional units. Additionally, the Authority had about 466 Section 8 Voucher units under contract.

The Authority's major programs included administering Low Rent Housing, as well as HUD's Comprehensive Grant Program (CGP), Section 8, and Public Housing Drug Elimination Program. For fiscal year 2001, the Authority received \$39,310 of HUD operating subsidy, \$621,252 of CGP funds, \$1,951,156 to administer Section 8 vouchers, and \$74,199 of Public Housing Drug Elimination Program funds.



Audit Objectives, Scope and Methodology

Our objectives were to determine if the Authority was operating its housing programs in compliance with applicable HUD requirements and had established controls to assure effective and efficient administration of program funds.

To accomplish the objectives, we tested for compliance with program regulations and requirements. We also tested the Authority's established controls for effective and efficient administration of program funds. We reviewed related Authority files and records; Board minutes; Section 8 inspections and tenant files; Authority procurement requirements; vendor files and contracts; and HUD's, the

Office of Inspector General's (OIG), independent auditors', and inspector studies and reports for years 2000 and 2001. We interviewed Alabama State Office of Public Housing program officials, Authority staff, independent inspectors, the Authority's attorney and program participants, and vendors.

To test for Section 8 compliance, we selected the first 24 of 362 individuals listed on the April 2002 housing assistance payment register. We also reviewed participant files for an additional 18 individuals, 5 conventional tenants and 13 Section 8 participants. We selected these files due to potential selection deficiencies determined during Authority staff interviews.

We included 7 of 11 contracts for our procurement review. We selected six contracts over \$20,000, and included an additional contract due to concerns of favoritism expressed by the Executive Director.

To test the travel expenses, we selected all checks over \$500. We also selected all checks over \$100 from the General Fund account involving the former Executive Director. The 28 checks reviewed totaled 73 percent of expenses during the period. In addition, we scanned the General Fund and Section 8 sundry accounts for any expenses pertaining to travel that might have been misclassified. For the sundry accounts, we reviewed all checks of \$1,000 or more and all checks over \$100 involving the former Executive Director that might have pertained to travel.

The results of our tests apply only to the sample selected and cannot be projected to the universe or population.

Our review generally covered the period April 1, 2000, through January 31, 2002. We extended the periods as necessary. We performed our on-site work between January 2002 and August 2002. We conducted our audit in accordance with generally accepted government auditing standards.

The Authority Did Not Properly Select and Set Assistance Levels for Participating Families

The Authority violated HUD's civil rights and program regulations, and its own policy by providing conventional housing and Section 8 assistance to individuals who did not apply and to applicants out of the order in which they applied. The Authority did not: (1) use valid waiting lists to select applicants to participate in its housing programs; (2) directly verify participants' incomes and benefits with the sources, resulting in overpaid assistance totaling \$68,864; and (3) maintain adequate records to provide an audit trail necessary to verify appropriate applicant selections and other transactions. These deficiencies were due to disregard for requirements, an inadequate computer system used to maintain waiting lists, and the lack of adequate written selection and occupancy procedures. As a result, deserving families were denied or not timely provided assistance and, in some cases, housing assistance payments were incorrect. Therefore, neither the Authority nor HUD has adequate assurance that many of the individuals housed in its conventional housing and Section 8 Program were entitled to the assistance received.

Criteria

The waiting list is the mechanism used to implement an Authority's preference system, and thus establishes the order in which housing offers are made to qualified applicants. Setting up and maintaining the waiting list properly is essential to carrying out public housing admissions in accordance with HUD's civil rights and program regulations, and the Authority's policies.

Title 24 Code of Federal Regulations (CFR), Part 960.206(e) provides that the Authority must select among applicants on the waiting list with the same priority for admission based on the date and time of application, or a drawing or other random choice technique. It also requires that the method of selecting applicants must leave a clear audit trail that can be used to verify that each applicant has been selected in accordance with the method specified in the Authority's plan.

Section XL of the Authority's Admissions and Continued Occupancy Policy requires that tenants be selected from eligible applicants whose family composition is appropriate to available units. Generally, the order of selection must be made from applications that have been filed according to unit size, preferences, and date and time of application.

Title 24 CFR 982.204 (a) regarding HUD's Section 8 Programs, states that except for special admissions, participants must be selected from the Authority's waiting list in accordance with admission policies in the Authority's administrative plan. The Authority's admissions policy, Section XII 3 A, states that when a housing voucher is available, the Authority will select the family at the top of the waiting list.

Title 24 CFR 960.259 (c) requires the Authority to obtain and document in the participant's file third party verification, or document why third party verification was not available for the following factors: annual income, assets value, deductions from annual income and other factors that affect adjusted income or income-based rent. Section 982.516 (a) (2) has similar requirements for Section 8 Programs.

Section 15 of the Annual Contributions Contract for conventional housing requires the Authority to maintain complete and accurate books of account and records for its program in accordance with HUD requirements to permit a speedy and effective audit.

Further, Section 12 (A) of the Annual Contributions Contract requires the Authority to comply with all statutory, regulatory, and executive order requirements pertaining to civil rights, equal opportunity, and nondiscrimination, as those requirements now exist, or as they may be enacted, promulgated, or amended from time to time. These requirements include, but are not limited to, compliance with Title VI of the Civil Rights Act of 1964.

Background

As of April 2002, the Authority had 296 tenants occupying its 302 conventional public housing units and was making monthly assistance payments totaling \$151,891 for 420 outstanding Section 8 vouchers. Of the 420 vouchers, 362 showed move-in dates after September 22, 1998, the last date the Authority accepted applications.

We selected the first 24 of 362 individuals listed on the April 2002 housing assistance payment register. However, 17 of the 24 move-in dates were inaccurate and actually occurred before September 22, 1998. We reviewed the participant files for the remaining seven.

We also reviewed participant files for an additional 18 individuals, 5 conventional tenants and 13 Section 8 participants. We selected these files due to potential selection deficiencies determined during Authority staff interviews. Such deficiencies included participants who resigned from the Section 8 Program after the Authority terminated its former Section 8 Coordinator and HUD began to question the Authority, relatives of Authority employees, applicants referred without applying, and participants living in a particular apartment complex.

Inadequate controls over participant selection

The Authority did not properly select applicants for conventional housing and Section 8 vouchers from its waiting lists, as required by its selection procedures. For 22 of 25 participant files examined, the files did not include preliminary application forms, or documentation evidencing the participants properly applied for housing assistance.

The Authority performed its own file review and determined files did not contain adequate evidence to support that 11 of 51 Section 8 applicants properly applied for assistance. At the same time, the Authority had over 1,115 preliminary applications on file for applicants who apparently had properly applied for assistance in 1998 or earlier.

The Authority haphazardly selected applicants for participation in its housing programs. This resulted in the Authority violating civil rights requirements by having ineligible participants on its conventional and Section 8 housing programs. Authority staff stated that in some cases, conventional housing participants were selected, ignoring selection policy, by simply reaching into file cabinet drawers and grabbing applications. The staff also stated that, in some cases, the former Executive Director told them to assist individuals sent by the Commissioners and local government officials. The former Section 8 Director also gave similar reasons for awarding Section 8 vouchers to certain individuals.

