AUDIT REPORT



LIMITED REVIEW OF LOW RENT PROGRAM

HOUSING AUTHORITY OF THE CITY OF MORGAN CITY MORGAN CITY, LOUISIANA

2003-FW-1001

FEBRUARY 21, 2003

OFFICE OF AUDIT, REGION 6 FORT WORTH, TEXAS



Issue Date

February 21, 2003

Audit Case Number 2003-FW-1001

TO: Irving LaPoint

Director, Public and Indian Housing, 6HPH

//s//

FROM: D. Michael Beard

Regional Inspector General for Audit, 6AGA

SUBJECT: Low Rent Program

The Housing Authority of the City of Morgan City

Morgan City, Louisiana

We performed an audit of the Housing Authority of the City of Morgan City's (Authority) Low Rent Program. The purpose of the audit was to determine the validity of allegations against the Authority. Specifically, we determined: (1) whether the Authority followed federal and Authority procurement requirements; (2) whether the Authority complied with applicable federal requirements and its adopted policies and regarding use of its credit cards and the performance of travel; and (3) the reason for the 1999 operating deficit of \$168,958. We also reviewed specific allegations regarding an employee's work for a contractor; and the Executive Director's employment of Authority personnel for his business.

The report contains five findings requiring follow-up actions by your office. We will provide a copy of this report to the Authority.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days, please furnish this office, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) the 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 because of the audit.

Please call William W. Nixon, Assistant Regional Inspector General, at (817) 978-9309 if you or your staff have any questions.

Executive Summary

We performed an audit of the Housing Authority of the City of Morgan City (Authority). The purpose of the audit was to determine the validity of allegations regarding the Authority. Specifically, we determined:

- Whether the Authority followed federal and Authority procurement requirements and
- Whether the Authority complied with its adopted policies and federal requirements regarding the use of its credit cards and the performance of travel.

Also, we reviewed the reasons for the 1999 Operating Deficit of \$168,958 and reviewed specific allegations regarding an employee's work with a contractor, and the Executive Director's employment of Authority personnel.

The Authority did not follow requirements.

The audit concluded the Authority did not follow procurement requirements. Further, the Authority did not comply with its requirements regarding the use of its credit cards and the performance of travel. Specifically, the Authority:

- ➤ Inappropriately procured \$916,205 in contracts.
- ➤ Paid \$22,008 in ineligible and unsupported procurement expenditures.
- ➤ Paid \$3,850 in ineligible and unsupported travel expenditures.
- ➤ Paid \$32,652 to an Authority contractor in violation of conflict of interest requirements.
- Did not monitor its budget.

Further, the Authority did not have procedures that adequately addressed outside employment and businesses.

As a result of poor management, lax oversight, and a failure to follow requirements, the Authority discouraged procurement competition and mismanaged HUD funds. Further, the Authority created conflicts of interest.

Recommendations.

We recommend the Authority either support or repay the unsupported expenditures discussed in the findings. The Authority should repay the ineligible amounts. Further, we recommend the Authority follow regulations and procedures to ensure it properly expends funds and that HUD take administrative actions against the parties involved in the conflict of interest.

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Authority agreed to implement recommendations.

We provided the draft copy of the audit report to the Authority on December 23, 2002. We held an exit conference on January 6, 2003, with the Executive Director and Board Chairperson of the Authority.

The Authority's attorney provided a signed response, dated January 31, 2003, to our findings. We have summarized and evaluated the applicable areas in the individual findings. Generally, the Authority agreed to implement our recommendations. The Authority and its Board have been reorganized and the Executive Director was terminated. We have included their response, without attachments, as Appendix B. Based upon their response, we modified the report, where appropriate.

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Abbreviations

ACC	Annual Contributions Contract
CDG	Community Design Group
CFR	Code of Federal Regulations
HUD	U. S. Department of Housing and Urban Development
IFP	Invitation for Proposals
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHDEP	Public Housing Drug Elimination Program

Introduction

Background

The Housing Authority of the City of Morgan City (Authority) - Morgan City established the Authority in 1950. The Mayor of Morgan City appoints a five-member Board of Commissioners to govern the Authority. The Board hired an Executive Director to manage the Authority's day-to-day operations. The Executive Director has worked at the Authority since 1984. The Authority administers 330 low-rent units and 134 Section 8 vouchers and certificates. The Authority maintains its records at its central office at the Martin Luther King Center on Wren Street, P.O. Box 2393, Morgan City, Louisiana 70381.

The Authority received the following HUD funds during our audit period:

Type of Funding	1999	2000	2001
Operating Subsidy	\$487,427	\$473,521	\$713,776
Comp Grant ¹	585,849	648,063	661,329
Drug Elimination	72,580	75,644	81,078
Totals	\$1,145,856	\$1,197,228	\$1,456,183

The Authority received advisory Public Housing Assessment Scores of 46.4 in 1999, 61 in 2000, and 74 in 2001 out of a possible 100. The Authority's low scores in 1999 and 2000 were primarily attributable to its scores of zero out of 30 points for the financial components of the assessment.

Firmin-Dugas and Community Design Group (CDG). Firmin-Dugas has provided architectural services to the Authority since 1983. CDG has provided grant application and administration services for the Authority's Comp Grant programs since 1993. Additionally, CDG provided Drug Elimination grant services to the Authority since 1990. The President of Firmin-Dugas is also the President of CDG. Both companies are located at the same address in Morgan City. These companies received the vast majority of the architectural and administrative contracts.

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The Comprehensive Grant Program is a HUD program that provides funds to public housing authorities to modernize units. Beginning in fiscal year 2000, the Capital Fund Program replaced the Comprehensive Grant Program. For the purpose of this report, the Comprehensive Grant Program and Capital Funds Program will be referred to collectively as "Comp Grant."

Audit Objectives, Scope, and Methodology

We performed audit work from August 2001 through June 2002. The audit covered the period January 1, 1999, through June 30, 2001. We extended the scope, where appropriate.

Our overall objective was to determine the validity of allegations regarding the Authority. Specifically, we determined:

- Whether the Authority followed procurement requirements.
- Whether the Authority complied with its adopted policies as well as applicable federal requirements in relation to its use of credit cards and the performance of travel.

Additionally, we reviewed the reasons for the 1999 Operating Deficit of \$168,985 and specific allegations regarding an employee's work for an Authority contractor; and the Executive Director's employment of personnel.

To accomplish the audit objectives, we:

- o Reviewed relevant HUD regulations and guidelines.
- o Examined records maintained by the Authority.
- Reviewed the Authority's accounting records, financial and budget reports, Board minutes, and operating procedures.
- Reviewed HUD monitoring reports and Authority financial statements.
- o Reviewed a non-representative selection of contracts.
- Interviewed Authority personnel, HUD officials, Independent Auditors, Board of Commissioners, Authority contractors, and others possessing knowledge regarding the Authority's operations.

During the audit period, the Authority entered into 47 contracts totaling \$1,429,923. From this universe, we reviewed the following non-representative selection of contracts.

Contracts Selected

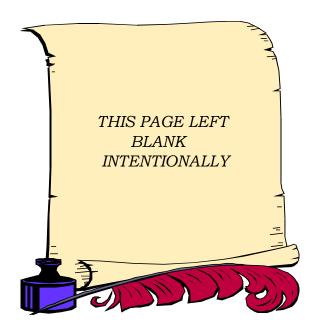
Carolyn McNabb Legal services 1 * * CDG Comp Grant/ PHDEP Administrators 6 \$73,930 8% Executive Director Director Director Firmin-Dugas Fromenthal Plumbing Plumbing Plumbing 17 85,860 9%	Contractor	Contract Types	Number of	Total	% of
McNabb Legal services 1 * * CDG Comp Grant/ PHDEP Administrators 6 \$73,930 8% Executive Director Executive Director 1 150,883 16.5% Firmin-Dugas Architect 2 51,500 6% Fromenthal Plumbing Plumbing 17 85,860 9%			Contracts	Contract ²	Sample
CDG Comp Grant/ PHDEP Administrators 6 \$73,930 8% Executive Director Executive Director 1 150,883 16.5% Firmin-Dugas Architect 2 51,500 6% Fromenthal Plumbing Plumbing 17 85,860 9%	Carolyn				
PHDEP Administrators 6 \$73,930 8% Executive Director Executive Director 1 150,883 16.5% Firmin-Dugas Architect 2 51,500 6% Fromenthal Plumbing Plumbing 17 85,860 9%	McNabb	Legal services	1	*	*
Administrators 6 \$73,930 8% Executive Director Executive Director 1 150,883 16.5% Firmin-Dugas Architect 2 51,500 6% Fromenthal Plumbing Plumbing 17 85,860 9%	CDG	Comp Grant/			
Executive Director 1 150,883 16.5% Firmin-Dugas Architect 2 51,500 6% Fromenthal Plumbing Plumbing 17 85,860 9%		PHDEP			
Director Director 1 150,883 16.5% Firmin-Dugas Architect 2 51,500 6% Fromenthal Plumbing Plumbing 17 85,860 9%		Administrators	6	\$73,930	8%
Firmin-Dugas Architect 2 51,500 6% Fromenthal Plumbing Plumbing 17 85,860 9%	Executive	Executive			
Fromenthal Plumbing Plumbing 17 85,860 9%	Director	Director	1	150,883	16.5%
Plumbing Plumbing 17 85,860 9%	Firmin-Dugas	Architect	2	51,500	6%
	Fromenthal				
Huskev	Plumbing	Plumbing	17	85,860	9%
	Huskey				
Builders, Inc. Construction 2 554,032 60.5%	Builders, Inc.	Construction	2	554,032	60.5%
Totals 29 \$916,205	Totals		29	\$916,205	

^{*}The legal services is an open ended contract with no maximum dollar value assigned.

