



Issue Date	September 8, 2004
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Audit Case Number	2004-PH-1011
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TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub,  
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*for J. Phillip Schiff*

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Petersburg Redevelopment and Housing Authority, Petersburg, VA, Did Not  
Follow Federal Procurement Regulations or Properly Manage HUD Funds

## **HIGHLIGHTS**

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

We completed an audit of the operations of the Petersburg Redevelopment and Housing Authority (Authority) in response to a citizen's complaint. The complainant alleged procurement irregularities, accounting problems, and overall mismanagement at the Authority.

Our audit objective was to determine if the Authority properly awarded contracts to its consultants and attorneys and whether it could support that it used HUD funds to meet its mission of providing safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia.

### **What We Found**

The Authority did not properly award contracts to its consultants and attorneys and it could not support that it used all HUD funds to meet its mission of providing safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia. We reviewed all payments the Authority made to consultants and attorneys from January 1998 to October 2003 in which it used federal funds, and found in all instances it violated federal procurement

regulations. Specifically, the Authority paid \$558,842 to four consultants and attorneys who were never awarded written contracts that specified the terms and conditions of the services they would be required to provide the Authority. It also paid another law firm \$324,074 under a contract that was never competitively bid to ensure it obtained the best value for those services. In addition, it could not provide required documentation such as invoices, receipts, cancelled checks and payroll records to substantiate how it spent \$1.9 million HUD provided it from December 1998 to May 2003. We estimate the Authority could put \$583,357 to better use annually by following federal procurement regulations and ensuring it supports its future costs.

### **What We Recommend**

We recommend HUD take appropriate administrative action against the Authority's former Executive Director and former Finance Director. We also recommend that it require the Authority to reimburse HUD \$2.8 million from nonfederal sources unless it can provide additional documentation to resolve the cited deficiencies. We further recommend that HUD periodically monitor the Authority to ensure it complies with federal regulations governing procurement and bookkeeping requirements in the future.

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

### **Auditee's Response**

We discussed the report with the Authority during the audit and at an exit conference on August 5, 2004. The Authority provided written comments to our draft findings on August 24, 2004. In its response, the Authority agreed it did not follow federal procurement requirements or its own procurement policy in its payments to consultants and attorneys. It also acknowledged it could not support the expenditures we reviewed from its own records and that it did not maintain complete and accurate books. However, the Authority stated that it has now instituted policies and procedures to preclude all of these problems from reoccurring. It also believes it can verify that it received satisfactory value from its consultants and attorneys, and is optimistic it will be able to support questioned expenditures by obtaining needed documentation from its contractors or other parties.

The complete text of the Authority's response can be found in Appendix B of this report.

## TABLE OF CONTENTS

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Background and Objectives	4
Results of Audit	
Finding 1: The Authority Improperly Paid \$882,916 to Consultants and Attorneys	5
Finding 2: The Authority Could Not Support Costs of \$1.9 Million	8
Scope and Methodology	12
Internal Controls	13
Appendixes	
A. Schedule of Questioned Costs and Funds Put to Better Use	15
B. Auditee Comments	16

## **BACKGROUND AND OBJECTIVES**

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The Petersburg Redevelopment and Housing Authority was established in 1968 to provide safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia. The Authority's mission is to serve its citizens by providing affordable housing opportunities in a safe environment, revitalizing and maintaining neighborhoods, providing opportunities for low- and moderate-income homeownership, and continuing an active partnership with the city of Petersburg. The City Council appoints a seven-member Board of Commissioners to govern the Authority. The current Board Chairman is Joseph Dickens. The current Executive Director is Julian Marsh. The Authority is located at 128 South Sycamore Street in Petersburg, Virginia.

The Petersburg Redevelopment and Housing Authority owns and manages 479 public housing units under its Consolidated Annual Contributions Contract with HUD. The Consolidated Annual Contributions Contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the agreement. HUD authorized the Authority the following financial assistance from Fiscal Years 1999 to 2003:

- \$5.3 million Operating Subsidy to operate and maintain its housing developments.
- \$4.3 million Capital Fund Program and Comprehensive Grant Program funding to modernize public housing units.
- \$12.7 million to provide housing assistance through tenant-based Section 8 certificates and vouchers.
- \$543,208 Public Housing Drug Elimination Program funds to eliminate or reduce drug related crime and other major crime and disorder problems.