The Authority's Board Chairwoman stated that when Board Commissioners referred individuals, it was intended that staff follow proper procedures in assisting them. Board Commissioners did not intend for these individuals to be placed ahead of applicants awaiting assistance. The Chairwoman also stated that the Board did not know the Authority staff was improperly selecting participants from its waiting lists.

The Authority's former Section 8 Coordinator told us that she was not using a waiting list to select Section 8 Program participants. She stated that she awarded Section 8 vouchers on an as needed basis. Rather than using a waiting list, she gave vouchers to individuals who: (1) said that they had applied, but the applications could not be located, because if they complained to HUD she could not prove whether or not they applied because water had damaged some applications; (2) were referred to her by Board Commissioners or the Mayor's office; and (3) were homeless.

After the December 2001 departure of the former Section 8 Coordinator, the Authority staff compiled a computerized Section 8 waiting list showing 484 applicants. However, instead of using this waiting list, the Authority was awarding or planning award assistance to individuals from a separate list of 41 applicants. These individuals believed they were entitled to assistance because of commitments made by the former Section 8 Coordinator. In some cases, the Authority was planning to make retroactive assistance payments on behalf of these individuals.

We determined that the Section 8 waiting list of 484 applicants was incomplete. The Executive Director located additional Section 8 applications that increased the number from 484 to 1,115. However, the waiting list did not list the applicants in date and time order. Thus, the Authority could not properly select applicants based on when they applied. The computerized waiting list did not place applicants in the order required by the Authority's selection policy. Also, due to program design problems, the Authority could not readily use the waiting list. The Executive Director stated that their computer system contractor was attempting to correct the problems in order

to generate the sequence in which housing and voucher offers are made to qualified applicants.

We also determined that the Authority's files did not document the eligibility of the 41 individuals for assistance. The Authority should have selected Section 8 participants from a waiting list, in accordance with its selection procedures, instead of using haphazard procedures.

Improper verification of income and benefits

The Authority did not properly verify the incomes of participants when determining their assistance amounts. For 22 of 25 participant files examined, the files did not include proper income and benefit verification forms, or anything indicating that the Authority attempted direct verification. As a result, certain Section 8 participants were not entitled to assistance payments that the Authority made on their behalf.

The Authority was not directly verifying applicants' and participants' income to the sources. Instead of using proper verification forms, Authority staff routinely accepted notes and letters from participant employers for income verification. In most cases, the Authority accepted notes and letters provided by the participants, instead of the income sources.

Based on our results, Authority staff began directly verifying participants' incomes to sources and more aggressively inquiring about participant's incomes and other eligibility factors. As a result, it was determined that 17 participants were overpaid assistance totaling \$68,864 between September 1996 and October 2002. The Authority was in the process of terminating the assistance provided to ineligible tenants.

Inadequate audit trail

The Authority did not have a fully functioning management information system to maintain an audit trail for verifying tenant selections. The Authority could not use its computerized waiting lists to establish the order in which to offer assistance to qualified applicants. Therefore, even though the official waiting lists were computerized, Authority staff manually selected participants, after extensive manual analysis and adjustments to the computerized data. We also noted that the Authority's electronic Section 8 housing assistance payment register

had erroneous move-in dates for participants; incomplete tenant histories that only dated back 2 years; and, in many cases, tenant histories had data for several participants incorrectly commingled with other participant's tenant history.

Authority staff stated that the move-in dates were inaccurate because, until recently, Section 8 voucher and certificate numbers were reused. Because the numbers were reused, computerized histories for participants with the same numbers were commingled. Therefore, it was impossible to obtain accurate histories and information, such as move-in dates, for these participants.

The Authority was not properly managing its Conventional and Section 8 Housing Programs according to HUD' civil rights and program requirements. Participants were not selected from waiting lists in accordance with the Authority selection policies, and participants' assistance amounts were not properly determined. During our audit, the Authority's Executive Director started working on establishing proper waiting lists for the Authority's Conventional and Section 8 Housing Programs.

In addition, the Authority lacked adequate written selection and occupancy procedures. For example, the Authority's Section 8 Administrative Plan was outdated and did not include requirements for the Section 8 Housing Choice Voucher Program administered by the Authority. The Executive Director acknowledged that the Admissions and Continued Occupancy Policy was outdated. The Executive Director revised its Section 8 Administrative Plan and Admission and Continued Occupancy Policy, respectively on June 17 and August 19, 2002, to reflect the Authority's current policies and procedures.



Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C contains the complete text of the comments.

“We will turn this matter over to the Authority’s Attorney for collection. The former residents and/or participants who refuse to repay will not be allowed to receive future assistance until their outstanding balance has been satisfied.

“. . . the Housing Authority has revised its Section 8 Administrative Plan and Public Housing Admission Continued Occupancy Policy. Both documents include policies and procedures for selecting Program Participants.

“We have contacted Scott Accounting, our computer company regarding controls that may be implemented for proper tenant selection from the waiting list. In the meantime, we have implemented a procedure that utilizes a time and date clock. Each application is dated and time stamped at the time the application is completed. The waiting list is prepared from these applications using date and time. We are using pre-numbered applications. . . .”

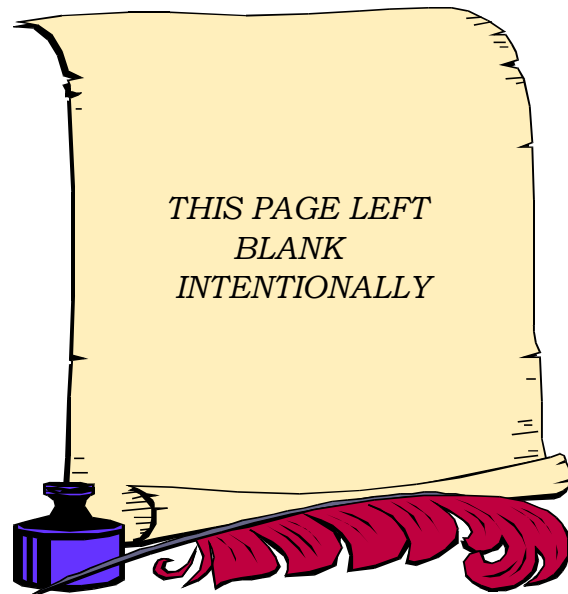
OIG Evaluation of
Auditee Comments

The Authority agreed with the finding. We believe the Authority’s actions will strengthen controls over the program.

Recommendations

We recommend that HUD require the Authority to:

- 1A. Recover the \$68,864 of housing assistance overpaid for current and former housing participants.
- 1B. Establish and implement policies and procedures for tenant selection to ensure compliance with requirements.
- 1C. Maintain documentation to support proper tenant selection from the waiting list and proper income and benefits verification.
- 1D. Submit for your review and approval its revised Admission and Continued Occupancy Policy and Administrative Plan to Ensure Compliance with HUD requirements for tenant selection.



