AUDIT REPORT

THE CITY OF LITTLE ROCK
HOUSING AUTHORITY

PROCUREMENT AND ASSET CONTROL

LITTLE ROCK, ARKANSAS

2004-FW-1001

January 26, 2004

OFFICE OF AUDIT, REGION 6
FORT WORTH, TEXAS

Issue Date
January 26, 2004
Audit Case Number
2004-FW-1001

TO: Jesse Westover
Director, Public and Indian Housing, 6FPH

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

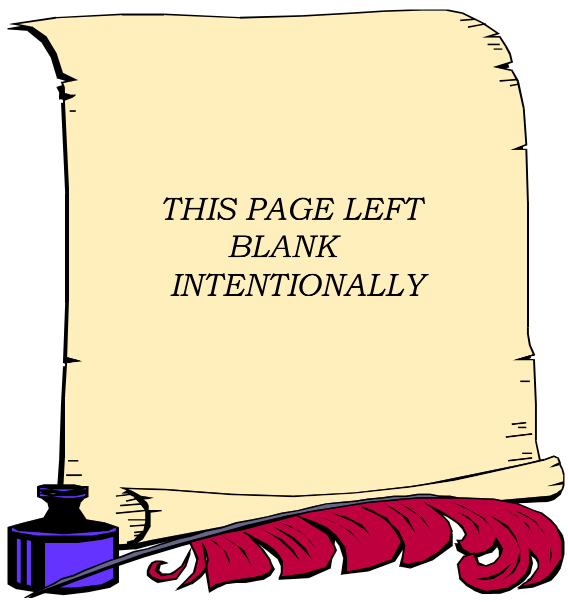
SUBJECT: The City of Little Rock Housing Authority
Procurement and Asset Control Audit
Little Rock, Arkansas

We performed an audit of the City of Little Rock Housing Authority (Authority). The purpose of the audit was to determine whether the Authority maintained adequate controls over cash and procurement. Specifically, we determined whether the Authority: (1) expended funds for eligible activities; (2) accounted for collections and deposits; and (3) complied with federal and Authority procurement requirements. We expanded the audit to include observations of units and interviews with residents to determine the adequacy of the condition of the units.

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

In accordance with HUD Handbook 2000.06 REV-3, within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued related to the audit.

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


THIS PAGE LEFT
BLANK
INTENTIONALLY

Executive Summary

We performed an audit of the City of Little Rock Housing Authority (Authority). The purpose of the audit was to determine whether the Authority maintained adequate controls over cash and procurement. Specifically, we determined whether the Authority:

(1) Expended funds for eligible activities;
(2) Accounted for collections and deposits; and
(3) Complied with federal and Authority procurement requirements.

We expanded the audit to include observations of units and interviews with residents to determine the adequacy of the condition of the units.

Authority had inadequate controls over procurement and assets.

Generally, the Authority lacked sufficient controls and management over its procurement process and assets. Of 11 non-representatively selected contracts reviewed, the Authority did not always adhere to procurement requirements. This resulted in sole-source contracts, not approved by HUD, resulting in $228,211 in unsupported payments. Because of the Authority's actions, the Authority did not know if it received the best price and performance under these contacts.

The Authority needs to improve the conditions of some sites. Maintenance throughout the Authority managed units appeared slow or non-existent. Needed maintenance included: demolition of units not viable to rehabilitate; routine repairs; maintenance of common areas, and improved security.

Further, the Authority did not develop and implement written policies and procedures for disbursements to ensure its funds were properly expended or assets were properly utilized. Further, the Authority's audits were not completed timely as required by OMB Circular A-133 for Fiscal Years 2000 and 2001 and the audits did not disclose identity-of-interest issues with related not-for-profit entities. These entities paid a total of $20,000 to the Executive Director and the Deputy Director.

Recommendations

We recommend the Authority ensures it adheres to its procurement policy; support or repay any amounts that it paid in excess of reasonable costs; and re-procure the contracted services. We recommend the Authority promptly identify and correct maintenance deficiencies.

We are also recommending the Authority implements the necessary policies to correct the deficiencies.

We provided a discussion draft to the Authority on October 9, 2003. We held an exit conference with the Authority and its attorneys on November 5, 2003. After incorporating some changes into the report, we provided the Authority a final draft on November 20, 2003. The Authority provided written comments on December 10, 2003. Generally, the Authority disagreed with the findings. The Authority believes some statements in the report are misleading and without merit. The Authority highlighted some of its accomplishments that it felt we had not recognized. The Authority had some positive responses to the recommendations. We have included the Authority's entire response as Appendix C. We considered the Authority's response in preparation of our final report and amended as necessary.

Table of Contents

Abbreviations

ACC	Annual Contributions Contract
Authority	City of Little Rock Housing Authority
CFR	Code of Federal Regulations
FHA	Federal Housing Administration
GAAP	Generally Accepted Accounting Principals
HUD	Department of Housing and Urban Development
LOCCS	Line of Credit Control System
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PIC	PIH Information Center
PIH	Public and Indian Housing
PASS	Physical Inspection Assessment Subsystem
QASS	Quality Assurance Subsystem
RAB	Resident Advisory Board
REAC	Real Estate Assessment Center
RFP	Request for proposal

Introduction

Background

The City of Little Rock created the Housing Authority of the City of Little Rock (Authority) in 1940. The Mayor of Little Rock appointed the first Board of Commissioners (Board) for the Authority. After the initial appointment, the Board members approve subsequent changes in the Board's composition. Each Commissioner serves a 5-year term with one term expiring each year. Currently, Wooten Epes serves as the Board Chairman.

The Board is responsible for setting policy and appoints an Executive Director to administer the day-to-day operation of Authority programs. In 1993, the Board appointed Lee Jones as Executive Director to manage the Authority including its existing 1,600 low-income units.[1]

As of January 13, 2003, the Authority managed 1,136 Public Housing low rent units at ten sites.[2] The Authority directly managed 999 of the Public Housing low rent units. McCormack Baron, Inc. managed 137 low-income units located in mixed finance developments. However, the Authority is still responsible for the administration of the 137 units. We limited the scope of our audit to only the administration and management of the 1,136 low rent units.

The Public Housing low-income properties are disbursed throughout ten developments as follows:

1 According to the Executive Directors, the Authority administered 900 Section 8 vouchers when he arrived and the Authority had 439 vacant units.

2 As of January 13, 2003, the Authority administered 2,025 Section 8 vouchers. We did not include the administration of these units in our audit. Based upon low SEMAP scores, it appears that the Authority has problems managing its Section 8 program, also.

Development	Number of Authority Units	Type of Units
Sunset Terrace	**74**	**Family w/ Disability Access**
Amelia B. Ives Homes	**50**	**Family w/ Disability Access**
Amelia B. Ives Homes	**100**	**Family w/ Disability Access**
Hollinsworth Grove	**180**	**Family/Designated Elderly/Disability Access**
Fred Parris Towers	**249**	**Elderly/Handicap**
Cumberland Towers	**178**	**Elderly/Handicap**
Jesse Powell Towers	**168**	**Elderly/Handicap**
Madison Heights, Phase I	**59**	**PH/Mixed Finance Development/ Privately Managed Property**
Madison Heights, Phase II	**38**	**PH/Mixed Finance Development/ Privately Managed Property**
Homes at Granite Mountain	**40**	**PH/Mixed Finance Development/ Privately Managed Property**
Total	1,136	

The Authority has accumulated a considerable amount of unexpended funds. As of January 13, 2003, the Authority received and disbursed funds from HUD in the amount of: [3]

Program	Funds Authorized	Funds Disbursed	Available Balance
Capital Fund Program[4]	$8,214,235	$1,795,103	$6,419,132
Comprehensive Grant Program	793,904	0	793,904
Drug Elimination Grant Program	601,965	378,022	223,943
Operating Fund	318,325	81,814	236,511
Public Housing Development Grants	8,531,280	8,039,277	492,003
Resident Opportunity & Self Sufficiency[5]	200,000	0	200,000
Urban Revitalization Program (HOPE6)	1,669,261	1,366,749	302,512
Totals	**$20,328,970**	**$11,660,965**	**$8,668,005**

3 This included the Authority's open grant funds available for the low-income housing between 1995 and 2002. It did not include Section 8 funds or grant programs that the Authority completed.

4 Approximately $3.6 million is reserved for the construction of replacement housing.

5 According to the Authority, this amount was not available to them until December 18, 2002.

HUD designed the Capital Fund and Comprehensive Grant Programs to improve or expand public housing. As the above chart shows, the Authority has a combined $7.2 million[6] in unexpended funds to improve or expand its public housing stock. These funds have been accumulating since 1999. Current HUD guidelines allow for this accumulation of funds.

The Authority received 26 out of 30 on its 2002 PASS REAC[7] score or equivalent to 87 percent. Based upon conclusions reached in Finding 2 and the Authority's acknowledgment of the age of the developments and the documented need for $14 million in physical rehabilitation, this score appears inflated. The total REAC score for fiscal year 2002 was 55 out of 100. HUD considers a housing authority "troubled" if it scores less than 60.

The Independent Auditors reported significant findings to the Authority.[8] Commendably, the Authority has addressed and resolved many of the findings, but the Authority still needs to improve. However, HUD's Real Estate Assessment Center (REAC) performed a verification review of the 2001 Independent Auditors' report. HUD REAC's review identified material weaknesses and / or reportable conditions that the Independent Auditor's report did not disclose.

The Authority has established an identity-of-interest nonprofit.

The Authority has an identity-of-interest nonprofit, Little Rock Housing Redevelopment, Inc. (Housing Redevelopment), that the Authority appointed to develop Madison Heights III, a mixed finance community.

While the Authority originally attempted procurement of this contract,[9] Housing Redevelopment's attorney claims that the Authority did not need to procure a developer because it hired itself through the identity-of-interest firm

6 $793,904 + $6,419,132 = $7,213,036.

7 HUD's Real Estate Assessment Center (REAC) performs annual assessments of housing authorities. Assessments are conducted with both internal and external resources and are intended to measure the following: federal statutory and regulatory compliance, physical housing condition, housing management, financial condition, and resident satisfaction. The Physical Inspection Assessment Subsystem (PASS) assesses the condition of HUD properties through annual inspections conducted by contract inspectors.

8 The fiscal year 2000 and 2001 independent audit reports listed 13 and 5 findings, respectively. Both reports contained a qualified opinion due to the Authority's non-compliance with federal requirements.

