



Issue Date November 19, 2004
Audit Case Number 2005-AT-1004

TO: Michael A. Williams, Director, Office of Public Housing, 4FPIH

FROM: *James D. McKay*
James D. McKay
Regional Inspector General for Audit, 4AGA

SUBJECT: Housing Authority of the City of Durham
Durham, North Carolina

HIGHLIGHTS

What We Audited and Why

We audited the Durham Housing Authority's (Authority) financial operations and procurement procedures, because a prior Office of the Inspector General (OIG) audit identified potential deficiencies in these areas.

Our audit objectives were to determine if the Authority's misuse of funds, identified in our prior report, jeopardized its ability to operate its projects in a manner that promotes serviceability, economy, efficiency, and stability, and whether the Authority followed Department of Housing and Urban Development (HUD) procurement regulations when purchasing goods and services.

What We Found

The Authority jeopardized project stability by misusing funds to subsidize operations of Development Ventures, Inc., (DVI) a non-profit subsidiary. The Authority's cash and investments decreased from \$2.8 million in 1996 to \$800,000 in 2003. For the same period, its accounts receivable balance increased

from \$400,000 to \$4.6 million. As of June 30, 2004, DVI and its related entities owed \$4.1 million to the Authority. At its current rate of spending, we estimated the Authority only had enough funds to continue operations for about 7 months. Without adequate funds to operate and maintain its housing developments, the Authority could be in default of its Annual Contributions Contract (ACC). The Authority believes once DVI sells three of its developments DVI will repay the Authority, thus resolving the Authority's financial woes. However, the Authority's plan is seriously flawed. The Authority must develop strategies to resolve its current financial position and ensure its future financial stability. A viable recovery plan coupled with HUD's Action Plan and continued oversight, will help assure the Authority's \$6 million of annual operating subsidy will be put to better use.

Because the Authority did not implement adequate procurement procedures, it spent \$6,855,271 for goods and services obtained without following procurement regulations (Appendix C). Further, the Authority could not support \$953,477 spent for goods and services (Appendix D). Specifically, it did not always properly solicit or document its procurements when it purchased goods and services. For example, between January 1, 2000, and December 31, 2003, the Authority paid a temporary employment agency \$1.7 million from HUD funds without a written contract. Similarly, it also paid a law firm over \$810,000 without soliciting bids and without a written contract. We believe the Authority can put the remaining unobligated balance of \$2.2 million of Capital Funds to better use by developing and implementing procurement procedures that comply with procurement regulations.

What We Recommend

We recommend the Director, Office of Public Housing require the Authority to: (1) devise plans with multiple strategies for resolving both its short-term and long-term financial problems, (2) develop and implement adequate procurement policies and procedures, including establishing a central procurement office, hiring a qualified procurement officer, and ensuring responsible management and staff are adequately trained on procurement requirements, (3) repay \$6,855,271 to its programs from non-Federal funds, and (4) provide support for \$953,477. We also recommend HUD continue to oversee Authority operations to ensure funds are spent for their intended purposes.

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

Auditee's Response

We discussed the findings with the Authority during the audit and at an exit conference on October 26, 2004. The Authority provided its written comments to our draft report on November 5, 2004. In its response, the Authority generally agreed with the findings and recommendations. It acknowledged the seriousness of its financial condition, and stated that it is dedicated to resolving its financial difficulties. The Authority stated that it will work with HUD and OIG to develop a financial recovery plan in order to put its annual operating subsidy to better use.

The Authority acknowledged that it needs to review, update, and implement its procurement policies, procedures, and practices, and train personnel. It agreed on the need for a centralized procurement function and the employment of a senior procurement professional.

The complete text of the Authority's response, along with our evaluation of that response, can be found in Appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Authority was created in 1949 under North Carolina law to provide safe and sanitary housing for persons of low and moderate income. A seven member Board of Commissioners governed the Authority. Deloris C. Rogers has served as the Chairperson since February 24, 2000. The Board of Commissioners accepted the resignation of James R. Tabron, the former Executive Director, in April 2003. Frank Meachem currently serves as the Authority's Interim Executive Director.