The Authority Had Continuing Problems in Procuring Goods and Services

The Authority had continuing problems in procuring its goods and services. It did not have a contract administration system, lacked independent cost estimates, inadequately advertised, and had an inadequate history of procurement methods. These problems occurred because the Authority did not fully implement its management controls to ensure continuity of operations when changes in management occurred. In some cases, the Authority's management disregarded Federal procurement requirements, which denied qualified vendors an equal opportunity to provide goods and services. As a result, the Authority improperly disbursed \$437,146 without assuring prices were reasonable.

Criteria

Title 24 CFR, Part 85.36 (b)(2) requires the grantee to maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. Section (f)(1) requires the grantee to perform a cost or price analysis in connection with every procurement action including contract modification. Section (b)(9) requires the grantee to maintain records sufficient to detail the significant history of each procurement to show the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Section (i) requires that the grantee's contracts should incorporate several specific provisions, such as: (a) administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms; and (b) termination for cause and convenience. Section (c)(1) requires all procurement transactions be conducted to provide full and open competition. Section (d) outlines the procurement method to be followed and specific conditions to be met for each type of procurement. Additionally, Section (g)(2) provides for the awarding agency to place a grantee on pre-award review when the grantee's procurement system fails to comply with the procurement standards.

The Authority's Board of Commissioners adopted a Procurement Policy in July 1993. This policy requires compliance with State, local, and Federal laws; carefully planned procurements in advance with respect to anticipated need, procurement time, availability of storage space and other relevant factors assuring that the best quality goods, construction and services are procured on a timely basis at the least prices; and all procurement of equipment, supplies, and non-personal services are documented including purchase request, purchase orders, bids, request for proposals, and any other documents related to the selected procurement method used.

Background

The OIG issued audit report No. 92-AT-203-1015, dated July 18, 1992, regarding the Authority's Section 8 Existing and Housing Voucher Program and other Public Housing Programs. The audit report concluded that the Authority did not follow Federal regulations in procuring professional service contracts. Specifically, the Authority did not competitively procure legal and accounting services, and used questionable rating factors in selecting an architect. As a result, the report noted that costs for such activities may have been excessive.

To resolve the audit findings, the former Executive Director agreed that all future professional service contracts would comply with Federal regulations and that the Authority would consult HUD to determine the necessity for additional procurement procedures to fully comply with Federal contracting and procurement requirements. However, when management turnover occurred, the Authority did not have adequate management controls in place to ensure: (a) written operating procedures provided guidance to implement the policy; (b) record keeping procedures would identify and track contract activity; and (c) training for appropriate staff on technical aspects of procurement requirements.

Contract administrative system not maintained

The Authority did not maintain a contract administrative system that would readily identify contracting activities, contract amounts, or obligations per contractual agreement. The Accounts Payable Clerk stated that the former and current administration did not establish a contract register. The Authority did not have internal policies or procedures requiring the maintenance of a contract register or a similar

management information system for tracking contract activities. Because the Authority lacked such systems, neither the Authority staff nor management had assurance of how many contracts were awarded, contract amounts, and balances due.

Authority continued to violate HUD and its procurement requirements

Since the Authority did not have a system to track contract activities, we attempted to identify contracts during the period April 2000 through January 2002. We selected contracts that required formal competition and Board approval to determine whether the Authority was properly following HUD and its own requirements. As of March 19, 2001, the Board adjusted its prior procurement threshold from \$4,999 to \$25,000, for contracts not requiring formal bid or Board approval. We also included contracts under \$25,000 procured before threshold parameter changes. We concluded that the Authority entered into at least 11 contracts for construction, professional services, and other services. We selected 6 contracts over \$20,000 and one contract due to concerns of favoritism expressed by the Executive Director.

The sampled 7 contracts had a total of 33 procurement violations. For each contract, the Authority did not perform or document an independent cost estimate. Further, the Authority did not retain bid packages for six contracts and did not document its files to evidence formal advertisement for five contracts. The Authority files did not evidence adequate competition for four contracts. Appendix B provides a detailed listing of all procurement violations.

These deficiencies occurred because the Authority did not fully implement management controls as suggested in the 1992 OIG audit report. The Executive Director stated that the Authority's former staff did not implement the suggested recommendations as shown by the present procurement deficiencies. She also stated that the deficiencies appeared to be systematic, which reoccurred because of management turnover.

As a result, the Authority continued to disregard its own procurement policy and HUD's procurement requirements when procuring goods and services. Without sufficient records to detail the history of procurement, including cost analysis and evidence of competition, the Authority cannot

Unreasonable and unsupported costs of \$437,146

assure HUD it used full and open competition to obtain services from all qualified vendors at reasonable prices.

As required by 24 CFR 85.36, all procurement transactions must be conducted in a manner providing full and open competition and grantees must perform a cost or price analysis in connection with every procurement action. Additionally, the Authority's Procurement Policy requires carefully planned procurements in advance with respect to anticipated need, procurement time, availability of storage space, and other relevant factors assuring that the best quality goods, construction, and services are procured on a timely basis at the least prices. However, the Authority contracted services, which included roofing, legal fees, and lawn care, without properly planning for or ensuring such costs were reasonable. As a result, the Authority disbursed \$437,146 for services that were not necessary and reasonable (\$428,061) or unsupported (\$9,085). See Appendix B for the deficiencies and total questionable expenditures. Details of these disbursements follow.

Roofing Cost \$428,061 In March 1999, the former Executive Director executed a roofing contract. The contract provided for re-roofing 77 buildings totaling \$233,459. Contract specifications required the contractor to furnish all materials and labor except rotten decking and fascia removal. The decking, fascia, and other materials not included in the specifications were procured at \$6 per unit price. The Authority did not plan its roofing contract in advance to determine the complexity of and need for such services. The Authority's architect stated the roof evaluation was not performed due to time constraints and limited resources. As a result, the contractor submitted four change orders ranging from \$15,564 to \$314,885 for additional materials, which increased the original contract to \$1,032,644. A fifth change order was used to reduce the contract by \$179,412 based on a settlement agreement. The settlement agreement resulted in an adjusted contract amount of \$853,232, which included the effects of all change orders. However, payments to the contractor totaled \$859,146, exceeding the adjusted contract amount by \$5,914. The current Authority's management could not explain the reason for the additional amount paid.

These deficiencies occurred because the former Executive Director did not properly manage the roofing contract. A letter dated September 22, 1999, noted his concerns about exceeding the estimated costs due to additional decking and fascia needed to complete the work for all buildings. However, rather than terminating the contract or re-bidding for needed services, the former Executive Director relied on the maintenance staff and the architect to determine the amount of additional work. The former Executive Director subsequently approved two change orders totaling over \$600,000 that resulted in costs greatly exceeding initial estimated costs. Instead of approving these change orders, the Executive Director could have exercised the contract termination for convenience clause. The architect stated that the former Executive Director was concerned with the Authority's liability if the contract was terminated and continued to accept the change orders. The former Executive Director stated he did not discover the contract termination for convenience clause in the contract until the funds were exhausted. The architect stated he referred the former Executive Director to the contract termination for convenience clause; and, finally, the former Executive Director terminated the contract. However, prior to this termination, the former Executive Director used funds from other CGP years and other CGP budget items to fund the roofing contract. In December 1999, the contract was terminated with only 48 of 77 roofs completed.

