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May 23, 2003

2003-FW-1804

MEMORANDUM FOR: Eileen M. Rogers
Director, Office of Public Housing, 6APHA

Katie S. Worsham
Director, Community Planning and Development, 6AD

//SIGNED// by Jerry R. Thompson for

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

SUBJECT: Congressional Request
Housing Authority of the City of San Angelo
San Angelo, Texas

INTRODUCTION

In response to a Congressional request, we performed a limited review of the Housing Authority of the City of San Angelo (Housing Authority). Specifically, our objectives were to determine: (1) whether a conflict of interest existed between the Housing Authority's rental of apartments to San Angelo Colt Baseball players; (2) whether the Assistant Executive Director had a conflict of interest with a vendor, Hard Drive Café; (3) whether the Housing Authority took appropriate steps to remediate mold at the Cedar Crest Knickerbocker (Knickerbocker) complex; and (4) the events surrounding the construction of elderly duplexes costing \$500,000 that were appraised at \$324,000. Because the recommendations affect both Public Housing and Community Planning and Development (CPD), we have addressed this memorandum to both program directors.

The review disclosed a conflict of interest did not exist between the Housing Authority and the rental of apartments to Colt Baseball players. However, the review did find that a conflict of interest existed between the Assistant Executive Director and a vendor; the Housing Authority did not take appropriate steps to remediate mold at Knickerbocker; and the Housing Authority did not perform its fiduciary duty during the construction of the elderly duplexes.

Additionally, Housing Authority management disregarded and circumvented controls in procurements, accounts payables, and grants management. As a result, the Housing Authority obtained goods from a vendor directly related to the Assistant Director, paid for work not performed, made duplicate payments, and incurred ineligible costs. This occurred because management blatantly disregarded controls. Due to the Housing Authority's inability to meet its

fiduciary responsibility, the Housing Authority built elderly duplexes that cost significantly more than their appraised value.

We provided a discussion draft to the Housing Authority on April 8, 2003. We held an exit conference with the Housing Authority on April 17, 2003. We provided another draft to the Housing Authority on April 21, 2003. The Housing Authority provided formal comments dated May 8, 2003. Also, we discussed the finding with HUD on April 11 and 14, 2003. HUD's office of Community Planning and Development provided a written response dated May 6, 2003. We considered all comments in formalizing our report. Further, we summarized and evaluated the Housing Authority's response in the report and included the response in its entirety as Appendix B.

We recommend HUD's Public Housing Director require the Housing Authority to: (1) implement adequate management controls; (2) require a vendor to repay \$3,580 for duplicate payments; (3) reimburse the City of San Angelo \$2,048 for ineligible HOME Investment Partnerships Program (HOME) expenditures; and (4) reimburse the City of San Angelo \$76,831 in unsupported grant funds. Further, HUD's Public Housing Director should take administrative actions against those responsible to limit HUD's exposure to future abuses. Also, we recommend HUD's CPD Director require the City of San Angelo repay HUD: (1) \$2,048 for ineligible disbursements to the Housing Authority and (2) \$76,831 in the unsupported grant funds.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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 review.

Should you or your staff have any questions, please contact William W. Nixon, Assistant Regional Inspector General, at 817-978-9309.

OBJECTIVES, SCOPE, AND METHODOLOGY

To accomplish our objectives, we interviewed current and former employees of the Housing Authority; the Mayor of San Angelo; the San Angelo City Manager; personnel from the City of San Angelo's Community Development department (Community Development); the Housing Authority's environmental consultant; and other contractors. We conducted on-site visits of the Housing Authority's properties and the elderly duplexes built using HOME funds. Further, we reviewed rent rolls, accounts payable documentation, contracts, and construction progress reports. We also reviewed construction documentation maintained by Community Development and the Housing Authority's architect. Our scope included Housing Authority activities regarding the four allegations from the signing of the 1996 HOME grant agreement until October 2002. We expanded the scope as necessary.

BACKGROUND

The Housing Authority is a public housing authority, which operates as an unincorporated nonprofit association under the laws of the State of Texas. In April 1998, the Housing Authority became a separate entity from the City of San Angelo. The Housing Authority provides services as authorized in its charter and by-laws, including urban redevelopment, housing, and community services. The Mayor of the City of San Angelo appoints members to the Board of Commissioners (Board). The Board governs the Housing Authority. An Executive Director oversees the day-to-day operations.

The Housing Authority maintains 777 Section 8 Vouchers, 174 low rent public housing units with funds received from HUD, and 404 affordable housing units in apartment complexes acquired from the Resolution Trust Corporation.

The Housing Authority received HOME funds to construct affordable housing. HOME funds expand the supply of decent, safe, sanitary, and affordable housing with primary attention to rental housing for very low-income and low-income families.

The Housing Authority and City signed the 1996 HOME grant agreement on May 26, 1998, for \$324,000 to develop and support affordable rental housing through new construction of non-luxury housing. The initial ending date of this agreement was February 28, 1999. The Housing Authority and City amended this agreement several times ultimately establishing the ending date as March 30, 2001.

Additionally, the Housing Authority and the City of San Angelo signed a \$118,375 HOME grant agreement on July 15, 1998. Similar to the 1996 HOME grant, the purpose of the grant was to develop and support affordable rental housing through new construction of non-luxury housing. The initial ending date of the agreement was February 28, 1999. The agreement was extended several times ultimately establishing the ending date as July 27, 2001.

Also, the Housing Authority and the City signed a \$39,000 Community Development Block Grant (CDBG) agreement on April 1, 1998, to extend water, sewer, and streets including curbs and gutters for the elderly duplexes. Initially, the agreement established the ending date as March 31, 1999. After several extensions, the ending date was also established as July 27, 2001.

In March 2002, the Housing Authority Board appointed the Assistant Executive Director to Acting Executive Director while the Executive Director took a leave of absence.

