



Issue Date	July 7, 1997
Audit Case Number	97-FW-209-1002

TO: Luz Day  
Director, Public Housing Division  
San Antonio Office, 6JPH

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

SUBJECT: Housing Authority of the City of Austin, Texas  
Section 8 Program, Administrative Practices, Procurement, and Maintenance

Because of citizen complaints, we conducted a review of operations of the Housing Authority of the City of Austin, Texas. Our review covered the areas of: (1) selection and housing of tenants in the Section 8 Program; (2) maintenance of Low Rent units including turnaround of vacant units; (3) procurement of goods and professional services; and (4) administrative practices involving payroll, travel, and use of vehicles and telephones.

Subsequent to our completion of field work, both the Executive Director and Deputy Executive Director have resigned. In February, the Board hired Mr. Jim Hargrove as the new Executive Director. Mr. Hargrove has inherited the problems identified in the findings of this report. The references within this report to executive management refers to Ms. Chargois and Mr. Papoola, who were Executive Director and Deputy Executive Director, respectively, during our audit of the Authority.

Within 60 days, please give us, for each recommendation in the report, 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. Also, please furnish us copies of any correspondence or directives issued because of the audit.

If you have any questions, please contact Darrel Vaught, Assistant District Inspector General for Audit, at (817) 978-9309.

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# Executive Summary

**We reviewed operations of the Housing Authority of the City of Austin, Texas (Authority) to determine whether the Authority met HUD requirements for: (1) properly administering the Section 8 Program to ensure selection and housing of tenants including annual recertifications and reinspection; (2) maintaining units in decent, safe, and sanitary conditions including timely repair and renting of vacant units; (3) procuring goods and professional services including following the Authority's adopted procurement policy; and (4) administrative practices in reimbursing employee travel, using Authority vehicles and telephones, and accounting for personnel costs including tracking employee time, classifications under the Fair Labor Standards Act, and allocation of costs to the various programs.**

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Lack of management controls and high employee turnover adversely impact on Authority operations

In recent years, the Authority has been experiencing a significant turnover in both staff and management positions.<sup>1</sup> This situation, coupled with a lack of adequate and consistent management controls and actions, has caused significant problems in the ability of the Authority to operate properly its HUD funded programs consistent with HUD requirements. Without consistency, adequate training, uniform guidance, and an acceptable system for the Board and management to monitor Authority operations, the Authority will continue to experience serious problems to the detriment of the families in need of housing assistance.

The Authority has generally not been well managed. This has resulted in the Authority Departments and staff not meeting assigned responsibilities for proper administration of the Authority in accordance with HUD requirements. Primarily:

- The Authority did not provide adequate resources to maintain units in good repair. The Authority did not have an effective preventive maintenance plan or a system to ensure that Authority staff: (1) scheduled and conducted required annual inspections; (2) tracked identified deficient conditions; and (3) timely corrected

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<sup>1</sup> Since completion of OIG field work, the Executive Director, Deputy Executive Director, and Director of Housing Management mentioned in this report have left the Authority's employment.

deficiencies. As a result, all tenants were not living in units that met HUD standards for decency, safety, and sanitation.

- The Authority was not meeting its primary objective of timely providing housing to needy families. The Low Rent Program experienced a significant increase in vacancies. Although the Authority made units available for rent within 30 days, they often remained vacant for several months. This occurred because the Authority did not devote sufficient resources to its admissions section for processing new tenants when it increased the level of evictions and cracked down on admission requirements. As a result, units went unleased for extended periods causing the Authority to lose rental revenues and incur costs to repair vandalized units.
- The Authority's executive management had not taken an active interest in or adequately monitored the Section 8 Housing Assistance Payments Program. As a result, the Authority had accumulated and did not use over \$10 million of Section 8 funding that HUD made available to house needy families.
- In both the Low Rent and Section 8 Programs, the Authority was not reexamining tenants annually for income and family composition. As a result, the Authority was not ensuring that tenant rents in the Low Rent and housing assistance in the Section 8 Programs were proper and that they were housing families in appropriate size units. Because the Authority was behind in reexamining Section 8 tenants, the Authority was also not inspecting their units on an annual basis to ensure the units met HUD's standards for decency, safety, and sanitation.
- The Authority was not procuring goods and services by using adequate free and open competition. Further, the Authority's documentation of procurement activity was seriously deficient. Authority staff were unable to identify awards, expenditures, and remaining obligations for most of its contracts. In several cases, Authority staff could not find a written agreement with their contractors. As a result, the Authority could not