9 Originally, we reviewed this transaction as procurement and determined the Authority limited competition and effectively sole-sourced the award to the nonprofit. Based upon the exit conference with the Authority and attorneys, we removed it from the procurement conclusions.

of Housing Redevelopment. According to Housing Redevelopment's attorney, Housing Redevelopment uses Authority offices rent-free.[10]

The Authority maintains its financial records at its administration office located at 1000 Wolfe Street, Little Rock, Arkansas, and its procurement records at its Technical Services building located at 201 E. Roosevelt Road, Little Rock, Arkansas.

Audit Objective and Scope

Our overall objective was to determine whether the Authority maintained adequate controls over accounts payable, cash collections, disbursements, receivables, and procurement. Specifically, we determined whether the Authority:

1. Followed requirements in its procurement and contracting activities and
2. Followed requirements over cash collections and receivables and over cash disbursements and accounts payable.

Based upon a cursory observation of the Authority's sites, we expanded our initial scope to include a determination of whether the Authority's public housing units appeared to be maintained in a decent, safe, and sanitary manner.

To accomplish the objectives, we:

- Reviewed relevant HUD regulations and guidelines and the available Annual Contributions Contract;
- Reviewed relevant Arkansas State Statutes;
- Examined records maintained by the Authority;
- Reviewed the Authority's accounting records;
- Reviewed a non-representative selection of contracts;
- Analyzed the Authority's computer information using computer assisted auditing software;
- Interviewed HUD officials, Authority personnel, and residents;
- Observed and photographed resident units; and
- Reviewed the minutes of the Board of Commissioners' meetings.

---

[10] We removed the procurement of Housing Redevelopment from Finding 1 but discuss Housing Redevelopment in Finding 3.

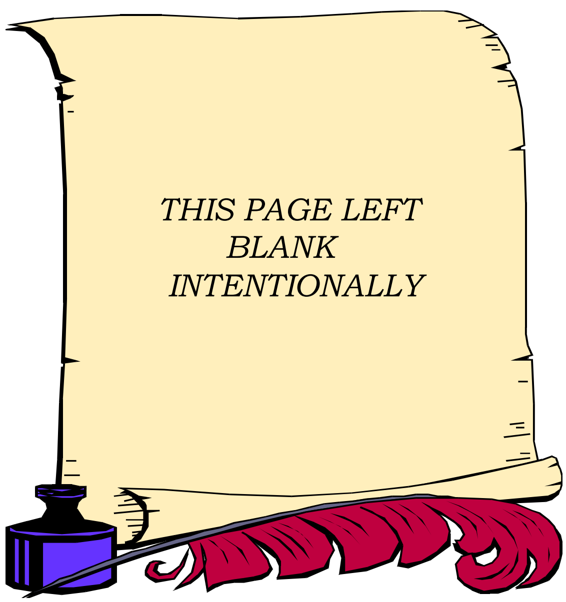
To determine if the Authority met the objectives, we took non-representative selections of contracts[11] and disbursements, interviews with residents, and observation of units.[12] While not able to extrapolate to the population, we believe our selections do provide sufficient evidence to support our conclusions.

Throughout the audit, we reviewed various computer-generated data. Specifically, using computer-assisted auditing software we analyzed, assessed, and evaluated the Authority's financial records. In addition to using computer software including ACL and Excel, we assessed the data by comparison with paper records, i.e. the data showed numerous missing checks but a manual comparison to bank statements showed many of the checks were not missing. We determined the cause of this was that the data was not formatted consistently. In another example, the Authority's contract register was determined incomplete. Therefore, we could not satisfy ourselves that these records were complete and accurate. We concluded that the data had an undetermined reliability. We did not assess other computer-generated data.

We conducted our fieldwork between January and June 2003. Our audit period generally covered the period from January 1, 2001, through December 31, 2002, with the scope expanded as necessary.

We conducted the audit in accordance with generally accepted governmental auditing standards.

[11] Because the Authority did not have an accurate contract register, it did not know how many contracts it had during the audit period.
[12] See listing of properties and number of units on page 2 for the universe.


THIS PAGE LEFT
BLANK
INTENTIONALLY

The Authority Needs to Strengthen its Adherence to Procurement Requirements

Of 11 non-representatively selected contracts reviewed, the Authority did not adhere to procurement requirements in two instances. Violating procurement requirements, the Authority sole-sourced the John D. Blake & Associates ($204,211) and Senior Citizens Activities Today (SCAT) ($24,000) contracts. Both federal and Authority requirements prohibit sole-source contracts unless the Authority met certain conditions. As a result of the Authority's actions, the Authority did not know if it received the best price and performance under these contracts. The Authority should ensure that it adheres to its procurement policy; support or repay any amounts that it paid in excess of reasonable costs; and re-procure the contracted services.

The Authority was required to provide full and open competition.

In accordance with Authority policy and HUD requirements, the Authority was required to promote full and open competition for all procurement contracts. Requirements only allow procuring goods and services non-competitively "when the award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals and one of the following circumstances applies: the item is available from a single source; emergency; competition determined inadequate; and HUD authorizes the noncompetitive proposals."[13]

The Authority has been previously informed of procurement violations and in 2000, the *Arkansas Democrat-Gazette* detailed procurement problems with a plumbing contractor. The Authority did have a procurement policy that complies with HUD requirements; however, it was not adhered to in these two instances. The Authority should ensure that all procurements follow the federal procurement policy and its own procedures.

To determine if the Authority followed procurement requirements, we reviewed the disbursement file to determine a non-representative selection of contracts. We used this method because the Authority's contract register was incomplete.[14] In reviewing the disbursement file, we

[13] 24 CFR 85.36.

[14] As a result, the Authority did not have a complete listing of contracts and the universe of contracts was unknown. The Authority's listing only contained 41 contracts for the period.

noted large payments[15] and smaller recurring payments.[16] This resulted in selecting eight contracts. We selected the remaining three contracts based on suggestions.

The Authority sole-sourced computer consultant.

Since 1995, John D. Blake & Associates (Blake) have been computer consultants for the Authority. The Authority used Blake's consulting services on the Authority's computer software, Emphasys Computer Solutions (ECS). The services provided include assisting the Authority in: custom report requirements, training and keeping their work order history file functional, yearend closings for Section 8 and financial accounting, and designing yearend accounting database balance reports. Blake also reviews the software quarterly and updates it as needed.

A written contract did not exist between the Authority and Blake. Furthermore, the Authority did not have any procurement documentation such as advertisements, bids, and work specifications. Despite the lack of a contract and documentation, the Authority continued to pay Blake. In 2001 and 2002, the Authority paid Blake $78,121 for consulting services and lodging for the consultant.[17] Since 1995, the Authority has spent $204,211 on consulting services from Blake.

Without a written contract, the Authority should sever its current relationship with Blake. The Authority needs to follow requirements when procuring for a computer consultant including precise work specifications, price/cost analysis, advertising, evaluating proposals, and monitoring contractor performance.

The Authority continually renewed a resident services contract since 1976.

The Authority originally contracted with Senior Citizens Activities Today (SCAT) in 1976 and has continually renewed it without procurement. SCAT's main purpose is providing recreational services to the seniors[18] of the Authority's three high-rise buildings. Examples of recreational services include weekday lunches, bingo, movies, and crafts. In addition to providing recreational services, SCAT manages the vending machines, washers, and dryers in the high-rise developments. SCAT receives

15 Consisting of $20,000 or more.
16 Consisting of $1,000 - $20,000.
17 Includes travel expenses of $2,270.
18 SCAT is open to all high-rise residents, regardless of age, for a small membership fee.

all profit from these machines. Further, SCAT received rent and utilities free of charge.

According to the files, the only amendment to the contract was dated 1980. It did not appear the Authority attempted to procure or justify the costs paid to SCAT since 1976. The Authority paid SCAT $24,000 during 2001 and 2002.[19]

The Executive Director stated the reason why the Authority has not procured this service was because there wasn't a 'good alternative.' Further, the Executive Director believed that SCAT leverages other funds so the Authority residents receive much more value than what the Authority paid. Nonetheless, the Authority needs to support its position by either performing a cost analysis or by soliciting proposals. Also, HUD's guidance[20] stated the Authority must submit any professional service contracts to HUD if the term of the contract, including renewals or options, exceeded 2 years.

Overall, the Authority did not procure 2 out of 11 contracts properly. The Authority improperly entered into sole-sourced contracts. Further, in one instance, the Authority did not have contracts. The Authority did not know if it received the best price or services. Also, the Authority needs to ensure that its contract register is complete and accurate.

Auditee Comments

In its response, the Authority agreed to take actions to implement the recommendations. The Authority expressed confidence that it could support the questioned costs. The Authority stated it administered approximately 100 contracts during this period and did not believe two failures were unreasonably high.

OIG Evaluation of Auditee Comments

We commend the Authority for acknowledging the procurement problems and agreeing to take positive actions to correct the problems. As stated in the body of the finding, the Authority's contract register only listed 41 contracts as opposed to the 100 cited in the Authority's response. From the 41 contracts, we reviewed 11 or 27 percent of the

[19] This did not include the rent, utilities, or profit from vending machines.
[20] HUD Handbook 7460.8 4-27 B.2.

contracts provided. The two contracts cited represent 19 percent of the contracts reviewed.

Recommendations

We recommend the Director of the Little Rock Office of Public and Indian Housing require the Authority to:

1A. Adhere to the Authority and HUD procurement requirements.

1B. Sever its existing relationship with Blake.

1C. Support or repay the $204,211 paid to Blake for consulting services and lodging.

1D. Determine its needed computer services and properly procure the services.

1E. Support or repay the $24,000 paid to SCAT since 2001.

1F. Determine the recreational services needed and properly procure.

1G. Ensure it has written contracts.

1H. Ensure its contract register is current and accurate.