Criteria

The Housing Authority's procurement policy stated:

- For purchases and contracts from \$1,000 to \$15,000, the Housing Authority shall use competitive negotiation and invite offers orally, by telephone, or in writing from at least three suppliers if they are available locally.
- For purchases and contracts totaling more than \$15,000 the Housing Authority shall use formal advertisement to solicit bids by posting public notices, mailing solicitations to all available suppliers, advertising in trade journals, and by advertising in at least one daily newspaper of general circulation for 2 consecutive weeks.
- A cost or price analysis in connection with every procurement action including contract modifications must be performed.

HOME regulations¹ require housing constructed with HOME funds must meet all applicable local codes and ordinances at the time of project completion. The regulations² also require that construction of 12 or more units require the payment of not less than the prevailing local wages pursuant to the Davis-Bacon Act.

RESULTS OF REVIEW

No conflict of interest occurred when the Housing Authority rented apartments to the San Angelo Colt Baseball players. The allegation of a conflict of interest stemmed from the Board Chairman's ownership of the minor league team. The players paid market rate rent and abided by the lease agreement, the same as any other tenant, and there was no evidence that the Board Chairman abused his position.

A conflict of interest did exist between the Assistant Executive Director and a vendor. Also, the Housing Authority did not take appropriate steps to remediate mold at the Knickerbocker complex. Further, the Housing Authority did not perform its fiduciary duty during the construction of the elderly duplexes.

The Housing Authority's management disregarded and circumvented management controls related to procurement, accounts payables, and grants management. This occurred because management blatantly disregarded the implemented controls. As a result, the Housing Authority obtained goods from a vendor owned by the Assistant Executive Director, paid for work not performed, made duplicate payments, and used minimal safety precautions during mold remediation. Due to the Housing Authority's inability to meet its fiduciary responsibility, the Housing Authority built elderly duplexes that cost significantly more than their completed appraised value.

¹ 24 CFR 92.251 Property Standards (a) (1).

² 24 CFR 92.354 Labor (a) (1).

Conflict of Interest Existed between Assistant Executive Director and Hard Drive Café.

In May 2001, the Assistant Executive Director and a partner, as Hard Drive Industries, LLC, purchased Hard Drive Café, a computer equipment store. The Assistant Executive Director approved Housing Authority purchases of equipment from Hard Drive Café and even signed checks to Hard Drive Café. Further, the Assistant Executive Director did not report his conflict of interest to either the Board or the Certified Public Accountants performing the audit of the Housing Authority. An attorney hired by the Board exonerated the Assistant Executive Director from violations of the Texas Local Government Code. However, the attorney only reviewed two transactions and did not discuss the inappropriateness in fact and appearance of the Assistant Executive Director's actions.

Assistant Executive Director Approved Transactions with Company He Owned.

From May 2001 through August 2001, the Housing Authority purchased computer equipment from Hard Drive Café totaling over \$13,140. For instance, in May 2001,³ the Assistant Executive Director solicited three quotes for two computers from Gateway, Dell, and Hard Drive Café. The lowest price by \$4 for each computer was Hard Drive Café. The Assistant Executive Director approved Hard Drive Café as low bidder, approved payment of the invoice, and co-signed the check. In August 2001, the Housing Authority prepared a \$4,985 handwritten check to Hard Drive Café for the two computers and other purchases. Even looking past the obvious conflict of interest, this transaction demonstrates a complete disregard of management controls and proper segregation of duties.

Knowledge of the relationship between the Assistant Executive Director and Hard Drive Café came to the attention of the Board in March 2002. In response, the Board hired an attorney to review the transactions. In April 2002, the attorney submitted the results of the review. The report stated: "acquisitions from Hard Drive Café do not appear to violate the Texas Local Government Code because all purchases were arms-length purchases made according to Housing Authority policy and were not made in connection with any one housing project." However, the attorney only reviewed two transactions occurring in February and March 2002 that totaled less than \$1,500.

On the Assistant Executive Director's December 2001 conflict-of-interest statement, he noted that neither he nor a related party maintained a material interest in any sale, purchase, exchange or leasing of property during 2001. Further, the Assistant Executive Director checked "no" to the statement that asked if he was aware of the conflict-of-interest law or aware of any violations to that law.⁴

Nonetheless, the Housing Authority's June 2002 management letter, signed by the Assistant Executive Director, to its accountant for the 2001 audit stated that the Assistant Executive Director disclosed all related party transactions including payables to related parties. However,

³ Shortly after purchasing the company.

⁴ It appears no one reviewed the Assistant Executive Director's statement or followed up on this answer.

until the attorney's review in April 2002, the Assistant Executive Director did not notify the Board of his interest in Hard Drive Café.

The Board must ensure the Housing Authority implements management controls to ensure, at a minimum: (1) disclosure of possible conflicts of interests; (2) employees involved in a possible conflict of interest have no direct participation in the transaction; and (3) proper segregation of duties. The Board should consider reviewing the conflict-of-interest statements of executive employees. In all instances, management must review the conflict-of-interest statements and resolve any resulting issues.

Problems with Mold Remediation at Knickerbocker Complex.

The Housing Authority knew units at its Knickerbocker⁵ complex contained mold. In September 2001, Knickerbocker's leasing agent requested an environmental consultant to determine why there was an odor from an apartment. Although the environmental consultant found a gas leak in the apartment, it also found mold. According to the environmental consultant, he and the leasing agent under the guise of testing for a water leak tested all the other apartments. The leasing agent used the guise to not alarm the residents. Any suspicious growth was sent for testing. After the environmental consultant obtained the mold test results, the environmental consultant's president informed Housing Authority management and discussed remediation procedures.

Against the advice of its environmental consultant, the Housing Authority hired a painting contractor for remediation work who did not use minimal EPA mold remediation safety standards. In procuring and administering the painting contract, the Housing Authority violated its procurement practices and its accounts payable procedures. Due to the lack of controls, the contractor submitted duplicate invoices and billed for unperformed work.

