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# AUDIT REPORT



HOUSING AUTHORITY OF THE COUNTY  
OF SAN JOAQUIN

2005-LA-1001

NOVEMBER 18, 2004

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OFFICE OF AUDIT  
PACIFIC/HAWAII REGION  
LOS ANGELES, CALIFORNIA

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Issue Date
November 18, 2004
Audit Case Number
2005-LA-1001

TO: Rita Robinson, Acting Director, Office of Public Housing, 9APH

*Joan S. Hobbs*

FROM: Joan S. Hobbs, Regional Inspector General for Audit, 9DGA

SUBJECT: Housing Authority of the County of San Joaquin  
Stockton, CA

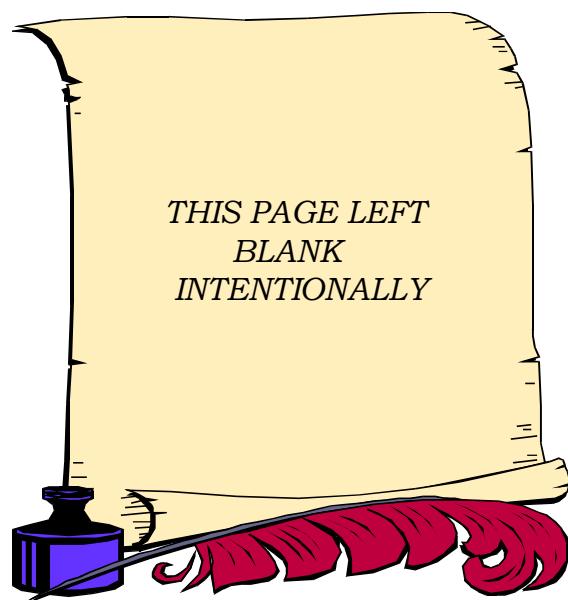
We audited the activities of the Housing Authority of the County of San Joaquin (the Authority) to determine whether the Authority (1) used Low-Rent Housing program funds for non-Low-Rent Housing program expenses and (2) followed Federal requirements and its own procurement policies and procedures. In addition, we determined whether allegations received in two complaints were valid.

Our report contains two findings with recommendations requiring action by your office. In accordance with U.S. Department of Housing and Urban Development Handbook 2000.06, REV-3, within 60 days, please provide us for each recommendation without management decisions, a status report on (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after the report is issued for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (213) 894-8016, or Clyde Granderson, Assistant Regional Inspector General for Audit, at (415) 489-6692.

Management Memorandum

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# Executive Summary

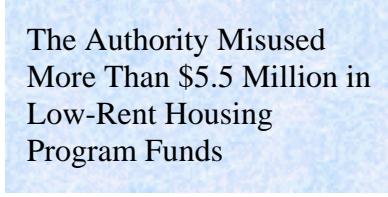
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We audited the activities of the Housing Authority of the County of San Joaquin (the Authority) in Stockton, CA, to determine whether the Authority used U.S. Department of Housing and Urban Development (HUD) funds for non-HUD projects/programs and whether it followed Federal requirements and its own procurement policies and procedures. In addition, we determined whether allegations received in two complaints were valid.



## The Authority Improperly Awarded More Than \$3.3 Million in Contracts

The Authority improperly awarded \$3,322,032 in contracts for goods and services. We attribute this to the Authority's decentralized procurement process, which allowed department managers to procure goods and services without following Federal regulations and its own adopted policies. We also attribute this to poor management practices by executive management. As a result, the Authority spent funds for goods and services that were not proper and reasonable, increased monetary and legal risks by conducting business without the benefit of contracts, failed to ensure free and open competition, and allowed contracts to contain clauses that solely benefited the contractor.



## The Authority Misused More Than \$5.5 Million in Low-Rent Housing Program Funds

The Authority misused \$5,545,972 in Low-Rent Housing program funds to pay for its non-Low-Rent Housing program expenses. We attribute the Authority's misuse of Low-Rent Housing program funds to poor management decisions, as well as the lack of adequate controls in place to safeguard Low-Rent Housing funds. As a result, the Authority put Low-Rent Housing program funds at risk by transferring them to its non-Low-Rent Housing programs without HUD's approval, thereby depriving low-rent housing program recipients of funds to ensure safe, decent, habitable, and quality public housing.

We validated the primary allegations in two complaints and determined that the Authority's former executive director awarded consulting contracts to what appeared to be friends or colleagues. We questioned some of these costs. In addition, the former executive director was managing the Authority at the time the decisions were made to inappropriately use \$5.5 million of Low-Rent Housing program funds for the Authority's non-Low-Rent Housing programs.

### Recommendations

We recommend that the Director, Office of Public Housing, require the Authority to

- Terminate all of its current legal services and security services contracts and issue a new Request for Proposals.
- Establish a centralized procurement department and ensure that all procurement actions are performed in accordance with Federal requirements and the Authority's own adopted procurement policy to eliminate occurrences such as paying \$829,527 for the failed Public Housing Authority Management System.
- Immediately cease the practice of using Low-Rent Housing program funds to pay for non-Low-Rent Housing program-related purchases and expenses.
- Reimburse the Low-Rent Housing program from nonfederal funds \$154,171 in accrued interest for using \$5,454,349 in Low-Rent Housing program funds to purchase properties for its non-federal programs.
- Reimburse the Low-Rent Housing program \$364,388 from non-federal funds for ineligible and unsupported costs incurred by its non-Low-Rent Housing programs.
- Establish better controls to ensure that Low-Rent Housing program funds are used only for that program's related expenditures and ensure that there are no other occurrences of the Low-Rent Housing program funds being used for non-Low-Rent Housing program-related expenses.

### Audit Results Discussed With Auditee

We discussed the findings with the Authority's officials during the audit and at an exit conference held on October 20, 2004. We also provided the Authority and HUD with a copy of the discussion draft report for comments on October 8, 2004. We received the Authority's written responses on November 8, 2004. The auditee agreed with the majority of the recommendations, however, differed about the frequency and extent of some of the problems. The full text of the Authority's response is included as Appendix I of this report.

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# Introduction

## Background

The Housing Authority of the County of San Joaquin (the Authority) was established on March 9, 1942, under the State law known as the Housing Authorities Law, which was enacted in 1938 by the legislature of the State of California. The Authority is responsible for providing decent, safe, and affordable housing for low-income families, the elderly, and the disabled. The Authority receives Federal and State funding and is governed through a seven member Board of Commissioners (Board), locally appointed by the San Joaquin County Board of Supervisors. The Board establishes policies and appoints the executive director, who is responsible for implementing the Board's policies. The former executive director resigned in February 2004 during the early stages of our fieldwork. The deputy director resigned in March 2004, and the information technology manager resigned in January 2004.

The ongoing mission of the Authority is to provide and advocate for an affordable, attractive, safe living environment for persons of very low to moderate income and to provide opportunities for them to become self-sufficient. As of June 29, 2004, the Authority had 5,040 units with families receiving rental assistance under the Section 8 program, 205 non-federally aided units, and 1,075 low-rent conventional public housing units, totaling 6,320 units.

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### Audit Objectives

The audit objectives were to determine whether the Authority (1) used public housing program funds appropriately and (2) followed Federal procurement requirements and its own procurement policies and procedures. Additionally, we determined whether the following allegations received in the two complaints were valid: (1) inappropriate use of a credit card, (2) awarding of contracts to friends and colleagues, (3) inappropriate payments not related to Authority business, and (4) use of U.S. Department of Housing and Urban Development (HUD) funds for non-HUD projects/programs.

### Audit Scope and Methodology

We performed on-site audit work from January to July 2004. The audit covered the period January 2000 through December 2003. We extended the audit, when appropriate, to include other periods.

The primary audit methodologies included:

- Interviews with HUD and Authority management and staff.
- Evaluation of the Authority's management control structure and an assessment of risk.
- Review of public records and databases.
- Review of applicable HUD regulations, the Authority's Annual Contribution Contract, the Authority's written procurement policies and procedures, and other requirements.
- Review of various Authority documents including financial statements, general ledgers, bank statements, invoices, vendor payment records, and minutes from Board meetings.
- Selection and review of 13 properties and seven procurement actions.

The audit was conducted in accordance with generally accepted government auditing standards.

# The Authority Improperly Awarded More Than \$3.3 Million in Contracts

The Authority improperly awarded \$3,322,032 in contracts for goods and services because its decentralized procurement process allowed department managers to execute contracts and procure goods and services without following Federal regulations and its own adopted policies and procedures. As a result, the Authority spent funds for goods and services that were not proper and reasonable, increased monetary and legal risk by conducting business without the benefit of contracts, failed to ensure free and open competition, and allowed contracts to contain clauses that solely benefited the contractor and that did not contain federally required clauses.

## HUD Rules and Regulations

According to 24 Code of Federal Regulations 85.36, the grantee must

- Conduct all procurement transactions in a manner providing full and open competition.
- Maintain and provide any books, documents, papers, and records of the contractor that are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.
- Procure goods and services by noncompetitive proposals only when the award of a contract is not feasible under small purchase procedures, sealed bids, or competitive proposals.

HUD Handbook 7460.8, “Procurement Handbook for Public Pricing Arrangements and Contract Options,” chapter 6, section 1, subsection 6-2, generally states that in many cases, a housing authority may need to acquire supplies, services, or construction, which it knows will be required for more than just its immediate needs. One method of obtaining firm commitments from contractors is to include an option clause in the contract. An unpriced option, like a bilateral option, is considered a new contract, and there must be a finite period for the contract.

The Authority’s procurement policy and procedures require all contracts to include the clauses cited in 24 Code of Federal Regulations 85.36(i), as well as State provisions. HUD Handbook 7460.8 places a 2-year limit on service

contracts unless HUD approval is obtained. Contracts for services in which the initial period exceeds years and any option, extension, or renewal of a contract for services that makes the total length of the contract as modified exceed 2 years must have HUD approval.

The Authority  
Improperly Awarded  
More Than \$3.3 Million  
in Goods and Services

We reviewed seven procurement actions, totaling more than \$3.3 million, to determine whether the Authority obtained goods and services in accordance with applicable Federal regulations and policies. We determined that each of the seven procurement actions contained significant deficiencies and that the Authority's policies and procedures were not adequate to ensure compliance. Among the problems found were (1) a lack of competition for requested goods and services, (2) a lack of independent estimates before receiving bids or proposals and no cost or price analysis, (3) a lack of required Federal contracting clauses such as termination for cause or convenience, (4) the use of vendor-issued contracts and, (5) the decentralized procurement of goods and services that resulted in poorly written contracts or no contracts at all (see appendix C).

**Decentralized Procurement and Contract Administration**

The Authority awarded many contracts each year without a designated procurement department. It used its Purchasing Department to procure some of its goods and services, but individual departments handled most of their own procurements. Since each department procured and administered most of its own contracts, the Authority's procurement and contracting functions were inconsistent among departments, and critical contract terms and conditions were often missing. Authority staff acknowledged its Purchasing Department was not involved in most of the Authority's procurements. The Purchasing Department was actively involved in just one of the seven procurement actions we reviewed.

Without centralized procurement, the Authority's managers circumvented Federal and Authority-adopted procurement procedures to obtain goods and services. The effects of the decentralized procurement of goods and services were evident during our review of the seven procurement actions. There was no evidence that the Authority performed the required independent estimates and cost or price analyses for six of the seven procurements; it did not

competitively bid four of the seven procurement actions to achieve free and open competition; and for two of the procurements, it paid for services without the use of contracts. The Authority also entered into open-ended, vendor-issued contracts for security and legal services that included clauses benefiting the vendor at the expense of the Authority. For instance, the Authority entered into a security contract with Ad Force Security that included a clause stating prepayment of security services were nonrefundable. It also entered into contracts that lacked required Federal provisions, designed to reduce legal and financial risks to the Authority, such as termination for cause and convenience and legal remedies for breach of contract. We believe these failures to practice proper contracting exposed the Authority and its resources to unnecessary monetary and legal risks.

The Authority lacked the necessary monitoring controls to ensure that vendor payments were consistent with contract terms. We identified a number of instances in which vendors were paid based on estimated, not actual, costs incurred for the services rendered. In some cases, the vendor billed the Authority for work not performed or for work that was inconsistent with contract terms. There were also instances in which department managers did not provide to the Purchasing Department or Finance Department such documentation as audit logs for security services rendered, to support invoices submitted by the vendor. As a result, the Finance Department and Purchasing Department approved billings without adequate supporting documentation to show that services were provided.

### **Video Production Vendor**

The Authority entered into an oral agreement without obtaining price and rate quotations from other qualified sources, obtaining a formal written agreement, or following procurement by small purchase procedures (24 Code of Federal Regulations 85.36 (d)(1)). In May 2000, the Authority spoke with a video production vendor about providing a 7-10 minute video presentation for use at a housing conference. It agreed to pay the vendor \$4,500 for the video presentation. The Authority did not perform a cost or price analysis, as is required by Federal regulations and its own policies, to show whether the \$4,500 fee was

reasonable. The Authority ignored Federal regulations and its own policies and procedures by not soliciting at least three offers to provide video services for the Authority. The Authority acknowledged that it did not solicit other firms to provide video services. The Purchasing Department was not involved in the procurement action.

The vendor delivered a 30-minute video rather than the 7-10-minute presentation requested and orally agreed upon. The vendor believed that he was entitled to additional compensation for the extra work; however, the Authority disagreed and paid the vendor only \$4,500. Ultimately, an arbitrator intervened and ruled that the vendor was entitled to only \$4,500 for providing the service, even though the results were not what the Authority verbally agreed to receive. A centralized Procurement Department, as well as a formal written contract, would have protected the Authority from monetary and legal risks and executive staff time spent on this issue.

### **Brown Stove Works**

From December 6, 1999, through June 7, 2002, the Authority purchased 1,024 stoves from Brown Stove Works of Cleveland, TN, for \$272,710 without competitive bidding, cost or price analyses, or a written contract. During this 2½-year period, the Authority purchased and received shipments of large quantities of stoves using purchase orders rather than entering into formal written contracts, as required by its procurement policies and procedures. There was no price or cost analyses, as is required by Federal regulations, to show that the costs charged for the stoves were reasonable and fair. The Purchasing Department was actively involved in the purchase of the stoves yet failed to follow Federal regulations in obtaining them. The purchasing agent's reason for the sole-source purchases was that the Authority had been doing business with the company since 1978 and was satisfied with the product, and the Authority's maintenance staff was familiar with the stoves. This action does not comply with HUD's requirements, and this sole-source purchase cannot be justified when local vendors and building and supply stores carry such a commodity.

**Robert Burns Construction Co.**

On March 7, 2000, the Authority entered into a construction contract with Robert Burns Construction Co. to perform construction work at Conway Homes, an Authority-owned public housing development. Robert Burns Construction Co. was paid \$1,082,121. Of this amount, \$975,000 was for the original contract, and \$107,121 was for various change orders that occurred during the construction. The Purchasing Department was not involved in the procurement of this construction contract. The Authority's Capital Fund manager was involved in the procurement action, and there was no evidence that the Authority performed the required cost or price analyses for the original contract amount or its modifications. Without a cost or price analysis, the Authority could not determine whether the construction costs were reasonable and fair.