Throughout our audit, we obtained computer-generated data from the Authority, contractors, and HUD. We did not test the reliability of computer-generated data. We conducted the audit in accordance with generally accepted government auditing standards.

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Includes change orders.



Preferential Treatment Underlies Questionable Authority Procurements

The Authority violated procurement requirements to ensure preferred contractors improperly received contracts or change orders. The violations included limiting competition, ignoring conflicts of interest, and not maintaining adequate documentation. In some instances, this occurred because the Authority did not follow regulations. In other instances, the Authority abdicated its procurement responsibilities to contractors without providing sufficient oversight. Because of insufficient documentation, the Authority could not support \$22,008 of the \$916,205³ reviewed. Preferential treatment may have kept the Authority from receiving the best value for its contracts.

HUD required fair and open competition.

The Authority's Annual Contributions Contract (ACC) with HUD required the Authority to follow HUD regulations at CFR Title 24. Included among these regulations are requirements to follow OMB Circular A-87 and procurement regulations at 24 CFR 85.36. The Authority's procurement policy mirrored the federal requirements except for more stringent small purchase limits and reporting requirements for noncompetitive awards.

Procurement requirements required the Authority to conduct its procurements "in a manner providing full and open competition." Situations considered restrictive of competition include requiring unnecessary experience and organizational conflicts of interest.⁴

Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate. Procurement by noncompetitive proposals may only be used when the award of a contract is infeasible under other methods and when special conditions exist.⁵

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^{\$916,205} represents 28 of 29 contracts reviewed. One contract was an open-ended legal contract with no dollar value associated with it. As of December 20, 2002, the Authority has not paid the attorney under this contract. One contract, the Executive Director's contract, is discussed in Finding 3.

⁴ 24 CFR 85.36(c)(1).

⁵ 24 CFR 85.36(d)(4) through (d)(4)(ii).

Other applicable procurement requirements included:

- Maintaining sufficient documentation of the procurement.⁶
- Performing a cost analysis for every procurement action including contract modifications.⁷
- o Forbidding Authority employees or agents from participating in the selection, award, or administration of a contract if a conflict of interest exists.⁸
- Required the Authority to charge only necessary and reasonable costs to the grants.

Preferential treatment in contracts.

The Authority skewed its procurement process to ensure preferred contractors received contracts. Specifically, it allowed two contractors to influence the procurement process, limited competition, and ignored conflicts of interest. Further, the Authority did not maintain sufficient documentation to support its selections. Furthermore, the Authority could not support \$22,008 paid to the preferred contractors. In addition, the improper procurement practices may have discouraged other contractors from competing for the contracts. Consequently, the Authority cannot substantiate it received the best value for the \$916,205 in contracts reviewed.¹⁰

Authority allowed its architectural firms to exercise too much influence in procurement process. ¹¹

During the procurement process, the Authority ceded an inappropriate amount of control to the architectural firms, CDG and Firmin-Dugas, without sufficient oversight. The Authority's relationship with the architectural firms dates to the 1980's. The Authority relied on the architectural firms to assist in many of its procurements and oversee rehabilitation and construction. As a result, the Authority gave the architectural firms an advantage in the numerous contracts awarded. The Authority's abdication of its responsibility permitted the procurement violations to go

⁶ 24 CFR 85.36(b)(3).

⁷ 24 CFR 85.36 (f)(1).

⁸ 24 CFR 85.36(b)(3) through (b)(3)(iv).

⁹ OMB Circular A-87.

¹⁰ The contracts selected were from a universe of \$1,429,923 supplied by the Authority.

Due to the common ownership of the firms (CDG and Firmin-Dugas), we will refer to both firms as the architectural firm.

unnoticed and uncorrected. Further, the relationship between the Authority and the architectural firms created the opportunity for a conflict of interest. The Authority must assume the responsibility for its procurement. The Authority originally lacked supporting invoices or checks for \$34,934. The Authority's lack of documentation violated federal procurement requirements. The Authority obtained further documentation from the architectural firms after the draft report was issued. The following table shows the amount of contracts to the architectural firms and the remaining unsupported amount.

Authority Contracts to architectural firms for 1999- 2000

Fiscal Year Grant Type Total Grant Budget	Contractor	Contract Type	Contract Date	Contract Amount	Unsupported Amount
1999	CDG	Administrator	October 12, 1999	\$26,550	
Comp Grant					\$3,500
\$585,849		Application		\$ 3,500	No check
	Firmin-Dugas	Architect	August 10, 1999	\$26,500	
2000	CDG				\$1,000
Capital Fund					No
\$648,063		Administrator		\$24,400	invoice/check
		Preparation of	November 21, 2000		
		Annual			
		Statement		\$ 2,500	
					No work
	Firmin-Dugas	Architect	November 16, 2000	\$25,000	authorized
Total Administrator/Architect Contracts				\$108,450	\$4,500

Architectural firms had advantage over other contractors.

By being the incumbent contractors, the architectural firms had an organizational advantage over other contractors. As the incumbent contractor, the architectural firms knew of upcoming contracts and prepared the selection criteria. ¹² The Authority weighed the selection criteria towards incumbent contractors. Furthermore, the Authority gave an added advantage to the architectural firms by limiting the advertising and the response period.

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¹² The Authority used selection criteria to compare and rate respondents.

The Authority used restrictive criteria.

The architectural firms, serving in the administrator capacity, had an organizational advantage over other contractors. The architectural firms knew the conditions at the Authority and could use this knowledge in its response. Further, the architectural firms had developed the request for proposals and budgets. They knew the selection criteria prior to advertising the contract and thus, could easily provide their response. In fact, the architectural firms cited this advantage in their response. Conversely, other contractors would need more time to familiarize themselves with the Authority's conditions to assemble a response.

The Authority used restrictive selection criteria to ensure only the architectural firms could receive all 100 points of the evaluation sheet. The Authority and the architectural firms contend they modeled the selection criteria after a State grant program. 13 The Authority, however, included other restrictive criteria. Specifically, the Authority awarded points to the administrator and architect respondent who showed evidence "of familiarity of the firm with the current, specific needs of the Housing Authority." Yet, the Authority did not identify those needs for other contractors. Further, the Authority used a geographic preference that limited competition for an architect. 14 Of the two contracts awarded to the architectural firms, other firms could only receive a maximum of either 70 or 85 of the 100 possible points due to the restrictive criteria.

Providing a greater advantage, the Authority limited the advertisements to two local papers. Also, the Authority chose to advertise the contract on the Friday before a 3-day weekend. Both actions effectively reduced the number of applicants. Consequently, only the incumbent architectural firms responded.

Authority improperly evaluated responses to add credibility to process.

The Authority received only responses from the architectural firms. The Authority "scored" their evaluations before awarding the contracts. The Executive Director and the Comp Grant Coordinator (Coordinator)

¹³ The State criteria did award points to contractors that had previously worked for the State.

These State requirements, along with federal requirements, permitted a geographic preference if it did not limit competition.

Authority employee had a conflict of interest with contractor.

signed the evaluation sheets. While working for the Authority, the Coordinator¹⁵ also worked part-time for the architectural firms. The Coordinator claimed he was unaware of conflict of interest or procurement requirements. 16

In evaluating the responses, the Coordinator had a conflict of interest with the contractor. Further, neither the Coordinator nor the other evaluating employee, the Executive Director, recalled scoring the evaluations. It appears the contractor wanted the evaluations performed to give the awards the illusion of propriety. As a result, no reliance could be placed upon the evaluations. The Authority must make independent evaluations of responses.

Not surprisingly, the architectural firms received 97 and 100 out of 100 possible points. However, when asked, the Coordinator could not identify who wrote the scores on their evaluation sheets. The Coordinator claimed he signed blank evaluations

The Executive Director also denied scoring the evaluations. The Executive Director stated the architectural firms' President (President) provided the evaluations with the written scores. The President admitted only to writing the headings on the evaluations.

Two of the three people involved in "scoring" the evaluations, the Coordinator and the President, should not have been involved in the process at all. HUD regulation 24 CFR 85.36(b)(3) forbids anyone with a financial interest in the outcome of a procurement from participating in the procurement.¹⁷ Clearly, the Authority improperly evaluated these non-competitively awarded contracts.

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The Coordinator no longer works for the Authority. He is currently the Berwick Housing Authority's Executive Director. When the Morgan City Housing Authority employed the Coordinator, he was the Authority's Section 8 Director and Comp Grant Coordinator.

¹⁶ The Coordinator's conflict of interest is discussed in Finding 2.

¹⁷ See Finding 2.

Contracts to the architectural firms not in the best interest of the Authority.

The contracts awarded to the architectural firms in essence required the architectural firms to monitor itself. This is not in the best interest of the Authority, which took no active role to limit potential problems. For instance, the Authority effectively sole-sourced the contracts without performing an independent cost analysis. In determining the price, the Authority accepted, without question, the contract rates proposed by the architectural firms. ¹⁸ Also. the Authority abdicated its responsibility of soliciting and evaluating contractors to the architectural firms who received the contracts. The Authority must follow procurement requirements, including soliciting an adequate number of contractors and preparing cost analyses, to ensure it receives the best value. Also, the Authority should acknowledge conflicts of interest and take appropriate actions against the parties involved.