Maintenance Supervisor Noncompetitively Awarded \$91,000 Contract.

By underestimating the amount of work, the Maintenance Supervisor circumvented the Housing Authority's procurement policy and effectively sole-sourced \$91,000 to a painting contractor. In June 2000, the Housing Authority Board adopted a new procurement policy that required telephone quotes for work under \$15,000 and advertising for work over \$15,000.

In March 2002, the Maintenance Supervisor solicited five telephone quotes for the mold remediation, but he did not perform the required cost analysis. Of these five quotes, one contractor never conducted an on-site review but told the Housing Authority the amount it needed weekly to do the job, two other contractors never made a bid, and the Maintenance Supervisor offered another contractor nine different apartments on which to work. This contractor subsequently turned down the job. The Maintenance Supervisor agreed to a per unit contract with a painting contractor, irrespective of the work performed and agreed to weekly payments in violation of the standard accounts payable process. The Maintenance Supervisor circumvented Housing Authority procurement and accounts payable policies because he did not

⁵ A property purchased from the Resolution Trust Corporation.

advertise the remediation work; never obtained more than one valid bid; and paid the contractor weekly. Unfortunately, the Housing Authority did not have any controls to detect or correct these obvious weaknesses.

The contract between the Housing Authority and painting contractor included installing new cabinets and painting and replacing damaged drywall and base trim for \$1,590 per apartment. The Housing Authority provided all the materials. The contract began with nine apartments at a cost of \$14,310. During 4 months, the painting contractor worked on 52 units and received over \$91,000 for labor.

According to Housing Authority policy, the Maintenance Supervisor should have formally advertised for bids. Further, the Maintenance Supervisor should have performed a cost analysis of the job prior to evaluating bids. Without this, the Maintenance Supervisor placed the Housing Authority in the position of not knowing whether it obtained the best services at the best price.

In May 2002, the Housing Authority asked the painting contractor to do \$200 in additional maintenance work for each apartment without obtaining any other bids. The additional maintenance work consisted of hanging ceiling fans and vent hoods, minor plumbing, installation of hardware in kitchens and baths, lights, and smoke alarms.

Lack of Controls Allow the Housing Authority to Pay for Work Not Completed.

As another example of poor controls, the Maintenance Supervisor picked up the painting contractor's invoice, took the invoice to the Housing Authority's downtown office, and requested a check be prepared. The Housing Authority's standard accounts payable process is a bimonthly process. According to the painting contractor, he needed the money to pay his employees.⁶

From April to July 2002, the painting contractor submitted 28 invoices for work on 52 apartments totaling over \$91,000. When the Maintenance Supervisor received the invoices from the painting contractor, he initialed the invoices. The Maintenance Supervisor stated that his initials only meant that he received the invoice. However, Housing Authority accounts payable personnel and other management personnel believed that the initials meant the work was completed and thus approved to pay the invoice. As a result, the Housing Authority paid for work not performed. The Housing Authority needs to ensure the work is performed prior to payment.

⁶ It appears the painting contractor had a cash business. He stated that he did not have a bank account.

Incomplete Work —Knickerbocker Apartment.⁷



According to the painting contractor, the Maintenance Supervisor told him that an invoice could be submitted for work that would be completed by the Friday of the same week as the invoice. The painting contractor received payment for work on the apartment pictured above in June 2002. Four months later when the above picture was taken, it is obvious the painting contractor did not complete the work. Nonetheless, the Housing Authority paid for incomplete work.

Duplicate Billings by Painting Contractor.

The painting contractor double-billed the Housing Authority \$3,580. The painting contractor billed twice for remodeling in one apartment at Knickerbocker. Further, at Cedar Crest Southwest, the contractor billed twice for upgrade maintenance in one apartment and twice for both remodeling and upgraded maintenance in another apartment. As shown in the table, the bolded numbers indicate the duplicate billings.

⁷ The Housing Authority paid \$1,790 for this unit. The Housing Authority has an agreement with the painting contractor that he will complete the work.

Duplicate Billings by Painting Contractor

Complex	Apartment Number	Date	Invoice Number	Amount
Knickerbocker	103	4/24/2002	474709	\$1,590
Knickerbocker	103	6/4/2002	474722	\$1,590
Southwest	108	5/23/2002	474719	\$1,790
Southwest	108	7/1/2002	474729	\$1,790
Southwest	105	5/23/2002	474716	\$ 200
Southwest	105	7/30/2002	474734	\$ 200
Total Over Billed				\$3,580⁸

Minimal Safety Precautions.

The painting contractor did not follow standard mold safety precautions. An Environmental Protection Agency report⁹ dated March 2001 stated, “building materials and furnishings that are contaminated with mold growth and are not salvageable should be double-bagged” in trash bags. “These materials can then usually be discarded as ordinary construction waste. It is important to package mold-contaminated materials in sealed bags before removal from the contaminated area to minimize the dispersion of mold spores throughout the building.”

As shown in the picture taken at Knickerbocker, the painting contractor did not bag discarded construction materials.¹⁰



Further, for personal protective equipment, the report stated a worker needs gloves, a half-face respirator with High-Efficiency Particulate Air (HEPA) filter, disposable overalls, and

⁸ \$1,590+\$1,790+200.

⁹ Titled *Mold Remediation in Schools and Commercial Buildings*.

¹⁰ Picture taken by a complainant at the time of remediation.

goggles/eye protection. The Housing Authority could not provide any documentation that it ever purchased HEPA masks as required in the above report. The Housing Authority and the painting contractor did utilize disposable paper overalls and painting masks. However, the environmental consultant stated painting masks provide minimal protection in this type of environment.

Housing Authority Did Not Perform its Fiduciary Responsibility during Construction of the Elderly Duplexes.