Some Authority Sites Appeared in Poor Condition

Based upon observations of the Authority's units' exterior and interviews with 25 residents,[21] the Authority units appeared to be in poor condition.[22] The observations of needed maintenance included:

- **Demolition of units not viable to rehabilitate;**
- **Secure vacant buildings;**
- **Routine repairs to and repainting of units per tenant requests;**
- **Treatment for insects;**
- **Replace smoke detector batteries;**
- **Replacement of air conditioning filters;**
- **Clean common areas; and**
- **Improve security.**

Several buildings have been burned out and uninhabitable for over 2 years at Hollinsworth Grove and Amelia B. Ives complexes. Maintenance throughout the Authority managed units appeared to be slow or non-existent. In addition, residents believed security was poor in the high-rise properties. The units managed by McCormack Baron have minor problems as compared to the properties managed by the Authority, albeit, the McCormack Baron properties are new as compared to the older properties managed by the Authority. A comparison between the properties would not be appropriate. The Authority should develop a schedule for routine maintenance and make every attempt to keep the schedule. The Authority needs to demolish the units not viable for rehabilitation and rehabilitate the units that can be future homes for families. Although the Authority cannot make every resident "feel" secure or even have residents report all the maintenance needs, the Authority needs to be aware of the residents attitudes and communicate the Authority's actions and if necessary, the facts about the maintenance and security of the sites.

The Authority contracted to provide safe, decent, and sanitary housing.

The Authority contracted with HUD to: *"…at all times develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects, and the economic and social well-being of the tenants."*[23]

[21] Non-representative selection.
[22] To determine if the Authority met this objective, we took a non-representative selection of residents to interview and units to observe. While not able to extrapolate to the population, we believe our selections provide sufficient evidence to support our conclusions.
[23] Mission Statement 4, Consolidated Annual Contributions Contract with HUD, dated December 15, 1995.

Some sites are in poor condition.

Some of the sites the Authority manages appear to be in poor condition. The family units range from clusters of duplexes to one- or two-story apartment style residences located in complexes named Amelia B. Ives, Hollinsworth Grove, or Sunset Terrace. The Authority's units were built in the early 1940s through the early 1950s. Sunset Terrace has 74 units and Amelia B. Ives has 150 units. The Authority has designated both as "Family w/Disability Access." Hollinsworth Grove, consisting of 180 units, is designated "Family/Designated Elderly/Disability Access." Residents complained of the lack of routine maintenance and the Authority's slow or lack of response to requests for repairs. The exterior of the properties supported the residents' statements. The Authority needs to perform the necessary repairs to ensure the units meet HUD's decent, safe, and sanitary housing standards.

Hollinsworth Grove.

Hollinsworth Grove, built in 1952, appears to be a severely distressed development that suffers from obvious neglect. Located between the Little Rock International Airport and the Arkansas River, the majority of the units are single story. A few buildings had a second story added with siding and flat roofs. A visual inspection of the exterior of the units revealed apparent major problems with the maintenance of the development.

Hollinsworth Grove has needed rehabilitation for several years. For example, severe fire damage to several buildings prevented their use and posed a safety hazard for the remaining residents. Additional buildings were uninhabitable because of a lack of general maintenance or repair. The neglected buildings were disbursed throughout the development. Three attempts to speak to the site manager were unsuccessful due to a closed office during business hours.[24] The residents had no apparent means to resolve problems on-site with the lack of site manager availability.

The following pictures were taken at Hollinsworth Grove showing examples of abandoned buildings throughout the development.

[24] The site manager was contacted on April 2, 2003.

Picture 1 This building consists of four units. Note the missing windows and screen on the second floor and graffiti covered exterior.

Picture 2 This picture shows fire damage at the opposite end of the same building.

At the time of the picture, the Authority had not secured this fire-damaged building, i.e. boarding up the units. By not securing the building, the Authority exposed the building to additional damage from the elements and vandals. The building posed a sanitary and safety issue to the residents living in Hollinsworth Grove.

An additional example at Hollinsworth Grove was an occupied unit and another abandoned building as its neighbor. In Picture 3, note the occupied building in the foreground and the abandoned building behind it. The abandoned building has a chain link fence around it but that has done little to deter entry into the unit as evidenced by the fence being bent in several places where it has been compromised.

Picture 3

The Authority has known about the conditions at Hollinsworth Grove since 2001. In 2001, the Authority wanted some Hollinsworth Grove units demolished. The Authority solicited contractors to demolish and restore the site of Booker Homes and demolish three units at Hollinsworth Grove. In August 2001, the Authority elected not to proceed with the demolition of the three units at Hollinsworth Grove.[25] The bid amount of $35,000 was deducted from the contract and the buildings remain. The Authority stated HUD had not approved its demolition application. The Authority should demolish buildings not

[25] Change order number 7 to the Authority's Contract 1139 dated August 20, 2001, with Jimmy A. Patton Contractor, Inc.

viable for rehabilitation and secure and rehabilitate those viable buildings.

Amelia B. Ives.

Amelia B. Ives appeared only marginally better than Hollinsworth Grove. It also has several buildings not fit for habitation. The Amelia B. Ives development consists of 150 units that were built over 50 years ago. The appearance of many of the units is poor. Of the 150 units, several were boarded or needed demolition and/or rehabilitation. For example, one unit is missing approximately 50 percent of its brick at one end. A two-story building, Picture 4, and a one-story building, Picture 5, had obvious fire damage. Unlike the units shown at Hollinsworth, the Authority did board up the lower and upper floor windows limiting the exposure to the elements and vandals.

Picture 4

Picture 5 – Note the weathered appearance of the plywood boarding the windows.

As with Hollinsworth Grove, the damaged properties at Amelia B. Ives appear to have needed repair or demolition for some time.

Residents cannot get Authority to maintain property.

In addition to the poor exterior maintenance of buildings in the development, interior condition appeared poor. For all of the Authority's sites, 25 residents were interviewed.[26] Two residents living in Hollinsworth Grove had concerns with the management of the development. An elderly resident of Hollinsworth Grove presented the more serious concerns. She reported extensive termite damage in her unit and a lack of routine maintenance despite repeated requests to management (see Picture 6).

[26] A non-representative selection.

Picture 6

The resident also had a bullet hole in her front screen door. A repair was observed in the main door behind the screen in the bullet's trajectory (see Picture 7). The resident said she was in the kitchen at the time of the gunshot and thankfully, did not get hurt.

Picture 7

A resident at the Amelia B. Ives development also expressed problems with termites. According to the resident, she called the Authority's maintenance department numerous times but the Authority has not dispatched an exterminator. The resident said the Authority told her to use dish soap to get rid of the termites. Also, her sink is pulling away from the wall. Despite several calls to maintenance repair, no one has come. The approximately ½" gap between the sink and wall is shown in Picture 8:

Picture 8

Another resident at Amelia B. Ives reported that she could not get a hole repaired in her floor (see Picture 9). She has also requested paint for some wall patches in her living room. According to the resident, these existed when she moved into the unit. The resident has been unsuccessful in persuading the Authority to make the needed repairs.

Picture 9

General maintenance appears poor in the high-rise developments.

The high-rise developments had problems with both security issues and maintenance problems. The Authority managed three high-rise buildings, Fred Parris Towers, Cumberland Towers, and Jesse Powell Towers. All the high-rises were built in the mid-1970s and were designated as Elderly/Handicapped units. It appeared the Authority did not perform routine maintenance at the high-rises.

Parris Towers.

To illustrate the need for routine cleaning and maintenance at Parris Towers, Picture 10 shows the laundry room air conditioning vent on the ninth floor.

Picture 10

All three of the high-rises had similar general maintenance issues in their common areas. The residents also complained of dirty elevators and lobbies.

Four residents were interviewed at Parris Towers and two of the four expressed concern about their safety in the building. One was so frightened of other residents "hassling" her; she answered her door with a knife in hand. She quickly apologized and put it away but reported to us that there were "outlaw folks" in the building and she needed to protect herself. Another resident said she felt the Authority was just pulling people off the street without any background check. Another resident interviewed stated he has developed a "thick skin" and did not let the other residents bother him. He did not know where he could live for the amount of money he pays in rent so he had to stay.

Cumberland Towers.

Of seven residents interviewed at Cumberland Towers, each complained about the "new" people coming to the building to live. One tenant reported an attack on a friend in the elevator the night before. She would not report the attack because the other resident would hurt her worse.[27] Another said she did not like the Authority letting dope addicts and drunks live

[27] Other than communication of the policy and taking corrective action when brought to the Authority's attention, OIG does not have a recommendation to correct residents not reporting maintenance problems or crime.

with the elderly. When they get drunk and "stuff" they pick on the other residents. Another resident agreed with the other residents that more security was needed as well as a site coordinator that could manage the building. He feared the drug addicts from Flower Square were moving into the building and he did not want to live where guns are going off down the hall.

The longtime Cumberland residents said serious problems with security and maintenance have developed within the last couple of years. They reported that the fire alarm goes off accidentally so often that they ignore it. According to a resident, most of the residents were old and frail they can't walk down the stairs once, much less several times a day or week.

Powell Towers.

Of four residents interviewed at Powell Towers, three expressed concern for their safety. One resident lived in the high-rise for many years and explained it was not an elderly development anymore. When she moved in, it was the nicest low-income property in the City but in the last 2 years most of the "new tenants" are middle-aged men with drug problems. Coupled with the "new tenants," the residents interviewed noted a severe decline in maintenance. Residents stated their complaints directly to the Executive Director of the Authority had been ignored.

Overall tenant dissatisfaction with Authority maintenance.

The Resident Advisory Board for the properties also expressed their dissatisfaction with maintenance in particular. Some Board members felt routine maintenance would prevent problems. For example if air filters were replaced routinely, the air conditioning systems in the high-rise properties might run more efficiently and break down less. In addition, the dirty air causes health problems for some of the residents. The less frequent calls for repair would save the Authority money in the long run. Another concern was pest problems. Residents didn't feel that the Authority was doing everything it could to prevent pests. The residents explained that contacting the Executive Director did not help.

Dissatisfaction for maintenance and safety was evident in all Authority controlled developments. Overall, of 22 residents interviewed,[28] 77 percent were dissatisfied with maintenance and 59 percent were concerned for their

[28] Three residents interviewed live in McCormack Baron managed properties.

safety. These numbers are significant and indicate a need for management to address the issues.

The Authority was aware the elderly residents fear the disabled residents, as they were sometimes aggressive or unruly. The Executive Director and the Deputy Director stated they were concerned about the residents but have not found the best means to resolve the problems. According to the Executive Director, the Authority lacked funds to add security and fair housing issues prevented the Authority from moving the disabled residents by any means other than attrition. The Authority should attempt to use some of its reserves for added security while the composition of residents is rearranged through attrition. Additionally, the Authority should continue its efforts to alleviate residents' concerns by informing residents of obstacles and working with HUD for additional solutions. Also, the Authority should use necessary reserves to repair units and demolished uninhabitable buildings.