Architectural firms noncompetitively award \$25,000 contract.

The Authority allowed its architectural firms to noncompetitively procure sewer line replacement work from Fromenthal Plumbing (Fromenthal). Regulations required the Authority to competitively acquire the services and maintain adequate documentation of its efforts. The Authority delegated its procurement responsibility to the architectural firms without sufficient oversight. Because the architectural firms had such latitude, they could mislead the Authority's Board and Executive Director into approving the noncompetitive awards. Furthermore, the actions by the architectural firms and the Executive Director violated requirements.

Based upon the documentation, the sequence of this procurement included:

➤ On October 6, 1998 - The architectural firms informed the Authority of the need to replace a sewer line at Brownell Homes¹⁹ at an estimated cost of \$30,000. Also, it allegedly sent Invitation for Proposals (IFP) to five contractors, including Fromenthal. The IFPs required contractors to submit bids by October 27, 1998.

¹⁸ The Authority could not provide any documentation that it negotiated the prices.

¹⁹ One of the four developments owned by the Authority.

- ➤ On October 30, the architectural firms informed the Authority only Fromenthal responded. In justifying the noncompetitive award, the architectural firms claimed it called five contractors and the Authority would not receive other bids. We contacted the four nonresponsive contractors. None of the contractors recalled being contacted by the architectural firms; specifically, one contractor commented that he has never been contacted by the Authority to perform work. Of the four contractors, one contractor stated they did not perform that type of work. The other three contractors stated they would have been interested in submitting a bid.
- ➤ On November 9, 1998, the Authority signed a fixed-fee contract with Fromenthal for \$25,000, based on the recommendation of the architectural firms.²⁰
- ➤ By November 20, 1998, Fromenthal began work on the sewer line at Brownell Homes.
- ➤ On December 17, 1998, the Board approved, based upon the recommendation by the architectural firms, a motion to declare an emergency at Brownell Homes to replace sewer lines at a cost of \$30,000. The Board Resolution claimed the lines needed to be cleared on December 12 and 13, 1998, but the problem continued creating unsanitary and hazardous conditions at the development.
- Fromenthal an additional \$4,125. According to the Executive Director, he authorized additional work on the Brownell Homes sewer lines in December 1998. However, the Executive Director could not supply a change order detailing the work and itemized price as required.²¹

²¹ HUD Handbook 7460.8 Rev-1 paragraph 6-10 B.

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The architectural firms added conditions to the standard HUD construction contract to include a prohibitive cost plus a percentage of cost method in calculating of change orders. The architectural firms added this provision to all construction contracts. The conditions violated 24 CFR 85.36(f) 4 and conflicted with the HUD General Conditions. The Authority should not allow modifications to the standard HUD contracts without HUD approval.

As the above account shows, this was a poorly procured contract that violated several requirements including:

- Awarding a noncompetitive contract based upon emergency – Clearly if the conditions were known in October and the procurement process started and the contractor began work in November, then it could not be an emergency in December.²²
- Lack of fair and open competition The Authority must obtain a greater number of responses. In this instance, the architectural firms sent out IFPs to selected contractors, and it received no responses. The Authority could have advertised for the contracts.
- Including prohibitive conditions to contracts.
- o Modifying the scope of contract and price verbally.
- Lack of sufficient documentation.

The architectural firms misled the Board and possibly the Executive Director. Based upon the evidence, the architectural firms only offered Fromenthal the job. In this procurement, the Authority ceded too much authorization to the architectural firms. In the December Board meeting, the Executive Director should not have allowed the architectural firms to provide the misinformation that an emergency existed when he knew the work was in progress. The Authority should evaluate its contractual agreements with the architectural firms.

The Authority and the architectural firms added significant out of scope work to Huskey's contracts.

For the Phase III and Phase V construction contracts at Brownell Homes, the Authority and the architectural firms added significant out of scope work to the contract. The contractor, Huskey Builders, Inc. (Huskey), benefited from the lack of competition. Furthermore, the Authority did not have support for \$228,820 of the \$554,032 paid to Huskey for these contracts. After the issuance of the draft report, the Authority provided supporting documentation obtained

Architectural firms misled the Board.

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²² 24 CFR 85.36(d)4(i).

from Huskey. However, the Authority's lack of documentation did not adhere to federal requirements to maintain supporting documentation for expenditures. Again, the Authority ceded control of the construction contracts to the architectural firms. As a consequence, the Authority might not have received the best value for the work.

Out of scope work.

In both the Phase III and Phase V contracts, the Authority allowed the architect to initiate a significant amount of contractual changes, which were not within the scope of the contracts. Consequently, the Authority sole-sourced a number of contracts to the onsite contractor, Huskey. The Authority should have anticipated the changes in the original bid specifications or should have conducted separate procurements for these changes. The Authority stated it did not understand the difference between in scope and out of scope changes. The architect felt either the changes were within the scope of the contract, or the noncompetitive awards were in the Authority's best interest.

According to HUD, change orders are issued within the general scope of the contract.²³ Changes such as increasing the number of items being purchased or other types of new work are considered out of the scope of the contract.²⁴ This guidance is consistent with HUD regulations regarding fair and open competition in procurements.²⁵

Phase III

The original scope of work for Phase III²⁶ included modernization of 14 units and installation of water meters at Brownell Homes. Also included in Phase III was the replacement of water lines at Shannon Homes. In July 1997, the Authority awarded the \$339,000 contract to Huskey.²⁷. The Authority deleted 3 units from the scope, so Huskey was to modernize 11 units. The contract had

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²³ 7460.8 Rev-1, Chapter 6, B.1.

²⁴ 7460.8 Rev-1, Chapter 6, C.

²⁵ 24 CFR 85.36(c)(1).

Phase III and V refer to the Authority's plan to modernize its units based upon its Comprehensive Plan of Modernization.

²⁷ The Authority only received two bids.

three change orders totaling \$115,251 or 34 percent of the original contract. Thus, the total contract price for Phase III equaled \$454,251.

Of the \$115,251 in change orders, \$91,231 (79 percent) related to out of scope work. For instance, the Authority added \$68,987 to convert two, fire-damaged units to a commercial laundry (Washateria). In another example, the Authority added the replacement of 28 screen doors for \$22,244 to the contract. The screen doors were not for the 11 units being modernized under the contract.

Phase V

In Phase V, the Authority planned to convert four units at Brownell Homes to Section 8 units. In August 2000, the Authority awarded the contract to Huskey²⁸ for \$86,250. The contract had one change order for \$13,531 or 16 percent of the original contract. Thus, the total contract price for Phase V equaled \$99,781.

In December 2000, the Authority approved a change order for repairing a termite damage unit at Brownell Homes; replacing doors and countertops at other complexes; and other sundry tasks. The termite-damaged unit was not one of the four units included in the original procurement. Based upon the change order, the Authority spent \$8,599 of the \$13,531 or 64 percent on out of scope work.

Out of scope work is effectively sole-sourced work.

By adding out of scope work to the onsite contractor, the Authority effectively sole-sourced the awards of additional contracts. Without competition, the Authority cannot support the reasonableness of the \$99,830 out of scope work.

Authority lacks supporting documentation for amounts expended.

Contrary to requirements, the Authority throughout the audit did not support \$228,820 of the \$554,032 in payments to Huskey. OMB Circular A-87 required the Authority to

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²⁸ The Authority only received two bids.

adequately document the payments. The Authority lacked either the check or invoices from Huskey. After issuance of the draft report, the Authority provided the documents. It obtained the supporting documentation from Huskey. However, HUD has no assurances the Authority reviewed the invoices prior to payment. The Authority needs to maintain documentation to support all payments.

Other matters.

In the Phase V construction, the Authority attempted to improperly use Comp Grant funds to convert public housing for Section 8 units. ²⁹ The conversion consisted of improvements that would have been ineligible for public housing units. HUD limits the use of Comp Grant funds for public housing units only. ³⁰ In January 2001, HUD informed the Authority that it could not use Comp Grant funds for this conversion. In February 2001, the Authority responded it would comply. HUD should ensure that the Authority repay its Comp Grant for ineligible improvements made to the units.

As with the Fromenthal contract, the architectural firm modified HUD's general contract terms to include a prohibitive method of calculating change orders. Also, the architectural firms required Huskey to include them under Huskey's "Workmen Compensation and General Liability" insurance policy. Although a nominal cost, the architectural firms should not do this. Further, it appears that the architectural firms provided preferred contractors with the approximate budget. This information did provide an advantage when preparing responses. If the Authority chooses to disclose this information, it must give all potential respondents the information.

Executive Director sole-sourced contracts to the architectural firms and Fromenthal.

Giving a greater appearance of preferential treatment, the Executive Director also sole-sourced contracts to similarly preferred contractors. For these awards, the Authority

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²⁹ Section 7 of the ACC prohibited the Authority from demolishing or disposing "of any project, or portion thereof, other than in accordance with" HUD requirements.

³⁰ 24 CFR 968.112.

³¹ Cost plus a percentage of cost contract.

lacked justifications and cost analyses. Without competition, the Authority may not have received the best value for these contracts.

Architectural firms received additional sole-sourced contracts.