By not understanding the construction process, the Housing Authority neglected its fiduciary responsibility during the construction of the elderly duplexes. The Housing Authority received HOME grant funds to build non-luxury elderly duplexes. The Housing Authority solicited bids for construction of the elderly duplexes in April 2000. The architect opened the elderly duplex construction bids in the presence of the Assistant Executive Director on June 7, 2000, at 2:00 p.m. All the bids received exceeded funds available. Approximately 2 hours later, the Assistant Executive Director told the architect to decrease the number of units to fit within the budget.

The lowest bid totaled \$505,680 for five duplexes or \$101,136 per duplex.¹¹ When the architect asked the lowest bidder to prepare a bid for only four duplexes, the bid came back at \$457,400. At this point, the cost would be \$114,350 per duplex.¹² This exceeded the architect's estimated cost of construction of \$61,171 per duplex or \$305,855 for the five duplexes.¹³ In the end, with the cost of land, appliances, and change orders construction cost totaled \$479,796 or \$119,949 per duplex.¹⁴

Although the bid specification allowed for negotiations, the Housing Authority did not attempt anything other than asking the lowest bidder how much it would cost to build fewer duplexes when the bids came in overestimated costs. By not negotiating, the Housing Authority did not exercise fiduciary responsibility in the construction of the elderly duplexes.

Architect Lacked Knowledge on How to Bid Elderly Duplexes.

The actions of the Housing Authority and its architect give the appearance that they lacked knowledge of how to bid and administer the elderly duplexes construction contract. The Housing Authority used a construction contract dated 1992 that did not incorporate federal rules for HOME or CDBG funds. Further, the architect's notes show that the architect confused the different HOME grant amounts.

For instance, Community Development personnel told the architect in February 2000 that the construction bid needed to be divided into two different bids so the Housing Authority could evaluate bids separately. At the pre-bid conference in May 2000, Community Development personnel again informed the architect that costs for the elderly duplexes and the Family

¹¹ This equates to \$68.61 per square foot.

¹² This equates to \$77.52 per square foot.

¹³ The architect estimated the cost at \$41.50 per square foot.

¹⁴ This equates to \$81.32 a square foot.

Investment Center addition needed to be kept separate. The architect agreed to prepare an addendum to that effect. However, the architect never accomplished this. The architect informed the bidders on June 14, 2000, that there might be a problem with the way the project was bid.

Additionally, the architect:

- Designed duplexes without a firewall--a building code violation.
- Did not record the plat.¹⁵
- Used Davis-Bacon wages unnecessarily.

Housing Authority Incurred Over \$76,800 in Unsupported Construction Costs.

The Housing Authority could not justify at least \$76,831 to build the elderly duplexes.¹⁶ The cost of the duplexes increased from a bid of \$101,136¹⁷ per duplex to the negotiated cost of \$114,350 per duplex.¹⁸ The Housing Authority did not fulfill its fiduciary responsibility. Specifically, the Housing Authority did not negotiate the reduction of construction costs with the contractor when the original bid exceeded funds available. Also, the Housing Authority did not perform an independent cost analysis. Further, it seems the Housing Authority should have negotiated a cost at or lower than the original bid of \$101,136 per duplex.

Board Approved Building of Elderly Duplexes at \$24,305 more than Available Grant Monies.

By Board Resolution, the Board approved the building of the elderly duplexes at a cost of \$505,680 on June 27, 2000. This amount exceeded the grant funds available by \$24,305. The Housing Authority only had \$481,375¹⁹ available to spend from the grants. The Board Resolution approved the construction bid and allowed the Housing Authority to commence construction of four duplexes.

Architect Deleted a Duplex Prior to Board Approval and Receipt of Revised Bid.

On June 16, 2000, the architect amended the bid specifications to delete the construction of one duplex. On June 27, 2000, the Board approved the “construction bid of four duplexes for \$505,680.” However, the architect did not ask the contractor to prepare a revised bid until June 28, 2000.

¹⁵ A plat is a map that divides land into lots.

¹⁶ \$481,375 in total grants less \$404,544 (\$101,136 X 4 units) in estimated construction costs equals \$76,831.

¹⁷ Total bid to build five elderly duplexes was \$505,680.

¹⁸ Total cost to build four elderly duplexes was \$457,400.

¹⁹ (\$324,000 of 1996 HOME grant funds + \$118,375 of 1998 HOME grant funds + \$39,000 CDBG funds) = \$481,375. The Housing Authority spent \$481,375 in construction costs, architect fees, advertising, and other costs.

Duplicate Payments.

The Housing Authority submitted a request for \$1,322 for preconstruction work. The \$1,322 request contained invoices for \$637 and \$423. Within the request for the \$1,322 were invoices totaling \$262 for lab work and hole digging. However, the costs of the lab work and hole digging were also included on the invoice for \$423. Because the Housing Authority did not review the draws prior to submission and Community Development did not review documentation prior to payment, Community Development overpaid the Housing Authority \$262.

Also, in draw request 5 the contractor included \$1,786 for brick materials. Then on draw request number 6 the contractor billed brick materials again for \$1,786. In both draw 5 and draw 6, the contractor justified the cost with invoice number 270-068308. Thus, \$1,786 of the HOME fund draws is ineligible. Therefore, HUD should seek reimbursement for the \$2,048 that the Housing Authority spent on ineligible activities.

Further, the Housing Authority tried to transfer ownership of the elderly duplexes upon construction completion. Also, actions by the Housing Authority gave the appearance that it did not intend to build an addition to Family Investment Center.²⁰ The elderly duplex construction bid included an addition to the Family Investment Center with the construction of the elderly duplexes.

Housing Authority Tried to Transfer Ownership of Elderly Duplex.