An OIG Appraiser determined that a reasonable cost estimate for roofing the 48 buildings was \$431,085. This estimate is consistent with other bids originally obtained for the contract. Had the Authority properly planned, it could have procured the roofing contract in the most efficient and cost effective method and eliminated the need for unit prices. Such planning should have included determining the extent of damaged decking and fascia since original roofs were originally built more than 40 years ago. Unit pricing enabled the contractor to provide a low bid and to subsequently inflate prices for additional work via change orders. This resulted in a substantial profit to the contractor; and, the Authority incurred unnecessary

and unreasonable costs of \$428,061 (\$859,146-\$431,085).

The former Executive Director, serving as the Authority's Contracting Officer, bore the responsibility to perform required tasks from procurement planning through contract administration and closeout. As such, he was responsible for ensuring that contracts complied with requirements. Such duties should have included exercising sound judgment in carrying out procurement responsibilities; requesting and considering the advice of specialists, as appropriate; and, analyzing bids and proposals.

Legal Fees \$4,835 The Authority entered into legal service contracts with the same private law firm on an annual basis. The contracts provided for services to the Authority as requested, relating to its tenants, contracts, leases, grants, and other general business of the Authority. In addition, the contract provided for the general representation for the Board of Commissioners and the Executive Director. The law firm was paid a \$4,800 base fee plus \$90 per hour for such services from September 1999 to August 2001.

However, we determined the Authority continued to pay the firm after the contract expired. The Authority did not have a contract to cover payments totaling \$4,835 or documentation to support what, if any, services were performed from September 2001 to December 2001. The Authority did not review the invoices before payment to ensure charges and period of services were appropriately covered by a contract.

A second contract, dated January 2, 2002, allowed the firm's hourly fees to increase from \$90 to \$100 per hour. The Board Minutes, dated January 22, 2002, confirmed the Authority renewed the contract without formal bid, which was a sole source procurement. The Authority did not obtain the required HUD approval for sole source procurement nor perform the required cost estimates to determine the necessity for the increase in legal fees. However, the Board approved the contract.

The Authority's staff stated that the former Executive Director did not segregate procurement duties and

insisted on performing all procured activities. At his departure, the Authority's staff was uninformed about contract terms and amounts owed, leaving the Authority in a precarious position to properly administer its contracts. As a result, the Authority did not have adequate controls to prevent or detect such overpayments.

Lawn Care \$4,250 In April 2000, the Authority executed a contract for lawn care services. The contract provided for lawn maintenance from April 2000 to September 2000. According to the contract's bid tabulation documents, services were \$7,000 per month, which indicates the contract amount would be \$42,000 for the 6 months. The Authority paid the contractor \$46,250 without an amendment or contract agreement. Thus, the Authority overpaid the contractor \$4,250.

In addition, the Authority staff confirmed that the former Executive Director allowed the contractor to utilize the Authority's lawn equipment to perform the contracted services. The contract specifications stipulated the contractor was responsible for supplies, equipment, labor, and materials. However, the Authority did not amend the contract to allow use of its equipment. The contractor damaged the equipment, without compensating the Authority. Thus, the Authority was left liable for damages and unprotected by contractual agreements for such disputes.

The former Executive Director's actions were not prudent and resulted in liabilities for the Authority.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C contains the complete text of the comments.

“The Housing Authority recognizes that through administrative error, it may not have procured all goods and services in accordance with 24 CFR 85.36 and other HUD requirements and guidelines. However, as it relates to the roofing contract, it appears that the former Executive Director utilized his Maintenance Staff and relied on the Architect, who was hired to oversee this work. As a matter of record, the architect signed all change orders that were approved and paid. . . .

“In the future, the Authority will procure professional services in accordance with a Board adopted procurement policy. . . .

“The Fairfield Housing Authority does not have non-federal funds or means to raise such funds to compensate HUD for the adverse financial impact of past mismanagement.

“. . . We acknowledged that the new Legal Services contract was not procured in accordance with Federal Regulations at 24 CFR 85.36. However, the legal services were provided to the Authority and the hourly rate increased by only \$10.00 under the new contract. . . . We are asking that HUD allow this cost. It would be difficult for the Authority to seek reimbursement since the services were provided notwithstanding the Authority’s failure to follow its Procurement Policy in renewing this contract.

“The Authority will seek reimbursement from the lawn care contractor for the overpayment. . . .

“The Authority is currently revising its Procurement Policy and Procedures. . . .

“Fairfield Housing Authority is currently utilizing a contract log, which gives the total amount of the contract. . . .

“The Executive Director, as chief Contracting Officer, will attend a NAHRO seminar on Mastering Procurement and Contract Management. . . .

“The Fairfield Housing Authority welcomes HUD’s post award review for a representative sample of contracts. . . .”


OIG Evaluation of
Auditee Comments

The Authority generally agreed with the finding. We concur that the Architect did approve all change orders. However, this did not reduce the former Executive Director's responsibilities as the Authority's Contracting Officer. The finding acknowledges that the former Executive Director relied on the maintenance staff and the architect to determine the amount of additional work. However, such reliance did not remove the former Executive Director's responsibility to perform required tasks from procurement planning through contract administration or closeout.

The invoices for legal services did not document what, if any, services were rendered for the payments requested and made. Therefore, supporting documentation is needed for the services rendered.

We believe the Authority's actions will strengthen controls over the procurement operations. However, HUD should ensure that reimbursement is pursued or require the Authority to appropriately document its inability to repay.


Recommendations

We recommend you require the Authority to:

- 2A. Provide proper supporting documentation or reimburse from non-Federal funds \$428,061 of unreasonable expenditures.
- 2B. Provide proper supporting documentation or reimburse \$9,085 from non-Federal funds.
- 2C. Establish and implement written operating policies and procedures that will ensure the Authority is procuring goods and services in accordance with HUD requirements.
- 2D. Establish and implement adequate management controls to monitor contract activity and ensure payments do not exceed contract limitations.

- 2E. Provide training for its staff on the procurement requirements.

In addition, we recommend that you:

- 2F. Place the Authority on a post award review for a representative sample of contracts awarded, if the post award review shows the Authority is not complying with requirements, place the Authority on a pre-award review until the Authority has implemented adequate procedures and controls.

The Authority Needs to Improve Its Controls Over General Accounting and Disbursements

The Authority did not maintain an adequate system of controls over its general accounting and disbursements. The Authority's inadequate records did not reflect a \$50,000 receivable owed to its Low Rent-Housing Program. These deficiencies existed because the Authority did not have adequate written accounting and financial management procedures and were unaware of certain deficiencies. As a result, the Authority did not adequately safeguard resources against waste, loss, and misuse. Also, HUD had reduced assurance that the Authority was complying with applicable laws, regulations, and policies.

Management control system

Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. Management control classifications include program operations, validity, and reliability of data, compliance with laws and regulations, and safeguarding of resources.

Title 24 CFR 85.20 (b)(3), Federal standards for financial management systems, require effective control and accountability for all cash, real and personal property, and other assets, and that all such property must be adequately safeguarded. A basic concept of internal accounting controls is the segregation of duties to make it more difficult to misuse assets without detection.