There was no evidence that a technical evaluation was performed for the proposals received. Also, there were no provisions in the contract regarding compliance with the Davis-Bacon Act, compliance with the Copeland Anti-Kickback Act, or termination for cause and convenience by the Authority. Such provisions are required by Federal regulations to protect housing authorities and their resources from legal and financial risks. We believe the establishment of a centralized Procurement Department would have helped to ensure that the procurement for construction services at Conway Homes followed Federal regulations and the Authority's own policies and procedures.

**Signature Systems, Inc.**

On August 1, 2001, the Authority contracted with Signature Systems, Inc., to provide an updated computer system, Public Housing Authority Management System, to replace its old management system to meet the reporting needs of the agency. The Authority's Information Technology Department and executive management procured the professional services for the data conversion and implementation of the new system but did not include the Purchasing Department and sought very little input from accounting and finance staff in the procurement process. The Authority did not perform an independent cost estimate before receiving proposals, nor did it perform a

cost or price analysis, as is required by Federal regulations. The Authority did not maintain complete and accurate documentation of the procurement process, as required by Federal regulations and its own procurement policies and procedures. The following documentation for this procurement transaction was not provided to OIG after repeated requests: 1) the losing bidders' proposals, 2) bidders scoring/evaluations of the proposals, 3) the scope of work, and 4) a pricing summary.

On May 17, 2001, the deputy director prepared a staff report for the Board stating, "Anticipated costs for full implementation range to \$400,000." Records provided to us showed the Authority entered into a contract with Signature Systems, Inc., on August 1, 2001, for \$289,516, which stated this amount was for Phase I, but the Phase 2 costs were still to be determined. The costs escalated to \$829,527 by the time the Authority determined that the Public Housing Authority Management System was a failure and went back to its previous management system. It did not run a backup or parallel system during the data transfer from the previous system to the attempted new system. We concluded that the Authority did not follow Federal procurement requirements, did not retain adequate records documenting the history of the procurement, and mismanaged resources and Federal funds provided for the benefit of its residents.

**Geiger, Rudquist, Nuss, Coon & Keen, LLP**

On February 3, 1999, the Authority awarded Geiger, Rudquist, Nuss, Coon & Keen, LLP, an open-ended legal services contract, in which the law firm would provide various legal services on an as-needed hourly basis. Geiger, Rudquist, Nuss, Coon & Keen, LLP, was to provide these services to the Authority for 2 years with options for 2 additional years. Through additional options not specified in the original contract, the Authority extended its contract with Geiger, Rudquist, Nuss, Coon & Keen, LLP, until September 2007 and added two additional 2-year options. This would effectively allow the contract to continue through September 30, 2011. This contract disregards HUD Handbook 7460.8 requirements that limit the length of service contracts to 2 years without HUD approval. It also disregards Federal regulations requiring all procurements to be conducted in a manner providing

free and open competition. Due to problems associated with the Authority's failed attempt to upgrade its computer system, we were only able to determine that Geiger, Rudquist, Nuss, Coon & Keen, LLP, received \$318,491 from June 28, 2001, through June 25, 2004, for legal services rendered.

The legal services contract did not include required Federal provisions, such as administrative, contractual, and legal remedies when the contractor violates or breaches contract terms. These and other Federal provisions must be included in all contracts and are designed to protect the Authority from unnecessary legal and financial risks.

The original contract and options did not cap the maximum amount to be paid to the law firm. Geiger, Rudquist, Nuss, Coon & Keen, LLP, unilaterally increased its hourly rates over the years without the Authority's formal approval and without applicable contract modifications. The exercised contract options were silent on any hourly rate increases and referred to the February 3, 1999, contract.

Geiger, Rudquist, Nuss, Coon & Keen, LLP did not perform services for the Authority as agreed upon in a signed contract dated February 3, 1999. Specifically, Geiger, Rudquist, Nuss, Coon & Keen, LLP did not ensure contracts and procurement actions were in compliance with federal rules and regulations. At \$160 an hour, the attorneys were to perform the following services for the Authority: (1) review formal competitive bidding documents, information for the solicitation of materials, equipment and non-professional service agreements; (2) review request for proposals for architects, engineer and other consultants and draft professional services agreement and (3) ensure contracts were in compliance with federal and state procurement laws. We believe the attorney's failure to effectively perform contracted services and reviews added to the problem of the Authority improperly awarding over \$3.3 million in contracts for goods and services and the resulting unnecessary financial and legal risks.

We attribute the poor execution and administration of this lengthy, open-ended contract to poor management practices, compounded by not using a centralized procurement system to ensure compliance with HUD requirements.

### **Ad Force Security**

In June 1993, the Authority awarded Ad Force Security a series of open-ended security services contracts without competition. Due to problems associated with the Authority's prior computer system upgrade, we were only able to determine that Ad Force received \$779,845 from June 29, 2001, through July 26, 2004, for security services rendered. We limited our procurement review to four of Ad Force's most recent contracts, beginning on February 3, 2003. Each of the four contracts provided security services for the following Authority-owned properties: Sierra Vista, Tracy Homes, Administration Building, and Franco Center. None of the contracts provided a specific time when Ad Force would complete its services for the Authority. The Authority entered into the agreements with Ad Force using vendor-prepared contracts, which benefited the vendor and placed significant legal and financial risks on the Authority and its resources. In addition, the executed contracts did not specify a maximum contract amount that the Authority would pay Ad Force for the security services rendered.

There were many instances in which the Authority prepaid for security services not yet rendered by Ad Force. For example, on October 24, 2003, Ad Force billed the Authority for security services that were to be provided for the period October 24-30, 2003. On October 27, 2003, the Authority paid Ad Force before completion of the scheduled services. It should be noted that a clause in all of the vendor-issued contracts specified that prepaid services were nonrefundable. The Authority placed itself and its resources at risks by paying for services before completion.

In addition, from October 23, 2003, through July 16, 2004, Ad Force overbilled the Authority \$3,772 for security services provided to Tracy Homes. In one instance, Ad Force billed the Authority for 42 hours of security services during the week of February 20-26, 2004. However, security logs showed the vendor provided only 36 hours of security services to the housing development during that week.

### **Reorganization Consultant**

The Authority's former executive director awarded three consulting contracts to a reorganization consultant for

reorganization plans without competitively bidding the services. From April 22, 2002, through May 7, 2003, the consultant was paid \$34,838 for consultant services and expenses. The payments for preparing a reorganization plan in April and May 2002 were not associated with a contract. They were authorized and approved for payment by the executive director. The consultant was later awarded three consulting contracts, dated August 2002, February 2003, and April 2003, to prepare and present a reorganization plan. Each of the three contracts specified that the consultant would be paid at a daily rate of \$1,000 for rendered services, but the contracts did not specify the hourly rate for services to be rendered. We followed up with the former executive director on why he selected the consultant, and he stated that he believed his personal knowledge of the consultant's experience, including prior work at several other public housing authorities, would benefit the Authority's reorganization plans.

According to the Authority's procurement policies and procedures, monthly reports disclosing all contracts awarded between the threshold of \$2,500 and \$25,000 are to be submitted to the Board. These monthly reports were intended to inform the Board of contracts executed within the specified dollar threshold for the respective month. There was no evidence that the Authority included the three consulting contracts in monthly reports to the Board, as required by its procurement policies and procedures, and it appears that the former executive director executed the three consulting contracts without the Board's full knowledge.

We questioned \$3,911 for the consultant's services charged to the Low-Rent Housing program. Of this amount, the Low-Rent Housing program absorbed \$2,810 in ineligible costs and \$1,101 in unsupported costs paid to the consultant. The ineligible costs are primarily duplicate reorganization plan costs the consultant charged in April and May 2002, when he did not have a contract, and again in August 2002, when he was awarded a sole-source contract to provide the same services. The unsupported costs are for rental car expenses incurred by the consultant in February 2003, for which receipts could not be found.

## Auditee Comments

Authority officials generally agreed with the recommendations, and are centralizing all of its procurements to ensure consistency among all departments. However, the Authority believed the procurement problems found during the audit were isolated instances. The Authority also believed that no additional savings were anticipated by going through the formal bid process for its purchase of stoves from Brown Stoves Works and having them shipped from Cleveland, Tennessee.

The Authority stated that Geiger, Rudquist, Nuss, Coon & Keen, LLP's experience and efforts from previous relationships warranted the extension of the contract. The Authority claimed HUD Notice PIH 2003-04 (HA) provided it and its counsel the ability to extend the legal services contract. In addition, the Authority cited HUD regulation 24 CFR 85.36(d)(1), procurement by small purchase procedures (\$100,000 or less) as being applicable.

The Authority is issuing new Requests for Proposal for legal services and security services. Authority officials asked us to provide them a sample contract approved by OIG to assist in the Request for Proposals process for legal counsel and security services.

## OIG Evaluation of Auditee Comments

The Authority's comments were generally responsive to the recommendations; however, OIG does not approve contracts, so the Authority should contact HUD program staff for any additional guidance needed in addition to that in HUD regulation 24 CFR 85.36 and HUD Handbooks.

We agree with the Authority's actions to centralize all of its procurements. However, we disagree with the Authority's claim that the procurement problems were isolated instances. All seven procurements we reviewed had significant problems of which most were directly tied to the Authority's failure to actively involve its Purchasing Department. If the Authority had maintained centralized procurement, problems such as the ones found during the audit could have been minimized.

The Authority's claim that no additional cost savings would have been anticipated by going through a formal bid process for Brown Stove Works is incorrect and contrary to HUD's requirements. According to HUD regulation 24 CFR 85.36(c), the grantee must conduct all procurement transactions in a manner providing full and open competition. In the case of Brown Stove Works, we believe the Authority could have obtained competitive prices for the purchase of stoves from local vendors such as Lowe's, or Home Depot, instead of having them shipped from a vendor in Cleveland, Tennessee. We believe local vendors such as the ones previously mentioned could have offered savings to the Authority based on the volume of stoves purchased.

We disagree with the Authority's assertion that Geiger, Rudquist, Nuss, Coon & Keen, LLP's experience and efforts from previous relationships warranted the extension of the contract. The Authority and its counsel were incorrect in their interpretation of HUD Notice PIH 2003-24 (HA). The HUD Notice only repeats what HUD Handbook 7460.8 and 24 CFR 85.36 state about the procurement of legal services by Public Housing Agencies (PHAs). Specifically, HUD Notice PIH 2003-24 (HA) states, "This Notice is not intended as the primary source of guidance in this area [Procedures for Procuring Professional Services], but is provided to remind all HUD Offices and PHAs of the proper procedures for procuring legal services and to briefly review areas of common interest and concern."

In addition, HUD Notice PIH 2003-24 (HA) does not reference the Public Housing Authority's ability to extend time periods of legal services contracts. HUD Handbook 7460.8, Section 4-27, Part B (Professional Services), Paragraph 2 states, "The HA shall submit for HUD review and approval any agreement or contract for professional, management, fee accountants, legal or other professional services with any person or firm where the total period or term of the contract, including any renewal or option provisions, is in excess of two (2) years... When reviewing such contracts, HUD should ensure that price competition was obtained for any renewal or option periods." The Authority failed to produce any evidence HUD reviewed or

approved the legal services contract or any renewals or option provisions exceeding two years.

The Authority and its legal counsel incorrectly cited section 85.36(d)(1) of HUD Notice PIH 2003-24 (HA) as being applicable criteria for the legal services to be considered a small purchase. The total amount paid to Geiger, Rudquist, Nuss, Coon & Keen, LLP under the legal services contract was well above the \$100,000 threshold in HUD regulation 24 CFR 85.36 for procurement by small purchase procedures. Thus, the legal services contract would not fall under small purchase procedures and the competitive proposal method of procurement, as required by 24 CFR 85.36(d)(3), should have been used. In addition, if the small purchases procurement method had been applicable, the Authority's own procurement policies and procedures limit it to \$50,000 and not \$100,000.

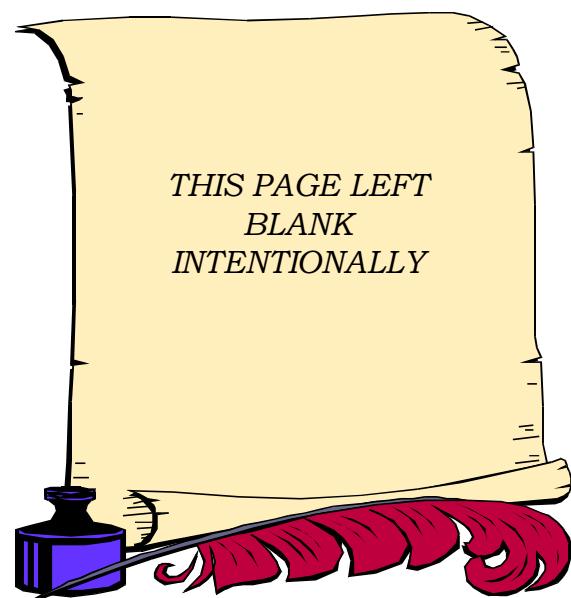
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## Recommendations

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

- 1A. Establish a centralized procurement department and ensure that all procurement actions are performed in accordance with Federal requirements and the Authority's own adopted procurement policies and procedures to eliminate such occurrences as paying \$829,527 for the failed Public Housing Authority Management System.
- 1B. Terminate all of its current contracts with Geiger, Rudquist, Nuss, Coon & Keen, LLP, and Ad Force Security and issue a new Request for Proposals for legal services and security services. Ensure that all future contracts follow the requirements in 24 Code of Federal Regulations 85.36 and HUD Handbook 7460.8, including all required contract clauses in 24 Code of Federal Regulations 85.36 (i).
- 1C. Reimburse its Low-Rent Housing program \$3,772 from non-federal funds for the overpayment in security services.

- 1D. Reimburse its Low-Rent Housing program \$2,810 from non-federal funds for ineligible consulting costs.
- 1E. Provide adequate documentation for the \$1,101 in unsupported consulting costs. If supporting evidence is not provided, reimburse its Low-Rent Housing program for those costs from non-federal funds.



# The Authority Misspent More Than \$5.5 Million in Low-Rent Housing Program Funds

The Authority misused \$5,545,972 in Annual Contributions Contract funds for the Low-Rent Housing program to pay for its non-Low-Rent Housing programs' expenses. The Authority's use of Low-Rent Housing funds toward non-Low-Rent Housing expenses was a result of poor management decisions, as well as the lack of adequate controls to safeguard Low-Rent Housing program funds. As a result, the Authority put Low-Rent Housing funds at risk by transferring them to its non-federal programs without HUD's approval, thereby depriving Low-Rent Housing program recipients of funds to ensure safe, decent, habitable, and quality public housing. Further, the Authority's practice of using Low-Rent Housing funds enriched its non-federal program accounts by providing interest-free loans. We determined the non-federal programs owe \$154,171 in interest to the Federal Low-Rent Housing program.

## Rules and Regulations

The Authority's Active Annual Contributions Contract for Public Housing, section 9 (C) states

"The housing authority shall maintain records that identify the source and application of funds in such a manner to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement. The housing authority may withdraw funds from the General Fund only for (1) the payment of the costs of development and operation of the projects under the Annual Contributions Contract with HUD, (2) the purchase of investment securities as approved by HUD, and (3) such other purposes as may be specifically approved by HUD."