Properties managed by McCormack Baron had few problems.

Madison Heights I, Madison Heights II, and Granite Mountain Developments had few problems.[29] These properties were new and should not require the same degree of maintenance as the older properties. Any opinion on whether or not the difference in management has any bearing on the better physical condition would be speculative.

Authority claims it has met its responsibility.

The Authority refuted that it had not met its responsibility with respect to maintenance and it could not control the way residents "feel." The Authority cited its accomplishments in the areas of maintenance and the systems it has in place to identify and correct maintenance problems. Further, it was in the process of correcting deficiencies noted. Lastly, it cited HUD's positive physical inspection of the units.

We agree with the Authority's action to correct the problems noted and further agree that the Authority cannot control residents "feeling." Further, we acknowledge HUD's physical inspection of the units. Based upon our limited inspections and interviews with residents, we maintain some of the sites appear in poor condition. Also, we would suggest the local office or REAC perform a re-

[29] McCormack Baron manages these properties. A few hairline cracks were noted in the Granite Mountain properties and some loose tile. Madison Heights was constructed with exposed wiring in the utility room.

inspection of the sites specifically mentioned in this finding.

Auditee Comments

The Authority took great exception to this finding. The Authority questioned the scope and methodology used by us in drawing our conclusions. It cited the inclusion of the discussion on Hollinsworth Grove in the report as "wholly without merit." The Authority plans to demolish the buildings at Hollinsworth Grove in February 2004. The Authority stands by the scores provided by the REAC inspectors and the tenant surveys.

OIG Evaluation of Auditee Comments

We commend the Authority for correcting the problems cited from our observations. Further, we are pleased that the Authority will finally demolish the buildings at Hollinsworth Grove. The Authority did not specifically discuss the actions it would take to demolish or repair the units at Amelia B. Ives. We did not entirely understand the Authority's strong objection to this finding. For instance, the Authority states it concluded that Hollinsworth Grove was a "severely distressed development," but our inclusion of this "fact" in the report is irresponsible.[30] Further, the Authority cited in its response the age of the developments, about 50 years for the low-rise sites and 25 years for the high-rise sites, and the documented need for $14 million of rehabilitation.[31] The Authority's response seems to strengthen the conclusions in the report, specifically, "some Authority sites appeared in poor condition." We would be remiss if we did not report this.

Recommendations

We recommend the Director of the Little Rock Office of Public Housing require the Authority to:

2A. Improve its system of correctly collecting, performing, reporting, and verifying maintenance requests.

2B. Demolish the burned out units at Hollinsworth Grove.

30 Hollinsworth Grove makes up approximately 18 percent of the Authority managed units.
31 This is approximately $14,000 per an Authority managed unit.

2C. Demolish or repair the burned out units at Amelia B. Ives.

2D. Perform the repairs identified for units visited (see Appendix B).

2E. Communicate to the residents the policies and corrective action the Authority has taken to improve security and maintenance.

The Authority Exercised Poor Administration Over Its Operations

The Authority had poor controls over cash disbursements, accounts payable and accounts receivable, and asset management. HUD required the Authority to expend funds for reasonable and necessary items and to maintain financial records. Specifically, the Authority's Board of Commissioners were responsible for ensuring that the Authority had systems in place to measure, monitor, and report program performance. The Authority did not develop and implement written policies and procedures for disbursements to ensure its funds were properly expended or assets were properly utilized. For example, manuals provided contained some instructions on processing of payments in the Authorities computer but did not contain who approved payments or the documents needed for payment. Further, the Authority did not have written procedures for reconciliation of bank accounts or accounting for receivables. In a test of 100 disbursements, the Authority had sufficient documentation to support all the payments.[32]

The Authority's audits were not completed timely as required by OMB Circular A-133 for fiscal years 2000 and 2001 and the audits did not disclose identity-of-interest issues with related not for profit entities.[33]

The Authority has turned over the development of Madison Heights III to an identity-of-interest firm, Housing Redevelopment. The Authority has granted or will grant Housing Redevelopment significant amount of funds. The Authority needs to ensure that both it and Housing Redevelopment have the proper controls to ensure the funds received are expended in accordance with applicable requirements.

It appears the Authority has lost sight of its primary purpose of providing decent, safe, and sanitary housing for low-income residents. This is illustrated in Finding 2 that shows the conditions of some units and sites. Further, the Authority has not used its assets in some instances consistent with its mission; for instance, it leased land for a nominal amount to the Audubon Society for 99 years eliminating the land as a resource for low-income housing.

The Authority needs to strengthen its internal control over its accounting functions to protect its assets. In the event the Authority chooses to lease property, it should ensure the property is related to its mission of providing decent and safe housing to Little Rock's low-income families.

[32] The Authority provided sufficient support at the exit conference to correct the $14,052 in unsupported amounts included in the discussion draft.

[33] Supposedly, the Authority's 2002 audit has disclosed the identity-of-interest firm, Housing Redevelopment. The Authority did not provide to us.

Need for segregation of duties and limited control to accounting functions.

Generally Accepted Accounting Principles (GAAP) require the accounting duties of paying vendor invoices, receiving payments, and reconciling bank statements be segregated to the greatest degree possible. At the Authority, accounting employees that make payments also collect receivables. Also, employees perform each other's work so each employee has access to all phases of the accounting process.

All accounting employees had access to the signature cartridge used to sign checks with two signatures: (1) Executive Director's and (2) the Deputy Director's. The employees' access circumvented the Authority's requirement of two signatures on checks. The Authority's actual practice of allowing all employees access to the signature cartridge usurped any policy.

Further, the Authority did not use preprinted check numbers or computer-generated numbers. A manual log for check numbers was maintained for the employees to assign check numbers that allowed any check number be assigned to any payment thereby eliminating accountability for each check.

In this environment, the opportunity for diversion of funds was higher than a mere assessment of high risk for internal control purposes; it was a continuous opportunity for diversion of funds by any of the employees.

The Authority needs to segregate duties to the greatest extent possible. In addition, computer-generated or pre-numbered checks should be used in order to safeguard its cash. Controls need to be reinstated for the signature cartridge so that only the persons who are signature authorities have access and control of the cartridge. In instances where further segregation of duties is not cost-effective, the Executive Director and Board members must actively review controls, receipts, expenditures, and reports and follow-up when questions arise.

To accomplish our objectives, we reviewed the disbursement file, using computer software, to determine a non-representative selection of disbursement checks. To determine the selection, we utilized the software's "random sample" function. Limitations in the selection included separating the 2001 and 2002 information and filtering out any payments under $1,000. As a result, we selected 50 disbursements from 2001 and 2002.

Former Systems and Finance Director still has access to $525,000 in Authority bank accounts.

The Authority's former Systems and Finance Director had access to six Authority bank accounts totaling $525,943. The Authority had not corrected the situation because the Finance Director was overhauling the accounting department and has not had time to correct the bank account access list. Despite HUD requirements to the contrary, the Authority did not have written policies for accurate bank account access list. As a result, the Authority unnecessarily put itself at increase risk of theft. The Authority should ensure its bank has a correct access list.

The former Systems and Finance Director resigned in January 2002.

The former Systems and Finance Director resigned from the Authority in January 2002. This resignation should have constituted a change in the access list of all Authority bank accounts. However, as of August 18, 2003, the Authority had not done this. The reasons included no policy requiring it and the Finance Director has not had the time to do so. Consequently, the former Systems and Finance Director still as access to six accounts totaling $525,943.[34]

The Authority is required to maintain "*Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes*." In addition, the Authority must maintain "*Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.* ***Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."***[35]

The Authority put itself at risk for possible theft. A written policy could reduce this unnecessary exposure to theft. However, the Authority should remove the former Systems

34 As of December 31, 2002.
35 24 CFR 84.21 and 24 CFR 85.20.

and Finance Director's name and anyone else that does not need access to its bank accounts.

Incorrect method of accounting for lease income.

The Authority received miscellaneous income from the rental of the roofs of the high-rises to wireless providers. Generally Accepted Accounting Principals (GAAP) requires leases to be accounted for as a receivable and the income recognized as it becomes due to the Authority. This allows the income to be recognized by matching the income to the period earned and shown as the asset or liability[36] on the balance sheet. It also allows the lease amounts to be considered in the cash projections as money that may be utilized in the future.

The Authority's Finance Officer said he knew the receipts for the Telephone Company rent receipts for the towers on top of the high-rise buildings were not being recorded correctly. The Finance Officer said he had been recording them as "Miscellaneous Deposits" and then transferring to the appropriate account with a journal voucher. The Finance Officer stated he has not had the time or staff to set them up correctly. It did not appear the Authority had enough trained staff to assist in accounting for all transactions for the Authority. In addition to maintaining its books and records according to GAAP, the Authority should ensure that staff is adequately trained.

The Authority needs better controls over disbursements.

We tested 100 disbursement checks[37] from 2001 through 2002. Of the 100 checks tested, the Authority had supporting documentation for all checks.

However, the Authority did not stamp 66 of the 100 invoices "paid" or otherwise cancel to prevent multiple payments from the same original invoice, 12 of the payments did not reflect an accounting distribution to show how the checks were charged.

The Authority did not have a written control policy over disbursements. The Authority should establish and implement a written control policy regarding disbursements reflecting federal laws and regulations.

---

36 Prepaid Lease for the tower would be a liability until it is earned.
37 A non-representative selection from approximately 4,700 checks during the audit period.

The Authority leased 68 acres to the Audubon Society for a dollar a year.

The Executive Director did not have the authority to lease property for purposes other than low-income housing. The Authority leased 68 acres of property to the Arkansas Audubon Society for 99 years. HUD Little Rock field office General Counsel disclosed at least a portion of the leased property has deed restrictions, which prevented it from being used for anything other than low-income housing. At first, the Executive Director denied that a lease existed, but staff later provided a copy of the lease. According to the Authority, the City of Little Rock was about to condemn the acreage for the benefit of the Audubon Society so the Authority leased it to the Audubon Society for $1 per year for 99 years. Besides not having the authority to lease the entire property, the choice to lease was a poor one if the City of Little Rock was going to condemn it. Generally, when property is condemned, the City would pay the owner fair value of the property. The condemnation proceeds could have been spent to acquire property in another location for housing.