When completed, the Housing Authority tried to transfer ownership of the elderly duplexes to a nonprofit. However, the former City employee²¹ that originally approved the Housing Authority's HOME grant funds was an employee of the nonprofit to whom the Housing Authority proposed transferring the elderly duplexes. Housing Authority management told the Board that it would be in the Housing Authority's best interest to have another nonprofit organization to oversee management of the elderly duplexes. The Board approved the sale, but the City maintained there were legal issues needing resolution prior to the sale. The Housing Authority resolved the legal issues by selling the elderly duplexes to the City.

Because the Housing Authority disregarded its fiduciary responsibility, the elderly duplexes cost approximately \$500,000 to build. Construction of the elderly duplexes was completed in May 2001. However, in March 2002 the City of San Angelo obtained an appraisal of the elderly duplexes. The appraiser valued the elderly duplexes at \$324,000. This is a 35 percent value loss to total construction costs.

²⁰ The Housing Authority leased the Family Investment Center for Head Start and child care activities.

²¹ Both the Executive Director and Assistant Executive Director worked with this individual when the Housing Authority was a City department.

Housing Authority Actions gave Appearance it Did Not Intend to Build Addition to Family Investment Center.

As part of the construction bid to build the elderly duplexes, the Housing Authority also wanted to construct an addition to the Family Investment Center. At the time, the Housing Authority had \$108,000 in development funds²² at risk of being recaptured by HUD if not spent. The Assistant Executive Director asked HUD to approve expansion of the Family Investment Center using the development funds. On March 22, 2000, HUD approved the construction of an additional 2,000 square feet of community space.

Conversely, a month prior to obtaining HUD's approval to use the development funds, the Assistant Executive Director solicited bids for an architect to serve as the primary architect and development manager for renovations to a central Administrative Office located at 333 South Chadbourne. As of February 2000, the time of the solicitation for architectural services, the Housing Authority did not own nor did any Board minutes mention purchasing the building at 333 South Chadbourne. In fact, the Housing Authority did not purchase 333 South Chadbourne until August 2000, 6 months after the architectural services' bid solicitation.

The Housing Authority received Board approval to purchase the property at 333 South Chadbourne on June 15, 2000, 4 months after the solicitation for an architect. Also, in the same Board minutes the Assistant Executive Director told the Board that if the development funds could not be used for the Family Investment Center expansion, the development funds could be used for the purchase of office/warehouse space. To encourage Board members to approve the purchase of the building, the Assistant Executive Director told Board members that HUD would take the money back if the Board did not use the money in 60 days. The Assistant Executive Director made these statements 8 days after witnessing the architect open the bids for the elderly duplexes. Therefore, the Assistant Executive Director apparently knew prior to his statements to the Board that the bids exceeded funds available to expand the Family Investment Center. At the time of the Board meeting, the Assistant Executive Director had not sought or obtained HUD approval for the purchase of an existing building. Further, after the Board approved the purchase, the Assistant Executive Director drew down the funds without HUD approval.

²² Grant Number TX21P470008.

As shown below the property at 333 South Chadbourne needs extensive renovation.

Front of building



Rear Corner View



Housing Authority Comments and Evaluation

We received verbal comments from the Housing Authority at an exit conference on April 17, 2003. By letter dated May 8, 2003, we received written comments from the Housing Authority. We have included the Housing Authority's written response as Appendix B. Overall, the Housing Authority agreed to implement all recommendations. Specifically, the Housing Authority agreed to implement new management controls including revising check writing and procurement policies to reflect a centralized procurement function and separation of duties. Further, the Housing Authority will seek reimbursement from the painting contractor and reimburse the City of San Angelo.²³ With respect to the unsupported construction costs, the Housing Authority will have the draws and invoices independently audited. However, the Housing Authority disagreed with other aspects of the findings.

²³ The Housing Authority's response stated it reimbursed the City \$2,048 for the duplicate payments.

Assistant Director related party transactions.

The Housing Authority believes the Assistant Executive Director “never consciously purchased anything from a vendor after considering it would benefit the business” in which his father invested.

OIG Response.

The public documents show the Assistant Executive Director and a partner, as Hard Drive Industries, LLC, purchased the Hard Drive Café. These documents did not show that the Assistant Executive Director acted on behalf of his father as argued by the Housing Authority. Further, the Housing Authority’s accounts payable documentation showed the Housing Authority only made \$1,124 in purchases from Hard Drive Café from October 2000 to April 2001. In the 4 months after the purchase of the Hard Drive Café, the Housing Authority made purchases of \$13,147.

Maintenance Supervisor noncompetitively awarded contract.

The Housing Authority agreed the contract exceeded original bid amounts due to Housing Authority’s urgency to address immediate public health and safety concerns. However, Housing Authority procurement policy allows for emergency procurement procedures until public health and safety concerns are sufficiently addressed.

OIG Response.

Sequence of events did not show an emergency. The Maintenance Supervisor did not procure the painting contract until March 2002. Six months after the mold was discovered. Further, The Maintenance Supervisor knew that more than the original eight apartments needed work. Therefore, the Housing Authority could and should have competitively procured this contract. Additionally, the procurement policy approved by the Board on June 27, 2000, did not set aside the competitive procurement procedures for public health and safety concerns.

Duplicate billing by painting contractor.

The Housing Authority contended that damage to one apartment above the apartment already repaired resulted in the apartment needing additional repairs. This resulted in a double billing. The Housing Authority agreed it had no documentation and relied upon employees’ recollection of events.

OIG Response.

We note the Property Manager discussed the additional repairs. However, as the Housing Authority notes no documentation could be provided to support these attestations. Further, this instance does not address the other duplicate payments.

Minimal safety precautions.

The Housing Authority stated that it purchased appropriate safety gear including masks with HEPA filters.

OIG Response.

The Housing Authority had many opportunities, including its response, to include invoices, checks, or similar documentation that it purchased these materials.

Housing Authority tried to transfer ownership of the duplex.