Public and Indian Housing Low-Rent Technical Accounting Guide 7510.1G, chapter 2, "Financial Operations and Accounting" states:

"Funds provided by HUD are to be used by the housing authority only for the purposes for which the funds are authorized."

The Authority Misused  
More Than \$5.5 Million  
in Low-Rent Housing  
Program Funds

From March 2, 2000, to July 31, 2004, the Authority used \$5,545,972 in Low-Rent Housing funds to pay for its non-Low-Rent Housing programs' acquisitions and expenses. Of this amount, \$5,454,349 went toward acquiring and operating properties for the Authority's non-federal programs, \$86,890 went toward paying for non-Low-Rent Housing program expenses, and \$4,733 were questioned costs for expenses incurred (see appendix B).

The Authority used its Low-Rent Housing program's bank account as its designated check-writing account to pay for all of its program expenses. It used Low-Rent Housing's bank account to make interest-free loans to customers who had no funds on deposit and no attached assets. The Authority's general practice was to pay non-Low-Rent Housing expenditures from Low-Rent Housing's bank account and have each program reimburse the Low-Rent Housing program the following month. However, this did not always occur because some of the programs did not have sufficient funds available to reimburse the Low-Rent Housing fund. Although the Authority was aware that certain programs did not have sufficient funds available, it disregarded HUD regulations and continued to advance funds to these programs. The use of these funds in this manner put the Low-Rent Housing program at unnecessary risk, since the loans were unsecured.

In addition, the Low-Rent Housing program and its recipients were deprived of funds to ensure safe, decent, habitable, and quality housing. The Authority could have used these funds to make repairs to the crumbling facades of the units at Sierra Vista and other developments to address the housing needs of Low-Rent Housing program recipients (see picture below). Instead, the Authority enriched its non-Low-Rent Housing programs at the expense of the Low-Rent Housing program, its recipients, and housing developments.



Unit # Unmarked & 1526 – Sierra Vista

Non-federal Programs  
Were Enriched at the  
Expense of the Low-  
Rent Housing program

The Authority used \$3,429,206 in Low Income Housing funds to purchase properties for its non-federal program. If the Authority had obtained financing from a financial institution to purchase Claremont Manor, West Park, and RENEW Lodi for its non-federal programs, we determined that it would have had to pay a lender approximately \$142,800 ( $\$114,333 + \$25,956 + \$2,511$ ) in fair-market rate interest for the period in which the funds were used (see appendices D and H).

In addition, if the Authority had placed \$2,011,270 in 6-month treasury bills at the reported Federal Reserve rate, instead of paying Franco Center's bond payments and monthly expenses, we determined it would have earned \$11,371 ( $\$3,513 + \$7,858$ ) in interest for the period in which the Low-Rent Housing program funds were used (see appendices E and F).

Overall, we determined the Low-Rent Housing program could have earned \$154,171 in interest for the period in which the Authority used Low-Rent Housing program funds for its non-federal programs.

More Than \$2.9 Million  
Spent To Purchase  
Claremont Manor for  
Nonfederal Program

In October and November 2003, the Authority commingled \$2,980,328 in Low-Rent Housing funds with its Operation Reserves, unrestricted non-federal account, to purchase non-Low-Rent Housing program properties. Of this amount, the Authority used \$2,200,551 to purchase Claremont Manor, and \$779,777 remained in its non-federal Operation Reserves bank account, earning interest. The Authority's inappropriate use of Low-Rent Housing funds with its Operation Reserves account to purchase non-Low-Rent Housing program properties, such as Claremont Manor, violated its Annual Contribution Contract and HUD rules and regulations.

During the period from November 2003 to July 2004, Claremont Manor generated \$102,733 in net income for the Authority's non-federal Operation Reserves account. During this period, none of the \$102,733 in net income generated from Claremont Manor benefited the Low-Rent Housing program or its recipients. Instead, the Authority enriched its non-federal Operation Reserves account at the expense of the Low-Rent Housing program and its recipients. The Authority would not have had this extra net income had it not used Low-Rent Housing funds as an interest-free loan to acquire Claremont Manor. Claremont Manor has 52 units, and houses both market rent and Section 8 program recipients.

In June 2004, the Bank of Agriculture and Commerce offered the Authority a loan at a 6.1-percent interest rate to refinance Claremont Manor. As of July 31, 2004, the Authority was still in the process of obtaining the refinancing for the property. If the Authority had obtained \$2,980,328 in financing from a bank at an interest rate of 6.1 percent to purchase Claremont Manor, we determined it would have had to pay a lender \$114,333 in interest for the period October 2003 through August 2004 (see appendix D).

When we initiated our audit in January 2004, we questioned the funds used for the purchase of Claremont Manor. During that same month, the Authority made its first installment payment toward reimbursing the Low-Rent Housing program. On August 3, 2004, the Authority provided evidence to us that the Low-Rent Housing program received its final repayment from the Authority's non-federal account as reimbursement for the \$2,980,328 in

loan principal taken. However, this amount does not include the \$114,333 in interest due the Low-Rent Housing program for the principal amount loaned to its non-federal Operation Reserves account. We concluded that its non-federal programs were enriched by generating \$102,733 in net income and another \$114,333 for using interest-free Low-Rent Housing program funds.

More Than \$2 Million  
Spent in Low-Rent  
Housing Funds Used for  
Franco Center's  
Operating Expenses

The Authority used Low-Rent Housing funds to pay for its non-federal and non-Low-Rent Housing program operating expenses. In some cases, the programs that received advances from the Low-Rent Housing program did not repay the funds in a timely manner. Franco Center, an Authority-owned Section 8 project-based property, had the most significant problems regarding the use and untimely repayments of Low-Rent Housing funds.

The Authority continuously and routinely advanced Low-Rent Housing funds to cover the Franco Center's operating expenses. The Authority used Low-Rent Housing funds to pay for Franco Center's monthly bond payments and monthly expenses. It continued the practice of using these funds to pay for Franco Center's expenses, even though the property routinely failed to make timely repayments to the Low-Rent Housing program. For example, the Authority used Low-Rent Housing funds to pay for Franco Center's August 2003 bond payment, but Franco Center did not repay these funds until February 2004, nearly 6 months after the initial payment. The Authority used Low-Rent Housing funds to pay for Franco Center's monthly expenses, and there were instances in which Franco Center did not reimburse the Low-Rent Housing program until 11 months after the initial advancement of funds.

During the period from October 2002 to July 2004, the Authority advanced at least \$2,011,270 in Low-Rent Housing funds to pay for Franco Center's monthly expenses and bond payments. Of that amount, \$1,320,103 was paid for its operating expenses, and \$691,167 was paid for its bond payments. If the Authority had placed \$2,011,270 in 6-month treasury bills at the reported Federal Reserve rate, we determined it would have earned \$11,371 in interest for the period October 2002 through July 2004 (see appendices E and F).

As of July 31, 2004, the Authority provided evidence to us that the Low-Rent Housing program had been reimbursed \$1,760,061 but has a remaining outstanding balance of \$251,209. The outstanding balance did not include the \$11,371 in lost interest due the Low-Rent Housing program for the principal amount loaned to Franco Center.

Used More Than  
\$460,000 in Low-Rent  
Housing Funds To  
Purchase Properties and  
Absorb Losses for West  
Park and RENEW Lodi

From July 2000 through September 2001, the Authority used \$462,751 in Low-Rent Housing funds to purchase properties and absorb losses for its non-federal programs. Of this amount, it used \$367,100 to purchase West Park and \$81,778 to purchase three single-family lots in Lodi, CA. In addition, from July 2000 to September 2001, the Authority used \$13,873 in Low-Rent Housing funds to absorb West Park's operating losses.

### **West Park**

In July 2000, the Authority used \$367,100 of Low-Rent Housing funds to purchase a 12-unit apartment complex called West Park for its non-federal program. During the period from July 2000 to September 2001, West Park incurred \$13,873 in operating losses, and the Low-Rent Housing program absorbed all of this loss. In our opinion, the Low-Rent Housing program would not have incurred this loss had the Authority not used Low-Rent Housing funds as an interest-free loan to acquire and operate West Park at the expense of its Low-Rent Housing program recipients. West Park has 12 units and houses both market rate and Section 8 program recipients (see appendix G).

In September 2001, 14 months after the original acquisition, the Authority used monies from its non-federal Operation Reserves account to reimburse its Low-Rent Housing program for West Park at the original acquisition price of \$367,100 but provided no compensation for using the funds interest-free.

In June 2004, the Bank of Agriculture and Commerce offered the Authority a loan at 6.1 percent interest to refinance another Authority-owned apartment building, Claremont Manor. If the Authority had obtained \$367,100 in financing from a bank at an interest rate of 6.1 percent to purchase West Park, we determined it would have had to pay a lender \$25,956 in interest for the period July 2000 through September 2001. We believe our computed

interest rate to be generous and lower than what the interest rates were in 2000 and 2001 (see appendix H).

**Revitalizing Existing Neighborhoods and Extending the Workforce Project (RENEW) Lodi Properties**

In December 2000, the Authority used \$81,778 of its Low-Rent Housing program funds to purchase vacant lots for three single-family properties for its non-federal program called the RENEW Lodi program. In May 2001, the Authority used non-federal program funds to reimburse its Low-Rent Housing program the original acquisition price of \$81,778, but once again, it provided no compensation for using the funds interest-free.

In December 2000, the Federal Reserve's reported 30-year conventional mortgage rate for a single-family home was 7.38 percent. If the Authority had obtained \$81,778 in financing from a bank or financial institution at an interest rate of 7.38 percent to purchase the three single-family properties, we determined it would have had to pay a lender \$2,511 in interest for the period December 2000 through May 2001. The Authority's use of Low-Rent Housing program funds allowed it to construct a house on one of the vacant lots and sell it in September 2003 for a net gain of \$20,161 (see appendix H).

More Than \$33,000 Used Toward Unnecessary and Non-related Low-Rent Housing Expenses

From October 1998 through January 2003, the Authority used Low-Rent Housing funds to incur \$33,542 in questioned costs. Of this amount, \$1,633 was spent to pay the Authority executive director's friend to perform unnecessary consultant services; \$28,809 was advanced to a resident council for Resident Opportunity and Self-Sufficiency grant expenses it incurred, and \$3,100 was for unsupported credit card charges.

**Payment of \$1,633 for Unnecessary Personnel Consulting Services**

On May 23, 2002, a Contra Costa Housing Authority commissioner was paid \$1,633 to provide the following services related to the hiring of two administrative assistants for the Authority: 1) reading, reviewing and evaluating the 13 candidates' employment applications, resumes, letters of recommendation, and supplemental questionnaires; and 2) participating on the interview panel. According to the

Authority, the above tasks are to be performed by the Authority's Human Resources Department and a volunteer interview panel, not performed through a paid consultant.

**Loan of Low-Rent Housing Funds To Pay for Resident Council's Resident Opportunity and Self-Sufficiency Grant Expenditures**

From May 10, 2002, through January 23, 2003, the Authority advanced the Sierra Vista Resident Council \$28,809 to pay for expenses that the Council incurred before drawing down funds from HUD for its Resident Opportunity and Self-Sufficiency Grant. The Authority loaned money to the Council for its grant expenses, with the intention that the Council would acquire its grant fund through HUD's Line of Credit Control System and reimburse the Authority. However, the Council did not draw down any of the \$100,000 for which it had been approved and did not submit required financial statements and progress reports. The grant expired on September 21, 2003, and on June 8, 2004, HUD sent a letter to the Council and a copy to the Authority stating that the grant was being recaptured in its entirety. In our opinion, the advances were improper and not a necessary and reasonable expense for the Authority's Low-Rent Housing funds. We did not do a detailed review of the purpose of the expenditures since we considered them to be ineligible loan expenditures; however, we did note that more than half of the amount spent went to a consultant that the Council hired and terminated.

**The Authority Incurred \$3,100 in Unsupported Credit Card Costs**

We reviewed payments made on the Authority's Visa credit card account between October 6, 1998, and October 1, 2001. The credit card account was used by Authority personnel including executives and the Board, for various expenses including travel. There were eight instances of unsupported costs totaling \$3,100, which the Authority charged for yet failed to maintain records. Among the unsupported costs were \$2,085 in hotel expenses, \$127 in food expenses, and \$888 in airline tickets. Without accurate documentation of the questioned costs, the Authority was unable to determine whether the charges were business-related or personal.

More Than \$49,000 Used To Pay for State-Funded Program Expenses

From July 28, 2000, to April 24, 2003, the Authority used \$49,996 in Low-Rent Housing funds to pay for security services for the State of California Migrant Housing program, a State of California-funded program.

The Migrant Housing program did not have the funds to pay for security services at its Migrant Housing Center. Although the Authority knew the Migrant Housing program was a State-funded activity, it ignored HUD rules and regulations and used Low-Rent Housing funds, instead of its non-federal funds, to absorb the security services' expenses incurred for its Migrant Housing program.

More Than \$8,000 Used To Pay for U.S. Department of Agriculture Program Purchases

On March 2, 2000, Brown-Stove Works billed the Authority \$8,085 for 31 stoves to be delivered to Mokelumne Manor, a Low-Rent Housing program-funded development owned by the Authority. Instead, the shipment of stoves was delivered to Sartini Manor, a U.S. Department of Agriculture-funded housing development owned by the Authority. The Authority approved the use of Low-Rent Housing funds, instead of funds from the U.S. Department of Agriculture's Rural Development Program, to pay Brown-Stove Works for the stoves shipped to Sartini Manor. On March 24, 2000, the Authority paid Brown-Stove Works \$8,085 in Low-Rent Housing funds for 31 stoves delivered to Sartini Manor.

On May 25, 2004, we discussed the issue with Authority executives. They agreed with our assessment that U.S. Department of Agriculture funds, not Low-Rent Housing funds, should have been used to pay for the purchases at Sartini Manor and provided evidence to us on July 13, 2004, that the Low-Rent Housing program has been reimbursed \$8,085.

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Auditee Comments

The Authority generally agreed with the finding and recommendations. Additionally, Authority officials stated corrective actions would be taken.

The Authority asked OIG to reconsider the 6.1 percent interest rate used to compute the \$114,333 interest owed for using \$2.2 million in Low-Rent Housing program funds to purchase Claremont Manor, a multifamily property. The

Authority also asked OIG to reconsider the 6.1 percent interest rate used to compute the \$25,956 in interest owed for using \$367,100 in Low-Rent Housing program funds to purchase West Park, another multifamily property.

Additionally, the Authority asked OIG to reconsider the 7.38 percent interest rate used to compute the \$2,511 in interest owed for using \$81,778 in Low-Rent Housing program funds to purchase single-family lots in Lodi, California.

Instead, the Authority suggested we use the 6-month Treasury bill, or T-bill, to calculate the interest owed for using Low-Rent Housing program funds to finance and purchase properties for its other programs.

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#### OIG Evaluation of Auditee Comments

The Authority's comments were generally responsive to the finding and recommendations.