The Authority is required to develop and operate public housing complexes in compliance with its ACC with HUD. The Authority administered 13 Conventional Public Housing complexes consisting of 2,133 dwelling units. It also managed a Section 8 Program consisting of 2,834 housing choice vouchers. As of June 20, 2003, the Authority had 1,496 applicants on the public housing program waiting list and 3,244 applicants for the Section 8 Program. HUD authorized the Authority the following financial assistance for Fiscal Years 2000 through 2003:

- \$23,227,783 Operating Subsidy to operate and maintain its housing developments.
- \$14,022,526 Capital Fund Program funding to modernize public housing units.
- \$1,008,440 Housing Drug Elimination Program funds to eliminate or reduce drug related crime and other major crime and disorder problems.

The Authority is the parent company of DVI, a housing development corporation created in 1985 to develop low-income properties. DVI does not have employees. The Authority's Board of Commissioners serves concurrently as DVI's Board of Directors. The Authority's Executive Director normally serves as the Secretary/Treasurer for DVI. Currently, the Interim Executive Director is serving as the Secretary/Treasurer.

DVI owns or has an ownership interest in at least four apartment complexes and an industrial center, the Golden Belt Center. The apartment complexes are: Woodridge Commons Apartments, Edgemont Elms Townhomes, Fayette Place Apartments, and Preiss-Steele Place.

We reviewed the Authority's controls over its development activities and issued a report on August 2, 2004, (Number 2004-AT-1012). We reported the Authority violated its ACC by inappropriately advancing funds to DVI and its projects. We recommended the Authority repay the advanced funds, and terminate a loan to DVI and return the funds to the Turnkey III program.

This second audit was performed to determine if the Authority's misuse of funds, identified in the prior OIG report, jeopardized its ability to operate its projects in a manner that promotes serviceability, economy, efficiency, and stability, and whether the Authority followed HUD procurement regulations when purchasing goods and services.

RESULTS OF AUDIT

Finding 1: The Authority Is In a Precarious Financial Condition

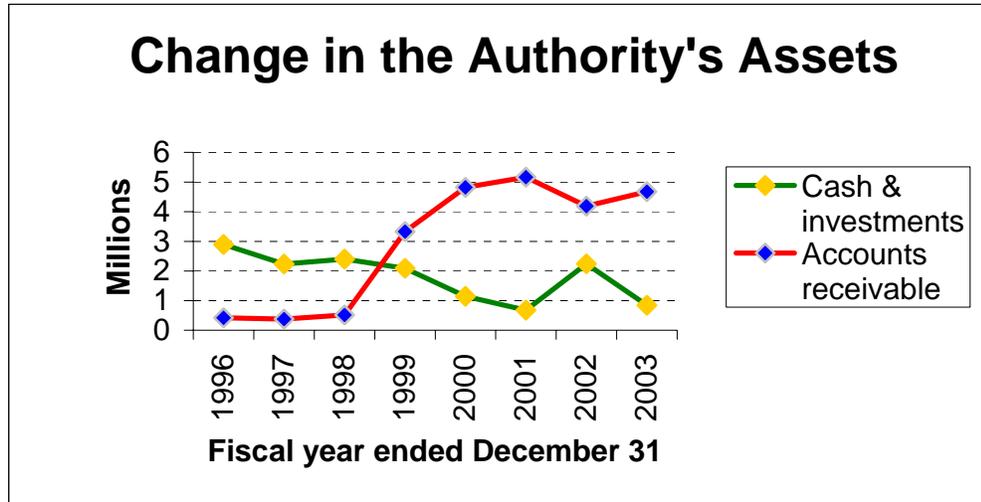
Authority management and the Board of Commissioners continued to subsidize DVI's operations and development activities even though several prior DVI developments were unsuccessful. As a result, the Authority is in a precarious financial position that has jeopardized the stability of its projects and could result in a default of its ACC. The Authority must develop strategies to resolve its current financial position and ensure its future financial stability. This includes recovering amounts DVI and its related entities owe the Authority, and ensuring that it only spends funds for eligible activities as authorized by HUD. A viable recovery plan coupled with HUD's action plan and continued oversight will help assure the Authority's \$6 million of annual operating subsidy will be put to better use.

The Authority Subsidized DVI Operations

Over the past several years, the Authority and DVI have undertaken several housing development activities and renovation of an industrial center that was intended to generate sufficient revenue to fund DVI operations. Unfortunately, its efforts were generally unsuccessful. Most of the developments were unable to maintain projected occupancy or rental income levels. Thus, they suffered financially and relied on the Authority for financial support. Authority management and the Board were committed to trying to make the developments successful. Thus, they used Authority funds to subsidize their operations even though its financial managers provided the Finance Committee with financial reports that showed the Authority's poor financial condition.