HUD Guidebook 7510.1, Public and Indian Housing Low-Rent Technical Accounting Guide, Section II, provides that accounting controls are needed to ensure that transactions are properly recorded, financial reporting is accurate, and assets are safeguarded against loss from unauthorized use.

Part A, Section 15, of the Annual Contributions Contract requires the housing authority to maintain complete and accurate books of accounts and records.

General accounting
deficiencies

Books and Records Were Incomplete The Authority's books and records did not accurately reflect a \$50,000 accounts receivable due from the Fairfield Housing Development Corporation, an Alabama nonprofit corporation. Also, the Authority's financial statements for fiscal year ended March 31, 2001, and for the 7 months period ended October 2001, did not include the receivable or a pertinent disclosure.

The Authority's February 2001 General Ledger Trial Balance, Low Rent Housing Program, showed the \$50,000 as a receivable to the Low-Rent Program. Per the Fee Accountant, the \$50,000 was transferred to the Fairfield Housing Development Corporation using a Low-Rent check; but the actual source of the funds was earned Section 8 administrative fees. The financial statements, ended March 31, 2001, showed a Section 8 donation of \$50,000, but did not reflect a receivable. The Fee Accountant prepared a journal voucher to reflect the receivable as due to the Section 8 Voucher Program.

The Executive Director stated she was not aware of a written agreement for the receivable. She added that funds of about \$46,000 and property acquired would be returned to the Authority, pending HUD's approval, to clear the receivable.

The Authority's accounting procedures were not adequate to ensure its books and records were complete and accurate. The Authority's books and records did not reflect an orderly accounting of its funds.

Unapproved Journal Vouchers The Authority's Fee Accountant prepared journal vouchers without approval from an Authority employee. Our review of vouchers from July 4, 2000, to June 7, 2001, indicated that the vouchers did not identify the preparer or approver. The Authority did not have adequate written accounting and financial management procedures that required approval of journal vouchers. The Executive Director confirmed that no one approved the vouchers.

Disbursements

Safeguarding resources is a primary management concern. The Authority did not have adequate procedures for segregating duties when issuing checks, accessing blank checks, processing invoices, and supporting checks. Also,

the Authority was unaware of some of the deficiencies, as discussed below.

Segregation of Duties The Authority did not separate the duties and functions of the Accounts Payable Clerk. The individual received bank statements prior to reconciliation by the Fee Accountant, and was involved with the check voucher support and issuance of checks. Also, the Clerk used the mechanical check signer, while having access to accounting records and blank checks, and having authority to approve vouchers for payment. The Executive Director stated she was aware of the problems, but a temporary personnel reduction caused individuals to perform several duties and functions. Thereafter, she placed the check signer and keys in her locked office.

Check Access The Authority did not restrict access to blank checks in its vault. The Executive Director stated that she would obtain a locking cabinet for the checks.

Invoice Procedures The Authority did not establish procedures requiring that invoices were matched with purchase orders and receiving reports, and marked to prevent reuse. The Executive Director stated they would start using pre-numbered purchase orders. She added that they would obtain a stamp to use for marking invoices paid.

Check Support The Authority did not ensure that checks were supported by invoices and other documentation; or revised, along with supporting documentation, prior to payment approval.

As a result of the above deficiencies, the Authority did not adequately safeguard its resources against waste, loss, and misuse. Also, HUD had reduced assurance that the Authority was complying with applicable laws, regulations, and policies.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C contains the complete text of the comments.

"We have transferred \$49,208.67 from the Fairfield Housing Development Corporation to a Certificate of Deposit on October 8, 2002 for the Fairfield Alabama Housing Authority. There is a lot in the 5400 block of Court G in Fairfield, Alabama that is owned by the Housing Development Corporation. The lot will be sold to secure the balance of \$792.

"The Fee Accountant and the Auditors will be requested to make the necessary adjusting entries to the accounting records and reports for the Housing Authority to reflect the recording of the \$50,000 advanced to the Fairfield Housing Development Corporation. . . .

". . . As indicated in the report, prompt corrective action was taken to address this problem [segregation of duties]. . . ."

OIG Evaluation of Auditee Comments

The Authority agreed with the finding. We believe the Authority's actions will address the deficiencies.

Recommendations

We recommend that you require the Authority to:

- 3A. Seek repayment of the \$50,000 owed from the Fairfield Housing Development Corporation.
- 3B. Ensure that accounting records and reports accurately reflect the recording of the \$50,000 advanced to the Fairfield Housing Development Corporation.
- 3C. Establish and implement controls to ensure journal vouchers are properly prepared and reviewed, duties are segregated, access to blank checks is restricted, and check support is properly documented.

The Authority Did Not Exercise Prudent Control Over Travel Expenses

The Authority did not have adequate controls to ensure that travel expenses were necessary, reasonable, adequately supported, and recorded, as required. The deficiencies occurred because the former Executive Director disregarded requirements and other travelers did not realize the importance of documentation. As a result, ineligible expenses of \$461 and unsupported costs of \$3,780 were charged to the travel or sundry accounts.

Criteria

Part A, Section 2, of the Annual Contributions Contract defines operating expenditures as those necessary for the operation of the project; and, Section 11 (D) states such expenditures should be pursuant to an approved operating budget.

The Public and Indian Housing Low-Rent Technical Accounting Guide 7510.1 states that account 4150 shall be charged with travel expenses of officials and employees traveling on official business. Travel expenses include all transportation costs, subsistence allowances, and so forth. Travel expenses may also include registration fees. The account should not be charged with travel expenses incurred in connection with an employee training program, such expenses should be charged to the training account 4140.

Section 2.01.00 of the Authority's Personnel Handbook, adopted January 24, 2000, states that travel should be reasonable and necessary to operate the Authority economically and efficiently. Travel expenses should have prior approval of the Board of Commissioners or the Executive Director. This requirement is met through the Board's approval of the annual operating budget, which includes scheduled and anticipated travel. Section 2.03.02 requires each person to submit a travel voucher on the approved form within a reasonable time after the travel occurs.

Budgeted and actual expenses

The annual budgets for fiscal years 2001 and 2002 showed total approved travel expenses of \$14,780, as follows:

Travel-Trips to Meetings and Conventions	\$12,000
Other Travel (Outside Jurisdiction Area)	500
Other Travel (Within Jurisdiction Area)	<u>2,280</u>
Total Travel	<u>\$14,780</u>

Per General Ledger account 4150, actual expenses were \$36,198 and \$21,562 for fiscal years 2001 and 2002, respectively, which far exceeded budgeted amounts.

The Authority’s ineligible expenses of \$461 included a retirement meal and gifts. The Authority incurred \$3,780 for expenses not properly supported.

In addition, we noted expenses totaling \$7,651 that were misclassified. The expenses related to training rather than travel. The Authority did not exercise prudent control over its travel expenses. For the checks reviewed, we determined that the invoices were not marked paid and lacked evidence of appropriate approval. For nine checks issued to the former Executive Director a travel expense report was not attached to the check voucher in six instances. In three of the six instances, the travel expense report was located in other records. In one instance, the travel advance on the report did not agree with the check amount.