The Authority awarded Public Housing Drug Elimination Program (PHDEP) contracts to the architectural firms in 1999 and 2000. ³² In 1994, the Authority used small purchase procedures to procure administrators for its PHDEP. Based on this procurement, the Authority noncompetitively awarded PHDEP administration contracts to architectural firms from 1994 through 2000. The Authority had no documentation that it performed a cost analysis at any point during this process. Nor did the Authority have any justifications for the noncompetitive awards. The Authority paid the architectural firms \$7,980 on a \$72,580 grant and \$9,000 on a \$75,644 grant in 1999 and 2000, respectively. Without cost analyses or other competitive proposals, the Authority could not know whether it received the best value for its money.

The architectural firms contend the Authority procured their services for an indefinite period in 1994. However, procuring for an indefinite period violates procurement requirements by restricting competition.

Fromenthal received additional sole-sourced contracts.

From January 1998 through June 2001, the Authority procured services from Fromenthal for \$27,321 in emergency and \$29,414 in non-emergency services. For both types of services, the Executive Director directly awarded the contracts to Fromenthal without calling other plumbers. The Executive Director stated he noncompetitively awarded the contracts because no other qualified plumbers were available.

Again, the Authority awarded these contracts without documentation of the procurement. For instance, it did not maintain a list of qualified bidders, did not prepare justifications for the noncompetitive awards, and did not

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Our review covered only the procurement of the PHDEP contracts. See HUD OIG report number 2002-FW-1804 on the Authority's PHDEP.

perform cost analyses. As the following table shows the Authority lacked invoices and checks for \$17,509 of work.

Without the justifications, the Authority had no evidence it tried to procure other qualified plumbers. Nor could the Authority document that emergency services truly met the definition of an emergency, or that it paid reasonable rates. Furthermore, the Authority's contention it could not obtain other qualified plumbers is suspect because the Authority currently uses other plumbers.³³

Unsupported Fromenthal Invoices				
Date	Description	Amount		
	Emergency repair of			
Unknown	broken sewer line at Dixie	\$ 3,237		
	Emergency repair of			
Unknown	broken gas line at Jacquet	3,007		
	Emergency Jet Cleaning			
Unknown	of Sewer Line -Brownell	2,374		
Unknown	Site repair, unknown site	6,771		
	Inside building, unknown			
Unknown	site	2,120		
Total		\$17,509		

Authority's Board violated procurement requirements.

The Board violated procurement requirements when it improperly contracted with an attorney to provide legal services. Specifically, the Board did not: (1) perform a cost analysis; (2) procure services in a manner providing full and open competition; or (3) maintain sufficient records. The violations occurred when a new Board took over the procurement process from the Authority's Contract Officer, the Executive Director. When the Board took over the process, it did not understand or was unfamiliar with procurement regulations. The Board further complicated the issue by "opinion shopping." The Board's missteps delayed procurement of badly needed legal advice.

Authority cancelled initial advertisement for attorney.

In March 2001, HUD informed the Authority it must follow procurement regulations to contract with an attorney. To

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³³ The Executive Director stated he believed Fromenthal had become too expensive.

assist the Authority, HUD's Technical Representative prepared a sample Request for Proposals (RFP) and instructions to the Executive Director. In March and April 2001, the Authority placed an advertisement soliciting proposals for legal services. The Authority required respondents submit proposals by April 20, 2001. However, the Board Chairperson canceled the advertisement.

It appears the Board Chairperson wanted to hire directly an attorney rather than solicit. Both the HUD's technical representative and the PIH Director told the Board Chairperson to follow the procurement requirements. However, after speaking with a HUD OGC employee, the Board Chairperson claimed the Board could directly solicit an attorney.

Board Chair seeks qualified candidates.

The Board Chairperson gave the Executive Director three candidates' names to request proposals. The three candidates included referrals from the Executive Director, the HUD OGC employee, and the Board Chairperson. Later, the Board Chair added the names of two additional attorneys. Only two attorneys responded to the request, the HUD OGC employee's referral and the Executive Director's referral

Three of the five Board members met on July 9, 2001, to select an attorney. The Board members interviewed the two attorneys in an Executive Session, without the Executive Director. During the Executive Session, the Board members selected the attorney recommended by the HUD OGC employee, a former assistant U.S. attorney. According to Board members present, they did not score the candidates based on the selection criteria it had sent to the attorneys. However, one Board member stated they kept the criteria in mind. The Board must evaluate and score proposals based upon the selection criteria.³⁴

Limiting the competition further, the Board considered one of the attorneys, a sole practitioner, non-responsive because she might not be able to attend all monthly meetings.

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³⁴ 24 CFR 85.36(d)(3).

Based upon the Board actions, the Board effectively noncompetitively sole-sourced the contract.

Board's actions violate procurement rules.

Throughout the process the Board violated various procurement requirements. One reason for the violations was the Board removed the Authority from the process. Basically:

- ➤ The Board did not prepare a cost analysis. Without a cost analysis, the Board did not know what was a fair and reasonable amount.
- ➤ Inadequate number of attorneys. The Board was required to solicit for an adequate number of qualified attorneys. After disqualifying the sole practitioner, the Board effectively noncompetitively awarded the contract.
- ➤ Lacked a sufficient procurement history. For instance, the Authority did not have the request letters or responding proposals or document its rationale for the method of procurement; the basis for contractor selection or rejection; and the basis for contract price.

HUD acts on audit findings.

In a letter dated October 12, 2001, HUD directed the Authority to reprocure the legal services contract in accordance with 24 CFR 85.36. The letter gave specific guidance to the Authority and addressed the OIG's concerns. HUD should continue to ensure that the Authority follows the guidance in its letter.

Auditee Comments

In its response, the Authority's attorney stated, "the Board does not concede nor does it acknowledge that the Authority violated procurement requirements to ensure preferred contractors improperly received contracts or change orders." According to the response, the Board found the Authority's business practices did effectively limit competition and agreed the practices were inconsistent with federal regulations and directives. The response

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contained actions that the Authority would take to ensure it complies with its procurement policies, including providing proposed contracts to HUD before execution, "to the extent practical," and sending its Board members to procurement training.

With respect to the \$281,262 in questioned costs, the Authority submitted additional documentation for Huskey, Firmin Architects, and CDG. The Authority requested OIG reduce the questioned costs accordingly.

The Authority agreed to determine "the exact amount of comp grant funds used on ineligible improvements" in its phase V construction project. However, the response wanted to note that "public housing was not converted to Section 8 housing during the phase V construction. Rather, the contract involved improvements to public housing, which remained public housing."

OIG Evaluation of Auditee Comments

While not agreeing that the Authority's procurement violations favored "preferred contractors," the results indicate otherwise. Regardless, the Authority has made an effort to address the recommendations, such as providing contracts to HUD whenever practical, and ensuring its Board members received procurement training. However, the Authority must recognize it needs to present all of its contracts to HUD before execution. This requirement relates to HUD's placement of the Authority on a zero-dollar threshold in contracting.

We reduced the questioned costs in the report, when appropriate. The Authority needs to repay or support the remaining unsupported amounts.

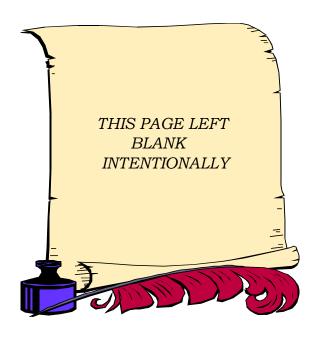
Regarding the phase V construction, the report stated HUD halted the Authority's efforts to convert the public housing units before the conversion took place. However, during its attempt to convert the units, the Authority expended Comp Grant funds for improvements prohibited in public housing. The Authority needs to repay its Comp Grant Program for any ineligible improvements.

Recommendations

We recommend the New Orleans Public and Indian Housing Field Office require the Authority to:

- 1A. Follow HUD and Authority procurement policy in all cases, and avoid future recurrences of problems discussed in this finding, especially as it relates to:
 (a) full and open competition; (b) ethics and conflicts of interest; and (c) full documentation of all procurement transactions, including determining price reasonableness.
- 1B. Obtain HUD approval prior to modifying standard contract conditions.
- 1C. Evaluate its contractual relationship with the architectural firms.
- 1D. Support or repay its program \$22,008 in unsupported expenditures.
- 1E. Determine if it spent any additional Comp Grant on ineligible work items when it tried to convert public housing units to Section 8 units. The Authority should repay any ineligible amounts.
- 1F. Provide additional training to the Board and Executive Director regarding procurement requirements.

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Comp Grant Coordinator Worked for Authority Contractor

The Authority allowed its Comp Grant Administrator, Community Design Group (CDG),³⁵ to pay the Authority's Comp Grant Coordinator (Coordinator)³⁶ \$26,510 from June 1996 through February 2001. Because the Coordinator's duties directly related to several contracts of CDG and a related entity, the relationship created a prohibited conflict of interest. The Authority, CDG and the Coordinator, created the arrangement to circumvent Louisiana Civil Service rules regarding salary cap limitations. HUD should require the Authority to repay the amounts paid for the Coordinator. Further, HUD should consider taking administrative sanctions against the Executive Director, Coordinator, and CDG.

CDG paid the Coordinator to staff the Authority's Community Center.