OIG disagreed with the Authority's suggestion to use the T-bill interest rate to compute the interest owed to the Low-Rent Housing program for use of its funds to purchase Claremont Manor, West Park and the Lodi, California single-family lots. We used the interest rate of 6.1 percent quoted by the Bank of Agriculture and Commerce in Stockton, California in June 2004 when the Authority applied to refinance \$2.2 million of the \$2.9 million it had misused for Claremont Manor. We used the 6.1 percent interest rate to compute the \$140,289 in interest owed to the Low-Rent Housing program for using \$3,347,428 of the HUD program's funds to purchase Claremont Manor and West Park, both multifamily properties. Of the \$140,289 in interest owed to the Low-Rent Housing program, \$114,333 was for using \$2,980,328 to purchase Claremont Manor and the remaining \$25,956 was for using \$367,100 to purchase West Park. We used the interest rate of 7.38 percent quoted by the Federal Reserve's reported 30-year conventional mortgage rate for a single-family home. The Federal Reserve's rate was for December 2000, the same time period the Authority used \$81,778 in Low-Rent Housing program funds to purchase the three single-family lots in Lodi, California. As a result, we used the 7.38 percent interest rate to compute the \$2,511 in interest owed

to the Low-Rent Housing program for purchasing the single-family lots in Lodi, California.

If the Authority had obtained financing from a bank or financial institution to purchase the multifamily properties and single-family properties, it would have been charged the prevailing interest rates during the period in which the funds were used. We believe the interest rates we used in the computations were generous and fair and did not include any bank fees the Authority would have had to pay a lender.

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## Recommendations

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

- 2A. Immediately cease the practice of using Low-Rent Housing program funds to pay for non-Low-Rent Housing program purchases and expenses and establish procedures to ensure that HUD approval is obtained before using funds for non-federal purposes.
- 2B. Reimburse its Low-Rent Housing program from non-federal funds \$114,333 in accrued interest at an interest rate of 6.1 percent for using \$2,980,328 in Low-Rent Housing program funds to purchase Claremont Manor.
- 2C. Reimburse its Low-Rent Housing program for the \$251,209 remaining balance of the bond payments expenses paid for the Franco Center and \$11,371 in back interest at the Federal Reserve's reported 6-month treasury bill rate for the use of \$2,011,270.
- 2D. Reimburse the Low-Rent Housing program \$13,873 from non-federal funds for using Low-Rent Housing program funds to absorb West Park apartments' operating loss and \$25,956 in back interest from non-federal funds for using \$367,100 in Low-Rent Housing program funds to purchase West Park apartments.
- 2E. Reimburse the Low-Rent Housing program \$2,511 in back interest from non-federal funds for using

\$81,778 in Low-Rent Housing program funds to purchase single-family properties for its RENEW Lodi program.

- 2F. Reimburse its Low-Rent Housing program \$1,633 in ineligible costs paid to the reorganization consultant from non-federal funds.
- 2G. Reimburse its Low-Rent Housing program \$28,809 in ineligible advances to the Sierra Vista Resident Council from non-federal funds.
- 2H. Provide adequate documentation for the \$3,100 in unsupported credit card charges. Otherwise, reimburse its Low-Rent Housing program from non-federal funds for those costs in which supporting documentation could not be obtained.
- 2I. Reimburse its Low-Rent Housing program \$49,996 from non-federal funds for security services provided to the State of California Migrant Housing program.
- 2J. Establish better controls to ensure that Low-Rent Housing program funds are used only for that program's related expenditures and eliminate such occurrences as using \$8,085 to pay for U.S. Department of Agriculture program-funded assets.

# Management Controls

In planning and performing our audit, we considered the management controls of the Authority to determine our auditing procedures, not to provide assurance on the controls. Management controls 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 its business operations. They include systems for measuring, reporting, and monitoring business performance.

## Relevant Management Controls

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

- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations and provisions of contracts or grant agreements.
- Safeguarding of Resources - Policies and procedures that management has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of resources.

We assessed all of the relevant controls identified above.

## Significant Weaknesses

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

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

- Validity and Reliability of Data – The Authority did not maintain complete and accurate records to ensure that services and goods were provided to the benefit of the entity and its recipients. (Finding 1)

- Compliance with Laws and Regulations – The Authority management inappropriately used federal funds, violating the Annual Contributions Contract. The Authority did not comply with HUD Handbook and Code of Federal Regulations standards over procurement and contracting. (Findings 1 & 2)
- Safeguarding of Resources – The Authority incurred excessive, unnecessary, unsupported, and ineligible costs. The Authority used public housing funds for unauthorized activities, depriving the Authority's public housing developments of HUD funding intended to provide decent, safe, habitable, and quality public housing. (Finding 2)

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# Follow-up on Prior Audits

The HUD Office of Inspector General (OIG) previously audited the Authority's purchase of properties in 1994 and 1995. The audit memo (number 97-SF-203-1801) was issued November 21, 1996.

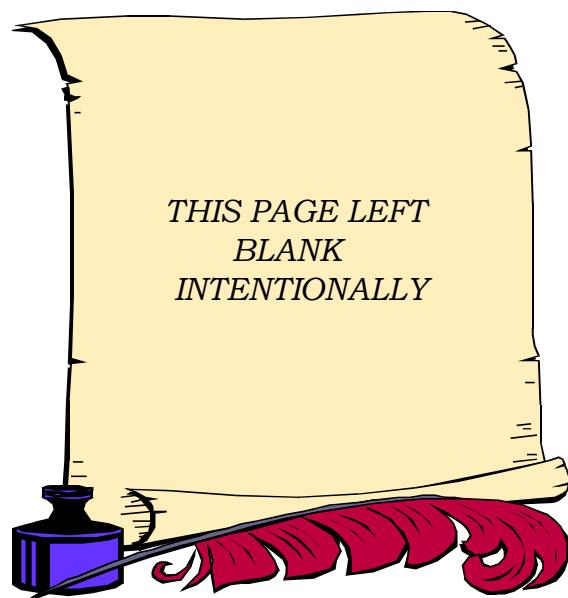
## Issues Raised During the Review

The review was conducted because the former Director of the Office of Public Housing, Sacramento Office, raised the following issues:

- Hiring of architectural services.
- Identity of interest issues concerning properties purchased in 1994 and 1995 using excess Section 8 funds.

## OIG Results

OIG found no violation of HUD regulations; therefore, no recommendations were made to the Authority.

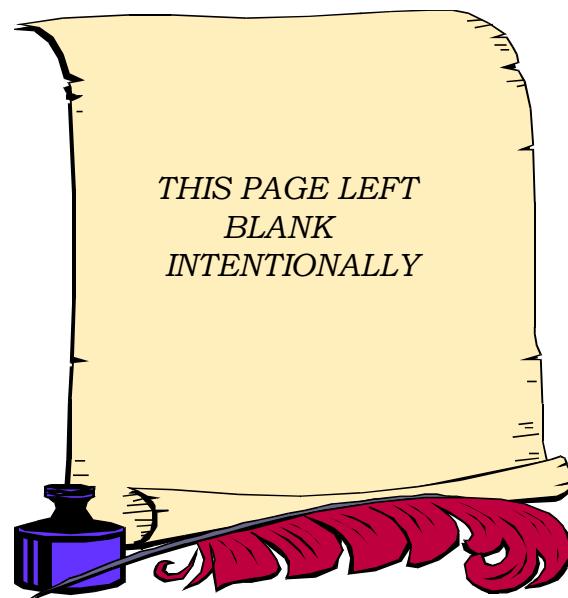


# Schedule of Questioned Costs and Funds Put to Better Use

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>	<u>Funds Put to Better Use 3/</u>
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1C	\$3,772	
1D	\$2,810	
1E		\$1,101
2B		\$2,980,328
2B	\$114,333	
2C	\$251,209	
2C	\$11,371	
2D	\$13,873	
2D	\$25,956	
2E	\$2,511	
2F	\$1,633	
2G	\$28,809	
2H		\$3,100
2I	\$49,996	
2J	\$8,085	
Totals	<u>\$514,358</u>	<u>\$4,201</u>
		<u>\$2,980,328</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 policies or regulations.
- 2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity, and eligibility cannot be determined at the time of 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 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 Put to Better Use are costs that will not be expended in the future if our recommendations are implemented. This includes:  
  
Costs not incurred, de-obligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings

## Appendix A



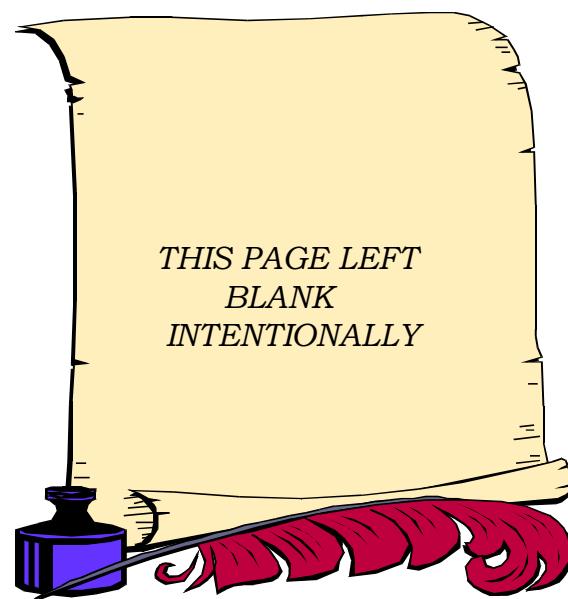
Appendix B

# Itemized Questioned Costs and Funds Put to Better Use

Item Description	Amount	Purpose of Funds	Type of Questioned Costs/Funds Put to Better Use (Finding 1 or 2)
Ad Force over billings to Tracy Homes Development	\$3,772	Incurred public housing authority expenditure	Questioned costs: ineligible (finding 1)
Consultant's compensation and travel expenses	\$2,810	Incurred public housing authority expenditure	Questioned costs: ineligible (finding 1)
Consultant's travel expenses	\$1,101	Incurred public housing authority expenditure	Questioned costs: unsupported (finding 1)
Purchase of Claremont Manor	\$2,200,551	Property acquisition & operation	Funds put to better use (finding 2)
Low-Rent funds combined with Operation Reserves	\$779,777	Property acquisition & operation	Funds put to better use (finding 2)
Back interest due – Claremont Manor	\$114,333	Interest due Low-Rent Housing program	Questioned costs: ineligible (finding 2)
Franco Center monthly expenses (portion not reimbursed)	\$149,142	Property acquisition & operation	Questioned costs: ineligible (finding 2)
Franco Center bond payments (portion not reimbursed)	\$102,067	Property acquisition & operation	Questioned costs: ineligible (finding 2)
Back interest due - Franco Center	\$11,371	Interest due Low-Rent Housing program	Questioned costs: ineligible (finding 2)
Operating loss – West Park	\$13,873	Property acquisition & operation	Questioned costs: ineligible (finding 2)
Back interest due - West Park	\$25,956	Interest due Low-Rent Housing program	Questioned costs: ineligible (finding 2)
Back interest due - RENEW Lodi	\$2,511	Interest due Low-Rent Housing program	Questioned costs: ineligible (finding 2)
Consultant compensation for interview panel	\$1,633	Incurred public housing authority expenditure	Questioned costs: ineligible (finding 2)
Resident Opportunity and Self-Sufficiency grant expenditures	\$28,809	Non-Low-Rent Housing program expenditure	Questioned costs: ineligible (finding 2)
Travel expenses charged to the Authority credit card	\$3,100	Incurred public housing authority expenditure	Questioned costs: unsupported (finding 2)
Ad Force security: Migrant Housing Centers	\$49,996	Non-Low-Rent Housing program expenditure	Questioned costs: ineligible (finding 2)
Stoves purchased for the U.S. Department of Agriculture program	\$8,085	Non-Low-Rent Housing program expenditure	Questioned costs: ineligible (finding 2)
<b>Total</b>	<b>\$3,498,887</b>		

Summary		
Purpose of Funds	Finding 1	Finding 2
Property acquisition & operation		\$3,245,410
Interest due Low-Rent Housing program		\$154,171
Incurred public housing authority expenditures	\$7,683	\$4,733
Non-Low-Rent Housing program expenditures		\$86,890
<b>Total</b>	<b>\$7,683</b>	<b>\$3,491,204<sup>1</sup></b>

<sup>1</sup> This amount does not include \$2,208,939 in Low-Rent Housing program funds the Authority misused to pay for Franco Center's monthly expenses and bond payments, but paid back prior to the audit.



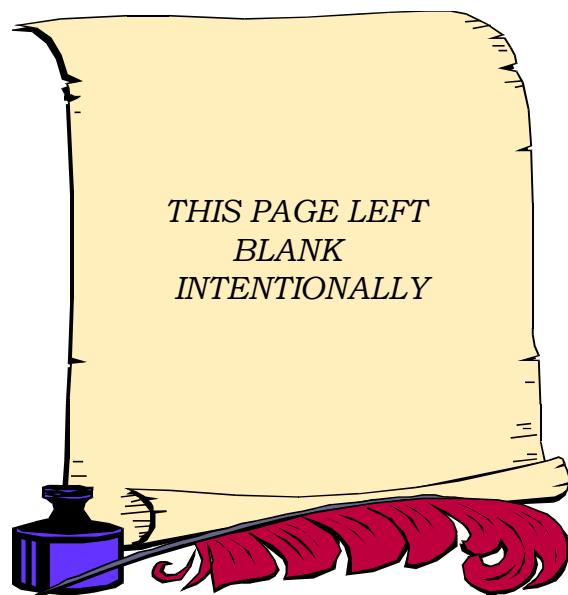
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# Schedule of Procurement Review

## Deficiencies

<b>Contractor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Brown Stove Works		No formal contract	X		X
Video production vendor	X	No formal contract	X		X
Robert Burns Construction Co.	X	X			X
Signature Systems, Inc.	X				X
Geiger, Rudquist, Coon et al	X	X		X	
Ad Force Security	X	X	X	X	X
Reorganization consultant	X		X		X
<b>Totals</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>2</b>	<b>6</b>

Legend: 1 - Decentralized procurement and contracting (Purchasing Department not involved).  
 2 - Contract lacked Federal provisions.  
 3 - Goods or services awarded without competition.  
 4 - Open-ended, vendor-issued contracts.  
 5 - Missing cost or price analysis





## Schedule of Interest Due – Claremont Manor

<b>Month</b>	<b>Principal Balance Owed to the Low-Rent Housing Program</b>	<b>Reimbursements to the Low-Rent Housing Program</b>	<b>Interest Owed to the Low- Rent Housing Program<sup>1</sup></b>
Oct. 03	\$112,500		\$572
Nov. 03	\$1,930,263		\$9,812
Dec. 03	\$2,980,328		\$15,140
Jan. 04	\$2,867,828	\$112,500	\$15,125
Feb. 04	\$2,867,828		\$14,540
Mar. 04	\$2,867,828		\$14,526
Apr. 04	\$2,400,000	\$467,828	\$14,512
May 04	\$1,849,934	\$550,066	\$12,174
June 04	\$1,000,000	\$849,934	\$9,372
July 04	\$684,218	\$315,782	\$5,083
Aug. 04	\$0	\$684,218	\$3,477
<b>Total<sup>2</sup></b>			<b>\$114,333</b>

<sup>1</sup> Amount as of August 3, 2004. Interest has not been reimbursed and continues to accumulate at an annual rate of 6.1 percent.

<sup>2</sup> Balance includes \$2.2 million used for purchase of Claremont Manor and more than \$700,000 transferred to its non-federal Operation Reserves bank account.