This audit report is the second and final audit report on the Petersburg Redevelopment and Housing Authority that resulted from the aforementioned citizen's complaint. In our first report (Audit Case Number 2004-PH-1005, dated March 25, 2004) we identified \$1.9 million in questioned costs. Specifically, we noted the Authority improperly pledged assets to guarantee debt incurred by its nonfederal entities and paid salaries from federal funds for work its employees performed in support of its affiliated nonfederal entities. HUD agreed with our recommendations to require the Authority to withdraw its pledge of Consolidated Annual Contributions Contract assets and recover or repay improperly paid salaries estimated at \$620,236 from nonfederal funds. HUD also agreed that the Authority could more effectively utilize another \$1.3 million by removing and preventing improper loan guarantees and by ensuring it was properly accounting for work its employees performed for its affiliated nonfederal entities. This second report addresses the complainant's allegations of procurement irregularities, accounting problems, and overall mismanagement at the Authority.

## RESULTS OF AUDIT

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### Finding 1: The Authority Improperly Paid \$882,916 to Consultants and Attorneys

Our review showed that the Authority violated federal procurement regulations related to payments of \$882,916 it made to its consultants and attorneys from January 1998 to October 2003. This occurred because the Authority's former Executive Director erroneously believed the Authority was not required to follow federal procurement requirements for certain service contracts. Since the Authority did not follow federal or its own procurement policy, it did not ensure it properly used HUD funds to meet its mission of providing safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia.

Specifically, our audit showed the Authority violated federal procurement regulations by paying \$558,842 to four consultants and attorneys without awarding them contracts identifying terms and conditions of the services it would require them to provide. It also paid \$324,074 to a law firm without competitively bidding the contract to ensure it obtained the best value for the taxpayer. We estimate the Authority could annually put \$151,357<sup>1</sup> to better use by properly following its own established procurement policy. Although the Authority's annual financial audits identified similar problems in past years, its former Executive Director and Board of Commissioners did not take sufficient action to correct them.

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#### **The Authority Paid Consultants and Attorneys \$558,842 Without Issuing Contracts**

The Authority violated federal procurement regulations by paying \$558,842 to four consultants and attorneys, from January 1998 to October 2003, without competitively bidding the work or issuing written contracts for the services. This occurred because the Authority's former Executive Director did not believe the Authority was required to follow federal procurement regulations for certain services. However, the Authority is a recipient of federal funding, and therefore is in fact required to follow federal regulations<sup>2</sup> in regard to how it utilizes that funding. As such, it is required to conduct all procurement transactions in a manner providing for full and open competition. In addition, HUD's Procurement Handbook<sup>3</sup> specifically requires contracting officers to follow the Housing Authority's written procurement policy. In this regard, the Authority's

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<sup>1</sup> \$882,916/70 months reviewed = \$12,613 per month x 12 months = \$151,357

<sup>2</sup> Title 24 Code of Federal Regulations 85.36 (c)

<sup>3</sup> 7460.8, REV-1, paragraph 3-4 B

Procurement Handbook<sup>4</sup> contained its policy and it reinforced federal requirements by requiring it to competitively award contracts for professional services exceeding \$30,000. Since the Authority did not follow federal or its own procurement policy, it did not ensure it properly used HUD funds to meet its mission of providing safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia.

### **The Authority Paid \$324,074 for Legal Services Without Competing the Work**

The Authority violated federal procurement regulations by paying \$324,074 to another law firm from January 1998 to October 2003 without allowing other firms to bid for the work. Here again, this occurred because the Authority's former Executive Director did not believe she needed to competitively bid the services. As stated previously, federal regulations require the Authority to conduct all procurement transactions in a manner providing for full and open competition and the Authority's own procurement policy required it to competitively award all professional service contracts exceeding \$30,000. Since the Authority did not compete this work, it violated federal procurement regulations and its own policy. Since competition results in substantial savings, it did not ensure it efficiently used HUD funds to meet its mission of providing safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia.

### **Previous Independent Audits Noted Similar Procurement Problems**

In past years, other independent auditors reported similar procurement problems at the Authority. Nevertheless, as shown by our audit, these problems remain uncorrected. For example, the Authority's Certified Public Accounting firm reported in both Fiscal Years 2000 and 2001 that the Authority's staff demonstrated a lack of understanding of the Authority's procurement policy. The auditors further reported that the Authority did not follow proper procurement procedures such as ensuring that it competitively bid work. The independent auditors recommended that the Authority educate its employees on their obligations to abide by the Board's policies. Regrettably, as shown by our audit, the Authority's former Executive Director and Board of Commissioners did not take sufficient action to ensure this occurred.