Creating a prohibited conflict of interest, CDG hired the Coordinator, ostensibly to staff the Authority's Community Center. HUD regulations, the ACC, procurement policies and the contracts with CDG clearly prohibited conflicts of interest between Authority employees and contractors. Further, the Authority's contracts with CDG included language forbidding Authority employees or public officials with related duties from having a financial interest in the contracts. CDG billed the Authority for the Coordinator's hours plus overhead.³⁷ The Authority and CDG did not have written contracts. From June 1996 through February 2001, CDG paid the Coordinator \$26,510 and billed the Authority \$32,652. CDG did not submit support of the Coordinator's work. Of the \$32,652, the Authority did not have invoices to support \$5,506 in payment to CDG. Furthermore, while the Coordinator worked for CDG, his Authority duties directly related to CDG and its related entity.

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This is one of the two firms referred as "Architectural Firms" in Finding 1. This finding only involves this one firm.

³⁶ The Coordinator currently works at the Berwick Housing Authority as the Executive Director.

The overhead rate ranged from 27 percent to 50 percent of the hourly rate.

Arrangement violated conflict-of-interest provisions.

During the time the Coordinator worked for the Authority and CDG, his responsibilities directly affected CDG and its affiliated firm. His responsibilities included drawing down the HUD funds, and issuing checks for Comp Grant expenditures including those to CDG. The Coordinator also reviewed invoices from CDG for propriety. Finally, the Coordinator occasionally assisted in the selection of contractors, including CDG.³⁸ These duties directly conflicted with the Coordinator's arrangement with CDG.

The Executive Director, Coordinator, and CDG's explanations differed as to who conceived the arrangement. The explanations did agree on the result – using CDG to hire the Coordinator allowed the Authority to funnel the Coordinator income that Civil Service rules would not have allowed. Irrespective of the reason, the Authority should not establish relationships principally to circumvent requirements.

Benefits to the Authority are questionable.

Although the CDG asserted the arrangement saved it money, this is questionable. CDG stated the arrangement allowed the Authority to not pay the Coordinator overtime. However, the Authority did not establish a reasonable rate for the Coordinator's position with CDG or justify the need for the position.

CDG paid the Coordinator \$8.25 to \$9.50 an hour to staff the Community Center. During that time, the Authority paid the Coordinator \$8.68 to \$13.05 an hour in his duties at the Authority. The level of expertise needed to staff the Community Center does not appear equivalent to the Coordinator's duties at the Authority. Thus, the Coordinator should have earned less for this different level of work. Also, CDG added 27 to 50 percent of what it paid to the Coordinator to each invoice for overhead. CDG asserted this overhead did not include profit and was a direct pass through of its overhead costs.³⁹

³⁸ See Finding 1.

³⁹ CDG could not document how it arrived at these percentages.

Lack of contract left Authority at risk.

State Ethics Panel declined to pursue case.

As a result of no contract or internal controls, the Authority did not require CDG to submit supporting documentation prior to receiving payment. As a result, CDG did not submit any. Such documentation would have included time sheets and paychecks. A contract would have protected the Authority regarding the expected services, the hours required, and the amounts payable to the Coordinator and CDG. Instead, the Authority allowed CDG to determine the amount it paid the Coordinator and the chargeable overhead. Also, the lack of documentation allowed the Coordinator considerable latitude in determining his income. Although the Coordinator worked at the Authority's Community Center, he provided his time sheets to CDG. Other than an occasional phone call to the Coordinator, CDG did not verify the hours charged. As a result, the Authority has no assurance that it was charged accurately for the hours worked.

After we questioned the arrangement, the Authority presented the conflict to the State Ethics Panel (Panel). The Panel believed a conflict of interest had occurred. However, the Panel declined to pursue the case because it believed: (1) the Authority initiated the arrangement; (2) CDG did not benefit from the arrangement; and (3) the Coordinator would have received more money had it not entered into the arrangement. The Panel made its decision based on the Authority's presentation of the arrangement. Yet, it appears that the Authority did not present all of the facts. Specifically:

- ➤ The Coordinator's involvement in the evaluation of CDG and related firms for Comp Grant contracts including the contract that he was paid under.
- CDG benefited from the relationship because the Coordinator "evaluated" it for contracts including signing a blank evaluation form.
- The Authority may not have been able to pay the Coordinator for his after hours activities.
- Since no contract, Board Resolution, or other documentation exists, who initiated the arrangement is unknown.

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As shown above, there is no evidence that the Coordinator would have received more money had he not entered into the arrangement.

There is the appearance of a gratuity between CDG and the Coordinator. The Coordinator's duties included ensuring propriety of CDG's invoices and payments. The Authority has no assurance the Coordinator did not abuse that responsibility.

Parties should have known relationship was inappropriate. Although the Executive Director, CDG, and the Coordinator professed ignorance of the conflict-of-interest rules, these provisions were well documented in HUD regulations, the Authority's procurement policy and CDG's contracts. The Executive Director should have been familiar with these documents – if not as the Executive Director, then as the Authority's Contract Officer. CDG should also have been familiar with the Authority's procurement policy. Part of its duties as a Comp Grant Administrator is to help the Authority prepare bid packages. CDG should also have been aware of its contract terms. Finally, if the Coordinator had any questions, the Coordinator should have consulted with the Authority's Chief Financial Officer who also served as the Louisiana Civil Service liaison.

Conflict breaches public trust.

HUD Handbook 7460.8, Chapter 10, *Ethics in Public Contracting*, succinctly explains the importance of ethics in public contracting. "Since awarding of contracts by [Authorities] involves the expenditure of taxpayer funds, those Coordinators of the [Authority] involved in the procurement process and the [Authority's] contractors are held to a higher standard of conduct than those who make private contracts. . . To maintain public confidence in the [Authority's] fairness, it is essential that high standards of conduct are maintained at all times." By entering into a relationship to circumvent Civil Service rules, the parties abused this trust. As a consequence of breaching this trust, the Handbook allows recovery by the Authority of "the value of anything received by an employee or non-employee in breach of the ethical standards..."

Auditee Comments

The Authority agreed to seek recovery of the \$32,652 paid to CDG for the comp grant coordinator and in turn to reimburse the Comp Grant Program for this expenditure.

OIG Evaluation of Auditee Comments

We appreciate the Authority's effort to address our recommendation by seeking recovery of the \$32,652 paid to CDG. However, the Authority needs to be aware of its responsibility to repay the program regardless of its ability to recover from CDG.

Recommendations

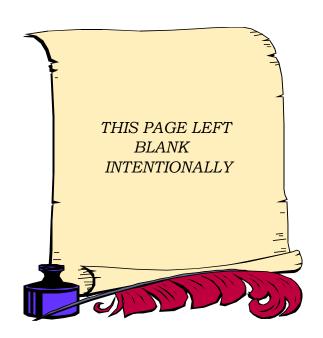
We recommend the New Orleans Public and Indian Housing Field Office require the Authority:

- 2A. Repay its program \$32,652 that it paid CDG for hiring its Coordinator.
- 2B. Seek recovery of the \$32,652 from either CDG or the coordinator in accordance with HUD requirements.

Further, HUD should:

2C. Take appropriate administrative action against the Executive Director, Coordinator, and CDG.

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Authority Awarded Two Unreasonable Contracts to the Executive Director

In August 2000, the Board entered into an unreasonable 5-year contract with its Executive Director. The Authority basically extended the 5-year contract signed in May 1996. The Authority did not obtain HUD approval for the extended contract, as required. The contracts allowed full-time pay for part-time work and a personal vehicle. The contract provisions violated regulations and policy. The Board who approved the contract were unfamiliar with all of the contract terms. However, the Board may have entered into the new contract to protect the Executive Director from the new City administration. As a result of their action, the Authority has no basis to determine whether the Executive Director was fairly compensated for services. The Authority needs to enter into a new contract that addresses the deficiency in the previous two contracts.

Contract must be reasonable and approved.

For a cost to be allowable, OMB Circular A-87 requires costs to be "necessary and reasonable for the proper and efficient performance and administration of federal awards." For a cost to be reasonable, it should not exceed the amount that "a prudent person" would incur under the circumstances when the cost was incurred.

Further, under OMB Circular A-87, the costs of compensation are considered reasonable if "it is consistent with that paid for similar work" and "conforms to the established policy of the" Authority. The Authority's Employee Policy defined the regular workweek as 40 hours from Monday through Friday. The workday should begin at 7:30 a.m. and end at 4:00 p.m.

HUD allows housing authorities to retain Executive Directors under an employment contract and exempts the contracts from procurement standards. However, if the housing authority enters into an Executive Director contract lasting more than 2 years, it must receive HUD's prior written approval.⁴⁰

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⁴⁰ HUD Handbook 7460.8 Rev-1.

Authority executed generous contracts with the Executive Director.

Contract terms.

Contract terms violated OMB cost principles and Authority policy.

The Executive Director has worked for the Authority since the 1980s. On May 23, 1996, the Authority executed a contract with the Executive Director that included favorable terms for the Executive Director. On August 17, 2000, 9 months before the previous contract expired, the Authority awarded another contract. According to the former Board Chairperson, the Board entered into the new contract to prevent possible problems from a new City administration. With respect to the contract, Board members claimed they were unaware of specific contract provisions.

The 1996 Executive Director contract included:

- o A minimum salary of \$50,676 with guaranteed 5 percent cost of living increases each year.
- A provision that the Executive Director did not have to work full time.⁴¹
- A motor vehicle with insurance, gas and maintenance for the performance of duties and commuting to and from work.
- A 5-year contract term.