According to the Authority, the land is not suitable for housing due to its proximity to the airport and created a liability to the Authority in terms of safety and upkeep of the vacant property. The Authority believes the lease to the Audubon Society is advantageous and is a good use of the land.

The HUD field office should review the Audubon Society lease with the Authority, the property involved, and the portion that has land use agreements attached. This land or comparable fair value should be returned to the Authority to provide housing for low- and moderate-income families.

The Authority hired an identity-of-interest firm to develop Madison Heights III.

The Authority selected Housing Redevelopment as the developer for Madison Heights III. The Authority attempted procurement of a developer but according to Housing Redevelopment's attorney decided to contract with itself through Housing Redevelopment. By selecting itself as the developer, the Authority said it did not have to follow procurement requirements.

The following table shows the relationship between the two organizations:

Name	Authority Position	Housing Redevelopment Position
Wooten Epes	Current Board Chairman	President
L. Lee Jones	Executive Director	Executive Director
John Toney, CPA	Former Board Chairman	Project Manager
Calvin Scribner	Former Board Member	Board Member

The Authority will provide significant amount of funds to Housing Redevelopment. Currently, no contract or memorandum of understanding exists between the two organizations.[38] Further, Housing Redevelopment has no employees and consequently, no systems or policies in place to ensure the proper use of funds. According to staff, the Executive Director and Deputy Director have performed many of Housing Redevelopment's tasks.

According to Housing Redevelopment's attorney, Housing Redevelopment has hired a consultant to help run Housing Redevelopment until it has sufficient funds to hire full-time employees.[39] Also, Housing Redevelopment is striving towards unquestionable independence from the Authority. However, it will not be considered independent until Housing Redevelopment no longer utilizes any Authority employees, has an entirely independent board, and no longer seeks the cooperation and input of the Authority.

Currently, Housing Redevelopment operates rent free from the Authority's office. Through cursory review of the Authority's records, it appears the Authority has provided Housing Redevelopment over $180,000 from its low-rent funds.[40]

According to HUD regulations,[41] "…no employee, officer, or agent of the grantee or sub grantee shall participate in selection, or in the award or administration of a contract supported by federal funds if a conflict of interest, real or apparent, would be involved."

38 Housing Redevelopment's lawyer did provide a recycling agreement between the Authority and Housing Redevelopment that sets out the general use of funds and repayments.
39 We did not review the awarding of this contract or the awarding of the contract to Housing Redevelopment's attorney.
40 We did not review the transactions because they were outside our scope. Further, we did not review the Authority's financial data to determine the total amount provided to Housing Redevelopment.
41 24 CFR 85.36 (b)(3).

HUD should scrutinize and monitor this development agreement and the funds provided to Housing Redevelopment to ensure that it has appropriate controls to:

- Safeguard assets.
- Ensure compliance with regulations including those over revenue and expenditures.
- Capacity to perform its missions.

Further, if Housing Redevelopment becomes "independent" from the Authority, the Authority and HUD need to ensure it continues to monitor Housing Redevelopment for compliance with regulations and agreements.

Nondisclosure of material items in financial statements.

Financial statements issued by the Authority during the audit period did not disclose the interest of the Executive Director, current Chairman of the Board of Commissioners and former Chairman of the Board of Commissioners in the Authority's identity-of-interest firms, Housing Redevelopment. GAAP required full disclosure in order for the users of the financial statements in order for the statements to be useful. The failure to disclose the interests limited the financial statement's usefulness as the interests in Housing Redevelopment and Granite Mountain Development Limited Partnership.

Furthermore, the Authority's Board Chairman and Housing Redevelopment's President signed a certification stating that Housing Redevelopment did not have a conflict of interest with the Authority.

Management was responsible for the financial statements and should ensure all interests in other entities were disclosed. The financial statements for fiscal year 2002 should be complete and include all appropriate disclosures to ensure they are useful to their readers.[42]

The Executive Director and the Deputy Director inappropriately accepted $10,000.

Both the Executive Director and the Deputy Director received $10,000 from two not-for-profit entities related to the Authority. Housing Redevelopment paid the Executive Director $10,000 and Granite Mountain Development Limited Partnership paid the Deputy Director $10,000. The Authority claimed these payments were for work on Granite Mountain Development.

[42] According to the Authority's response, the 2002 audit has the appropriate disclosures.

The Authority and Housing Redevelopment's attorney claims the payments were compensation for services rendered. But, they did not provide any evidence of what, when, or how the services were provided.

Neither the Executive Director nor the Deputy Director should have accepted the payments. According to 24 CFR 85.36, "*employees or agents will neither solicit nor accept gratuities, favors or anything of monetary value from contractors, potential contractors, or parties to subagreements.*"[43]

The HUD field office should determine how to correct the receipt of the money by the Executive Director and Deputy Director.

Auditee Comments

In its response, the Authority stated, "there are a number of separate conclusions reached in Finding 3. Many of these are easily corrected. Others, however, will take more work. Finally, on some of the findings, no change will be made. The OIG auditors merely failed to review all of the records available to them."

The Authority states it has established proper controls disbursements and bank account access. It also agreed to implement other recommendations. The 2002 audited financial statements were in accordance with GAAP and had proper disclosure. Based upon the 2002 audit, the Authority believes the recommendation regarding the disclosure of the identity of interest is "entirely without merit."

The Authority stated that the lease with the Audubon Society would not be effective until HUD approved.

The Authority's response explained the relationship between Housing Redevelopment and the Authority. The response also claimed that HUD would "review and approve all of the documents for the revitalization of Madison Heights III." The Authority's response again states that the payments to the Executive Director and Assistant Executive Director were for compensation and appropriate. The Authority's response stated, "the Report's questioning of this payment is further

[43] 24 CFR 85.36.

evidence that it did not fully understand the concept of an identity-of-interest corporation."

OIG Evaluation of Auditee Comments

We commend the Authority for taking positive action to correct the identified problems. The Authority never provided the 2002 financial statements so we could not determine the accuracy of their statements. Nonetheless, correcting the accounting and disclosing identity-of-interests firms in 2002 does not change the fact that the audited financial statements did not report these items in the 2001 or 2000 financial statements.

After reviewing the Authority's response and the evidence, we removed the phrase "misappropriation of assets" in the discussion of the Audubon lease.

The lack of procedures and controls at Housing Redevelopment weakens its argument that agreements or payments are appropriate. The Authority's response states that the payments to the Executive Director and Assistant Executive Director were additional compensation decided upon by the Housing Redevelopment Board of Directors and criticized us for not understanding identity of interest.

As stated in the report, Housing Redevelopment had no policies and procedures in place to determine the appropriateness of the payments including, but not limited to, adhering to HUD and Office of Management and Budget requirements, documenting the services received for the compensation, and documenting that the services were beyond their duties as Executive Director and Assistant Executive Director.

Recommendations

We recommend the Director of the Little Rock Office of Public Housing require the Authority to:

3A. Establish and implement proper controls over disbursement including segregation of duties; use of pre-numbered or computer generated check numbers; and restricting the access to the signature cartridge.

3B. Establish and implement proper controls over its bank account access list including immediately making any necessary changes.

3C. Ensure the accounting records are maintained in accordance with GAAP.

3D. Ensure that staff is adequately trained.

3E. Ensure the financial statements for the current year disclose all entities that have identity of interest with the Authority.

3F. Renegotiate the lease with the Audubon Society removing the portion of the property that has land use restrictions for low-income property.

3G. Determine the fair market value for the use of the Authority's administration building and collect that amount from Housing Redevelopment for the period of time the not-for-profit has used the Authority's property and a fair rental rate for future periods.

Further, we recommend the Director of the Little Rock Office of Public Housing:

3H. Scrutinize and monitor this development agreement and the funds provided to Housing Redevelopment to ensure that it has appropriate controls to: (1) safeguard assets; (2) ensure compliance with regulations including those over revenue and expenditures; and (3) capacity to perform its missions.

3I. Take appropriate action to correct the receipt of money by the Executive Director and the Deputy Director.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit objectives. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

To determine if the Authority met the objectives, we took non-representative selections of contracts, cash disbursements and collections, interviews with residents, and observation of units. While not able to extrapolate to the population, we believe our selections do provide sufficient evidence to support our conclusions.

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

- Adequacy of and adherence to written policies and procedures regarding cash management and procurement.
- Selection, award, and performance of contracts.
- Eligibility and adequacy of records maintained for disbursements to employees and vendors in accordance with laws and regulations.
- Maintenance of units as decent, safe, and sanitary housing for residents.

Significant Weaknesses

A significant weakness exists if management controls do not give reasonable assurance that resource use was consistent with laws, regulations, and policies; that resources were safeguarded against waste, loss, and misuse: and that reliable data were obtained, maintained, and fairly disclosed in reports. Based on our audit, the following items were significant weaknesses, in that the Authority lacked administrative controls to ensure:

1) The contracts were properly procured in accordance with regulations (Finding 1).
2) The contracts expend funds that were eligible, necessary, and supported (Finding 1).
3) Cash collections and disbursements were used consistent with the Authority's mission (Finding 3).

4) Records were maintained which adequately identify the source and application of funds provided for HUD-assisted activities (Finding 3).
5) Properties are maintained as safe and decent low-income housing (Finding 2).

Follow-Up on Prior Audits

Office of the Inspector General Audit Reports

This is the first audit of the Authority by the Office of Inspector General.

Independent Accountant Financial Audit Reports

Miller & Rose

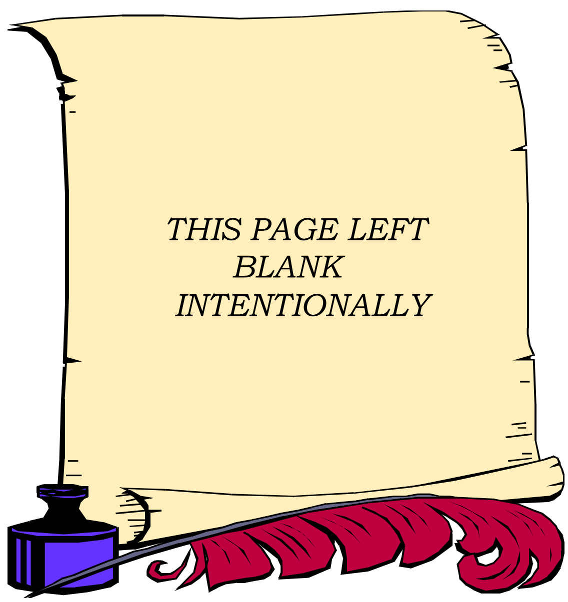
Miller & Rose, CPAs, issued the Independent Auditor's reports for the last 3 years. Due to previous year's noncompliance with annual independent audits, Miller & Rose issued audit reports for Fiscal Years 1999, 2000, and 2001 in July 2002.[44]

The most recent report was for Fiscal Year 2001. In this audit report, Miller & Rose expressed a qualified opinion citing a failure to keep a physical inventory and the inability to determine the impact on the financial statements.