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<sup>4</sup> Chapter 3, Section A (2)

## **HUD Monitoring Review Also Identified Procurement Problems at the Authority**

During the audit, we briefed officials from HUD's Virginia State Office on the problems identified in this finding along with other concerns we had regarding critical documentation we found missing from the Authority's contract files. HUD officials informed us they conducted their own review in May 2003. HUD's review noted the following similar problems:

- Files were missing documentation such as cost estimates, modifications, supporting documentation;
- Contracts did not exist or were not competed; and
- Existing contracts did not contain mandatory clauses to protect HUD's interests.

In its report, HUD's Virginia State Office required the Authority to submit a Corrective Action Plan addressing these issues. It also stated it planned to conduct a follow-up review regarding these issues in 2004.

## **Recommendations**

We recommend that HUD:

- 1A. Take appropriate administrative action against the Authority's former Executive Director based on issues identified in this finding.
- 1B. Require the Authority to reimburse HUD \$882,916 from nonfederal sources.
- 1C. Ensure the Authority's Corrective Action Plan adequately addresses the issues in this finding.
- 1D. Periodically perform reviews at the Authority to ensure it is complying with its Corrective Action Plan and following federal procurement regulations.
- 1E. Prior to hiring consultants and attorneys, require the Authority to furnish documentation to HUD showing it competitively awarded contracts as required, thereby putting \$151,357 to better use annually.



## Finding 2: The Authority Could Not Support Costs of \$1.9 Million

The Authority could not substantiate that it used \$1.9 million in HUD funds to meet its mission of providing safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia. This occurred because the Authority did not maintain accurate records or books of account to support the disbursements. Responsible managers at the Authority said they did not maintain the proper supporting documentation because their former Finance Director erroneously informed them that she was maintaining the documentation. We estimate the Authority could annually put \$432,000<sup>5</sup> to better use by ensuring its future costs are allowable, properly supported, and well documented. Although the Authority's annual financial audits identified similar problems in past years, its former Executive Director and Board of Commissioners did not take sufficient action to correct the problems.

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**The Authority Could Not Provide Adequate Records and Documentation to Support \$1.9 Million of Expenditures**

In performing our audit, we reviewed all documentation the Authority provided to support payments it drew down from HUD's computerized cash management system known as the Line of Credit Control system. We reviewed documentation such as accounting records, cancelled checks, payrolls, and time and attendance records. We selected 24 of 189 high value draw downs, totaling \$2.7 million out of \$5.6 million the Authority drew down from 1995 to 2003.

We found it could not support how it spent \$1.9 million of \$2.7 million (70-percent) of the disbursements audited. The Authority's Annual Contributions Contract<sup>6</sup> with HUD requires it to maintain complete and accurate books to facilitate timely and effective audits. Federal regulations<sup>7</sup> also require the Authority to maintain complete and accurate records identifying the source and application of grant funds such as cancelled checks, paid bills, payrolls, and time and attendance records. Office of Management and Budget Circular A-122<sup>8</sup> further requires the Authority to adequately document its costs under federal awards.

The Authority's managers told us that they did not have the required records and documentation because the Authority's former Finance Director erroneously told them she maintained the proper supporting documentation. The Authority was

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<sup>5</sup> \$1,943,993/54 months reviewed = \$36,000 per month x 12 months = \$432,000

<sup>6</sup> Part A, Section 15(A)

<sup>7</sup> Title 24 Code of Federal Regulations 84.20

<sup>8</sup> Attachment A, Paragraph A, Subparagraph 2.g.



required to use the unsupported \$1.9 million we reviewed mostly to modernize its public housing units. However, since the Authority did not maintain required documentation, the taxpayer has no assurance the Authority used federal funding in this manner, or to meet its overall mission of providing safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia.

### **The Authority Did Not Maintain Complete and Accurate Books**

The Authority's books were not complete, accurate, or prepared in a manner that would permit a timely and effective audit. We obtained an automated download of the Authority's general ledger for 2001 and 2002 and found the data was substantially unreliable. For example, debits and credits were significantly out of balance in both years. We found debits exceeded credits by \$4.9 million in Fiscal Year 2001, and by \$446,779 in Fiscal Year 2002. Accounting personnel stated they needed to make numerous adjustments, but could not adequately explain the large discrepancies. As stated previously, the Authority's Annual Contributions Contract<sup>9</sup> with HUD requires it to maintain complete and accurate books to facilitate timely and effective audits. Since it did not do so, the taxpayer has no assurance it efficiently used federal funding to meet its overall mission of providing safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia.