The 2000 contract contained the same language as the 1996 contract with the exception of the motor vehicle. In the 2000 contract, rather than furnishing a vehicle, the contract provided an automobile allowance.

The unreasonable contract terms of both contracts did not adhere to OMB Circular A-87 cost principles or the Authority's personnel policy. The Authority allowed the Executive Director the choice to work part-time while paying him a full-time salary. From 1999 through 2001, the Executive Director's annual salary ranged from \$59,153 to \$64,676. The contracts stipulated that the Executive Director is free to "pursue other undertakings so long as he devotes as much time as needed to Authority's business and affairs." The contracts did not provide any controls or

⁴¹ The contract reads, "It is understood, however, that Director's duties will not occupy and are not intended to occupy Director's full time efforts and that Director is free to pursue other undertakings so long as he devotes as much time as needed to Authority's business and affairs."

The Executive Director's timesheets did not record the actual hours worked.

measurements to ensure the Executive Director devoted "as much time as needed" to the Authority. As shown in other parts of this report, the Authority had problems such as poor management controls, budget overruns, employee-contractor conflicts of interest, and procurement violations that management should have prevented or corrected.

The vehicle and automobile allowance for the Executive Director's daily commute also affected the contracts' reasonableness. Under the 1996 contract, the Authority leased a 1998 Ford Expedition for the Executive Director. After HUD questioned the charge, the Authority transferred the lease into the Executive Director's name. The Authority then paid the Executive Director a \$500 per month vehicle allowance. Although it may be reasonable to provide the Executive Director with a vehicle to use when conducting Authority business, providing the Executive Director a vehicle for his personal use effectively increases the Executive Director's salary. Before the Executive Director assumed the lease, the Authority paid \$7,939 annually for the Expedition. With the new contract, the Executive Director receives an additional \$6,000 in salary annually.

Without accurate timesheets, measurements, and inclusions of all costs, the Authority and HUD did not know if the compensation paid to the Executive Director was reasonable in relation to the services rendered. Further, the Authority should follow its personnel policy regarding the hours an employee should work, or, at least should ensure that it receives full time efforts for the full time salary it pays. Without such requirements, the Executive Director's salary is not a reasonable cost.

HUD did not approve contract.

The Authority failed to submit the Executive Director's contract to HUD for written approval. HUD required employment contracts greater than 2 years receive prior written approval. If the Authority had requested approval, HUD could have identified and aided the Authority in correcting the unreasonable contract terms.

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Auditee Comments

The Authority has reorganized and terminated the Executive Director on November 7, 2002. The Board is currently advertising for requests for proposals from qualified candidates to assume the role of Executive Director. The Authority agreed to conform to the requirements of all applicable regulations and directives, in securing a new Executive Director. The Authority stated the new Executive Director's contracts would not exceed 2 years. The Authority also agreed to notify the IRS of the Executive Director's personal use of the Authority vehicle.

OIG Evaluation of Auditee Comments

The Authority's response addressed our recommendations. HUD needs to ensure the Authority complies with its response.

Recommendations

We recommend the New Orleans Public and Indian Housing Field Office require the Authority to:

- 3A. Charge its HUD programs for a reasonable Executive Director's salary. Specifically, the salary amount should conform to OMB Circular A-87, established policy, and be consistent with similar size authorities.
- 3B. Report the Executive Director's personal use of the Authority vehicle, from 1996 through 2000, to the IRS.
- 3C. Obtain written HUD approval before executing a Executive Director employment contract greater than 2 years.

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Authority Did Not Control Travel Expenses

The Authority did not control travel expenses. Specifically, Authority employees used the Executive Director's personal credit card and the Authority did not follow its own policies regarding travel approval. Although the Authority generally complied with requirements, it did not always ensure that expenses were necessary, reasonable, allocable, and supported as required by cost principles. The Authority also did not ensure it had a sufficient audit trail as required by its requirements. The Authority did not maintain control of its expenses. Of the \$23,615 reviewed,⁴³ the Authority paid \$2,823 for ineligible expenses and \$1,027 for unsupported expenses.

Authority paid \$2,823 for ineligible expenses.

The Authority paid \$2,823 for expenses that were unnecessary, unreasonable or not allocable. The Authority's Executive Director served as the Regional President of NAHRO.44 As the Regional President, the Executive Director traveled to various cities. NAHRO reimburses the expenses incurred for NAHRO business. Instead of seeking reimbursement from NAHRO, the Executive Director submitted his vouchers to the Authority and the Authority was expected to seek reimbursement from NAHRO. The Executive Director's vouchers did not always differentiate between Authority and NAHRO expenses. The Executive Director should have requested reimbursement directly from NAHRO. Because he did not, the Authority paid three vouchers totaling \$1,986 for NAHRO expenses for which it did not receive a reimbursement.

The Authority also unnecessarily paid the Office Manager \$800 for a car allowance from October 2000 to May 2001. The expense was not necessary because the Authority had six other vehicles available. Finally, the Authority reimbursed the Comp Grant Coordinator \$37 for lunches purchased for another housing authority's employees. The Authority should reimburse its programs \$2,823 for these ineligible costs.

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⁴³ We selected all travel vouchers during the audit period.

⁴⁴ National Association of Housing and Redevelopment Officials, a housing organization.

Authority paid the Executive Director without documentation.

Authority lacked a sufficient audit trail.

Using only his monthly credit card statement, the Executive Director received payment from the Authority. No one ensured the charges were Authority expenses. The Authority's Accounting Clerk stated the Executive Director sometimes provided her with a copy of his monthly statement and directed her to pay a certain amount to him without documentation. Because the Executive Director supervised her, the Accounting Clerk believed she had to pay the amount. When this happened, she attached a note to the copy of the reimbursement check. The Executive Director could not support \$705 in reimbursements.

In several instances, the Authority did not maintain an adequate audit trail to review travel expenses. HUD required the Authority to maintain complete and accurate records to permit effective audits. The Authority lacked receipts for 3 of the 58 vouchers. The missing receipts totaled \$985. Further, for \$42, the Authority lacked a purpose for the travel. Without a purpose related to Authority business, the Authority cannot support the necessity of the travel. The following table shows the ineligible and unsupported travel costs.

Ineligible and Unsupported Travel Costs			
Description	Unsupported	Ineligible	
Payments for NAHRO		\$1,986	
Car Allowance for Office Manager		800	
Lunches for non Authority employees		37	
Executive Director's unsupported	\$705		
travel vouchers			
Other unsupported travel voucher	280		
Purpose of travel unknown	42		
Totals	\$1,027	\$2,823	

Authority did not follow its own travel policy.

In 36 of 58 vouchers reviewed, the employee lacked approval for the travel. For 2 of the 58 vouchers, the Authority could not provide the Board minutes approving of the Executive Director or Board member's travel. The travel policy required employees to obtain advanced written approval from the Executive Director. Further, for the Executive Director or Board member's travel, the Board should approve the travel at the monthly Board meeting and

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⁴⁵ Of the \$985, \$705 was questioned above.

⁴⁶ Two vouchers.

reflect the approval in the meeting minutes. As a result, it's unknown whether the travel was approved.

The requirement for travelers to obtain prior approval strengthens the Authority's management controls. By paying the vouchers without the approval, the Authority bypassed management controls. The Executive Director stated he discussed travel beforehand at the Board meetings. However, the meeting minutes did not reflect these discussions. The Executive Director needs to ensure the Board minutes reflect these discussions. Further, employees should attach their approved travel authorization to their travel youcher.

Authority Employees used the Executive Director's personal credit card.

When employees or Board members traveled, they used the Executive Director's personal credit card. ⁴⁷ The Authority did not have a corporate credit card. The Executive Director instituted this policy to prevent misuses of a corporate credit card. However, the employees' use of the Executive Director's personal credit card was not a prudent business practice. The Authority's travel policy held employees personally responsible for unnecessary or unjustified expenses. By allowing employees to use the Executive Director's credit card, the Authority circumvented the policy by effectively making the Executive Director responsible instead of the employee. This gives the Executive Director an incentive to approve unallowable employee travel expenses. The Authority should stop allowing this practice. Rather, the Authority could issue payment directly to the vendor such as a hotel, airline, or travel agent.

Auditee Comments

The Authority's attorney wrote, "According to the Authority's internal investigation, it appears that its former Executive Director did in fact recover \$1,986 in expenses directly from NAHRO. However, this fact was concealed from the Board and the Executive Director was reimbursed for the same expenses directly from the Authority." The Authority proposed to offset this amount against an eligible claim it received in January 2003. The Authority's attorney wrote the Authority would continue to recover the

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⁴⁷ An American Express card.

remainder of the ineligible expenses from its former Executive Director and others responsible. Furthermore, the Authority no longer allows employees who also serve as NAHRO officials to present NAHRO expenses to the Authority for reimbursement. Finally, the Authority now pays vendors directly when possible, and plans to revise its travel policy.

OIG Evaluation of Auditee Comments

The Authority's efforts to prevent future recurrences by not paying NAHRO expenses, paying vendors directly, and revising and adhering to its travel policy are commendable. HUD should ensure the Authority repays its program for the ineligible amounts and support or repay unsupported expenses.

Regarding the double billing of \$1,986 by the former Executive Director, the Authority asked to rewrite its attorney's response. The Authority stated its attorney had misunderstood statements by the Authority Board.

Finally, HUD should ensure the Authority did not use HUD funds to pay an attorney to respond to OIG audits.