The Executive Director stated that the staff should have been familiar with procedural and documentation requirements. She acknowledged that at times, documentation was forwarded to the former Executive Director, and he would misplace it or not turn in the required documentation prior to check issuance.

The Executive Director stated she would no longer use her Authority credit card to pay for others’ lodging. The Authority will issue a check directly to the hotel. She added that travel expense reports will be required and check vouchers will be appropriately reviewed for documentation.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C contains the complete text of the comments.

"We concurred with the repayment of \$461 of ineligible costs.

"Of the \$3780 we believe that most of the amount can be supported after further research and review of records. . . .

". . . A written travel policy will be submitted to HUD for review and approval upon adoption by the Board of Commissioners."

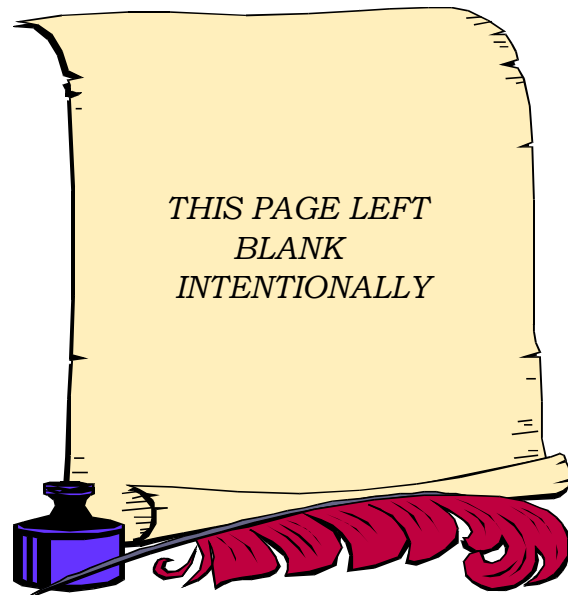
OIG Evaluation of Auditee Comments

The Authority agreed with the finding. We believe the Authority's actions will strengthen controls over its travel function.

Recommendations

We recommend that you require the Authority to:

- 4A. Reimburse the \$461 of ineligible travel costs from non-Federal funds.
- 4B. Provide proper supporting documentation or reimburse the \$3,780 of unsupported expenditures.
- 4C. Implement its travel policies and procedures to ensure adequate controls of travel expenses



Management Controls

In planning and performing our audit, we considered the management controls of the Fairfield Alabama Housing Authority in order to determine our auditing procedures, not to provide assurance on the controls. Management is responsible for establishing effective management controls to ensure that its goals are met. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organization, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Program Operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss and misuse.

Assessment Procedures

We assessed the relevant controls identified above by:

Reviewing complaint allegations;

Reviewing the regulations governing the program and Authority policies and procedures;

Interviewing HUD officials, Authority staff, former Authority employees, complainant, Section 8 recipients, and vendors;

Reviewing general accounting and administrative controls and disbursement and computer controls;

Inspecting roofs;

Reviewing cash disbursement records and files related to the eligibility and use of HUD program funds; and,

Analyzing reports from independent public accountants and from OIG.

Significant Weaknesses

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

Based on our audit, we identified the following significant weaknesses:

- Program Operations The Authority is not properly administering key operational components of its Section 8 Program. (Finding 1)
- Validity and Reliability of Data The Authority's books and records were incomplete regarding a \$50,000 accounts receivable. The Authority staff did not approve journal vouchers. (Finding 3) The Authority did not have adequate controls to ensure that travel expenses were necessary, reasonable, and adequately supported and recorded. (Finding 4)
- Compliance with Laws and Regulations The Authority did not have adequate controls and procedures to manage its Section 8 Program according to its ACC and HUD regulations and requirements. (Finding 1) The Authority had continuing problems in procuring its goods and services. The Authority did not have a contract administration system, lacked independent cost estimates, inadequately advertised, and had an inadequate history of procurement methods. (Finding 2) The Authority did not maintain an adequate system of controls over its general accounting or its

disbursements. As a result, HUD had reduced assurance that the Authority complied with applicable laws, regulations, and policies. (Finding 3) The Authority did not have adequate controls to ensure that travel expenses were necessary, reasonable, and adequately supported and recorded. (Finding 4)

- Safeguarding Resources The Authority did not separate the duties and functions of the Accounts Payable Clerk. The individual received bank statements prior to reconciliation by the Fee Accountant and was involved with check voucher support and check issuance. Also, the individual used the mechanical check signer. (Finding 3)



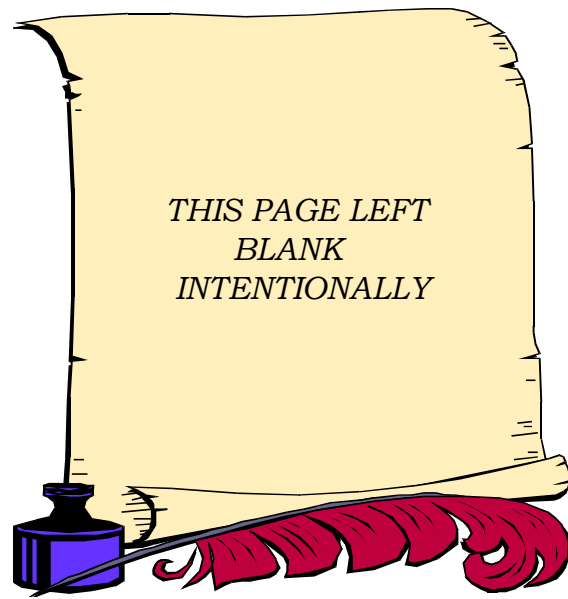
Follow-Up On Prior Audits

A prior audit report contained findings that impact the objectives of this audit.

An OIG audit report (No. 92-AT-203-1015, dated July 8, 1992) on the Authority's Section 8 Existing and Voucher Programs concluded that the Authority: (1) was not properly selecting participants, or properly determining assistance levels and continued eligibility. Assistance totaling \$2,358 appeared overpaid; and, (2) needed to improve financial management procedures. Internal controls were weakened because employee duties were insufficiently segregated, and procurement and contracting for professional services were inadequate. The report contained three findings with 16 recommendations. As of March 1993, all recommendations had been closed.

Borland, Benefield, Crawford and Webster, Certified Public Accountants, completed the last Independent Auditor audit report for the seven-month period ended October 31, 2001. The report issued December 28, 2001, included the following three findings concerning the Section 8 Voucher Program: (1) the Authority failed to establish adequate internal controls over the program, particularly segregation of duties and improper management oversight by the former Executive Director; (2) the Authority failed to follow HUD guidelines to document the application process; and, (3) the Authority did not maintain proper tenant files.

Deficiencies similar to those above are reported in the Findings section of this report.