### **The Authority's Independent Auditors Also Reported Unsupported Costs and Inaccurate Books in Previous Audits**

In past years, the Authority's independent auditors also reported the existence of unsupported costs and inaccurate books at the Authority. Nevertheless, as shown by our audit, these problems remain uncorrected. For example, the Authority's Certified Public Accounting firm reported in Fiscal Year 2001 the Authority made an improper withdrawal of HUD funds. The auditors reported that in order to keep from losing funds at year-end, the Authority represented to HUD that it needed \$29,234 for construction related costs. However, the auditors reported the Authority did not expend the funds for that purpose. The independent auditors recommended that the Authority implement procedures to ensure it withdraws HUD funds only when its costs are allowable, properly supported, and well documented. In both Fiscal Years 2000 and 2001 the auditors also reported the Authority's inaccurate financial statements were caused by inadequate internal controls and control procedures. The independent auditors also noted questionable results of operations and prior period adjustments. As our audit

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<sup>9</sup> Part A, Section 15(A)

demonstrates, the Authority's former Executive Director and Board of Commissioners did not take sufficient action to ensure managers corrected these problems.

### **The Authority's New Leadership Is Attempting to Address the Problems**

In April 2003, the Board of Commissioners appointed a new Executive Director who inherited major challenges. However, the Authority has had difficulty recruiting and retaining a qualified Finance Director, and this has contributed significantly to its problems. The Authority has been operating without a Finance Director for the past year. It ultimately recruited and hired a candidate for the position in June 2004, and it now plans to hire another accountant. However, during 2002 and 2003, three different individuals held the position of Finance Director. The Authority removed one of those individuals from the position because of problems identified in its Fiscal Year 2000 financial audit. The next Finance Director served only six months. An individual who was also serving as Vice Mayor of Petersburg replaced her. This individual resigned in June 2003 because of apparent conflicts of interest identified in our previous audit report (Audit Case Number 2004-PH-1005).

Despite its personnel problems, we are encouraged that the Authority's current accounting staff and the newly appointed Executive Director expressed a sincere desire to correct the Authority's deficiencies.

### **Recommendations**

We recommend that HUD:

- 2A. Take appropriate administrative action against the Authority's former Finance Director and Executive Director based on issues identified in this finding.
- 2B. Direct the Authority to provide adequate documentation to support \$1,943,993 or reimburse HUD from nonfederal sources.
- 2C. Direct the Authority's Executive Director to certify on all drawdowns that costs are allowable, properly supported, and well documented, thereby putting \$432,000 to better use annually.
- 2D. Direct the Authority to take actions to ensure its books are complete, accurate, and prepared in manner that would permit a timely and effective audit.

- 2E. Periodically perform reviews at the Authority to ensure it maintains documents identifying the source and application of grant funds such as cancelled checks, paid bills, payrolls, and time and attendance records.

## SCOPE AND METHODOLOGY

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We performed the audit:

- From December 2003 through June 2004;
- In accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary under the circumstances; and
- At the Petersburg Redevelopment and Housing Authority located in Petersburg, Virginia.

The audit covered transactions representative of operations current at the time of the audit and included the period January 1998 to December 2003. We expanded the scope of the audit as necessary. We reviewed applicable guidance and discussed operations with management and staff personnel at the Petersburg Redevelopment and Housing Authority, and key officials from HUD's Virginia State Office.

To determine if the Authority properly awarded contracts to its consultants and attorneys and if it could support that it used HUD funds to meet its mission of providing safe and sanitary housing for the low-income citizens of the city of Petersburg, Virginia, we:

- Used audit software to identify and review all of the payments the Authority made to its consultants and attorneys from January 1998 to October 2003 from federal funds.
- Non statistically selected high dollar transactions drawn down by the Authority from 1995-2003.
- Used audit software to analyze the overall reliability of the Authority's General Ledger.
- Reviewed all documentation provided by the Authority to support its payments to consultants and attorneys and its draw down of funds from HUD's computerized cash management system known as the Line of Credit Control system. Documentation reviewed included available contracts, award documents, accounting records, cancelled checks, payrolls, and time and attendance records.
- Reviewed the Authority's available Independent Auditors' Reports for Fiscal Years 2000 and 2001.
- Reviewed HUD and Authority correspondence related to the audit, and results of the monitoring reviews HUD's Virginia State Office conducted.