# Schedule of Franco Center Bond Payments Paid by Low-Rent Housing Program

<b>Record Date</b>	<b>Repaid Date</b>	<b>Months Late</b>	<b>Amount</b>	<b>Interest Rate on Record Date</b>	<b>Back Interest</b>
7/31/2004	N/A	0	\$33,968	1.66%	\$0
6/30/2004	N/A	1	\$34,022	1.60%	\$45
5/31/2004	N/A	2	\$34,077	1.31%	\$74
4/30/2004	7/31/2004	3	\$29,102	1.09%	\$79
3/31/2004	5/31/2004	2	\$29,132	0.99%	\$48
2/29/2004	5/31/2004	3	\$29,158	0.99%	\$72
1/31/2004	5/31/2004	4	\$29,185	0.97%	\$94
12/31/2003	4/30/2004	4	\$29,211	0.99%	\$96
11/30/2003	4/30/2004	5	\$29,239	1.02%	\$124
10/31/2003	3/31/2004	5	\$34,293	1.00%	\$143
9/30/2003	3/31/2004	6	\$34,347	1.01%	\$173
8/31/2003	2/29/2004	6	\$34,402	1.03%	\$177
7/31/2003	1/31/2004	6	\$34,455	0.95%	\$164
6/30/2003	1/31/2004	7	\$34,509	0.92%	\$185
5/31/2003	12/31/2003	7	\$29,537	1.08%	\$186
4/30/2003	12/31/2003	8	\$29,562	1.14%	\$225
3/31/2003	12/31/2003	9	\$29,590	1.13%	\$251
2/28/2003	10/31/2003	8	\$29,617	1.18%	\$233
1/31/2003	8/31/2003	7	\$29,643	1.20%	\$208
12/31/2002	8/31/2003	8	\$29,672	1.24%	\$245
11/30/2002	8/31/2003	9	\$29,697	1.27%	\$283
10/31/2002	7/31/2003	9	\$34,748	1.56%	\$407
<b>Total interest Franco Center owes on the bond payments as of 7/31/04*</b>					<b>\$3,513</b>

\* Limited to review period of October 2002-July 2004.

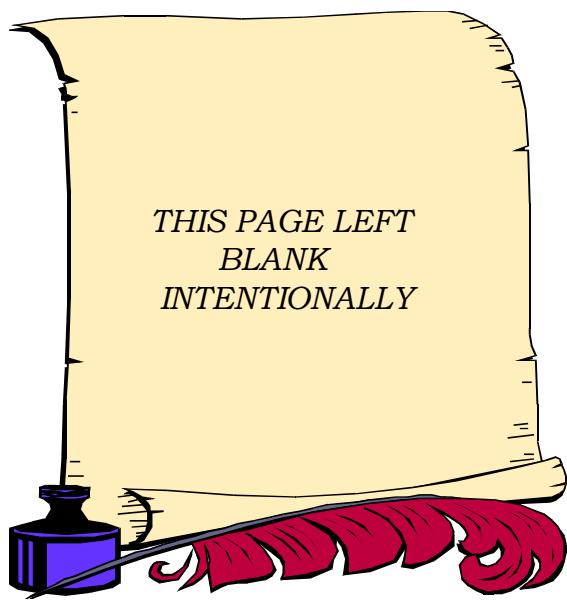


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# Schedule of Franco Center Monthly Expenses Paid by Low-Rent Housing Program

<b>Record Date</b>	<b>Repaid Date</b>	<b>Months Late</b>	<b>Amount</b>	<b>Interest Rate on Record Date</b>	<b>Back Interest</b>
7/31/2004	N/A	0	\$9,504	1.66%	\$0
6/30/2004	N/A	1	\$27	1.60%	\$0
6/30/2004	N/A	1	\$1,037	1.60%	\$1
6/30/2004	N/A	1	\$83,973	1.60%	\$112
5/31/2004	N/A	2	\$54,600	1.31%	\$119
4/30/2004	7/31/2004	3	\$8,104	1.09%	\$22
3/31/2004	7/13/2004	3	\$98,049	0.99%	\$243
2/29/2004	6/30/2004	4	\$12,036	0.99%	\$40
2/29/2004	4/30/2004	2	\$34,347	0.99%	\$57
1/31/2004	5/31/2004	4	\$14,741	0.97%	\$48
1/31/2004	5/31/2004	4	\$398	0.97%	\$1
12/31/2003	4/30/2004	4	\$73,567	0.99%	\$243
11/30/2003	4/30/2004	5	\$16,398	1.02%	\$70
10/31/2003	4/30/2004	6	\$24,182	1.00%	\$121
9/30/2003	3/31/2004	6	\$100,000	1.01%	\$505
9/30/2003	4/30/2004	7	\$51,036	1.01%	\$301
8/31/2003	3/31/2004	7	\$47,404	1.03%	\$285
7/31/2003	2/29/2004	7	\$62,753	0.95%	\$348
6/30/2003	2/29/2004	8	\$9,164	0.92%	\$56
6/30/2003	2/29/2004	8	\$130,211	0.92%	\$799
5/31/2003	12/31/2003	7	\$60,968	1.08%	\$384
4/30/2003	12/31/2003	8	\$39,425	1.14%	\$300
3/31/2003	12/31/2003	9	\$12,154	1.13%	\$103
3/31/2003	12/31/2003	9	\$112,171	1.13%	\$951
2/28/2003	12/31/2003	10	\$45,061	1.18%	\$443
1/31/2003	9/30/2003	8	\$37,427	1.20%	\$299
12/31/2002	11/30/2003	11	\$83,754	1.24%	\$952
12/31/2002	9/30/2003	9	\$5,964	1.24%	\$55
11/30/2002	8/31/2003	9	\$54,669	1.27%	\$521
10/31/2002	8/31/2003	10	\$36,979	1.56%	\$481
<b>Total interest Franco Center owes on monthly expenses as of 7/31/04*</b>					<b>\$7,858</b>

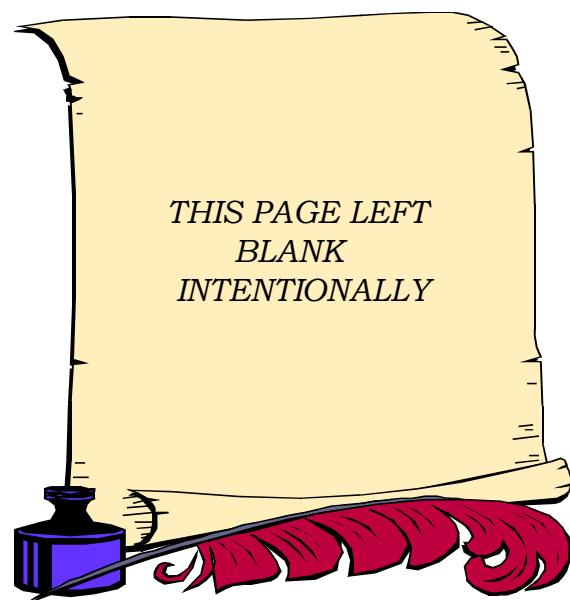
\* Limited to review period of October 2002-July 2004.



## Schedule of West Park Operating Losses Absorbed by Low-Rent Housing Program

	Fiscal Year 2000*	Fiscal Year 2001*	Total
<b>Income</b>	\$1,470	\$26,733	<b>\$28,203</b>
<b>Expenses</b>	\$9,546	\$32,531	<b>\$42,077</b>
<b>Net loss</b>	(\$8,076)	(\$5,798)	<b>(\$13,873)</b>

\*Fiscal years ending September 30.



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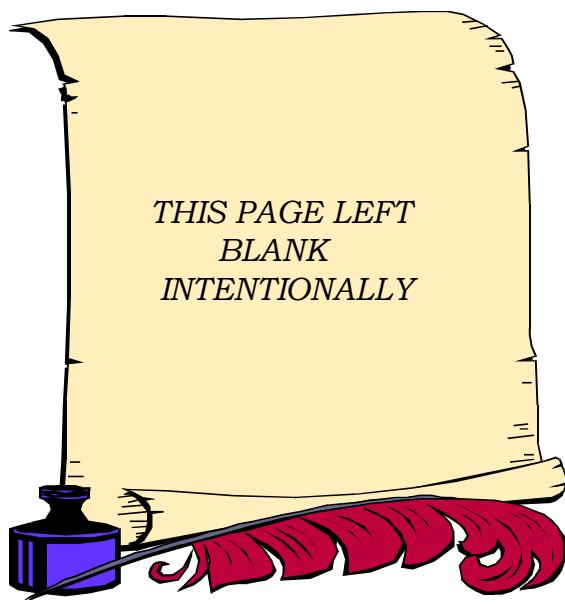
# Calculation of Back Interest Due – West Park and RENEW Lodi Single-Family Properties

<b>West Park</b>	
<b>Month</b>	<b>Interest Due<sup>1</sup></b>
Aug. 00	\$1,866
Sept. 00	\$1,864
Oct. 00	\$1,862
Nov. 00	\$1,861
Dec. 00	\$1,859
Jan. 01	\$1,857
Feb. 01	\$1,855
Mar. 01	\$1,853
Apr. 01	\$1,851
May 01	\$1,849
June 01	\$1,847
July 01	\$1,846
Aug. 01	\$1,844
Sept. 01	\$1,842
<b>Total</b>	<b>\$25,956</b>

<b>RENEW Lodi Single-Family Properties</b>	
<b>Month</b>	<b>Interest Due<sup>2</sup></b>
Jan. 01	\$503
Feb. 01	\$503
Mar. 01	\$502
Apr. 01	\$502
May 01	\$501
<b>Total</b>	<b>\$2,511</b>

<sup>1</sup>Paid off over a 14-month period, with principal balance of \$367,100 reimbursed to Low-Rent Housing program.

<sup>2</sup> Paid off over a 5-month period, with principal balance of \$81,778 reimbursed to Low-Rent Housing program.



## Appendix I

# Auditee Comments



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Stockton, CA 95201

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Edward Sido  
Interim CEO

Board of  
Commissioners

Keith Land  
Chairperson

Alan Biedermann  
Commissioner

Audrey Jordan  
Commissioner

Peggy Metzger  
Commissioner

Nancy Perez  
Commissioner

Joan Thorp  
Commissioner

Shelly Wilson  
Commissioner

November 3, 2004

Ms. Joan S. Hobbs  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
611 W. Sixth Street, Suite 1160  
Los Angeles, CA 90017-3101

RE: Written Comments Pertaining to Final Draft Audit Report

Dear Ms. Hobbs:

Thank you for the courtesies extended to us during the exit conference on October 20, 2004, regarding the draft audit report of the Housing Authority of the County of San Joaquin sent to me dated October 8, 2004. The Chairperson of the Board of Commissioners, Keith Land, and I have reviewed the report, and are respectfully submitting our written comments for inclusion in the published report.

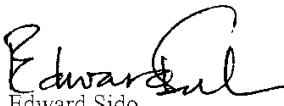
The written response herein will restate or summarize each finding and then respond to each item. In addition, the Officer of Inspector General's ("OIG") auditor's recommendations will be restated and then a response will be provided by the Housing Authority ("Authority"). The Authority will, where appropriate, provide information and facts either unknown or not considered by the auditors. We will also refer the OIG to additional documentation which may not have been considered as well action which was or will be taken to clarify and/or resolve your concerns.

Again, we are requesting that the findings and subsequent recommendation be amended to remove the unnecessary and inflammatory language. We believe that the Authority, the Board of Commissioners, and its counsel always acted in a manner which would maximize and benefit the recipients of the housing opportunities and services provided. We note that it is unfortunate that many of the findings were known by former employees, but not disclosed by them or intervening audits.

Additionally, the Board of Commissioners and its Interim Chief Executive Officer and counsel acted quickly to solve any problems once they became known and they will continue to do so.

Thank you for your time and consideration. If you have any questions, please contact Edward Sido at (209) 460-5065 or Mr. Keith Land at (209)367-2337.

Sincerely,

  
Edward Sido  
Interim Chief Executive Officer

Administration  
209•460•5084  
448 S. Center St.  
Stockton, CA 95203

  
Keith Land  
Chairperson  
Board of Commissioners

# Auditee Comments

## Finding Number One:

### Decentralized Procurement and Contract Administration

*The Authority awarded many contracts each year without a designated procurement department. It used its Purchasing Department to procure some of its goods and services, but individual departments handled most of their own procurements. Since each department procured and administered most of its own contracts, the Authority's procurement and contract functions were inconsistent among departments, and critical contract terms and conditions were often missing. Authority staff acknowledged its Purchasing Department was not involved in most of the Authority's procurements. The Purchasing Department was actively involved in just one of the seven procurement actions we reviewed.*

### Authority Response:

#### Each department procured and administered most of its own contracts.

*Noted. The sample that was reviewed for the purpose of this audit is not representative of the entire purchase transactions administered or initiated by the Authority.*

*However, in the future 100 percent of all purchases will be processed through the Central Services Department ("Purchasing Department").*

#### The Authority's procurement and contract functions were inconsistent among departments.

*Noted. The centralization of 100 percent of all procurement will ensure consistency among all departments.*

#### Critical contract terms and conditions were often missing.

*Noted. The centralization of 100 percent of all procurement will ensure consistency among all departments.*

*In addition, regularly scheduled training will be conducted by the Authority for all management and executive management. Ms. Rita Robinson, Acting Director with the Office of Public Housing has offered and the commissioners and executive management have accepted and invitation to attend a HUD sponsored training program in San Francisco. This Authority requests OIG provide samples of the "critical contract terms and conditions" for inclusion in our service and goods contracts.*

## Finding Number One, continued:

*The Authority lacked the necessary monitoring controls to ensure that vendor payments were consistent with contract terms. We identified a number of instances in which vendors were paid based on estimated, not actual, costs incurred for the services rendered. In some cases, the vendor billed the Authority for work not performed or for work that was inconsistent with contract terms. There were a number of instances in which department managers did not provide to the Purchasing Department or Finance Department such documentation as audit logs for services rendered, to support invoices submitted by the vendor. As a result, the Finance Department and Purchasing Department approved billings without adequate supporting documentation to show that services were provided.*

**Authority Response:**

**The Authority lacked the necessary monitoring controls to ensure that vendor payments were consistent with contract terms and performance.**

Noted. Both the Purchasing and Finance Departments will confirm delivery of service or goods per the contract via independent verification prior to authorization for payment.

**There were a number of instances in which department managers did not provide to the Purchasing Department or Finance Department such documentation as audit logs for services rendered, to support invoices submitted by the vendor.**

Noted. We recognize that in a few instances, supporting documentation was not available at the time of the present audit to provide evidence as back up to invoices. However, the overwhelming majority of purchasing conducted by Authority employees are done with proper documentation (invoices) provided to the Purchasing and Finance Departments.

See our responses below for the isolated instances when this unfortunately did not occur.