According to its response, the Housing Authority assists “local community housing development organizations (CHDO) build capacity.” The Housing Authority as a developer under the HOME program wanted to transfer the asset to a CHDO. This is an eligible HOME activity. When questioned by the Housing Authority, the OIG stated that the “transaction was included because it ‘might seem improper to the public.’” The Housing Authority questioned why a “valid and legal transaction was portrayed as something improper simply to raise suspicion.”

OIG Response.

The fact that the person approving the grant originally at the City now worked for the CHDO is an apparent conflict of interest. Our report represents the sequence of events in the development of the elderly duplexes. The Housing Authority did not dispute the facts.

PHA never intended to build addition to Family Investment Center.

The Housing Authority stated that it originally planned to develop office and warehouse space with the unused development funds in a revised budget. The Housing Authority obtained HUD approval to build the addition. However, when bids came in too high to complete the addition the Housing Authority proceeded with the original plan. HUD told the Housing Authority to obtain an appraisal and environmental report on the site. The Housing Authority proceeded to close on the property and draw down funds.

OIG Response.

The Housing Authority’s sequence of events is incorrect. The Housing Authority solicited bids for architectural services on a building it did not own prior to HUD’s or its own Board’s knowledge of the possible purchase of 333 South Chadbourne. Once the Housing Authority knew construction bids exceeded funds available to build an addition at the Family Investment Center, it drew down funds to purchase 333 South Chadbourne. The appraisal and environmental report occurred 1 month and 8 months, respectively, after the draw down of grant funds.

RECOMMENDATIONS

We recommend that the Director of Public Housing require the Housing Authority to:

- 1A. Implement management controls to prevent management's ability to circumvent controls.
- 1B. Obtain reimbursement from the painting contractor for the \$3,580 in duplicate payments.
- 1C. Reimburse the City of San Angelo \$2,048²⁴ for ineligible grant funds.
- 1D. Reimburse the City of San Angelo \$76,831 for unsupported grant funds.

We recommend that the Director of Public Housing:

- 1E. Take appropriate administrative action against those responsible officials to protect the Housing Authority from further abuse.

We recommend that the Director of Community Planning and Development to require the City of San Angelo to:

- 1F. Repay HUD \$2,048 for ineligible grant costs disbursed to the Housing Authority.
- 1G. Repay HUD \$76,831 for unsupported grant costs disbursed to the Housing Authority.

²⁴ \$262 +1,786.

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>	
	<u>Ineligible</u> ¹	<u>Unsupported</u> ²
1B	\$3,580	
1C	2,048	
1D	—	<u>\$76,831</u>
TOTALS	<u>\$5,628</u>	<u>\$76,831</u>

¹ 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.

² Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of review. 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.

Appendix B

**HOUSING AUTHORITY
OF THE
CITY OF SAN ANGELO, TEXAS**

May 8, 2003

William W. Nixon
Regional Inspector General for Audit, 6AGA
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

Re: Response to Draft Letter dated April 21, 2003, 2003-FW-180X

Dear Mr. Nixon:

The Housing Authority of the City of San Angelo ("PHA") is writing in response to your memorandum to Eileen M. Rogers, et. al. concerning the congressionally requested limited review of the PHA. At the outset, we are pleased to know and confident that no conflict of interest existed between the Housing Authority's rental of apartments and a local sport team. However, we are disturbed with your remaining conclusions that an apparent conflict of interest occurred between the Assistant Director and a vendor and that the PHA did not take appropriate steps and failed to follow state health guidelines to abate mold at Cedar Crest Apartments when it was found in two units. The PHA does not agree with the low appraisal of the duplex development and contends that the cost of construction was a function of the heavy construction market at the time. Moreover, PHA completed the contract administration to the best of our ability; however, multiple demands from the City's Community Development Department made contract administration extremely difficult if not impossible. In addition, PHA contracted with a professional service firm to administer the contract and apparently weaknesses were discovered by OIG. PHA did not have any administrative funds to implement the contract and relied solely on professional architectural service firm for contract administration. The PHA relied on the advice of the firm in making all planning, bid negotiation, and award choice.

In brief, PHA will implement all of the OIG's recommendations: Specifically, new management controls to include a revised check writing and procurement policy which reflects a centralized procurement function and separate job functions more clearly from finance and purchasing, and the PHA will train staff and report to board all disclosures. In addition, the PHA accepts OIG's recommendation and will seek a reimbursement from painting contractor in the amount of \$3,580.00 and reimburse the City of San Angelo \$2,048 for ineligible grant funds. With respect to OIG's assertion of unsupported grant costs of \$54,435.00 associated with the construction of the duplex development, the PHA will have all draws and invoices independently audited to determine if this is the case, and then

take appropriate action.

Assistant Director related party transactions.

In a recent meeting of the Public Housing Authority Board of Commissioners (5-6-2003), the PHA's attorney indicated that since there had been no personal gain by the Assistant Director that he still questioned if conflict of interest had occurred. Personally, having worked with Mark Lambert for 15 years, I believe he never consciously purchased anything from a vendor after considering that it would benefit the business his father had investment interest in. Assistant Director, Mark Lambert, who handles numerous family activities for his father was listed as a power of attorney by his father for several years. It was in this capacity he was associated with the vendor.

The Executive Director was called to active duty for six months, and the Assistant Director of Programs was out during key times. The Assistant Director, Mark Lambert was working under stressful and demanding conditions and was doing more than one job. Even with that, the vendor bids were the lowest. Also, the apparent conflict was disclosed regardless of the amount.

Also, although Mark Lambert was listed as the "requestor" of items purchased from the vendor; staff that requested his permission to make purchases, obtained prices, and ordered the materials from the vendor and put Mark Lambert's name down as the requestor even though they were the requestor of the items to be purchased and Mark Lambert gave approving authority for the purchase(s) not aware who the low bid was from. Most of the purchases were made by staff without Mark Lambert's knowledge of low bid, or he did not requisition work, and did not sign the check to pay the vendor. Because of limited time, and because the PHA Board of Commissioners has recently requested that an additional audit be completed because of the I.G.'s audit, and because of recent newspaper articles PHA staff have not had access to documents required to verify this. PHA staff will search for the documents to present the evidence to Ms. Eileen Rodgers, and Ms. Katie Worsham of the HUD Fort Worth office when we meet to discuss the I.G.'s findings.