# INTERNAL CONTROLS

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

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

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

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## Relevant Internal Controls

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

- Conducting all procurement transactions in accordance with federal procurement regulations and in a manner providing for full and open competition,
- Maintaining complete and accurate records identifying the source and application of grant funds to include cancelled checks, paid bills, payrolls, and time and attendance records, and
- Maintaining complete and accurate books to facilitate timely and effective audits in accordance with the Authority's Annual Contributions Contract with HUD.

We assessed the relevant controls identified above.

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

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

The Authority did not:

- Conduct procurement transactions in accordance with federal procurement regulations and in a manner providing for full and open competition (Finding 1).
- Identify the source and application of grant funds to include cancelled checks, paid bills, payrolls, and time and attendance records (Finding 2).
- Maintain complete and accurate books to facilitate timely and effective audits in accordance with the Authority's Annual Contributions Contract with HUD (Finding 2).

# Appendices

## Appendix A

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

Recommendation Number	Ineligible 1/	Unsupported 2/	Unreasonable or Unnecessary 3/	Funds Put to Better Use 4/
1B	\$882,916			
1E				\$151,357
2B		\$1,943,993		
2C				\$432,000
Total	\$882,916	\$1,943,993		\$583,357

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

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

3/ Unnecessary/Unreasonable costs are those costs not generally recognized as ordinary, prudent, relevant, and or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

4/ Funds Put to Better Use are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, de-obligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.



**AUDITEE COMMENTS**

**Auditee Comments**



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August 24, 2004

Mr. Daniel G. Temme  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Wanamaker Building, Suite 1005  
100 Penn Square East  
Philadelphia, Pennsylvania 19107-3380

Re: Draft Audit Report dated July 30, 2004

Dear Mr. Temme:

The above referenced report has been reviewed by the management of the Petersburg Redevelopment and Housing Authority ("PRHA"). In response to the proposed findings in the Report, we ask that you consider the following:

**Finding 1:**

**The PRHA Improperly Paid \$882,916 to Consultants and Attorneys**

**The Authority Paid Consultants and Attorneys \$558,842 Without Contracts**

PRHA agrees that federal procurement regulations and its own procurement policy were not followed when contracting with four consultants and attorneys from January 1998 to October 2003. The Authority realizes that these expenses are considered ineligible under federal procurement regulations. PRHA does believe, however, that the services received were satisfactory and that the expenses incurred were reasonable compared to the fees charged by other qualified service providers. The Authority is now in the process of verifying that the costs incurred were reasonable. That analysis will be submitted to HUD for consideration.

PRHA has instituted policies to assure that proper procurement procedures are followed in the future. HUD representatives are contacted prior to executing any contracts, where federal funds will be expended, to assure that the procurement is proper. Additionally, the staff has been trained in proper procurement practices.

**PRHA Improperly Paid \$324,074 to Attorneys Without Allowing Other Law Firms to Compete for the Work**

Similarly, federal funds were expended without following applicable federal procurement regulations and PRHA's own procurement policy. With representatives from HUD reviewing its procurement of legal services during the spring of 2004, PRHA has now properly procured legal counsel.

Even though prior legal services were not procured properly, PRHA believes that value was received. An analysis of the fees paid during the period in question will be performed to determine if they were comparable to the fees charged by other law firms qualified to perform the work requested by PRHA. That analysis will be submitted to HUD for consideration upon completion.

**Finding 2:  
PRHA Could Not Support Costs of \$1.9 Million and Did Not Maintain Accurate Books**

**The Authority Could Not Support Expenditures of \$1.9 Million**

Because PRHA could not support certain expenditures from its own records, PRHA is seeking to reconstruct its files by obtaining duplicate copies of documents from contractors and other parties. PRHA is optimistic that the documents requested by HUD will be located and, when submitted to HUD, will satisfy the cited deficiencies.

**PRHA Did Not Maintain Complete and Accurate Books**

PRHA concurs, generally, with these findings. The deficiencies have been addressed, however. A new auditing firm has been procured, and the audit for the year ending December 31, 2003 will be completed well ahead of the required date of September 30, 2004. We expect another satisfactory audit. In addition, the long-vacant position of Director of Finance has been filled.

Page 3

Re: Draft Audit Report dated July 30, 2004

**PRHA Did Not Maintain Complete and Accurate Books (cont)...**

PRHA has taken significant strides to improve its record keeping, including setting up a central file room and keeping the financial records locked with access restricted. The file room is controlled by the Director of Finance who has oversight for the organization and maintenance of all financial records.

Sincerely,

A handwritten signature in cursive script that reads "Julian Marsh".

Julian Marsh  
Executive Director