In accordance with Government Auditing Standards, Miller & Rose reported instances of noncompliance with federal requirements. In addition, Miller & Rose found reportable conditions in the design or operation of the internal control over financial reporting. These conditions were also considered material weaknesses in their report.

In accordance with OMB Circular A-133, Miller & Rose reported the Authority did not comply with requirements regarding eligibility and reporting that are applicable to its Public and Indian Housing Section 8 Tenant Based Cluster and Low Income Housing residents. Miller & Rose reiterated its concern over internal control over compliance with requirements and "*noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions.*"

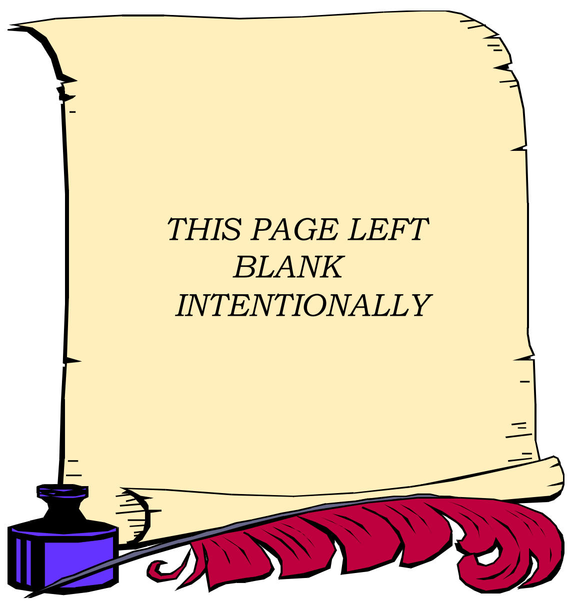
[44] OMB Circular A-133 requires annual audits from non-federal entities that expend $300,000 or more in a year in federal awards to have a single or program-specific audit conducted for that year.


THIS PAGE LEFT
BLANK
INTENTIONALLY

Schedule of Questioned Costs

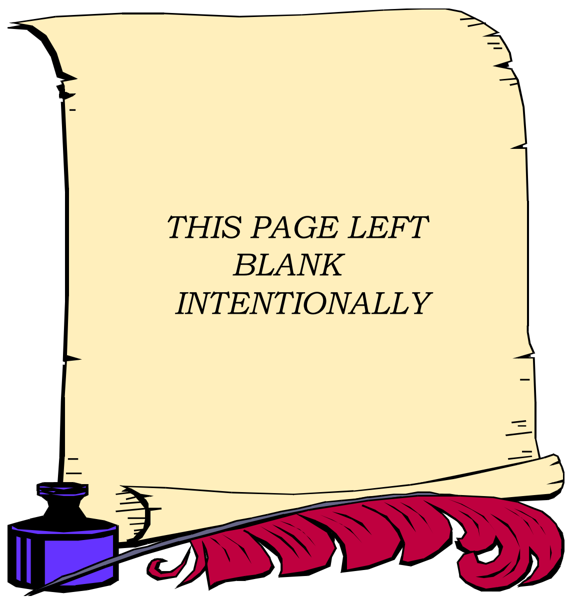
Recommendation	Vendor Name	Unsupported[1]
1C	John D. Blake	$204,211
1E	SCAT	24,000
3H	Executive Director and Deputy Director	20,000
	Total	$248,211

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


THIS PAGE LEFT
BLANK
INTENTIONALLY

Listing of Units Observed and Maintenance Needed

Name of Complex	Unit Number or Address	Maintenance Needed
Amelia B. Ives	200 East 28th Street	Repair bathroom sink. Treat the unit for termites.
Amelia B. Ives	201 East 28th Street	Repair hole in floor in kitchen. Paint patches in living room.
Amelia B. Ives	31 I Les Walk	Replace Smoke Detector Battery.
Cumberland Towers	Unit 601	Ensure cabinet installation is complete and stove has been returned to apartment.
Cumberland Towers	Unit 304	Repair window in door leading to deck.
Cumberland Towers	Unit 605	Paint unit. Replace air filter.
Granite Mountain	1 A Harris	Repair peeling paint and metal plaster trim pulling away from wall
Granite Mountain	4 A Harris Circle	Repair tile floor leading into the kitchen lifting from the floor.
Hollinsworth	74 Hollinsworth Dr	Repair damage from termites. Repair burned floor. Clean air ducts. Replace air filter. Replace baseboard.
Madison Heights	1201 Monroe, Unit E	Cover exposed wiring in the laundry room.
Paris Towers	Unit 918	Repair front left burner on stove.
Paris Towers	Unit 1017	Replace air conditioning filter.
Paris Towers	Unit 613	Repair cabinet pulling away from ceiling. Cover telephone line outlet. Assist tenant in putting light covers back on lights.
Powell Towers	Unit 517	Replace air conditioning filter. Paint unit.
Powell Towers	Unit 903	Treat for insects.
Powell Towers	Unit 511	Repair broken window. Repair water fountain in the hall so water high enough to drink.
Sunset Terence	2706 Battery St.	Replace Smoke Detector Battery.


THIS PAGE LEFT
BLANK
INTENTIONALLY

Auditee Comments

HOUSING AUTHORITY OF THE CITY OF LITTLE ROCK
1000 Wolfe St. • Little Rock, AR 72202 • (501) 340-4845

December 10, 2003

D. Michael Beard
Regional Inspector General for Audit, 6AGA
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

RE: The Housing Authority of The City of Little Rock Response and Comments to the HUD-OIG Audit of Low Rent Operations Report dated October 4, 2003
2004-FW-100x

Dear Mr. Beard:

The Housing Authority of the City of Little Rock (the "Authority") is submitting this response to the draft audit report (the "Report") prepared by the U.S. Department of Housing and Urban Development ("HUD"), Office of Inspector General ("OIG"). The OIG spent six months (from January 2003 through June 2003) to perform its audit and an additional four months to prepare the draft Report. The OIG forwarded the draft Report to the Authority on Monday, November 24, 2003.

Although the OIG took almost a full year to prepare and deliver the Report, it allotted the Authority less than two weeks to respond to, and comment on, the forty-five page draft. The Authority has not, in this short period of time, been able to conduct a thorough review of the draft audit's findings and conclusions and to assemble all of the necessary support documentation for, or explain, each of the unsupported payments. Accordingly, the Authority's response and comments to the Report represent the Authority's best efforts to review the draft, assemble support documentation for or explain the unsupported payments and report on the status of the Authority's corrective initiatives

D. Michael Beard
December 10, 2003
Page 2

within the short time allotted by the OIG. The results of the Authority's best efforts are summarized in this response. Notwithstanding the deadline for response and comments which the OIG has set as December 10, 2003, the Authority will continue its activities to address the Report's findings and conclusions beyond the December 10, 2003 deadline and will work with the local field office in Little Rock, Arkansas to resolve the findings set forth in the draft audit.

With that said, the Authority is pleased that the six month review did not result in any significant findings. While the Report contains broad statements and unsupported allegations, it does not find any questioned costs or improper conduct. On the contrary, the Report's overall findings are, on balance, administrative. The Report identifies $248,000 in unsupported payments. The Authority is confident that it can support such payments.

To establish the proper framework from which we contend this report should be viewed, we are taking the liberty of providing a more accurate picture of this agency. As the largest public housing agency in the state of Arkansas, the Authority has accomplished much over the past five years:

- Since 1995, the Authority and its partners, including the Authority's nonprofit corporation, Little Rock Housing Redevelopment, Inc. ("Housing Redevelopment") have set records by successfully demolishing two severely deteriorated complexes and redeveloping three mixed-income, mixed-finance housing communities in Little Rock. This unprecedented feat was accomplished by creative financing that resulted in leveraging HUD grant funds with more than $40 million of private and other public resources. The comprehensive community revitalization initiatives were developed by embracing the principles of the HUD HOPE VI program and has reduced the isolation of public housing residents in the City of Little Rock. As you may know, nationwide less than 30% of the 165 HUD HOPE VI grantees have completed construction and occupancy of mixed-finance units.[1]

- The Authority successfully demolished over 500 of the worst public housing stock in the State of Arkansas. By removing the obsolete units, the Authority significantly reduced its maintenance and utility expenses, which improved the overall financial condition of the Authority.

- Despite the elimination of the Public Housing Drug Elimination Program and substantial federal cuts in operating and capital fund awards, the Authority provided and continues to provide decent, safe and sanitary affordable housing in the City of Little Rock.

[1] Data provided to the Authority by HRF on December 2, 2003.

D. Michael Beard
December 10, 2003
Page 3

- With limited Capital Fund Program resources, the Authority has increased the useful life of the major systems and greatly enhanced the physical appearance of all its high-rise facilities.

- The Authority is always working with its residents and various community partners to remain in the forefront of providing affordable rental housing in the City of Little Rock. The Authority takes its mission seriously and the results are evident to those wishing to view the Authority in totality.

Introduction:

The narrative conclusions presented in the introduction of the Report are disturbing and the Authority disagrees with the tone which is set. The OIG has taken a snap shot of the items it wishes to present. This has resulted in unsupported statements and misleading comments. Many of the comments appear to be personal "feelings" being conveyed. Because of the seriousness of this public document, the Authority strongly objects to this unsupported editorialization. There is no merit for some of the rhetorical statements presented in the Report, other than to inflame potential readers.