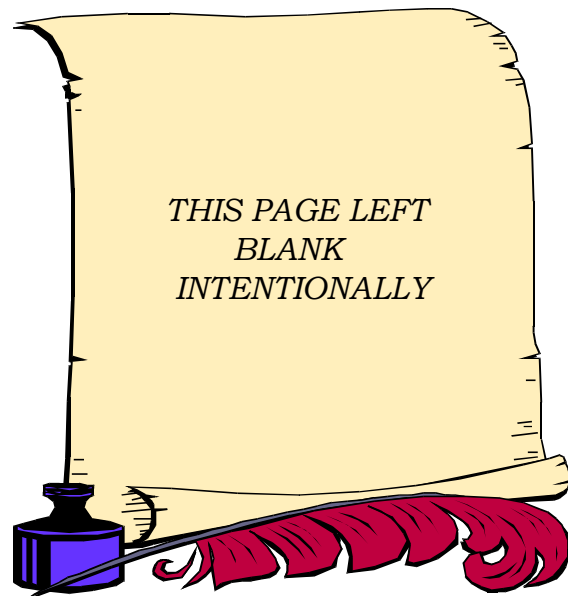
Schedule of Questioned Costs

Recommendation Number	<u>Ineligible</u> ¹	<u>Unreasonable</u> ²	<u>Unsupported</u> ³
1A	\$68,864		
2A		\$428,061	
2B			\$9,085
3A	50,000		
4A	461		
4B			<u>3,780</u>
Totals	<u>\$119,325</u>	<u>\$428,061</u>	<u>\$12,865</u>

¹ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

² Unreasonable costs are costs that exceed those that would be incurred by an ordinary prudent person in the conduct of a competitive business.

³ Unsupported costs are costs charged to HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation of clarification of Departmental policies and procedures.

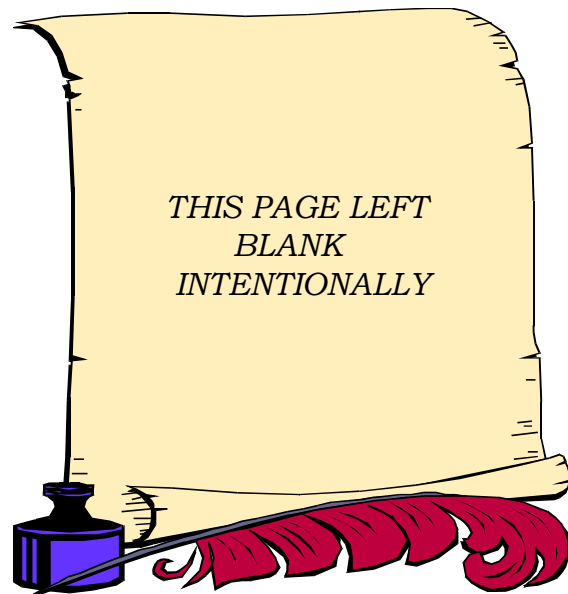


Summary of Procurement and Contract Administration Deficiencies

Vendor/Contractor	Deficiencies	Contract Date	Contract Amount	Disbursed Amount	Unsupported Cost
David Mitchell Construction, Inc.	1,6,7,9	3/12/99	\$233,460	\$859,146	\$428,061
Crimson Eagle	6,9	3/21/01	\$252,200	\$252,180	
Gaines & Davis, dba GuntherGaines, LLC	1,6,8,9	9/1/99 1/1/02 Addendum	\$23,638 \$18,394	\$46,867	\$4,835
Presley Lawn	2,4,6	4/3/00	\$42,000	\$46,250	\$4,250
The Architectural Office of William J. Peek	1,3,4,6,7,9	1/1/01	\$33,483	\$25,112	
Gateway Computers	1,2,4,5,6,7,9,10	No Contract	No Contract	\$23,764	
McClung Contracting	1,2,4,6,8,9	3/19/01	\$9,300	\$9,300	
Total Deficiencies:	33				
Total Unsupported Cost					\$437,146

Notes:

1. Contracts procured without advertisement
2. No signed contract
3. Sole Source procurements awarded without prior HUD approval
4. Contracts awarded without adequate competition
5. Purchase Order issued instead of bidding process
6. No independent cost estimate or cost/price analysis
7. Contracts awarded without Board approval
8. Missing essential clauses in awarded contracts
9. Incomplete contract files
10. Inappropriate procurement method



Auditee Comments



**FAIRFIELD
ALABAMA
HOUSING**

AUTHORITY
February 24, 2003

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U. S. Department of Housing and Urban Development
District Office of the Inspector General
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Atlanta, GA 30303-3388

**SUBJECT: Initial Comments Audit of Fairfield Alabama Housing Authority Housing
Programs Operations**

Dear Ms. Cooper:

Attached is the initial response to the draft of the Audit for Fairfield Alabama Housing Authority. Upon receipt of the final Audit Report from your office, we will address each finding and recommendation in the audit.

We will work diligently to address all potential weaknesses in our program. Our staff will work with the local office of the U. S. Department of Housing and Urban Development to respond to each finding. We will modify our existing procedures and policies. We will implement measures that will correct the problems identified in your report.

Thank you and the Audit staff for your helpful comments and assistance during this Audit. I appreciated the opportunity to participate in the Exit Conference.

We will make every effort to correct and develop our Housing Programs to better serve those eligible for assistance.

We request your guidance and support in working through the Audit resolution process.

Thank you in advance for you support and assistance.

Sincerely,

Angela W. Thomas
Executive Director

**BOARD OF COMMISSIONERS: MATTIE G. JACKSON, CHAIRMAN • KENNETH COACHMAN,
VICE CHAIRMAN • SHIRLEY BALDWIN • O.C. ODEN • DEMETRIUS C. NEWTON • SOPHIA SHELLEY**

FINDING 1 – THE AUTHORITY DID NOT PROPERLY SELECT AND SET ASSISTANCE LEVELS FOR PARTICIPATING FAMILIES

A new Section 8 Administrative Plan was adopted on June 17, 2002. The Public Housing Admissions and Continued Occupancy Policy was revised on August 19, 2002. We anticipate further revisions to both policies to further strengthen the Public Housing and Section 8 Programs in the future.

We will submit the Administrative Plan and the Admissions and Continued Occupancy policies to HUD for review and approval.

1A. Identification of Files

We will turn this matter over to the Authority's Attorney for collection. Those former residents and/or participants who refuse to repay will not be allowed to receive future assistance until their outstanding balance has been satisfied.

1B. Administrative Plan and Admissions and Continued Occupancy As indicated above, the Housing Authority has revised its Section 8 Administrative Plan and Public Housing Admissions Continued Occupancy Policy. Both documents include policies and procedures for selecting Program Participants.

1C. Computer Controls We have contacted Scott Accounting, our computer company regarding controls that may be implemented for proper tenant selections from the waiting list. In the meantime, we have implemented a procedure that utilizes a time and date clock. Each application is dated and time stamped at the time the application is completed. The waiting list is prepared from these applications using date and time. We are using pre-numbered applications.

The Section 8 and Public Housing Waiting Lists are not open at the same time. Presently, both lists are closed while we correct the situation mentioned in the HUD Audit.

The Housing Authority has hired a Director of Housing Management. She is an experienced Housing Manager. She is conducting Quality Control reviews on the files. The Executive Director will also perform Quality Control reviews on the files.

1D. Revised Admissions and Continued Occupancy Policy and the Administrative Plan

The revised Public Housing Admissions and Continued Occupancy Policy and the Section 8 Administrative Plan is being submitted for HUD review for compliance with HUD requirements for tenant selection and other procedures.