The Authority Is In a Precarious Financial Position

The Authority is in a precarious financial position because of DVI's failed developments. The Authority depleted its cash and investments from \$2.8 million in 1996 to \$800,000 in 2003. In the same period, the Authority's accounts receivable balance increased from \$400,000 to \$4.6 million. According to the Authority's financial records, DVI and its entities owed the Authority \$4.1 million as of June 30, 2004. Our analysis of the Authority's recent spending showed its cash and investments had declined an average of \$38,000 monthly from April 1, 2004, through June 30, 2004. At that rate, the Authority would expend its \$241,000 of unencumbered funds in about 7 months; thus, it could be in default of its ACC.



Deficit Spending Violates the ACC

The ACC states a substantial default occurs "... if the powers of the housing authority to operate the project(s) in accordance with the provisions of this ACC are curtailed or limited to an extent that will prevent the accomplishment of the objectives of this ACC... ." The ACC requires the Authority to operate its projects in a manner that promotes serviceability, economy, efficiency, and stability without the Authority expending more funds than they have on deposit. Without adequate funds to operate and maintain its housing projects, the Authority could be in default of its ACC.

The Authority's Plan To Resolve Its Financial Woes Is Flawed

In response to our prior audit report and discussions with the Authority and HUD, the Authority developed a plan it believed would resolve its financial woes. However, the plan is flawed. The plan may not generate sufficient funds timely. The Authority plans to have DVI sell Golden Belt, Fayette Place Apartments, and Woodridge Commons Apartments. DVI would then use the sales proceeds to reduce the amounts owed to the Authority for those three developments. However, DVI may not be able to sell the developments timely because of unfavorable market conditions. Several Durham area real estate professionals told us the commercial real estate market is overbuilt and therefore sluggish, especially in the geographic areas of DVI's developments. One Durham area market study reported the apartment vacancy rate increased from 8.8 percent to 10.5 percent between October 1, 2003, and March 31, 2004. The Chamber of Commerce agreed that the two apartment complexes would be hard to sell, but was more optimistic about selling Golden Belt. The Chamber estimated Golden

Belt could be sold in 6 – 12 months. The Authority has claimed since June 2004 that the developments would be sold to raise funds. Thus far, none of them have sold.

While DVI might eventually sell the properties and repay portions of the amounts owed the Authority, the Authority cannot afford to wait for those possible events to occur. Further, because the developments have other creditors that must be paid, there may not be sufficient proceeds to fully repay the Authority. We are concerned that the Authority doesn't fully realize the seriousness of its possible plight should it fail to resolve its financial difficulties. It must develop a recovery plan with multiple strategies with both short-term and long-term objectives to prevent a possible default of its ACC, ensure financial stability, and ensure sufficient financial reserves are available to carry out its primary mission of providing decent, safe, and sanitary housing to its tenants.

HUD Took Early Action to Monitor Financial Operations

HUD's Office of Public Housing, Greensboro, North Carolina, initiated actions to monitor the Authority's financial operations after we informed them of our concerns in May 2004. The Greensboro Office promptly developed an Action Plan that includes several steps to control expenditures that should help the Authority improve its financial position. Corrective actions in the Plan include:

- reviewing and approving all purchases and expenditures;
- reviewing the Authority's financial status;
- requiring the Authority to develop a cost allocation plan;
- requiring the Authority to develop and submit a complete list of all liabilities, checking and investment accounts and the respective balances; and,
- requiring the Authority develop a repayment plan.

HUD's early intervention coupled with development of a financial recovery plan should help assure the Authority puts its \$6 million of annual operating subsidy to better use by using the funds efficiently and only for eligible program activities.

Recommendations

We recommend the Director, Office of Public Housing:

- 1A. Require the Authority to develop a financial recovery plan with short-term and long-term strategies that strengthens its current financial position and ensures its future financial stability. This includes increasing its financial reserves and reducing its accounts receivable by recovering amounts owed by DVI and its related entities.

- 1B. Continue to monitor Authority financial operations until it has implemented procedures to ensure funds are spent efficiently and only for eligible activities, thereby putting its \$6 million annual operating subsidy to better use.