Recommendations

We recommend the New Orleans Public and Indian Housing Field Office require the Authority to:

- 4A. Repay \$2,823 of ineligible travel expenses.
- 4B. Support or repay the \$1,027 in unsupported travel expenses.
- 4C. Stop paying for NAHRO travel.
- 4D. Issue payments directly to vendors rather than using the Executive Director's personal credit card for employee's travel.
- 4E. Follow its travel policy.

Authority Lacked Controls to Prevent Budget Overruns

The Authority did not monitor its operating budget to ensure that expenses did not exceed budgeted amounts. HUD required the Authority to incur expenses pursuant to an approved operating budget.⁴⁸ The Authority did not have management controls in place to prevent the Authority from exceeding its budget and to notify the Board when overages occurred. Consequently, the Authority exceeded its Low Rent operating budget by \$168,958 or 16.7 percent in 1999.⁴⁹

Authority blamed deficit on former finance director, high vacancy rates, and utility late fees. The Executive Director blamed the 1999 budget overrun on his former Finance Director, high vacancy rates, and utility late fees. The Executive Director stated the Authority's Finance Director and Fee Accountant monitored budget variances. In early 1999, the Finance Director fell behind in his responsibilities, due to his wife's health problems, and did not timely submit financial information to the Fee Accountant. Further, the Finance Director did not notify anyone when the Authority exceeded its budget.

Additionally, the Executive Director cited high vacancy rates as a cause of the budget overruns. The Executive Director stated residents moved to bigger cities such as Lafayette and Baton Rouge. The increased vacancy reduced the operating subsidy.

According to the Executive Director, utility late fees also contributed to the deficit. Each month, the City billed the Authority in bulk, less a 20 percent discount, for the residents' utilities. The City also charged the Authority to read the residents' meters. Once the Authority received the utility bill, it sent a statement to the residents for their usage. The Authority passed the City discount to the residents and allowed them 30 days to pay. This billing cycle created a 1-month difference between the time the Authority received the bill and the time it received

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⁴⁸ HUD's ACC required the Authority ". . . shall not incur any operating expenditures except pursuant to an approved operating budget."

In 1999, the Authority received \$1,011,330 in operating revenue. The Authority spent \$1,180,288 on operating expenses.

The residents have individual meters for their units.

Authority should monitor budget variances.

Authority passes zero tolerance for budget overruns.

payment. Consequently, the Authority paid the City late fees each month. The Authority needs to correct this to ensure it does not consistently pay late fees.

Regardless of the myriad of contributing factors, the Authority should have had controls in place to notify management when budget variances occurred. Per the 1999 audited financial statements, the Authority exceeded its operating budget in 1998, as well as 1999. A 1989 OIG audit of the Authority also reported that the Authority needed to improve controls of budget overruns.⁵¹ The Authority has had the same Executive Director throughout this period. If the Authority had heeded the audit findings, it may have been able to prevent the \$168,958 budget overrun.

On March 2, 2001, the Board passed a resolution that the Authority would have zero tolerance for the Fiscal Year 2001 budget.⁵² In April 2001, the Board formed a financial committee comprised of two staff members and a consultant. The committee reviews financial data and reports to the Board at the monthly meetings. The financial committee did report to the Board in the following months. The Authority should continue this practice to ensure sound financial management.

Auditee Comments

The Authority adopted a zero-tolerance budget overrun policy in March 2001. The Authority stated the policy would be strictly adhered to, and varied only in cases of extreme hardship or genuine emergency. According to the response, the Authority's finances have steadily improved. Further, the Authority has paid its utility bills timely and no longer pays late fees to the City of Morgan City. Finally, the Authority plans to meet with the City to develop a working relationship on issues such as utility, fire and police protection, street maintenance, and other issues.

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⁵¹ 89-FW-202-1004, February 17, 1989

Resolution number 584.

OIG Evaluation of Auditee Comments

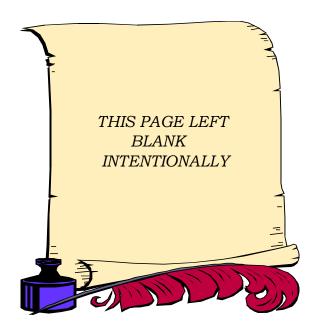
The Authority should continue striving to improve its finances and eliminate budget overruns. HUD should ensure the Authority meets its goals.

Recommendations

We recommend the New Orleans Public and Indian Housing Field Office require the Authority to:

- 5A. Implement management controls to prevent budget overruns including working with the system to limit chronic late fees.
- 5B. Negotiate with the City to bill its residents directly for utilities.

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Other Significant Issue

In addition to the five findings, we identified an issue needing further consideration. Although important, this issue did not warrant being reported as findings. However, this issue could become significant if not timely addressed.

Executive Director employed Authority Maintenance Supervisor in his private business.

Maintenance Supervisor's performance of other employment during Authority hours.

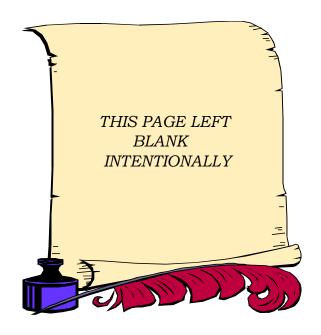
Referrals from employees to the Executive Director.

The Executive Director owned a private business, Bogan Heating & Air. The Executive Director received work referrals from prior customers, family, and friends. The Maintenance Supervisor worked privately as an independent contractor doing electrical and refrigeration work. He received job leads through referrals from those familiar with his work. The Executive Director sometimes hired the Maintenance Supervisor to assist him with his private business.

The Executive Director and Maintenance Supervisor lacked records to show that the Maintenance Supervisor worked for Bogan Heating & Air during non-Authority hours. Further, the Executive Director and Maintenance Supervisor could not specify the dates worked by the Maintenance Supervisors. The Authority's Employee Policy did not prohibit employees from owning businesses or referring work to other employees. Nor did the Employee Policy provide guidance regarding what information the employees provide if they do work outside of the Authority. Consequently, it was unknown whether the Authority's Maintenance Supervisor worked for the Executive Director's business during Authority hours.

Based upon the audit, the Maintenance Supervisor referred work to the Executive Director's business. The Authority's Employee Policy did not prohibit such referrals. However, as the head of the Authority, the Executive Director does appoint, promote, transfer, demote, suspend, and remove employees. As such, this relationship and the referrals created a conflict of interest. Therefore, the Authority's Board should prohibit the Executive Director from receiving such possible financial windfalls from employees. The Authority stated it will revise its employment policy. Further, the employees involved are no longer working for the Authority.

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Management Controls

In planning and performing our audit, we obtained an understanding of the management controls relevant to our audit. Management is responsible for establishing effective controls. Management controls, in the broadest sense, 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, organizing, directing, and controlling program operations. They include the systems for measuring, reporting and monitoring program performance.

Relevant Management Controls.

We determined the following controls related to our audit objectives:

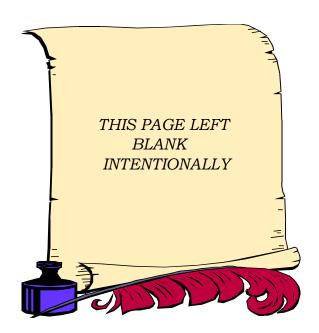
- Adequacy of and adherence to written policies and procedures regarding procurement.
- Assuring the eligibility of expenditures.
- Management philosophy and operating style.
- Management monitoring and measurement methods.
- Reporting program results.

Significant Weaknesses.

A significant weakness exists if management controls do not give 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 are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe that significant weaknesses existed in the following areas:

- (1) The contracts were not properly procured in accordance with regulations.
- (2) Expended funds were not eligible, necessary, and supported.
- (3) Management did not monitor reports such as budgets.
- (4) Records were not maintained which adequately identify the source and application of funds provided for HUD-assisted activities.

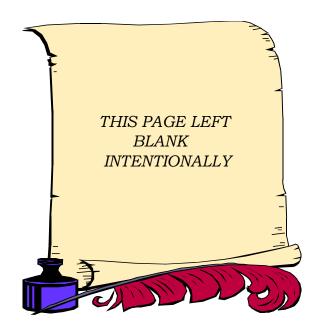
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Follow Up on Prior Audits

This is the first audit by the Office of Inspector General of the Authority since 1989. We reviewed the 1989 report in performing the audit. As the findings demonstrate, this audit made similar conclusions as the 1989 report.

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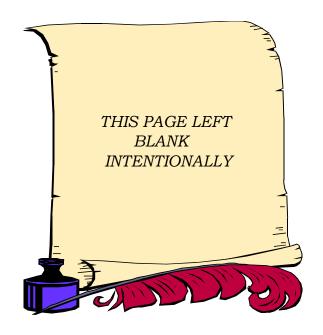
Schedule of Questioned Costs

Finding and	Type of Questioned Cost	
Recommendation	Unsupported ^{1/}	Ineligible ^{2/}
1D	\$22,008	
2A		\$32,652
4A		2,823
4B	1,027	
Totals	\$23,035	\$35,475

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Unsupported costs are costs charged to a 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 or clarification of Departmental policies and procedures.

^{2/} Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the OIG believes are not allowable by law, contract or federal, state or local policies or regulations.



Auditee Comments

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Nicholas F. LaRocca, Jr.