The Section 8 and Public Housing Staff have been sent to various HUD and professional association sponsored workshops for training. There will be continued efforts to identify workshops for training that will help improve the understanding of HUD procedures and regulations.

FINDING 2 – THE AUTHORITY HAD CONTINUING PROBLEMS IN PROCURING GOODS AND SERVICES

2A. Procured Goods and Services

The Housing Authority recognizes that through administrative error, it may not have procured all goods and services in accordance with 24 CFR 85.36 and other HUD requirements and guidelines. However, as it relates to the roofing contract, it appears that the former Executive Director utilized his Maintenance Staff and relied on the Architect, who was hired to oversee this work. As a matter of record, the architect signed all change orders that were approved and paid.

The goods and services procured were necessary although the staff may have failed to adequately document the Authority's files with cost estimates or price analyses.

In the future, the Housing Authority will procure professional services in accordance with a Board adopted procurement policy. Prior to requesting proposals for professional service, the Housing Authority will clearly define the scope of service to be provided and prepare a cost or price analyses to be used as a basis for establishing reasonableness of cost.

The Executive Director, as the chief Contract Administrator, will be attend a NAHRO seminar on Mastering Procurement and Contract Management. This seminar provides training in procurement, contracting, contract administration, the procurement process and the latest HUD requirements. When the Executive Director returns from this seminar, she will train other authority staff as appropriate.

The Fairfield Housing Authority does not have non federal funds or the means to raise such funds to compensate HUD for the adverse financial impact of past mismanagement.

2B. Legal Fees

As indicated, the former Executive Director performed all procurement services for the Authority. We acknowledge that the new Legal Services contract was not procured in Accordance with Federal Regulations at 24 CFR 85.36. However, the legal services were provided to the Authority and the hourly rate increased by only \$10.00 under the new contract. This appears to be a reasonable increase after a two-year period under the old contract. We are asking that HUD allow this cost. It would be difficult for the Authority to seek reimbursement since the services were provided not withstanding the Authority's failure to follow its Procurement Policy in renewing this contract.

2B. Lawn Care

The Authority will seek reimbursement from the contractor for the overpayment. We will have our Attorney contact the contractor for this payment. If we are unsuccessful in this effort, we will ask for HUD's consideration in not requiring the Authority to repay these funds. Again, the Authority does not have a source of non-federal funds to repay this amount.

2C. Procurement Policy and Procedures

The Authority is currently revising its Procurement Policy and Procedures. When this document is complete, we will submit it to HUD for review and approval. As indicated above, the Executive Director will attend procurement training and will provide training to other staff who may have procurement responsibilities.

2D. Contract Log

Fairfield Housing Authority is currently utilizing a contract log which gives the total amount of the contract. The contract log also shows when the contract will expire. Any one requesting a check for a contractor must indicate on the check request the date the contract will expire. They must also include information on how much has been paid to date on the contract. The Executive Director will review the contract log monthly for quality control.

All checks are currently requested on a check request form that must be approved by the Executive Director. This means that any errors should be identified since more than one person is reviewing the request for a check.

2E. Training

The Executive Director, as the chief Contract Administrator will attend a NAHRO seminar on Mastering Procurement and Contract Management. This seminar will provide training in the procurement process, contract administration and the latest HUD requirements and procedures. When the Executive Director returns from this seminar, she will train the appropriate staff.

2F. Post Award Review

The Fairfield Housing Authority welcomes HUD's post award review for a representative sample of contracts. We are confident that HUD will be pleased with the Authority's procurement performance under current management.

FINDING 3 – THE AUTHORITY NEEDS TO IMPROVE ITS CONTROLS OVER GENERAL ACCOUNTING AND DISBURSEMENTS**3A. Repayment**

We have transferred \$49,208.67 from the Fairfield Housing Development Corporation to a Certificate of Deposit on October 8, 2002 for Fairfield Alabama Housing Authority. There is a lot in the 5400 block of Court G in Fairfield, Alabama that is owned by the Housing Development Corporation. The lot will be sold to secure the balance of \$792.

3B. Accounting Records

The Fee Accountant and the Auditors will be requested to make the necessary adjusting entries to the accounting records and reports for the Housing Authority to reflect the recording of the \$50,000 advanced to the Fairfield Housing Development Corporation. Likewise, the records will reflect the repayment of these funds to the Authority.

3C. Segregation of Duties

The Executive Director was aware that there should have been separation of duties and unctions. The temporary reduction in personnel resulted in the none segregation of duties at the time of the Audit. As indicated in the report, prompt corrective action was taken to address this problem.

Journal Vouchers

To insure that journal vouchers are properly prepared and reviewed, all journal vouchers will be approved by the Executive Director or designee.

Access to Blank Checks

Blank checks will be restricted in a locked cabinet.

Check support

A check request form is now being submitted with every request for a check. This form should have invoices attached and other documentation prior to payment or approval of the check. Once the check is issued, the invoices will be stamped paid.

Properly documented

Invoices are presently matched with purchase orders and receiving reports to prevent reuse. The Authority is currently using pre-numbered purchase orders.

Safeguarding resources

The mechanical check signer will be used by the Executive Director to sign the checks. The mechanical check signer has been moved to the Executive Director's Office.

Check Reconciliation

The Accounts Payable Clerk will only be given those bank statements that she will reconcile prior to the Fee Accountant receiving them.

FINDING 4 – THE AUTHORITY DID NOT EXERCISE PRUDENT CONTROL OVER TRAVEL EXPENSES

4A. Reimburse the \$461 of ineligible travel costs

We concur with the repayment of \$461 of ineligible costs.

4B. Unsupported Travel

Of the \$3780 we believe that most of this amount can be supported after further research and review of records. Some of the items included in unsupported appear to be APHADA meetings which were attended by the former Executive Director.

The Authority does not have non-federal funds or the means of raising these funds to reimburse HUD for this unsupported amount of \$3780.

4C. Travel Policies and Procedures

The Fairfield Alabama Housing Authority will include in its Board Minutes the trips for the Commissioners. Training will be handled on the basis of need by employees and the availability of funds in the budget.

The person attending a conference or seminar will be required to complete a travel Request Form and obtain approval for travel. Receipts supported by other documents must be submitted upon return as well as a brief synopsis of the trip.

A written travel policy will be submitted to HUD for review and approval upon adoption by the Board of Commissioners.

Distribution Outside of HUD

Executive Director, Fairfield Alabama Housing Authority
Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources
Steve Redburn, Chief Housing Branch, Office of Management and Budget
Linda Halliday (52P), Department of Veterans Affairs
The Honorable Susan M. Collins, Chairman, Committee on Government Affairs
The Honorable Joseph Lieberman, Ranking Member, Committee on Government Affairs
The Honorable Thomas M. Davis, III, Chairman, Committee on Government Reform
The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform
W. Brent Hal, U.S. Accounting Office
Kay Gibbs, Committee on Financial Services
Andy Cochran, House Committee on Financial Services
Clinton C. Jones, Senior Counsel, Committee on Financial Services