Finding 2: The Authority Improperly Spent Over \$6.8 Million For Goods and Services

Our review of disbursements totaling \$8,818,224 between January 1, 2000, and December 31, 2003, found the Authority spent \$6,855,271 for goods and services without following procurement regulations (Appendix C). Further, it could not support \$953,477 it spent for goods and services (Appendix D). For example, the Authority paid about \$2.2 million for renovation work to a contractor who did not have the lowest bid, and paid about \$1.7 million from HUD funds to a temporary employment agency without a contract. This occurred because the Authority did not have adequate procedures to ensure it properly solicited and documented its procurements. As a result the Authority cannot ensure it received the resulting goods and services at the best price or that it properly used HUD funds to meet its mission of providing safe and sanitary housing. The Authority can put the unobligated \$2,287,142 available from its Capital Funds Program (CFP) to better use with development and implementation of good procurement procedures.

The Authority Did Not Have Adequate Procedures

Because the Authority did not have adequate policies and procedures governing its procurement activities, it did not competitively award some work, paid for services without executing contracts, did not adequately define the scope of work, did not consistently evaluate proposals, and paid its former Executive Director for services in violation of the ACC. The Authority's procurement policy, developed in April 1990, was outdated and did not meet requirements of HUD Handbook 7460.8 and Title 24, Part 85.36 of the Code of Federal Regulations (CFR). Further, the Authority did not always follow prescribed procedures. For example, the Authority did not maintain a contract register, did not maintain a current and accurate list of pre-qualified bidders, and did not maintain complete files documenting the history of its procurements. Also, the Authority's procurement structure was not properly aligned. The Director of Finance and Administration was ultimately responsible for all procurement functions. Yet, several contracts, change orders, and certifications were negotiated, approved, or signed by persons outside of that Director's authority. Further, the former Executive Director allegedly renegotiated the terms of the legal services contract without the knowledge of the person responsible for the contract.

The Authority Paid \$2,693,067 Without Properly Competing the Work

The Authority spent about \$2.2 million to renovate several of its projects without competitively awarding the work. Procurement regulations and HUD Handbook 7460.8 require the Authority to procure goods and services in a manner that provides full and open competition. While the Authority obtained bids, it did not award several renovation contracts to the lowest bidder. The Authority believed this practice was permissible to meet its Minority Business Enterprise goals. The Authority also extended a legal services contract without competing for the services when the original contract expired. The Authority thought its former administration received HUD approval to continue using the same firm for legal services. The Authority also reasoned that its previous attorney was retained for 40 years without recompeting for the services. Because the Authority did not obtain the services through fair and open competition, it may not have received the resulting services at the best price since competitors did not have an opportunity to provide bids.

The Authority Paid \$2,860,960 for Services Without Executing Contracts

In violation of procurement regulations, the Authority paid \$2,860,960 for services without executing written contracts. For example, the Authority paid about \$1.7 million to a temporary employment agency and over \$810,000 from HUD funds to a law firm without a written contract. A written contract specifies the responsibilities of the parties to the contract, protects their interests if there is a dispute, and specifies the payment terms.

Other Procurement Deficiencies

In addition to failing to competitively award and execute contracts, the Authority also failed to follow other prescribed procurement procedures. For example, it did not adequately define the scope of work for \$1,180,783 of the procurements. Thus, it had to modify contracts with change orders that significantly increased costs. Also, because the Authority did not consistently evaluate proposals, it paid \$91,788 to a contractor who may not have been the best qualified. Further, the Authority paid \$28,673 to its former Executive Director to retain his expertise for creating and operating affordable housing. The ACC prohibits the Authority from contracting with any officer for 1 year after his tenure on any project in which he had an indirect or direct interest.

Unsupported Procurements of \$953,477

On several occasions we requested documentation supporting nine procurements totaling \$953,477. For some of the procurements, the Authority provided some documentation, however, it was insufficient for us to evaluate the history of the procurement. For others, the Authority provided no support.

HUD Reviews Noted Similar Procurement Problems

In June 2003, the Greensboro Office performed an assessment of the Authority's procurement procedures and found the Authority did not have a detailed procurement policy with operational procedures similar to those set forth in HUD Handbook 7460.8 and 24 CFR 85.36. Further, the Authority's contract for legal services expired in 2000. There was no record of a Request for Quote or modification to extend the legal services contract beyond the expiration date.

The Greensboro Office advised the Authority that it should implement procurement policies similar to those in HUD Handbook 7460.8, which would assure staff has access to the same procedures, and should contribute to consistency in procurement practices. The Greensboro Office also advised the Authority that at the time the legal services contract expired; the Authority was required to solicit full and open competition. Despite HUD's comments, the Authority continued to pay for services in violation of requirements.