January 31, 2003

D. Michael Beard District Inspector General for Audit 6AGA Hale Boggs Federal Building 501 Magazine Street New Orelans, LA 70130

Attn: Susan Kelly, Senior Auditor

Re: Audit Report of OIG

Housing Authority of the City of Morgan City

Dear Mr. Berard:

The governing authority of the Board of Commissioners ("Board") of Housing Authority of the City of Morgan City, Louisiana, Inc. ("Authority") and its interim Executive Director ("ED"), have asked the undersigned, acting as general counsel for the Authority to respond to you with the Authority's position regarding the audit findings and recommendations.

As you know, the Authority and its Board have been recently reorganized and its former ED has been terminated. The Authority has engaged counsel to assist it with various legal issues and to render its Board and ED legal advise and representation. The current Board consists at present of three (3) commissioners; Mr. Theophilus Thomas, Chairman, and Ms. Lorraine Lewis and Mr. Clay Fondren, commissioners. Mr. Wendell Bogan, the Authority's former ED was terminated by resolution of the Board on November 7, 2002. This position is presently assumed on an interim basis by Ms. Ruby Maize. The Board is in the process of advertizing requests for proposals from qualified candidates to assume the role of Executive Director.

The following comments address the specific findings and recommendations contained in the audit report of the OIG, dated January, 2003.

1. Finding 1: Preferential Treatment Underlies Questionable Authority Procurements

The Board does not concede nor does it acknowledge that the Authority violated procurement requirements to ensure preferred contractors improperly received contracts or change orders, including ignoring conflicts of interest, limiting competition and failing to maintain adequate documentation. However, the Board's internal investigation of the business and affairs of the Authority has revealed that during the audit period, the procurement practices engaged in by the Authority's representatives did in actual fact have the effect of limiting competition in a manner inconsistent with the requirements of applicable federal regulations and directives.

D. Michael Beard District Inspector General for Audit 6AGA January 31, 2003 Page 2

In response to the auditor recommendation 1A, the Board is committed to adhering to the HUD and Authority procurement policies in all cases, and avoidance of future recurrences regarding its Procurements with a view toward ensuring (1) full and open competition, (2) recognizing and curing ethics and conflicts of interest matters; and (3) maintaining full and complete documentation of all procurement transactions. Specifically and in addition to the above, all proposed contracts in the future will be reviewed and approved by counsel, and to the extent practicable, submitted to the HUD District Office prior to execution.

The Authority has on the agenda for its special Board meeting of February 1, 2003, a discussion of immediately termination of the services of the Authority's present Architect and its related and affiliated firms.

At its meeting of January 30, 2003, the Board accepted the proposal of Blum Carl P Architect, 900 David Drive, Morgan City, LA 70380. It is in the process of executing a contract for this professional.

The Authority has located and enclose herewith certain of the documents which you have requested. The Authority requests that these previously unsupported expenditures be removed from your audit findings. The Authority is continuing its internal audit procedures to secure further documentation of the remaining unsupported transactions referred to in finding 1.

Specifically, we enclose the documentation relating to the contracts performed by Huskey Builders in the amount of \$215,650. According to these documents, Huskey's invoice number 5 was for a total amount of \$42,222; it was paid by the Authority in two checks; check number 936 and check number 946. However, according to your audit, invoice number 5 is described as only \$32,523. Our discussions with Huskey representatives indicates that the original invoice amount of \$42,222 may have been reduced to \$32,523. If so, the Authority has over paid Huskey for this invoice in the amount of \$9,799. We will continue to follow up on this issue, and request your assistance and guidance in this regard.

Additionally, your audit suggests that Huskey invoiced its invoice number 16 in the amount of \$13,170. However, our discussions with Huskey representatives indicates that they have no record of either the invoice or a payment. This matter remains under investigation and once again we solicit your assistance and guidance.

Further, our internal investigation lead us to inquire to Fromenthal Plumbing regarding the invoices from that firm totaling \$17,509. Fromenthal thus far has been unable to locate any checks or invoices which correspond to this amount. We request your assistance and guidance regarding this matter as well.

Finally, we believe that the Firmin unsupported amounts relating to the 1999 Comp Grant funds and the 2000 Capital Fund amounting to \$34,934 should be reduced. The \$3,500 check relating to the October 12, 1999 contact has been located and is included herewith. We are attaching hereto the invoice relating to the \$4,534 charge for the August 10, 1999 contract. The November 21, 2000 contract for \$24,400 was reduced to \$10,000 for grant draw down 2. An invoice in the amount of \$9,000 was billed, approved and paid in January, 2003. That invoice

D. Michael Beard District Inspector General for Audit 6AGA January 31, 2003 Page 3

and check are attached hereto. An invoice for \$2,500 is likewise attached hereto. Mr. Firmin has advised that it was paid and is attempting to locate the check. The Authority will continue its internal investigation into this issue.

The Authority is also in the process of determining the exact amount of comp grant funds used on ineligible improvements to public housing in connection with its phase IV construction project as referenced on pages 15 and 21 of your audit. However, and by way of clarification to this audit finding, the Authority represents that the public housing was not converted to Section 8 housing during the phase IV construction. Rather, this contract involved improvements to public housing, which remained public housing.

Finally, the present commissioners have attended a HUD training seminar on January 18, 2003. Contract procurement was included as a part of this training.

Finding 2: Comp Grant Coordinator Worked for Authority Contractor

The Authority has decided to seek recovery of the \$32,652 paid to CDG for the comp grant program coordinator and in turn to reimburse the comp grant program for this expenditure.

3. Finding 3: Authority Awarded Two Unreasonable Contracts to the Executive Director

The Authority agrees to conform to the requirements of all applicable regulations and directives, including OMB Circular A-87, in securing an Executive Director. The Authority has requested the HUD qualifications and criteria for executive directors and intends on adopting same (with modifications as needed) and begin a three (3) State advertisement requesting proposals from qualified candidates for this position. The term of any such executive director contract will not exceed two (2) years.

The Authority further agrees to notify the Internal Revenue Service of the fact that during the period 1996-2000, its then Executive Director, Wendell Bogan enjoyed personal use of the Authority's vehicle.

4. Finding 4: Authority Did Not Control Travel Expenses

Your audit suggests that the Authority paid \$2,823 in expenses that were either unnecessary, unreasonable or not allocable. According to the Authority's internal investigation, it appears that its former Executive Director did in fact recover \$1,986 in expenses directly from NAHRO. However, this fact was concealed from the Board and the Executive Director was reimbursed for the same expenses directly from the Authority. At its most recent meeting on January 30, 2003, the Board approved additional travel expenses for the former Executive Director in the amount of \$2,164.86 which were eligible and properly documented expenses. However, by resolution the Board decided to use this liability as a set-off against the reimbursement liability owed the Authority by its former Executive Director.

D. Michael Beard District Inspector General for Audit 6AGA January 31, 2003 Page 4

This amount, \$2,164.86 will be used to reimburse HUD for the ineligible expenses previously paid to the Authority's former Executive Director. The Authority will continue its efforts to recover the remainder of the ineligible expenses from its former Executive Director and others who may be responsible for these transactions.

Consistent with your audit recommendations, the Authority has ceased the practice of permitting NAHRO officials from submitting to or seeking approval or reimbursement for NAHRO travel related expenses.

Further, the Authority now pays vendors directly, when possible, for travel related expenses of its representatives, and plans to revise and adhere to its travel policy.

Finding 5: Authority Lacked Controls to Prevent Budget Overruns

By resolution number 584 passed by its Board on March 2, 2001, the Authority adopted a zero tolerance budget overrun policy. This policy will be strictly adhered to, and varied only in cases of extreme hardship or genuine emergency. The Authority's finances have been steadily improving.

The utility bills have been timely paid and the Authority no longer pays late fees to the City of Morgan City.

Plans are underway to hold meetings with the City of Morgan City in an effort to develop a closer overall working relationship, including utility, fire and police protection, street maintenance and various other issues.

The Authority is revising its personnel policy to address outside employment, conflicts of interests, etc. The particular individuals previously alleged to have engaged in such employment and conflicts of interest are no longer employed by the Authority.

We trust that this response will be deemed adequate and sufficient for your purposes. We pledge cooperation in all respects in order to continue in our mission to provide residents access to decent, safe, sanitary, and affordable housing in safe and livable neighborhoods consistent with all applicable laws, regulations, rules and directives.

Sincerely,

NICHOLAS F LAROCCA, JR., LTD.

(A Professional Daw Corporation)

Nicholas F. LaRocga, Jr.

Distribution Outside of HUD

Ruby Maize, Interim Executive Director, Housing Authority of the City of Morgan City

Theophilus Thomas, Board Chairman, Housing Authority of the City of Morgan City

Mayor Tim Treagle, Morgan City

Russell Ricotta, CPA, Hammond, Louisiana

Louisiana Legislative Auditor

Attorney for the State Ethics Board, Louisiana Board of Ethics

Chairman, Committee on Government Affairs

Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources

House Committee on Financial Services

Senior Counsel, Committee on Financial Services

Committee on Financial Services

Managing Director, Financial Markets and Community Investments, U.S. GAO

Chief Housing Branch, Office of Management and Budget

Department of Veterans Affairs, Office of Inspector General

Chairman, Committee on Government Affairs 172 Russell Senate Office Building, Washington, D.C. 20510

Chairman, Committee on Government Reform 2348 Rayburn Building, House of Representatives, Washington, D.C. 20515-4611

Ranking Member, Committee on Government Reform 2204 Rayburn Building, House of Representatives, Washington, DC 20515

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