**Finding Number One, continued:**

**Video Production Vendor**

*The Authority entered into an oral agreement without obtaining price and rate quotations from other qualified sources, obtaining a formal written agreement, or following procurement by small purchase procedures (24 Code of Federal Regulation 85.36 (d)(1)). In May 2000, the Authority spoke with a video production vendor about providing a 7-10 minute video presentation for use at a housing conference. It agreed to pay the vendor \$4,500 for the video presentation. The Authority did not perform a cost or price analysis, as is required by Federal regulations and its own policies, to show whether the \$4,500 fee was reasonable. The Authority ignored Federal regulations and its own policies and procedures by not soliciting at least three offers to provide video services for the Authority. The Authority acknowledged that it did not solicit other firms to provide video services. The Purchasing Department was not involved in the procurement action.*

*The vendor delivered a 30-minute video rather than the 7-10-minute presentation requested and orally agreed upon. The vendor believed that he was entitled to additional compensation for the extra work; however, the Authority disagreed and paid the vendor only \$4,500. Ultimately, an arbitrator intervened and ruled that the vendor was entitled to only \$4,500 for providing the service, even though the results were not what the Authority verbally agreed to receive. A centralized Purchasing Department, as well as a formal written contract, would have protected the Authority from monetary and legal risks and executive staff time spent on this issue.*

**Authority Response:**

**The Authority entered into an oral agreement without obtaining price and rate quotations from other qualified sources, obtaining a formal written agreement, or**

**following procurement by small purchase procedures (24 Code of Federal Regulation 85.36 (d)(1)).**

Noted. This isolated incident happened in 2000. The staff persons responsible for this event is no longer employed at the Authority. The event was effectively resolved by counsel through court appointed arbitration. Department heads are required to get appropriate quotes and written agreements.

**Finding Number One, continued:**

**Brown Stove Works**

*From December 6, 1999, through June 7, 2002, the Authority purchased 1,024 stoves from Brown Stove Works of Cleveland, TN, for \$274,026 without competitive bidding, cost or price analyses, or a written contract. During this 2 ½ year period, the Authority purchased and received shipments of large quantities of stoves using purchase orders rather than entering into formal written contracts, as required by its procurement policies and procedures. There was no price or cost analysis, as is required by Federal regulations to show that the costs charged for the stoves were reasonable and fair. The Purchasing Department was actively involved in the purchase of the stoves yet failed to follow Federal regulations in obtaining them. The purchasing agent's reason for sole-source purchases was that the Authority had been doing business with the company since 1978 and was satisfied with the product, and the Authority's maintenance staff was familiar with the stoves. This action does not comply with HUD's requirement, and this sole-source purchase cannot be justified when local vendors and building and supply stores carry such a commodity.*

**Authority Response:**

**No competitive bidding in this procurement.**

The Authority did an extensive historical assessment of the appliance used at the developments and determined it would be more cost effective to standardize the type of appliance used to one model. In addition, staff had a desire to eliminate multiple product lines for our Central Stores operation. This is also consistent with recent HUD mandates to finds means to standardize and provide immediate and future costs savings. The use of a non-competitive bid process was justified based on the process and rationale used in making the standardization decision. The decision to use Brown Stoves Works was proven to be cost-effective use of Federal funds and a benefit to the Authority.

Competition for ranges had been centered on two companies for a number of years: Brown Stoves and Amana. At the time of the standardization implementation, Amana had closed its manufacturing plant that produced the builder's line of stoves.

In considering which appliance to use as the model for standardization, the Authority purchased and evaluated all of the major stove models available. The evaluation process included the following criteria: ease of maintenance; durability of product (use of porcelain v. painted steel); familiarity with the products by maintenance staff; and standardization of replacement parts/labor.

Brown Stoves were identified by the evaluators to most effectively meet the criteria stated above. Instead of publishing an invitation to bid, the Authority went directly to

the manufacturer. Throughout the years, local resellers were unable to match the pricing offered by purchasing directly from the manufacturer. The Authority determined that the cost involved in producing a formal invitation, with advertising expense added, would have far exceeded any possible cost savings from competition.

**Cost or price analysis was not performed.**

The price quoted from the manufacturer was consistent with the historical costs considering the product upgrades to a chrome top and porcelain broiler box. Brown Work Stoves were purchased in 1998 for \$228.80 each plus sales tax. These purchases were made as a result of the competitive bidding process.

**Formal written contract was not executed.**

Beginning in 1999, the Authority used a purchase order as the contract for this vendor. The Authority procurement policy requires a formal written agreement for purchases of supplies and/or vehicles when the cost exceeds the small purchase threshold (it didn't specifically address the purchase of appliances). In this instance, we understood that we could use the purchase order as a formal written agreement. We now have a model contract for purchase of goods that is being used in all similar agreements, which will augment the purchase order.

**Sole source used.**

As indicated above, the Authority made a decision to standardize the stove product being used throughout the agency. This was done by comparing the available products in the market place, including historical pricing. Further, no additional saving was anticipated by going through the formal bid process.

**The documents listed below that support the procurement process are available for review:**

1. Procurement Documentation.
2. Range Replacement Master Schedule.
3. Ranges remaining to be Purchased Status Report, March 21, 2000.

**Finding Number One, continued:**

**Robert Burns Construction Co.**

*On April 3, 2000, the Authority entered into a construction contract with Robert Burns Construction Co. to perform construction work at Conway Homes, an Authority-owned public housing development. Robert Burns Construction C. was paid \$1,082,121. Of this amount, \$975,000 was for the original contract, and \$107,121 was for various change orders that occurred during the construction. The Purchasing Department was not involved in the procurement of this contract. The Authority's Capital Fund manager handled the complete procurement action, and there was no evidence that the Authority performed the required cost or price analysis for the original contract amount or its modifications. Without a cost or price analysis, the Authority could not determine whether the construction costs were reasonable and fair.*

*There was no evidence that a technical evaluation was performed for the proposals received. Also, there were no provisions in the contract regarding compliance with the Davis-Bacon Act, compliance with the Copeland Anti-Kickback Act, or termination for cause and convenience by the Authority.*

**Authority Response:**

**No cost or price analysis was conducted.**

The former Director of Facilities and Maintenance performed the price analysis by comparing bid submittals with A & E cost estimates for the construction, engineering and electrical components of the project.

**No technical evaluation of the proposal.**

As in the cost and price analysis, the Director of Facilities and Maintenance conducted an evaluation of the proposals to determine that the proposals were responsive to the requirements of the bid and that the contractors were responsible and possessed the means to complete the project.

**No provisions for Davis-Bacon compliance.**

The provision for the Davis-Bacon compliance is included in the bid documents and contract. HUD General Conditions are identified in section 20 of the bid documents and incorporate by reference in Article 3 of the Agreement. In addition, copies of the certified payrolls submitted also show evidence of compliance.

**No provisions for Copeland Anti-Kickback act.**

The Copeland Anti-Kickback Act provisions are included in the bid documents and contract. Again, HUD General Conditions are identified in section 20 of the bid documents and incorporate by reference in Article 3 of the Agreement.

**No provision for termination for cause.**

Termination for cause language is included in the bid documents and contract. HUD general conditions are identified in section 20 of the bid documents and incorporate by reference in Article 3 of the Agreement.

**Timeline for Procurement for the Conway Homes Site Development**

1. An architect prepared design work, bid specifications (statement of work) and project estimate.
2. Invitation to Bid documents were distributed (prepared by Housing Authority staff) including, but not limited to: invitation to bid; statement of work (bid specifications); instructions to bidders (HUD form); General Conditions (HUD form); and prevailing wage determination.
3. Bids were received.
4. Bids were reviewed. The following were items considered: responsiveness of low bid; responsible contractor; and cost and price analysis.
5. Selection of low responsive and responsible bid by staff.
6. Staff recommendation to Board of Commissioners, Board of Commissioners approval, and award of bid to selected vendor.

**Finding Number One, continued:**

**Signature Systems, Inc.**

*On August 1, 2001, the Authority contracted with Signature Systems, Inc., to provide an updated computer system, Public Housing Maintenance System, to replace its old*

Page 6 of 22

*management system to meet the reporting needs of the agency. The Authority's Information Technology Department and executive management procured the professional services for the data conversion and implementation of the new system but did not include the Purchasing Department and sought very little input from accounting and finance staff in the procurement process. The Authority did not perform an independent cost estimate before receiving proposals nor did it perform a cost or price analysis, as is required by Federal regulations. The Authority did not maintain complete and accurate documentation of the procurement process, as required by Federal regulations and its own procurement policies and procedures. The following documentation for this procurement transaction was not provided to OIG after repeated requests: 1) the losing bidders' proposals, 2) bidders scoring/evaluations of the proposals, 3) the scope of the work, and 4) a pricing summary.*

*On May 17, 2001, the deputy director prepared a staff report for the Board stating, "Anticipated costs for the full implementation range to \$400,000." Records provided to us showed the Authority entered into a contract with Signature Systems, Inc., on August 1, 2001, for \$289,526, which stated this amount was for Phase I, but Phase 2 costs were still to be determined. The costs escalated to \$829,527 by the time the Authority determined that the Public Housing Authority Management System was a failure and went back to its previous management system. It did not run a backup or parallel system during the data transfer from the previous system to the attempted new system. We concluded that the Authority did not follow Federal procurement requirements, did not retain adequate records documenting the history of the procurement, and mismanaged resources and Federal funds provided for the benefit of its residents.*

**Authority Response:**

**Accounting and Finance were not involved in the procurement process.**

Representatives from executive management, information technology, housing management, development department, rental assistance and purchasing as well as finance and accounting were invited to participate in the software demonstrations. Participants were then asked to present their reviews of the software demonstrations to the selection committee.

**Independent cost estimate was not performed.**

The Project Outline generated by the Information Technology department in December 2000, identified the project cost estimate at \$350,000. The Capital Fund budget allocated \$370,000 for software upgrades (incl. installation).

**Price and cost analysis was not performed.**

Management generated a Staff Report to the Board of Commissioners seeking approval to award the technology upgrade contract to Signature Systems. The cost proposed by Signature Systems was within the budgeted amount.

### **Lack of documentation of the overall procurement process.**

All responses given identify adequate documentation of the procurement process.

### **No evidence of the unsuccessful proposals.**

Two unsuccessful vendor proposals were available for review: Yardi and Emphasys.

### **Missing documentation of proposal evaluations.**

In evaluating the proposals, the first phase was to assess how effectively the provided proposals met the criteria needed to implement the integration of a new software system. Vendors identified in their proposals their interpretation of product compliance with the needs of multiple functions at the Authority.

The second phase was to invite two vendors to demonstrate their products to representatives from various departments within the organization. Staff was invited to comment on which of the demonstrated products would fit their individual department requirements.

The final phase was to take into consideration the proposals from the vendors and the feedback from staff. A portion of the dialogue considering the vendors were verbal, however, there is written supporting documentation regarding the evaluation of the vendors.

### **No scope of work.**

The Request for Proposal (“RFP”) identified the Scope of Work. In addition, the vendors supplied a self-assessment of their ability to address the need identified in the Scope of Work in the RFP.

### **Project escalated to \$829,527**

The direct cost of the software was \$276,000. The additional cost was attributable to the failure of the software and the subsequent cost of migrating the data from SSI to a more reliable software environment. The decision to not run a parallel system was based upon the advice of the software vendor.

### **The following documents support the procurement process and are available for review:**

1. E-mail memo from technology program manager to staff representatives regarding the software demonstration and subsequent verbal feedback provided by attendees. The Accounting and Finance representative was Joan Gabrielson.
2. Memorandum from the Information Technology Department dated December 12, 2000.
3. Housing Authority's Capital Fund Program Five-Year Action Plan (Years 2-5).
4. May 17, 2001, Staff Report prepared by Gus Joslin.
5. May 17, 2001, Enterprise Data System Recommendation Report prepared for Executive Staff by Jeffrey Gilbert.
6. Yardi proposal
7. Emphasys proposal
8. Portland Housing Authority's evaluation matrix
9. Housing Authority's evaluation matrix
10. February 9, 2001, Enterprise Software System Request for Proposal
11. Signature Systems Proposal, March 7, 2001.

Page 8 of 22

12. May 17, 2001, Board of Commissioner's Resolution No. 01-33 accepting the proposal and awarding the contract for purchase and implementation of the Authority-wide computer system software.
13. Signature Systems Business Analysis, July 16, 2001
14. August 1, 2001, contracts between Signature Systems and the Housing Authority.
15. August 16, 2001, Staff Report and Resolution updating the status of the software implementation and consider contract revision to include comprehensive staff training and software customizations.

**Finding Number One, continued:**

**Geiger, Rudquist, Nuss, Coon & Keen, LLP**

*On February 3, 1999, the Authority awarded Geiger, Geiger, Rudquist, Nuss, Coon & Keen, LLP, an open-ended legal services contract, in which the law firm would provide various legal services on as-needed hourly basis. Geiger, Rudquist, Nuss, Coon & Keen, LLP was to provide these services to the Authority for 2 years with options for 2 additional years. Through additional options not specified in the original contract, the Authority extended its contract with Geiger, Rudquist, Nuss, Coon & Keen, LLP, until September 2007 and added two additional 2-year options. This would effectively allow the contract to continue through September 30, 2011. This contract disregards HUD Handbook 7460.8 requirements that limit the length of service contracts to 2 years. It also disregards Federal regulations requiring all procurements to be conducted in a manner providing free and open competition. Due to problems associated with the Authority's failed attempt to upgrade its computer system, we were only able to determine that Geiger, Rudquist, Nuss, Coon & Keen, LLP, received \$318,491 from June 28, 2001, through June 25, 2004, for legal services.*

*The legal services contract did not include required Federal provisions, such as administrative, contractual, and legal remedies when the contractor violates or breaches contract terms. These and other Federal provisions must be included in all contracts and are designed to protect the Authority from unnecessary legal and financial risks.*

*The original contract and options did not cap the maximum amount to be paid to the law firm. Geiger, Rudquist, Nuss, Coon & Keen, LLP, unilaterally increased its hourly rates over the years without the Authority's formal approval and without applicable contract modifications. The exercised contract options were silent on any hourly rate increases and referred to the February 3, 1999, contract.*

**Authority Response:**

**The Housing Authority disregarded HUD Handbook 7460.8 regulation stipulating the length of legal services contracts.**

The Authority and counsel believed that the ability to extend the legal services contract was in compliance with HUD Notice PIH 2003-24 (HA) which establishes the guidelines for the procurement of legal services. Specifically, section 85.36(d)(1) identifies the methods of procurement for small purchases for services that do not cost more than \$100,000.

## Appendix I

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The original contract was prepared by the Authority in 1999, which was subject to the rules and regulations in place at the time. The two-year extension granted in February 2004, was conditioned on maintaining the present billing rates. The law firm has now committed its resources for the two-year extension. The law firm believed that its experience and efforts from the previous period of the relationship warranted the extension of the contract. Finally, at the time of contract extension, the Authority was experiencing significant challenges and expected those challenges to continue for the next several years.

**Federal provisions, contractual and legal remedies were not included in the Option to Extend.**

The above stated terms were included in the RFP. The law firm has always agreed to comply with all required federal provisions, contracts, and required conditions. The Board of Commissioners will formally approve a new RFP for legal services at the November 18, 2004, Board of Commissioners meeting.

**Geiger, Rudquist, Nuss, Coon & Keen, LLP unilaterally increased their hourly rates.**

The rates were negotiated in advance to the signing of the extension.