Maintenance Supervisor non-competitively awarded contract:

Public health and safety was the first and foremost on the minds of PHA staff in the repair of the apartments. PHA entered a contract to complete repairs at three apartment locations. The contract was extended beyond the original bid amount due to suspected, mildew affected areas at the three apartment complexes. Already staff had abated any suspected mold in the isolated areas. However, the contract was immediately extended to insure public health and safety was effectively addressed. In addition, staff was trained on mold remediation and the contractor was informed on required safety standards. The payment process agreed to by the maintenance supervisor and the contractor though unusual was indicative of PHA flexibility to assist small contractors to participate in PHA contracts. A review of the process with the PHA external Auditor does not find a problem with the payment process and is not a "violation" of the accounts payable process. However, PHA procurement policy provides that when public health and safety are a concern, procurement procedures are set aside until the concern is sufficiently addressed. This was the case by staff in order to address a suspected public health and safety issue. Ultimately the hazard and threat was abated. Before the painting contract was awarded, existing maintenance staff followed policy and procedures outlined by the Texas Department of Health and had already abated the black mold in the isolated areas. Tenants were informed using the TAA recommended mold notification lease addenda.

The painting contract did exceed original bid amounts due to PHA staff urgency to immediately address public health and safety with our tenant population. Approximately, 27 units with a total cost of \$45,935.00 were repaired at Cedar Crest Apartments. 26 units were repaired at Cedar Crest South at a total cost of \$38,236.00. Three units were repaired at Cedar Crest North for a total cost of \$4,770.00. PHA staff extended the painting contract because of the conflicting scientific data on mold, and therefore staff determined to make sure the public and tenant population was safe from an unknown health risk.

At the exit interview, the OIG commented that there was no evidence that the bidding was done with any intent to circumvent state or federal law. We would therefore respectfully request your office to include this comment in the report and to add that there were exigent circumstances that called for the actions taken.

Lack of controls allow the PHA to pay for work not completed.

All invoices are processed through departments where goods and services are received, then to purchasing for approval before they go to accounts payable. This process has been implemented to serve as a check to insure no duplicate payments occur again. Also this process will insure that all work planned is well planned, bid according to the new procurement policy, and paid accordingly by PHA accounts payable process.

Duplicate billings by painting contractor.

In conjunction with Item 1B the PHA will obtain reimbursement from the painting contractor for \$3,580 in duplicate payments. Recollection of the facts that were voiced to Ms. Paula Graf of the OIG's office is as follows: An apartment was provided for the contractor in question to repair. The contractor repaired the apartment. Following the repairs a PHA maintenance employee was inspecting another apartment directly above the apartment repaired by the contractor. The PHA maintenance man turned on the lavatory faucet to ensure it operated properly, and then walked through the rest of the apartment to ensure everything was operating properly. The PHA maintenance man walked out of the upstairs apartment and failed to turn off the lavatory faucet.

This led to great damage to the apartment below that had already been repaired by the Contractor. Due to the damage, the contractor was asked to repair the same unit he had previously repaired. This is the double billing referred by Ms. Graf. Mr. Rai Requena, Assistant Director, has no documented evidence of the facts but is sure of his remembrance of events and will provide an affidavit to that effect. I also recall being informed of the PHA's maintenance man's failure to turn off the lavatory water faucet, which led to the contractor having to "re-repair" a unit, he had already repaired. We do not have the documented proof required by Ms. Graf but we are certain of our recall of the events leading to the double billing.

This particular portion of the report highlights an underlying concern that the executives of the PHA have with the majority of the report. It appears that the OIG did not invest more time, effort and credibility in the executive staff of the PHA. This is especially significant given the impact of these findings on certain members of the executive staff who are now the focus of the report. This factor could lead one to conclude that your report was commenced with a desired set of conclusions and only the evidence which supported those conclusions were included. We therefore suggest that additional consideration be given to factual material submitted herewith and to other evidence and documents which appear to be material to the subject of the report but were, for some reason, disregarded.

Minimal safety precautions.

Immediately upon notification by White Buffalo that there was stachybotrys mold (25%-75%) in one apartment and a laundry facility, PHA maintenance undertook a thorough mold remediation project. The entire apartment complex was cleaned from top to bottom with a solution of fifty percent water and fifty percent bleach to "kill" the mold. Policies and procedures copied from the Department of Health and the State of New York were reviewed with PHA maintenance personnel. This training discussed with PHA employees included the use of HEPA mask, rubber gloves, cloth suits, and all required safety

equipment. The maintenance supervisor purchased the appropriate safety gear like masks with HEPA filters and provided instruction to maintenance staff on their use.

The painting contractor was informed of the required safety standards. When the maintenance supervisor made his inspection visits, he observed the contractor with gloves, cloth suits, and a mask. The contractor was informed repeatedly of the work safety standards. It was determined later the contractors were found to be working without the high efficiency masks.

It is the PHA's contention that the Cedar Crest Knickerbocker Apartments were free of mold prior to the work initiated by the painting contractor. Although the PHA informed the Contractor to comply with PHA policy to remediate any mold or mildew; we determined there was no mold for them to remediate. There is no DIRECT PROOF indicating or confirming the presence of mold at the time in question. Further, the investigator's photograph of "Cloth uniforms" that according to EPA policy should have been discarded in 6 ply plastic bags if in fact there would have been mold present: there is no current proof that there was any mold present when painting contractor undertook his repairs. In addition, the source of the photograph appears to be in question and the investigators did not provide any specific information concerning the time or source of the photograph. The PHA followed Department of Health and City of New York policy for remediation of mold.