For instance, the chart presented on page 2 of the Report is a misrepresentation of available funds. At the exit conference, the Authority presented to the auditors a factual chart demonstrating the actual accumulated and unexpended funds that are available for the improvement of the physical condition of the Authority's housing stock. The record will support that the following program funds are, by HUD regulations, not available for use on physical improvements of the Authority's properties:

PHA FUNDING Between 1995 and 2002

Program	Funds Authorized 1995-2002	Funds Disbursed 1995-2002	Available Balance 10/01/03	Corrected Difference & Notes
Capital Fund Program	5,429,325	3,357,554	2,071,771	Program began in FFY 2000. The FFY 2002 CFP grant was awarded on 6/02. The LOCCS was established in 7/18/02. No funds were available for drawdown until this date. The PHA has over $14,000,000 in physical rehabilitation needs. The family housing stock is over 50 years old. The high-rise housing stock is over 25 years old. The major systems and modernization needs far surpass the CFP allocations.

D. Michael Beard
December 10, 2003
Page 4

				The PHA asserts that there is a misrepresentation of total funds available associated with the CFP dollars include in OIG chart.
Comprehensive Grant Program	793,904	0	0	$793, 904 - Funds are restricted to the development of new construction. Expenditure of funds for purposes other than new construction would be a violation of federal regulations. The PHA asserts that there is a misrepresentation of total funds available associated with the CGP dollars include in OIG chart.
Drug Elimination Program	5,715,731	5,715,731	0	Funds are restricted to uses approved in the HUD PHDEP grant agreement and applicable program regulations. Expenditure of funds for purposes other than HUD approved PHDEP eligible activities would be violation of federal regulations. The PHA asserts that there is a misrepresentation of total funds available associated with the CFP dollars include in OIG chart.
Public Housing Development Grant	14,120,000	13,627,997	492,003	Funds are restricted to the development of new construction, per the grant agreement executed between the PHA and HUD. Expenditure of funds for purposes other than new construction would be violation of federal regulations. The PHA asserts that there is a misrepresentation of total funds available for maintenance of units associated with the CFP dollars include in OIG chart.

D. Michael Beard
December 10, 2003
Page 5

Resident Opportunity and Self Sufficiency	200,000	0	200,000	PHA was awarded the grant on December 18, 2002. LOCCS was not established until Jan. 2003. PHA did not have access to draw funds until all agreements were executed and the LOCCS was established by the HUD field office. The PHA asserts that there is a misrepresentation of total funds available associated with the CFP dollars include in OIG chart.
Urban Revitalization Program - Demolition Grant (HOPE 6)	1,669,261	1,375,965	293,296	Funds are restricted to demolition of Booker Homes (AR004-004) and the 15 units at Hollinsworth Grove (AR 004-005). Expenditure of funds for purposes other than demolition and associated cost would be violation of federal regulations. The PHA asserts that there is a misrepresentation of total funds available associated with the CFP dollars include in OIG chart.

The remaining funds are eligible for rehabilitation of 997 units. The Authority has over $14,000,000 in documented physical rehabilitation needs. We do not dispute the fact that the Authority's housing stock is old and in need of repair. Complete modernization of all of the Authority's sites is a goal of this agency, but with limited funds the Authority must prioritize its use of capital funds based upon most urgent needs.

The Authority stands firmly behind the 2002 REAC PASS scores. The independent assessment of our properties was conducted by certified inspectors. The score is based upon a true representation of the properties with a scientific methodology. The Report's statement that the REAC score "appears inflated" is preposterous. That statement is wholly unsubstantiated. The Authority is not aware of any training or certifications the auditors conducting this review have to determine the condition of any public housing property. Moreover, the Report admits to only a cursory review of the Authority sites. In fact, the small number of units reviewed by the auditors is less than a representative sample; therefore, it would be impossible to use the non-representative selection to make a concrete determination regarding the condition of the Authority's units.

D. Michael Beard
December 10, 2003
Page 6

The report mentions that the Authority has an identity-of-interest (Housing Redevelopment) which will be used to develop Madison Heights III. The Report then states that originally this was viewed as a procurement issue, but since has been removed. As an identity-of-interest corporation, there was no need of separate procurement of Housing Redevelopment. Given that there is no discussion of any impropriety taken with regard to Housing Redevelopment, its mere mention should have been removed from the Report as well.

Overall the Authority has reason to be proud of its accomplishments. As set forth herein, the Authority has leveraged more than $40,000,000 of private and public resources, demolished over 500 of the worst public housing stock in the State of Arkansas and continued to maintain decent, safe and affordable housing in the City of Little Rock. Despite the tone set by the Report, there are no allegations of wrong doing or of improper conduct. On the contrary, the Report merely points out that in the largest public housing agency in the State of Arkansas, minor reporting errors were found. The Authority strives for perfection. We constantly check and recheck our reporting and to the extent that administrative matters can be handled in a more efficient manner, the Authority welcomes such constructive criticism.

I. Response to Finding 1 – Strengthen Adherence to Procurement Requirements

The Report sets out the requirement that the Authority must promote full and open competition for all procurement contracts. The Report also acknowledges that the Authority has a procurement policy that complies with those requirements. The Report points out that the Authority has failed to adhere to such procurement policies in two instances. While we do not wish to minimize our failures, given that the Authority administered approximately 100 contracts over the two year period reviewed, two failures is not an unreasonably large number. Nonetheless, the Authority has a zero tolerance policy and is attempting to have 100% compliance in all procurement matters.

The Authority acknowledges that the contract with John D. Blake and Associates ("Blake") for computer consulting work was improperly procured. Accordingly, the Authority has terminated its contract with Blake and is moving forward to properly procure a computer consultant to assist the Authority in its provision of necessary services. On the other hand, there is no dispute that Blake provided necessary computer consulting services to the Authority. The consulting contract was for a relatively low amount and the services, lodging and other costs associated with Blake's services will all be substantiated with the local field office. We believe that the costs will ultimately be found reasonable.

The Authority and Senior Citizens Activites Today ("SCAT") began their partnership in 1970 with the Authority's Board of Commissioners contracting with SCAT's Board of

D. Michael Beard
December 10, 2003
Page 7

Directors to provide the onsite community activites in Parris Towers. Documents were provided to the OIG which substantiated the historical relationship between the two parties.

The engagement of SCAT and the annual payment on the contract were noted on the Authority's annual operating budget under resident services contract. Both the Authority's Board of Commissioners and HUD approved these budgets each year. HUD has, for almost 35 years, supported the use of SCAT for community activities.

Previously, the Authority solicited supportive services providers in the high-rise buildings. The responses resulted in piecemeal services and a cost greater than the Authority could afford.

Since receiving verbal directives from the HUD field office in October 2002, the Authority has not expended any public housing operating funds for SCAT services.

Recommendation:

Recommendation 1A – The Authority will adhere to current Authority and HUD procurement polices.

Recommendation 1B – The Authority accepts this finding. The Authority has terminated its contract with John Blake and Associates.

Recommendation 1C - The Authority can support the cost of consulting services and lodging for the consultant services provided by Blake and will submit the supportive documentation to the field office.

Recommendation 1D – The Authority has determined that, at least for the near future, it requires the assistance of computer and technology assistance. Accordingly, the Authority developed an RFP for consulting services on the ECS software. The RFP has been provided to the field office for review. Additionally, the Authority will begin the process of assessing future computer service needs and properly procure the services.

Recommendation 1F – The Authority can support the cost of services provided by SCAT. The Authority will submit the supportive documentation to the field office.

Recommendation 1G – The Authority has determined that resident services are needed. The Authority submitted for review to the field office a RFP for services in the high-rise buildings in September, 2003. The Authority received approval from the field office to proceed with the next step of the procurement process on November 19, 2003.

D. Michael Beard
December 10, 2003
Page 8

Recommendation 1H – The Authority will adhere to current Authority and HUD procurement polices.

Recommendation 1I – The Authority will update and maintain the contract register to ensure that it is current and accurate.

II. Response to Finding 2 – Sites in Poor Condition

The findings set forth in Finding 2 are wholly without merit. The OIG appears to have tossed aside the audit standards set forth in the Government Auditing Standards published by the Comptroller General of the United States and decided instead to deal with inference and innuendo. As the Report states, the auditors did limited inspections and even more limited interviews with residents. The auditors then presented, as audit "findings," that buildings which the Authority has already slated for demolition need to be demolished. The finding itself is certainly understandable given the Authority had already requested the buildings be demolished. The blatant editorialization of the finding is wholly without merit and certainly goes beyond any standard of reasonableness. Nonetheless, because the Report has made inflammatory statements in Finding 2, the Authority has no choice but to respond.

Hollinsworth Grove

In 1998, the Authority submitted a demolition application to HUD for the demolition of obsolete units in the Hollinsworth Grove development (AR 004-005). During this period, HUD was reorganizing. As part of its reorganization, HUD established the Special Application Center (SAC) in Chicago. Among SAC's purposes is to review and approve requests to demolish or dispose of public housing property. When contacted by the Authority about the status of the demolition application, the SAC informed the Authority that the application could not be found and was possibly lost in transmission from D. C. Accordingly, the Authority was informed that it would have to resubmit its application for Hollinsworth Grove.

The Authority, residents and local officials, recognized the need to address the obsolescence of the total Hollinsworth Grove site, and submitted applications in 2000 and 2001 to HUD in response to the notice of funding opportunity for HOPE VI funds. The applications were to demolish all of the obsolete units in the development. The applications demonstrated the enormous deficiencies and the cost to correct the deficiencies. The Authority was clear in each application, "*no reasonable program of modifications that does not include demolition is feasible*."

The Authority was unsuccessful in securing HOPE VI funds. In 2002 the Authority submitted another partial demolition application to the SAC Office. The Authority did not receive approval to demolish the units until 2003.

D. Michael Beard
December 10, 2003
Page 9

Since receiving approval to demolish the units the Authority solicited and received responses to an IFB. The Authority has awarded the contract to demolish the units approved for demolition. The units will be demolished by February 18, 2004. To have demolished the units without HUD approval would have been in violation of Federal Regulations. To have moved more expeditiously on procurement would have violated HUD regulations and the Authority policies.

Given the foregoing, we believe it is irresponsible for the Report to specifically point out that Hollinsworth Grove appears to be a severely distressed development. That fact is obvious and, in fact, was set forth clearly in the Authority's request for demolition. Accordingly, the entire discussion regarding Hollinsworth Grove in the Report is wholly without merit.