HUD Took Early Action to Monitor Contracting

On May 26, 2004, we discussed our concerns with officials from the Greensboro Office, including the Director of Public Housing. Subsequently, the Greensboro Office took immediate corrective actions to mitigate the conditions. Specifically, they began reviewing and approving:

- Contract solicitation packages prior to Board review,
- Contract awards, including but not limited to review of all proposals and ratings submitted as a result of solicitation,
- Any and all change orders under existing contracts, and,
- Any and all requests to extend or renew contracts.

The Authority can put the unobligated \$2,287,142 available from its CFP, as of June 30, 2004, to better use if it develops and implements better procurement policies and procedures.

Recommendations

We recommend the Director, Office of Public Housing:

- 2A. Require the Authority to develop and implement procurement policies and procedures that ensure its future procurements, including its remaining \$2,287,142 million of unobligated Capital Funds are spent in a manner that provides for full and open competition, thus ensuring the funds are used efficiently.
- 2B. Require the Authority to establish a central procurement office.
- 2C. Require the Authority to hire a qualified procurement officer.
- 2D. Ensure responsible Authority staff and management obtains procurement training.
- 2E. Require the Authority to repay its programs \$6,855,271 spent for ineligible procurements. Repayment should be from non-Federal funds and paid in the following amounts and to the following programs: Conventional Public Housing General Fund \$2,818,331, Capital Fund \$3,630,215, HOPE VI \$259,289, Section 8 \$115,128, Drug Elimination \$12,048, Economic Development Support Services \$13,831, and Turnkey III program \$6,429.
- 2F. Require the Authority to provide support for \$953,477 spent for goods and services identified in Appendix D, or require the Authority to repay any amounts it is unable to support. Repayments should be made from non-Federal funds and paid in the following amounts and to the following programs: Conventional Public Housing General Fund \$822,529, Section 8 \$80,102, HOPE VI \$19,429, and Turnkey III program \$31,417.
- 2G. Continue to monitor the Authority's procurements until it has demonstrated it has developed and implemented procedures that comply with requirements.

SCOPE AND METHODOLOGY

We performed the audit:

- From February through August 2004;
- In accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary under the circumstances; and,
- At the Durham Housing Authority located in Durham, North Carolina.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2000 through December 2003. We expanded the audit scope as necessary. We reviewed applicable guidance, including the Authority's ACC and 24 CFR 85.36, and discussed operations with management and staff personnel at the Durham Housing Authority and key officials at HUD's Greensboro Office.

To determine if the Authority's misuse of funds jeopardized project stability we reviewed the Authority's and DVI's financial statements for Fiscal Years 1996 through 2003. We expanded our review through June 2004 to update our analysis.

To determine if the Authority followed HUD procurement regulations we reviewed the Authority's documentation for selected procurements. Documentation reviewed included available contracts, award documents, accounting records, vendor billings, and checks. We expanded our review to include a non-statistical sample of procurements based on total amounts paid to individual vendors. To perform the review, we:

- Obtained the Authority's disbursement records for the period January 1, 2000, through December 31, 2003, in electronic format.
- Calculated the total amounts paid to individual vendors.
- Reviewed a non-representative sample of payments totaling \$8,818,224 or 17 percent of the Authority's total checks of \$53,106,240 for the period.
- Reviewed available contracts and award documents to assess compliance with specific procurement criteria (planning, soliciting, evaluating, and documenting).
- Reviewed HUD correspondence related to the audit, and results of monitoring reviews conducted by the Greensboro Office.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Monitoring financial operations to assure the Authority can continue to meet its mission, goals, and objectives.
- Conducting procurement transactions in accordance with procurement regulations and in a manner providing for full and open competition.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The Authority did not monitor financial operations to assure the Authority could continue to meet its mission, goals, and objectives (Finding 1).
- The Authority did not conduct procurement transactions in accordance with procurement regulations and in a manner providing for full and open competition (Finding 2).