Housing Authority did not perform its fiduciary responsibility during construction of the elderly duplexes.

The PHA respectfully disagrees given the contract administration hardship staff had to endure from the City's Department of Community Development. From the manufactured compliance issues to redundant request for information made the chance of error increase in the administration of the contract. PHA awarded contract administration to a professional firm to insure contract compliance with the city. We are pleased to know there was no compliance issue found with the City with respect to the duplex development.

Architect lacked knowledge on how to bid elderly duplexes.

The Architect had previous experience completing projects for the City of San Angelo and PHA staff determined the architectural firm could do a good job.

Housing Authority incurred unsupported construction costs.

The PHA will have an independent audit of all contractor draws and invoices to determine whether there is unsupported costs.

Board approved Building elderly duplexes at more than the available grant monies

The funds were donated to the construction from PHA reserves and approved by the Board.

Architect deleted duplex prior to board approval and receipt of revised bid.

PHA board was given options and dollar costs with four and five duplexes by the PHA Architect. The Board approved the construction of four and the negotiated bid.

Duplicate payments.

In conjunction with Item 1C referred to in the OIG's letter of 4-21-03 the PHA has paid the City of San Angelo the \$2,048. Centralized procurement function will insure this does not occur again.

Housing Authority tried to transfer ownership of the duplex.

The PHA has always provided technical support to local non-profits to access the HOME program funds. In an effort to assist a local community housing development organization (CHDO) build capacity, PHA as developer of the duplex under the HOME program can transfer the asset to CHDO. This is an eligible activity under the HOME program. The ICD Family Shelter was a qualified CHDO with the City. The staff informed the Board, City Council approval would be required when the negotiations were finished. Upon approval by the Board to sale the duplexes, negotiations would begin with the CHDO. PHA planned to sell the duplexes for the cost of the land investment. When "compliance" issues developed with the city, the duplexes were sold to the city. We are pleased the OIG did not find any compliance issues with respect to the HOME grant.

The attention paid to this transaction also highlights a concern of the PHA with the credibility of the report. When read by the public and/or other persons who are not familiar with transactions of this nature, the report clearly couches the transaction as improper. However, when questioned about the validity of this transaction at the interview, neither of the OIG's investigators could state that the PHA's actions in this context were wrong or improper. OIG's investigator, Ms. Graf commented that the transaction was included because it "might seem improper to the public". This comment and the circumstances of the report cause us to question why a valid and legal transaction was portrayed as something improper simply to raise suspicion, especially when the OIG's investigators agreed that it was not improper.

PHA never intended to build addition to family Investment center.

The PHA original plan was to develop office and warehouse space with the unused development funds. This was documented to HUD's Office of Public Housing and submitted in a budget revision to Ms. Barbara Sparks and Mr. Alex Juarez. When the staff and the Board identified an additional priority (additional space for childcare), the PHA obtained HUD specific approval to deviate from original plan. The Board and staff was firm in the development of the addition of the family investment center. When the bids came in at more than the authorized budget, it was reported to the Board and the Board approved to proceed with the original plan. HUD advised the Assistant Director that non-use of funds or unencumbered funds would be subject to recapture. The staff informed the Board of this notice from HUD personnel. Ms Sparks advised staff in order to complete the process for purchasing the building, she needed an appraisal and an environmental report completed on the site. The appraisal was completed and she offered Jeff Tripe with the Army corps of engineers HUD to complete the environmental report. A telephone call to Ms Sparks from the Assistant Director advised since we already had approval for a nondwelling structure no further approval from HUD was required. The PHA proceeded to close on the S. Chadbourne location. HUD approved the draw down of funds for the very purpose of building acquisition. The PHA engaged an architect to assist in the construction cost and feasibility analysis of a building to be used as an office and warehouse. In an effort to preplan, staff developed options and reliable cost data for the Board to determine if S. Chadbourne was feasible to renovate.

Preliminary fact finding meetings with previous building owners or their representatives led staff to believe the building could be economically renovated. Further discussion with M/T Architects, who completed some work for another client on the same building, determined it could be renovated within the budget presented. Upon this fact the PHA Architect for central office and warehouse was retained through a request for proposal process and retained by the Board to complete further costs and engineering studies. The structural engineer reports indicated more settlement occurred than previously thought and existing roof system was not engineered well. The cost estimates to stabilize and renovate the building were beyond PHA estimates. PHA then determined the building could be used only as warehouse space. The PHA set out to look for another site for a central office location.

Further investigation will require a review of email traffic between HUD and the Assistant Director. Because the PHA is required to obtain three bids on many purchases, we have not been able to have a computer hard drive removed so as to try and recapture emails sent to the HUD office. The emails could illuminate the PHA's position against OIG's finding. We will have this information available when the PHA meets with Ms. Eileen Rodgers, and Ms. Katie Worsham.

- 8 -

May 8, 2003

The Housing Authority of the City of San Angelo, Texas regrets the necessity of HUD's Office of Inspector General having to perform a review of the PHA. At the same time, we are relieved that the OIG's findings were not criminal in nature. The PHA also wishes to resolve the disputed issues through agreement with the Dept. of HUD on effective corrective actions to findings. We are also relieved that many of the allegations made by former employees were proven by the OIG to be nothing more than falsehoods. Upon receipt of the OIG's final letter the PHA will meet with Ms. Eileen Rogers, Director, Office of Public Housing in Fort Worth and to discuss any additional administrative actions and to determine compliance with OIG recommendations 1F and 1G of their April 21, 2003 letter

Thank you for your assistance in this matter, should you have any questions, call me at 915-481-2500.

Sincerely,



Alex Tafolla
Executive Director

Appendix C**DISTRIBUTION**

Alex Tafolla, Executive Director, Housing Authority of San Angelo, San Angelo, Texas

Rudy Izzard, Mayor, City of San Angelo, Texas

Congressman Stenholm, San Angelo, Texas

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