Authority Maintenance of Property

The Authority has 1,136 public housing units and also administers 2,017 Section 8 vouchers. The Report states that there is an overall dissatisfaction by the residents for maintenance and safety in all Authority controlled properties. This blunt statement was made after interviewing only 25 residents. While the Report acknowledges that this is a non-representative sampling, it is worse than that. To make such blatant accusations and require corrective measures when an insufficient database is used shows a conscious disregard for any of the audit standards which the OIG is required to follow. In fact, no useful opinion can be gleaned from a sampling of less than 2% of the resident population. The Authority contends that the Report regarding tenant satisfaction lacks merit.

The Authority's REAC Resident Assessment Satisfaction Survey scores (9 out of 10 in 2002 and in 2001) continue to support the fact that the Authority does respond to work order requests, perform preventative maintenance and maintain its property in decent, safe and sanitary manner.

The Report notes that residents seemed to be scared of other residents. One resident felt as though "the Authority was just pulling people off the street without any background check." Another said she did not "like the Authority letting dope addicts and drunks live with the elderly." Another pointed out that most of the "new tenants" are men with drug problems.

The Authority, in compliance with applicable federal admission and continued occupancy regulations, screens residents before housing to determine eligibility. The OIG spoke with residents, but did not interview Authority staff regarding the screening procedures used to determine eligibility. The Report indicates that most complaints related to disabled residents. The OIG assumes, incorrectly, that disabled residents are aggressive and unruly persons. Based upon years of management experience, the Authority would like to assert that this is not the case.

D. Michael Beard
December 10, 2003
Page 10

Authority officials have worked diligently to address all resident concerns, balancing the rights of all residents and adhering to Federal Fair Housing regulations. The Authority informed the OIG auditors that a survey of residents to designate a building as elderly only failed to support the opinion of the few high-rise residents they interviewed. This matter is annually presented to the Resident Advisory Board (RAB) and the general citizenry as part of the public review process of the Public Housing Agency Plan.

It is difficult for the Authority to respond to Finding 2. It is impossible for the Authority to control residents' "feelings." Moreover, the Authority continues to make strides in all areas of the maintenance of its properties and continues to achieve passing REAC PASS Scores. The Authority believes that it is inappropriate for the Report to question the REAC inspectors and substitute OIG opinions for REAC inspection reports.

Response to Findings:

Recommendation 2A – The HA performs 100% of Annual Inspections on every unit, system, and common area in its portfolio. The results of the inspections and deficiencies are entered into the Authority's work order system. Work orders are created to repair any deficient items. Emergencies are completed within 24 hours. The Authority will assess and develop enhancements to our existing operations.

Recommendation 2B – The Authority did not receive HUD authorization to demolish Hollinsworth Grove until 2003. The Authority has awarded the contract to demolish the units approved for demolition. The units will be demolished by February 18, 2004.

Recommendation 2C – The Authority has begun and will continue to take the corrective measures necessary to address this recommendation.

Recommendation 2D – All identified repairs in occupied units have been performed. None of the identified repairs were health and safety violations. The Authority will continue to make all repairs in occupied units when they are discovered by the Authority or reported by the residents. As stated previously, work orders are created to repair any deficient items.

Recommendation 2E – The Authority has and will continue to communicate policies and procedures

III. <u>Response to Finding 3 – Poor Administration</u>

There are a number of separate conclusions reached in Finding 3. Many of these are easily corrected. Others, however, will take more work. Finally, on some of the

D. Michael Beard
December 10, 2003
Page 11

findings, no change needs to be made. The OIG auditors merely failed to review all of the records available to them.
The Authority agrees that under generally accepted accounting principles ("GAAP"), the duties of paying vendor invoices, receiving payments and reconciling bank statements should be segregated to the greatest degree possible. The Authority is still undergoing its conversion to GAAP and not all of these duties have been properly segregated at this time. Accordingly, the Authority will be working with the local field office to correct this issue.

Audubon Society Lease

The Report entitles one section "Misappropriation of Assets." This is an inflammatory statement designed to entice the reader into assuming that the Authority has somehow misappropriated assets. On the contrary, as the Report discloses, the Authority is alleged to have leased 68 acres of property to the Arkansas Audubon Society for 99 years. Moreover, the Report alleges that the Executive Director denied that such a lease existed. On the contrary, the Executive Director tried to explain to the OIG that a lease was signed but it is not effective at this time.

The Audubon Society lease, while clearly not understood by the OIG, is quite simple. The City of Little Rock intended to condemn the property in question for the benefit of the Audubon Society. The Authority, the City and the Audubon Society agreed to enter into a lease, which lease is conditioned on approval by HUD prior to its becoming effective. The request for approval has not yet been submitted to SAC in Chicago. Accordingly, the property has not yet been leased, transferred or otherwise encumbered. On the contrary, HUD's interest in the property remains. The Declaration of Trust still remains on the property restricting its use to low-income housing. Moreover, as the Authority has pointed out to the OIG, no transfer can or will be made until HUD approval has been obtained.

Given the foregoing, it is wholly inappropriate to state that there was a "misappropriation of assets" based on a lease of property that has not yet occurred. A lease of property to the Audubon Society will only become effective upon HUD approval.

Identity of Interest Firm

The Authority has chosen to go forward with the mixed-income revitalization of Madison Heights III. Madison Heights is a mixed-income, mixed-finance community. The Authority selected Housing Redevelopment as its developer. Housing Redevelopment is an identity-of-interest corporation and, accordingly, serves as the alter ego of the Authority. Pursuant to HUD regulations, Housing Redevelopment and the Authority are treated as one and the same entity. Accordingly, no procurement is required. Rather than

D. Michael Beard
December 10, 2003
Page 12

confirm this itself, the Report merely states, "the Authority said it did not have to follow normal procurement requirements."

The Report lists the parties that have dual positions with the Authority and Housing Redevelopment. This is one of the criteria that is utilized when determining whether an entity is an identity-of-interest corporation. As an identity-of-interest corporation, Housing Redevelopment is permitted to have the same board and employees as the Authority. In exchange for this right, Housing Redevelopment must act as if it were the Authority and follow all procurement requirements of the Authority including those set forth in 24 C.F.R. Part 85. It is true that no contract or memorandum of understanding yet exists between the two parties with regard to the development. On the other hand, since the two parties are acting as one and the same entity, a contract, while useful, is not necessary.

The procurement and the revitalization going forward in Madison Heights III will have to be submitted and approved by HUD's mixed-finance office. That group of qualified individuals will review and approve all of the documents for the revitalization of Madison Heights III.

Non-Disclosure and Financial Statements

The Report makes a bold assertion that the financial statements issued by the Authority during the audit did not disclose the interest of the various parties in Housing Redevelopment. Moreover, the report states that HUD regulations require full disclosure.

The Notes section of the Audited Financial Statements prepared by Miller and Rose, the independent certified public accountants for the Authority, for the fiscal year ending December 31, 2002, states:

> These financial statements present the financial position and results of operations of Housing Authority of the City of Little Rock, a primary government. The Authority created Little Rock Housing Redevelopment, Inc. ("LRHR") to facilitate the development, financing, and construction of multi-family as well as single-family residential housing in the City of Little Rock. . . . Accordingly, LRHR is reported as a blended component of the unit of the primary government, Housing Authority of the City of Little Rock.

Accordingly, it cannot be said that Housing Redevelopment was not set forth in the financial statements. On the contrary, it was fully disclosed.

Acceptance of Compensation

D. Michael Beard
December 10, 2003
Page 13

The Executive Director and Deputy Executive Director were asked to work additional hours and perform additional duties on behalf of Housing Redevelopment, the identity-of-interest corporation. The Housing Redevelopment Board of Directors, accordingly, decided to increase their compensation by $5,000 each. This payment of compensation was completely appropriate. The Report's questioning of this payment is further evidence that it did not fully understand the concept of an identity-of-interest corporation.

Response to Recommendations:

Recommendation 3A – The Authority will work with the Little Rock Office of Public Housing to comply with this recommendation.

Recommendation 3B – The Authority has corrected this matter and will provide copies of the documentation to the Little Rock Field Office.

Recommendation 3C – As noted in the FYE 2002 Independent Audit Report the Authority has corrected this matter.

Recommendation 3D – The Authority is reassessing and developing improvements to current operations. The Authority will work with the Little Rock Office of Public Housing to comply with this recommendation.

Recommendation 3E – As stated previously, the fiscal year 2002 audited financial statements, as reported by the Authority's independent auditors, Miller and Rose, correctly and clearly set forth the existence of the Housing Redevelopment as an identity-of-interest corporation. Accordingly, the recommendation in Section 3E is entirely without merit.

Recommendation 3F – As stated previously, the lease with the Audubon Society is not yet effective. At this time, it is merely an agreement to enter into a lease if and when such lease is approved by HUD. Asking that a lease, which is not effective, be renegotiated shows an entire lack of understanding of the lease process as well as the lease with the Audubon Society. No change needs to be made.

Recommendation 3G – The Authority can determine the fair market value for the use of the Authority's administrative building and collect that amount from Housing Redevelopment. On the other hand, Housing Redevelopment is an identity-of-interest corporation and has no separate existence at this time from the Authority. Collecting rent from oneself makes little sense. The office space in question consist of a 9x10 area which houses one desk. The fair market value of the 90 sq. ft. space, based on comparable rents, would be $75 per month.

D. Michael Beard
December 10, 2003
Page 14

Recommendation 3H – As set forth previously, the revitalization of Madison Heights III is a mixed-income, mixed-finance revitalization project. As such, all of the documents will be submitted to the HUD Office of Mixed-Finance in Washington, D.C. The Authority is confidant that HUD's Office of Mixed-Finance understands it duties to safeguard HUD's assets and insure compliance with all regulations. The Authority welcomes any assistance which the Director of the Little Rock Office of Public Housing can provide.

Recommendation 3I – As set forth previously, the Executive Director and Deputy Director were simply paid compensation for their work at Housing Redevelopment. Payments for the work done at Housing Redevelopment may have been miscatagorized and not shown as compensation. A revision of the books and records will be made and submitted to the local office.

In those areas where corrective action is required, the Authority looks forward to working with the Director of the Little Rock Office of Public Housing in order to insure full compliance with all of HUD's rules and regulations. It is our goal to see that the Authority is a high performing authority pursuant to HUD's scoring criteria.

After reviewing our response, if you have any questions or comments, please feel free to call me.

Very truly yours,

L. Lee Jones

L. Lee Jones
Executive Director

cc: Jesse Westover, Director
Public and Indian Housing, 6FPH