FOLLOW-UP ON PRIOR AUDITS

**Housing Authority of the City
of Durham, North Carolina,
Report Number 2004-AT-1012**

OIG audit report 2004-AT-1012, issued August 2, 2004, reported the Authority violated its ACC and Turnkey III agreement with HUD. For example, the Authority inappropriately advanced funds and guaranteed loans for non-Federal development and other activities that were not approved by HUD. The Authority also failed to properly allocate operating costs to other entities. Further, the Authority has not completed several of its development efforts, thus we questioned its ability to successfully complete its HOPE VI Revitalization Plan. These actions occurred because the Authority Board of Commissioners and management did not establish and implement sufficient controls to monitor activities and ensure transactions adhered to Federal regulations. Further, the Board did not adequately fulfill its fiduciary responsibilities to oversee Authority operations, and management willfully disregarded HUD requirements and instructions. The report contained 16 significant recommendations that remain open pending completion of corrective actions.

APPENDIXES

Appendix A

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

<u>Recommendation</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Funds To Be Put to Better Use 3/</u>
1B			\$ 6,000,000 ¹
2A			2,287,142
2E	\$ 6,855,271		
2F		\$ 953,477	
Total	<u>\$ 6,855,271</u>	<u>\$ 953,477</u>	<u>\$ 8,287,142</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local polices or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Funds to be put to better use are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

¹ Estimate based upon fiscal year 2004 subsidy.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



A Commitment to Quality Living

November 5, 2004

Mr. Gerald R. Kirkland
Assistant Regional Inspector General
John Duncan Bldg., Room 116
710 Locust Street
Knoxville, TN 37902

Dear Mr. Kirkland:

Subject: Audit Response

Enclosed you will find a summary to the responses and recommendations outlined in the draft audit regarding DHA's financial operations and procurement procedures dated October 21, 2004.

Within the next 30 days our agency will put forth a full review and provide your office with documentation to support our actions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Frank Meachem', is written over a horizontal line.

Frank Meachem

Enclosure

cc: Michael Williams, Director-Office of Public Housing
Sheila Hester, Financial Analyst/Team Leader

The Housing Authority of the City of Durham • Post Office Box 1726 • 330 East Main Street • Durham, North Carolina 27702
(919) 683-1551 • FAX (919) 683-1237

AUDITEE'S RESPONSE

SUMMARY

Based on the meetings and reviews between the Audit Committee of the Board of Commissioners and DHA management, the Housing Authority of the City of Durham (DHA) generally agrees (with some reservations as discussed below) with the findings and recommendations within the financial operations and procurement procedures audit of the Office of Inspector General (OIG).

FINDING 1: THE AUTHORITY IS IN A PRECARIOUS FINANCIAL POSITION

Response:

Beginning in 1985, the Authority through its non-profit wholly owned subsidiary, DVI, has engaged in several housing development activities, and the renovation of an industrial center. It was intended that these developments would generate sufficient revenue to fund DVI operations, and also to supplement declining subsidies for DHA. Through the use of low-income housing tax credits, DVI has been successful in adding outside investment to Durham County for affordable housing. The recent effects of the recession on the working poor have resulted in DVI experiencing more vacancies, increasing expenses and declining collections in its developments. As a result, the balance of payments has shifted so that DVI owes the general fund of DHA approximately \$900,000.

DVI continues to aggressively increase occupancy, decrease expenses and return DVI to positive financial position. It was never the intent of DHA to subsidize DVI and its developments. The Board of Commissioners and its Finance Committee were unaware that this was occurring.

In response to the prior audit report of the OIG, the Authority and DVI have been working with HUD to arrive at a plan to repay the general fund, and also to solve the other concerns identified by the OIG. It is anticipated that the Authority will be successful in presenting a plan to OIG that it will find satisfactory. The Authority fully realizes the seriousness of its financial condition, and is dedicated to resolving its financial difficulties. Its present plan which was revised after the publication of this audit does provide multiple strategies, with short-term and long-term objectives to prevent a possible default of its ACC, insure financial

Comment 1

stability and insure sufficient financial reserves to carry out its primary mission of providing decent, safe and sanitary housing to its tenants.

The Authority is grateful for the suggestions of OIG and the dedicated monitoring efforts of HUD. The Authority continues to work with HUD and OIG in an effort to develop a financial recovery plan in order that the Authority will put its annual operating subsidy to better use in the future

RECOMMENDATIONS 1A

The Authority will continue to work with OIG and HUD to develop a financial recovery plan with short-term and long-term strategies that strengthens its current financial position and insures its future financial stability. Efforts are being undertaken to increase the financial reserves of the Authority and reduce its accounts receivable by recovering amounts owed by DVI and its related entities.