**The following documents support the procurement process and are available for review:**

1. HUD Notice PIH 2003-24 (HA)
2. Exercise and Option and Extension Agreement.

**Finding Number One, continued:**

**Ad Force Security**

*In June 1993, the Authority awarded Ad Force Security a series of open-ended security services contacts without competition. Due to problems associated with the Authority's prior computer upgrades, we were only able to determine that Ad Force received \$779,845 from June 29, 2001, through July 26, 2004, for security services rendered. None of the contracts provided a specific time when Ad Force would complete its services for the Authority. The Authority entered into agreements with Ad Force using vendor-prepared contracts, which benefited the vendor and placed significant legal and financial risks on the Authority and its resources. In addition, the executed contracts did not specify a maximum contract amount that the Authority would pay Ad Force for the security services rendered.*

*There were many instances in which the Authority prepaid for security services not yet rendered by Ad Force. It should be noted that a clause in all of the vendor-issued contracts specified that prepaid services were nonrefundable. The Authority placed itself and its resources at risks by paying for services before completion.*

*In addition, from October 23, 2003, through July 16, 2004, AD Force overbilled the Authority in the amount for \$3,772 for security services provided to Tracy Homes.*

**Authority Response:**

**The Authority awarded Ad Force Security a series of open-ended security services contacts without competition.**

Noted.

**None of the contracts provided a specific time when Ad Force would complete its services for the Authority.**

Noted.

**The Authority entered into agreements with Ad Force using vendor-prepared contracts, which benefited the vendor.**

Noted. A proposed contract is attached for OIG approval. (See Attachment #1)

**The executed contracts did not specify a maximum contract amount that the Authority would pay Ad Force for the security services rendered.**

Noted.

**Ad Force overbilled the Authority in the amount of \$3,772 from October 23, 2003 through July 16, 2004 for security services at Tracy Homes.**

Noted.

The action taken by the Authority to provide security to the Authority's assets were necessary and appropriate. The location of the sites of the properties required the ability to have flexibility to adapt to emergency needs due to the uniqueness and location of the developments. In addition, emergency security needs cannot be easily predetermined. Also, residents of the developments have repeatedly requested ad hoc security, which the municipal police department cannot always provide.

Other companies charge comparable fees for services rendered. However, the confirmation of services and billing by invoices needs the appropriate control to ensure proper payment of invoice. In addition, there should be a cap on expenses. Please provide a sample contract approved by OIG to assist us with our RFP process for security services.

**Finding Number One, continued:**

**Reorganization Consultant**

*The Authority's former executive director awarded three consulting contracts to a reorganization consultant for reorganization plans without competitively bidding the services. There was no evidence that the Authority included the three consulting contracts in monthly reports to the Board, and it appears that the former executive director executed three consulting contracts without the Board's full knowledge. We questioned \$3,911 for the consultant's services charged to the Low-Rent Housing Program. Of this amount, the Low-Rent Housing program absorbed \$2,810 in ineligible costs and \$1,101 in unsupported costs paid to the consultant.*

**Authority Response:**

Noted. The staff person responsible for this event is no longer employed at the Authority, since this incident occurred in 2002-2003. Department heads are required to get appropriate quotes and written agreements with prior Board knowledge and approval.

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## Appendix I

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### **Finding Number One Recommendations**

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

#### **1A.**

*Establish a centralized procurement department and ensure that all procurement actions are performed in accordance with Federal requirements and the Authority's own adopted procurement policies and procedures to eliminate such occurrences as paying \$829,527 for the failed Public Housing Authority Management System.*

#### **Authority Response:**

Agreed. The Authority has reassigned an additional employee so that the Purchasing Department now has three employees that will assist in the procurement process. Once counsel is employed, they will be directed to continue with the legal task of recovery all or portion of the costs spent on the failed Public Housing Authority Management System.

#### **1B.**

*Terminate all of its current contracts with Geiger, Rudquist, Nuss, Coon & Keen, LLP, and Ad Force Security and issue a new Request for Proposals for legal services and security services. Ensure that all future contracts follow the requirements in 24 Code of Federal Regulations 85.36 and HUD Handbook 7460.8, including all required clauses in 24 Code of Federal Regulations 85.36 (i).*

#### **Authority Response:**

The Authority will give appropriate notices to Geiger, Rudquist, Nuss, Coon & Keen, LLP and Ad Force Security prior to the conclusion of the RFP process for legal counsel and security services. Please provide a sample contract approved by OIG to assist us with our RFP process for legal counsel and security services.

#### **1C.**

*Reimburse its Low-Rent Housing Program \$3,772 from non-federal funds for the overpayment in security services.*

#### **Authority Response:**

Agreed. The above referenced amount was reimbursed using non-federal funds to the Low-Rent Housing Program on November 3, 2004. (See Attachment #2)

#### **1D.**

*Reimburse its Low-Rent Housing Program \$2,810 from non-federal funds for ineligible consulting costs.*

#### **Authority Response:**

Agreed. The above referenced amount was reimbursed using non-federal funds to the Low-Rent Housing Program on November 3, 2004. (See Attachment #2)

IE.

*Provide adequate documentation for the \$1,101 in unsupported consulting costs. If supporting evidence is not provided, reimburse its Low-Rent Housing program for those costs from non-federal funds.*

**Authority Response:**

Agreed. The above referenced amount was reimbursed using non-federal funds to the Low-Rent Housing Program on November 3, 2004. (See Attachment #2)

## Appendix I

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### **Finding Number Two:**

#### **Claremont Manor**

*In October and November 2003, the Authority commingled \$2,980,328 in Low-Rent Housing funds with its Operation Reserves, unrestricted non-federal account, to purchase non-Low-Rent Housing program properties. Of this amount, the Authority used \$2,200,551 to purchase Claremont Manor, and \$779,777 remained in its non-federal Operation Reserves bank account, earning interest. The Authority's inappropriate use of Low-Rent Housing funds with its Operations Reserves account to purchase non-Low-Rent Housing program properties, such as Claremont Manor, violated its Annual Contribution Contract and HUD rules and regulations.*

*In June 2004, the Bank of Agriculture and Commerce offered the Authority a loan at a 6.1-percent interest rate to refinance Claremont Manor. As of July 31, 2004, the Authority was still in the process of obtaining the refinancing for the property. If the Authority had obtained \$2,980,328 in financing from a bank at an interest rate of 6.1 percent to purchase Claremont Manor, we determined it would have had to pay a lender \$114,333 in interest for the period October 2003 through August 2004.*

*When we initiated our audit in January 2004, we questioned the funds used for the purchase of Claremont Manor. During the same month, the Authority made its first installment payment towards reimbursing the Low-Rent Housing program. On August 3, 2004, the Authority provided evidence to us that the Low-Rent Housing program received its final repayment from the Authority's non-federal account as reimbursement for the \$2,908,328 in loan principal taken. However, this amount does not include the \$114,333 in interest due the Low-Rent Housing program for the principal amount loaned to its non-federal Operations Reserves account. We concluded that its non-federal programs were enriched by generating \$102,733 in net income and another \$114,333 for using interest-free Low-Rent Housing program funds*

#### **Authority Response:**

*Noted. The Claremont Manor, which is an elderly-only complex for low-income residents, was purchased for \$2.2 million using unrestricted accrued reserves. The purpose of the acquisition was to further the mission of the Authority to provide affordable housing to the elderly and disabled population within our community.*

*The unutilized \$779,777 was part of the Housing authority's funds mandated by HUD to be set-aside for the HOPE VI revitalization of Sierra Vista (low-rent housing development). As evidenced in your report these funds were not utilized, so the accrued interest due back to the low-rent housing program should be the actual interest earned while the funds were in the non-federal Operation Reserve Account. By paying an amount in excess of what the authority actually received we will be depriving unsubsidized properties like Claremont Manor and West Park Street of funds needed for their operations. The actual interest earned on the \$779,777 was \$4,920 (using the actual CD rate of 1.514 percent). (See Attachment #3)*

*In regards to the \$2.2 million spent on the acquisition of the Claremont Manor Apartments; a representative interest rate should be that which the Authority would have earned if the money had been invested like similar funds during the time period of October '03 to August '04. The Authority has researched the 6-Month Treasury bill rates during this period and has recalculated the back interest owed as August '04. We*

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respectfully submit that you reconsider the 6.1 percent interest rate used to compute interest owed and suggest using 6-Month Treasury bill interest rate of 1.01 percent to 1.66 percent. The interest using the 6-Month Treasury bill rate is \$14,676 as shown in Attachment #3 during the aforementioned period.

**Finding Number Two, continued:**

**Franco Center**

*The Authority continuously and routinely advanced Low-Rent Housing funds to cover the Franco Center's operating expenses. The Authority used Low-Rent Housing funds to pay for Franco Center's monthly bond payments and monthly expenses. It continued the practice of using these funds to pay for Franco Center's expenses, even though the property routinely failed to make timely repayments to the Low-Rent Housing program. The Authority used Low-Rent Housing funds to pay for Franco Center's monthly expenses, and there were instances in which Franco Center did not reimburse the Low-Rent Housing program until 11 months after the initial advancement of funds.*

*As of July 31, 2004, the Authority provided evidence to us that the Low-Rent Housing program had been reimbursed \$1,760,061 but has a remaining outstanding balance of \$251,209. The outstanding balance did not include the \$11,371 in lost interest due the Low-Rent Housing program for the principal amount loaned to Franco Center.*

**Authority Response:**

Noted. The Franco Center is a HUD-Subsidized property designed for the elderly only population. This purpose of the acquisition was to further the mission of the Authority to provide affordable housing to the elderly and disabled population within our community.

Initially, the funds for the operation of this property were not promptly disbursed by HUD. In order to maintain the property, the Authority utilized Low-Rent Funds pending the resolution of technical difficulty with the HUD online cash disbursement system.

The difficulties with the HUD online cash disbursement system has been resolved. The subsidy due to the Authority from HUD is now received on a timely basis.

**Finding Number Two, continued:**

**West Park**

*In July 2000, the Authority used \$367,100 of Low-Rent Housing funds to purchase a 12-unit apartment complex call West Park for its non-federal program. During the period from July 2000 to September 2001, West Park incurred \$13,873 in operating losses, and the Low-Rent Housing program absorbed all of this loss. In September 2001, 14 months after the original acquisition, the Authority used monies from its non-federal Operation Reserves account to reimburse its Low-Rent Housing program for West Park at the original acquisition price of \$367,100, but provided no compensation for using the funds interest-free. We determined that the Authority would have had to pay a lender \$25,956 in interest for the period July 2000 through September 2001.*

**Authority Response:**

Noted. This property, like the other properties purchased was intended to provide affordable housing in a rental market by which the Authority is the only viable provider of affordable units in the community. This is consistent with recent HUD mandates.

The Authority discovered that a bookkeeping error was made in the Finance Department. Following discovery, the Authority corrected the error and reimbursed Low-Rent Program.

As for the interest owed, the above referenced 6.1 percent is a retail rate. A more representative interest rate would be what the Authority earned if the money had been invested like similar funds during the time period of August 2000 to September 2001. The Authority has researched the 6-Month Treasury bill rates during this period and has recalculated the back interest owed as \$19,596. (See Attachment #4).

**Finding Number Two:**

**Revitalizing Existing Neighborhoods and Extending the Workforce Project**

**(RENEW) Lodi Properties**

*In December 2000, the Authority used \$81,778 of its Low-Rent Housing program funds to purchase vacant lots for three single-family properties for its non-federal program called the RENEW Lodi program. If the Authority had obtained \$81,778 in financing from a bank or financial institution at an interest rate of 7.38 percent to purchase the three single-family properties, we determined it would have had to pay a lender \$2,511 in interest for the period December 2000 through May 2001. In May 2001, the Authority used non-federal program funds to reimburse its Low-Rent Housing program the original acquisition price of \$81,778, but once again, it provided no compensation for using the funds interest-free. The Authority's use of Low-Rent Housing program funds allowed it to construct a house on one of the vacant lots and sell it in September 2003 for a net gain of \$20,161.*

**Authority Response:**

Noted. This is consistent with recent HUD mandates. The Authority discovered that a bookkeeping error was made in the Finance Department with regard to the using Low-Rent Program funds in the amount of \$81,778 to purchase the properties. If this error had been discovered in prior financial audits the Authority will have corrected it. Following your discovery, the Authority has corrected the error and reimbursed Low-Rent Program.

As for interest owed, the above referenced 7.38 percent is a retail rate. A more representative interest rate would be what the Authority will earn if the money had been invested like similar funds during the time period of January'01 to May'01. The Authority has researched the 6-Month Treasury bill rates during this period and has recalculated the back interest owed as \$1,445. We respectfully submit that you reconsider the 7.38 percent rate used to compute interest owed and suggest using 6-Month Treasury Bill interest rate of 4.86 percent (Jan' 01) to 3.55 percent (May'01). (See Attachment #4)

**Finding Number Two, continued:**

**Unnecessary and Non-related Low-Rent Housing Expenses**

From October 1998 through January 2003, the Authority used Low-Rent Housing funds to incur \$33,542 in questioned costs. Of this amount, \$1,633 was spent to pay the Authority's executive director's friend to perform unnecessary consultant services; \$28,809 was advanced to a resident council for Resident Opportunity and Self Sufficiency grant expenses incurred; and \$3,100 was for unsupported credit card charges.

**Authority Response:**

Noted. The actions of the former executive director caused the \$1,633 and \$3,100 expenses to be incurred. The \$28,809 was advanced to the resident council in anticipation of the receipt of a \$100,000 HUD approved ROSS grant. It was necessary to advance the funds in order to comply with existing HUD mandates and goals of developing the management capacity of the resident council officers. The Authority is currently working with the Resident Council to make the funds available so that the Authority can be adequately reimbursed.

**Finding Number Two, continued:**

**Low-Rent Housing paid for State-Funded Program Expenses**

From July 28, 2000, to April 24, 2003, the Authority used \$49,996 in Low-Rent Housing funds to pay for security services for the State of California Migrant Housing program, a State of California-funded program.

**Authority Response:**

Noted. The Authority will be working the State of California Migrant Housing program for reimbursement of these funds.

**Finding Number Two, continued:**

**Low-Rent Housing paid for U.S. Department of Agriculture Program Purchases**

On March 3, 2000, Brown Stove Works billed the Authority \$8,085 for 31 stoves to be delivered to Mokelumne Manor, a Low-Rent Housing program-funded development owned by the Authority. Instead, the shipment of stoves was delivered to Sartini Manor, a U.S. Department of Agriculture-funded housing development owned by the Housing Authority. On March 24, 2000, the Authority paid Brown Stove Works \$8,085 in Low-Rent Housing funds for the 31 stoves delivered to Sartini Manor. On May 25, 2004, we discussed the issue with Authority executives. They agreed with our assessment that U.S. Department of Agriculture funds, not Low-Rent Housing funds, should have been used to pay for the purchases at Sartini Manor, and provided evidence to us on July 13, 2004, that the Low-Rent program has been reimbursed \$8,085.

**Authority Response:**

Noted. As stated in your report, the Authority has already reimbursed the Low-Rent Housing program \$8,085 for the bookkeeping error.

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### **Finding Number Two Recommendations**

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

**2A.**

*Immediately cease the practice of using Low-Rent Housing program funds to pay for non-Low-Rent Housing program purchases and expenses and establish procedures to ensure that HUD approval is obtained before using funds for non-federal purposes.*

**Authority Response:**

Agreed.

**2B.**

*Reimburse its Low-Rent Housing program from non-federal funds \$114,333 in accrued interest at an interest rate of 6.1 percent for using \$2,980,328 in Low-Rent Housing program funds to purchase Claremont Manor.*

**Authority Response:**

The purchase price of the Claremont Manor was \$2.2 million. The Closing Statement for this transaction is available for your review.

The above referenced 6.1 percent is a retail rate. A more representative interest rate would be what the Authority earned if the money had been invested like similar funds during the time period of October '03 through August '04. The Authority has researched the 6-Month Treasury bill rates during this period and has recalculated the back interest owed as \$14,676. We respectfully submit that you reconsider the 6.1 percent interest rate used to compute interest owed and suggest using 6-Month Treasury Bill interest rate of 1.01 percent (October '03) to 1.66 percent (August '04). (See Attachment #3)

**2C.**

*Reimburse its Low-Rent Housing program for the \$251,209 remaining balance of the bond payments expenses paid for the Franco Center and \$11,371 in back interest at the Federal Reserve's reported 6-month Treasury bill rate for the use of \$2,011,270.*

**Authority Response:**

The Multi-Family division of HUD currently owes the Authority \$297,080 for Special Vacancy Claims that have been submitted and approved for payment by HUD. Once the funds are received, the outstanding balance will be paid. We respectfully submit you reconsider the merits of charging the authority interest for utilizing HUD funds for another HUD funded project.

**2D.**

*Reimburse its Low-Rent Housing program \$13,873 from non-federal funds for using Low-Rent Housing program funds to absorb West Park apartments' operating loss and \$25,957 in back interest from non-federal funds for using \$367,100 in Low-Rent Housing program funds to purchase West Park apartments.*

**Authority Response:**

Agreed. The Authority has reimbursed the Low-Rent Housing Program \$13,873 from non-federal funds due to operating losses on November 2, 2004. (See Attachment #2)

However, for back interest owed, the above referenced 6.1 percent is a retail rate. A more representative interest rate would be what the Authority earned if the money had been invested like similar funds during the time period of August '00 through September '01. The Authority has researched the 6-Month Treasury bill rates during this period and has recalculated the back interest owed as \$19,615. We respectfully submit that you reconsider the 6.1 percent interest rate used to compute interest owed and suggest using 6-Month Treasury Bill interest rate of 6.13 percent (August '00) to 2.35 percent (September '01). (See Attachment #4)

2E.

*Reimburse its Low-Rent Housing program \$2,511 in back interest from non-federal funds for using \$81,778 in Low-Rent Housing program funds to purchase single-family properties for its RENEW Lodi program.*

**Authority Response:**

Agreed. The above referenced 7.38 percent is a retail rate. A more representative interest rate would be what the Authority earned if the money had been invested like similar funds during the time period of January '01 to May '01. The Authority has researched the 6-Month Treasury bill rates during this period and has recalculated the back interest owed as \$1,445. We respectfully submit that you reconsider the 6.10 percent rate used to compute interest owed and suggest using 6-Month Treasury Bill interest rate of 4.86 percent (Jan '01) to 3.55 percent (May '01). (See Attachment #4)

2F.

*Reimburse its Low-Rent Housing program \$1,633 ineligible costs paid to the reorganization consultant from non-federal funds.*

**Authority Response:**

Agreed. The above referenced amount was reimbursed using non-federal funds to the Low-Rent Housing Program on November 3, 2004. (See Attachment #2)

2G.

*Reimburse its Low-Rent Housing program \$28,809 in ineligible advances to the Sierra Vista Resident Council from non-federal funds.*

**Authority Response:**

The \$28,809 was advanced to the resident council in anticipation of the receipt of a \$100,000 HUD approved ROSS grant. The Authority is currently working with the Residents council to make available the funds so that the Authority is reimbursed appropriately.

## Appendix I

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2H.

*Provide adequate documentation for the \$3,100 in unsupported credit card charges. Otherwise, reimburse its Low-Rent Housing program from non-federal funds for those costs in which supporting documentation could not be obtained.*

**Authority Response:**

Agreed. The above referenced amount was reimbursed using non-federal funds to the Low-Rent Housing Program on November 3, 2004. (See Attachment #2)

2I.

*Reimburse its Low-Rent Housing program \$49,996 from non-federal funds for security services provided to the State of California Migrant Housing program.*

**Authority Response:**

Agreed. The Authority will be working the State of California Migrant Housing program for reimbursement of these funds.

2J.

*Establish better controls to ensure that Low-Rent Housing program funds are used only for that program's related expenditures and eliminate such occurrences as using \$8,085 to pay for U.S. Department of Agriculture program-funded assets.*

**Authority Response:**

Noted. As stated in your report, the Authority has already reimbursed the Low-Rent Housing Program for this bookkeeping error.

## Chart of Recommendations and Responses

OIG Recommendation		Authority Response		Page #
Reimburse Low-Rent Housing Program for overpayment of security services	\$3,772	Agreed.	\$3,772	11/13
Reimburse Low-Rent Housing Program for ineligible consulting costs	\$2,810	Agreed.	\$2,810	11/13
Reimburse Low-Rent Housing Program for unsupported consultant costs	\$1,101	Agreed.	\$1,101	11/14
Reimburse Low-Rent Housing Program for accrued interest at 6.1 percent for the Claremont Manor Purchase	\$114,333	Agreed, however Authority is requesting the back interest owed be based on the purchase price \$2.2 million and that you reconsider the 6.1 percent interest rate used to compute interest owed and suggest using 6-Month Treasury Bill interest rate.	\$19,596	15/20
Reimburse Low-Rent Housing Program for balance of bond payment expenses for Franco Center	\$251,209	HUD currently owes the Authority \$297,080 for Special Vacancy Claims that have been submitted and approved for payment by HUD. Once the funds are received, the Low-Rent Housing Program will be reimbursed in the amount of \$251,209.	\$0	16/20
Reimburse Low-Rent Housing Program for back interest for Franco Center	\$11,371	We respectfully submit you reconsider the merits of charging the authority interest for utilizing HUD funds for another HUD funded project.	\$0	16/20
Reimburse Low-Rent Housing Program for operating expenses for West Park Street	\$13,873	Agreed.	\$13,873	16/20
Reimburse Low-Rent Housing Program for back interest for West Park Street	\$25,957	Agreed, however Authority is requesting the interest owed to be calculated at the average interest rate of CD rate of 1.514 percent.	\$19,615	16/20
Reimburse Low-Rent Housing Program for back interest for the RENEW Lodi Program single-family home purchases	\$2,511	Agreed, however Authority is requested the interest owed to be calculated at the average 6-month CD rate in February 2001(5.77 percent)	\$1,445	17/20
Reimburse Low-Rent Housing Program for ineligible costs paid to reorganization consultant	\$1,633	Agreed	\$1,633	18/21

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Reimburse Low-Rent Housing Program for ineligible advances to the Sierra Vista Resident Council	\$28,809	The Authority is currently seeking reimbursement from the Sierra Vista Resident Council. The Resident Council is waiting for disbursement of the \$100,000 HUD approved ROSS grant.	\$0	18/21
Reimburse Low-Rent Housing Program for unsupported credit card charges.	\$3,100	Agreed	\$3,100	18/22
Reimburse Low-Rent Housing Program \$49,996 for security services provided at the State of California Migrant Housing Centers	\$49,996	The Authority will seek reimbursement from the State of California Migrant Housing Program. Once the reimbursement is received, the funds will be applied to the Low-Rent Housing Program.	\$0	18/22
TOTAL		\$510,475.00	TOTAL	\$66,945.00

## **SECURITY SERVICE AGREEMENT FRANCO CENTER APARTMENT COMPLEX**

**THIS AGREEMENT** made and entered into on \_\_\_\_\_, by and between the Housing Authority of the County of San Joaquin (the "Authority"), a public corporation, and \_\_\_\_\_ ("Contractor");

### **WITNESSETH**

**WHEREAS**, the Authority desires to retain the services of the Contractor, and the Contractor desires to render services to the Authority, upon the terms and conditions hereinafter stated:

**NOW, THEREFORE**, the parties hereto, intending to be legally bound hereby, do hereby promise and agree as follows:

#### **I. SERVICES**

Contractor will provide private security service at the Franco Center Apartments located at 144 Mun Kwok Lane, in Stockton, California. Contractor will patrol the building and property four times (four "hits") on Fridays, Saturdays, and Sundays beginning at 5:00 pm and ending at 4:00 am. On every hit, Contractor will patrol entire property grounds including securing the exterior stairwell fire exits located on the east and west side of building. In addition, on every hit Contractor will patrol every floor of building securing each exit door (19 doors).

A Patrol Log (see Attachment) will be submitted for each day to the Housing Authority, itemizing the following, but not limited to, information:

- Patrol driver name
- Date
- Time of entry and exit for each patrol
- Description of activity observed

#### **II. TERM**

Subject to the provisions for termination as hereinafter provided, the term of this Agreement shall be month-to-month.

#### **III. COMPENSATION**

Contractor will be paid a monthly fee of \$\_\_\_\_\_. All invoices submitted must have back and no services will be paid for in advance.

#### **IV. TERMINATION**

##### **WITH CAUSE**

The Authority expressly reserves its full rights during the term of the Agreement and particularly the right to discharge the Contractor for cause and to cancel this Agreement on that account. Such cause shall consist, by way of illustration and not limitation, of one or more of the following: conviction of a felony, fraud, disloyalty, inattention to duties, moral turpitude,

## Appendix I

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continual drunkenness or embezzlement. The Authority shall also have the right to cancel this Agreement and terminate the Contractor's services hereunder at anytime for material violation of the terms of this Agreement by the Contractor. In any such case of discharge, cancellation, and termination, written notice thereof shall be given to the Contractor and shall be effective as of the date mailed in accordance with this Agreement or, if delivered, upon delivery to the Contractor.

### **WITHOUT CAUSE**

This Agreement may be terminated by either party upon written notice delivered or faxed to the other at least thirty (30) working days prior to the intended date of termination. By such termination, neither party may nullify obligations already incurred for performance or failure to perform prior to the date of termination.

### **V. ILLEGAL COMPENSATION**

The Contractor acknowledges and agrees that he shall not, nor shall he allow anyone under his supervision to, receive from a third party, directly or indirectly, any bribes, kickbacks, donations, loans, commissions or other payments, regardless of form, whether in money, property, or services, in connection with any business transaction in which the Authority is directly or indirectly involved. All compensation to the Contractor relating to any business transaction in which the Authority is involved shall be made by the Authority only. The Authority expressly reserves its full rights during the term of this Agreement to discharge for cause the Contractor violating the provisions of this article and to cancel this Agreement on that account.

### **VI. LIABILITY**

The Authority shall not be liable for the acts of the Contractor or his servants or agents in the performance by the Contractor of his duties, except for acts caused directly by the Authority or by the Authority's agents or employees.

### **VII. RELATIONSHIP**

Nothing in this Agreement shall be considered to create the relationship of employer and employee between the parties hereto and the Contractor shall be deemed at all times to be an independent contractor.

### **VIII. NOTICE**

Any notice required or permitted to be given under this Agreement shall be sufficient if in writing, and if sent by registered mail to his residence in the case of the Contractor, or to its principal office in the case of the Authority.

### **IX. WAIVER**

The waiver by the Authority of a breach of any provisions of this Agreement by the Contractor shall not operate or be construed as a waiver of any subsequent breach by the Contractor.

**X. BINDING EFFECT**

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, their respective heirs, representatives, successors and assigns, but shall not be assignable by the Contractor without the prior written consent of the Authority.

**XI. ENTIRE AGREEMENT**

This Agreement shall be deemed to express, embody and supersede all previous understandings, agreements and commitments, whether written or oral, between the parties hereto with respect to the subject matter hereof and to fully and finally set forth the entire agreement between the parties hereto. No modifications shall be binding unless stated in writing and signed by both parties hereto with the approval of the President of the Authority.

**XII. GOVERNING LAW**

This Agreement shall be governed by the laws of the state of the Authority's incorporation.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of \_\_\_\_\_

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## Appendix I

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Documents to be available within  
next 48 hours

Comments not received, report issued without them.

## Attachment #3

## Schedule of Interest Due – Claremont Manor

Month	Principal Balance Owed to the Low-Rent Housing Program	Reimbursements to the Low-Rent Housing Program	Interest Owed to the Low-Rent Housing Program	T-Bill Rates	T-Bill Rate on \$2,200,551 Column A	CD Rates Column B	CD Rate on \$779,777
Oct. '03	\$ 112,500		\$ 572	1.01	\$ .95	1.3	
Nov. '03	\$1,930,263		\$ 9,812	1.00	\$1,609	1.75	
Dec. '03	\$2,980,328		\$15,140	1.02	\$1,870	1.3	\$ 984
Jan. '04	\$2,867,828	\$112,500	\$15,125	.99	\$1,723	1.1	\$ 984
Feb. '04	\$2,867,828		\$14,540	.97	\$1,688	1.1	\$ 984
Mar. '04	\$2,867,828		\$14,526	.99	\$1,723	1.25	\$ 984
Apr. '04	\$2,400,000	\$467,828	\$14,512	.99	\$1,337	1	\$ 984
May. '04	\$1,849,934	\$550,066	\$12,174	1.09	\$1,680	1.2	
June '04	\$1,000,000	\$849,934	\$ 9,372	1.31	\$1,092	1.15	
July '04	\$ 684,218	\$315,782	\$ 5,083	1.6	\$ 912	1.35	
Aug. '04	\$ 0	\$684,218	\$ 3,477	1.66	\$ 947	1.35	
Total			\$114,533		\$14,676		\$4,920

Total of Columns A &amp; B      \$19,596

High of \$2,980,328  
Less Claremont <2,200,551>

\$ 779,777 – Invested in CDs – use Average CD rates of 1.514%

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### Attachment #4

#### Calculation of Back Interest Due – West Park and RENEW Lodi Single-Family Properties

West Park			
Month	Interest Due Per OIG Report Appendix H	T-Bill Rate – Per Authority's Response	Interest Due Using T-Bill Rate
Aug. '00	\$ 1,866	6.13	\$ 1,875
Sept. '00	\$ 1,864	6.05	\$ 1,851
Oct. '00	\$ 1,862	6.19	\$ 1,894
Nov. '00	\$ 1,861	6.03	\$ 1,845
Dec. '00	\$ 1,859	5.73	\$ 1,753
Jan. '01	\$ 1,857	4.86	\$ 1,487
Feb. '01	\$ 1,855	4.73	\$ 1,447
Mar. '01	\$ 1,853	4.2	\$ 1,285
Apr. '01	\$ 1,851	3.86	\$ 1,181
May '01	\$ 1,849	3.55	\$ 1,086
June '01	\$ 1,847	3.57	\$ 1,092
July '01	\$ 1,846	3.46	\$ 1,058
Aug. '01	\$ 1,844	3.30	\$ 1,010
Sept. '01	\$ 1,842	2.35	\$ 719
<b>Total</b>	<b>\$25,956</b>		<b>\$19,583</b>

RENEW Lodi Single Family Properties			
Month	Interest Due Per OIG Report Appendix H	T-Bill Rate – Per Authority's Response	Interest Due Using T-Bill Rate
Jan. '01	\$ 503	4.86	\$ 331
Feb. '01	\$ 503	4.73	\$ 322
Mar. '01	\$ 502	4.2	\$ 286
April '01	\$ 502	3.86	\$ 263
May '01	\$ 501	3.55	\$ 242
<b>Total</b>	<b>\$2,511</b>		<b>\$1,444</b>