RECOMMENDATIONS 1B

We welcome the continued monitoring by HUD of our financial operations to assist us in implementing procedures to insure funds are spent efficiently, and only for eligible activities, thereby putting our \$6,000,000 annual operating subsidy to better use.

FINDING 2: THE AUTHORITY IMPROPERLY SPENT OVER \$6.8 MILLION FOR GOODS AND SERVICES

RECOMMENDATIONS 2A-2D

We concur that the Authority needs to thoroughly review, update, and implement its procurement policies, procedures and practices and train all affected procurement and related personnel. We are in the process of finalizing a Memorandum of Agreement (“Agreement”) with HUD in which we agree to “develop, adopt and implement an agency-wide procurement policy and contract administration procedures and to include PHA, HUD, OMB and State requirements” under section 3.3.F of the MOA.

We agree on the need for both a centralized procurement function for the Authority and the employment of a senior procurement professional to consolidate, manage and control the

Comment 2

Comment 3

procurement function at DHA. We specifically agree to "hire a procurement/contract officer" under Section 2.1.B of the Agreement. We have already defined the DHA Procurement Officer job description and intend to start the search process by advertising the position starting Sunday, November 7, 2004.

RECOMMENDATIONS 2E-2F

The Authority has conducted limited, internal reviews of the noted goods and services procurements. However, given the number of procurements and dollar amounts involved, it is clear that a more thorough, internal review of the relevant bid and contract documents is needed to satisfy ourselves as to potential eligibility or supportable cost classification. We will be unable to conclude this task in the time available for this response (Friday, November 5, 2004). We intend to complete our review by November 30th, 2004 and by December 3, 2004, present our findings to the HUD-Greensboro office for their consideration.

RECOMMENDATION 2G

DHA also concurs, and eagerly looks forward, to working with the HUD-Greensboro office to implement all the recommendations, address and resolve all noted issues of ineligible and unsupported costs and to aggressively move forward to undertake the actions necessary to demonstrate clear and compelling compliance with PHA, HUD, OMB and State procurement policy.

OIG Evaluation of Auditee Comments

- | | |
|------------------|---|
| Comment 1 | We are pleased the Authority recognizes the seriousness of its financial condition and the need to resolve its financial difficulties. |
| Comment 2 | We are also encouraged that the Authority will implement procurement procedures to address weaknesses identified in our report. |
| Comment 3 | Implementation of our recommendations and continued HUD oversight should improve Authority operations and ensure HUD funds are used more efficiently and effectively, and for their intended purposes. We appreciate the Authority's cooperation during the audit and welcome its continued cooperation in implementing corrective actions. |

Appendix C

INELIGIBLE PROCUREMENT PAYMENTS OF \$6,855,271

Good or Service	Deficiency	Conventional	CGP or CFP	HOPE VI	Section 8	Other
Temporary Employment	(2)	\$1,504,795	\$32,364	\$58,563	\$109,390	\$25,879 ²
Legal	(1) (2)	550,079	57,649	196,901	5,738	189 ³
Landscaping	(1)	339,535		3,825		6,240 ³
Pest Control	(2)	253,567				
Meter Reading	(1)	75,836				
Payroll	(2)	65,846				
Consulting Agreement	(4)	28,673				
Property Renovations	(1)		2,220,803			
Damar Court Paving	(3)		546,589			
Fayette Street & Morreene Road Paving & Drainage	(3)		452,983			
Hoover Road Roofing	(3)		181,211			
Architectural	(5)		91,788			
Appliances	(1)		46,827			
Total		\$2,818,331	\$3,630,215	\$259,289	\$115,128	\$32,308

(1) Inadequate or no competitive awarding. Total = \$2,693,067

(2) No written contract. Total = \$2,860,960 (includes the \$810,556 for legal services)

(3) Inadequate scope of work. Total = \$1,180,783

(4) Prohibited by ACC. Total = \$28,673

(5) Inadequate bid evaluation. Total = \$91,788

²Economic Development Support Services (\$13,831) and Drug Elimination Program (\$12,048).

³Turnkey III

Appendix D

UNSUPPORTED PROCUREMENT PAYMENTS

GOOD OR SERVICE	AMOUNT
Insurance	\$ 375,898
Telecommunications	196,935
Legal	118,349
Engineer Consultants	37,667
Janitorial	93,415
Interior Construction	51,042
Housing Quality Standards Evaluator	50,528
Housing Quality Standards Evaluator	29,643
TOTAL	\$ 953,477