ensure that contract amounts were reasonable or, in the cases of missing contracts, assure that contractors met their contractual obligations to the Authority.

- The Authority has classified positions as exempt from the overtime requirements of the Fair Labor Standards Act. However, many of these employees' duties involve production rather than administration of the Authority's business affairs. If the Authority improperly classifies employees and does not compensate them for overtime work, the Authority is subject to retroactive claims for such compensation.
- The Authority was not fully following federal cost principles in allocating and charging costs to its various programs. The Authority used outdated and undocumented data to allocate joint salaries to its various federally funded programs. The Authority was also using HUD program funds to pay for business luncheons in violation of federal cost principles and had not exercised adequate control over telephone and travel costs to ensure they were proper, reasonable, and necessary costs for administration of its HUD funded programs. Therefore, neither HUD or the Authority can be assured that all costs charged to HUD funded programs are allowable and proper costs for administering those programs.

We are recommending the Authority establish appropriate controls, review employee turnover, and take action to correct cited deficiencies

We are recommending that the Authority study and evaluate the reasons for staff turnover and assess the workload in relation to available staff resources. Further, we are recommending the Authority establish and implement adequate control systems to ensure the Authority: (1) timely houses needy families in decent, safe, and sanitary housing at the appropriate level of assistance; (2) realizes their full potential for leasing up Section 8 units; (3) procures goods and services in accord with HUD requirements, including adequate tracking and recordkeeping; and (4) properly allocates costs charged to federal programs which are allowable under federal cost principles. We are also recommending the Authority review their employee classifications to ensure they are properly exempting employees from the Fair Labor Standards Act.

Authority's new Executive Director has started the process of correcting these longstanding deficiencies

The new Executive Director took over operations in February 1997. We provided a copy of the draft report on April 23, 1997, to the Executive Director and discussed it at an exit conference held on May 16, 1997. The Executive Director stated he generally concurred in the audit findings. His response primarily sets forth the substantial changes he has made in Authority operations since OIG conducted the audit. We have summarized the Authority's written response in the findings and included it in its entirety as Appendix B.

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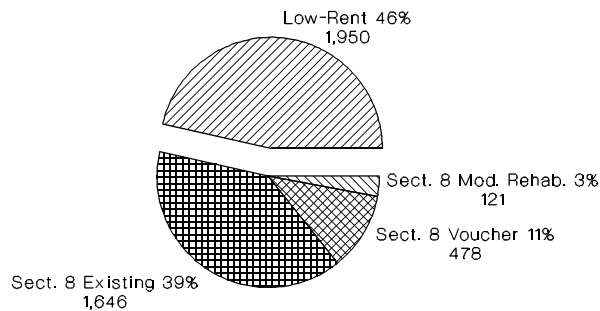
# Introduction

The City of Austin created the Housing Authority in 1937. The Authority's governing body is its Board of Commissioners, comprised of five members. The Mayor of the City of Austin appoints Board members. The Mayor appointed Jim Person as Board Chairman in April 1996. The Mayor appointed the Authority's Board Chairperson, Mary Negrete, in February 1994. She served in this capacity until April 1996.

The Board is responsible for setting policy and appoints an Executive Director to administer the day-to-day operations of Authority programs. The Board appointed Roxann T. Chargois as Executive Director on July 15, 1993. In recent months, the Authority has experienced a large amount of turnover in both staff and management positions. Prior to the completion of OIG field work, the Authority's Finance Director quit after 12 months on the job. Subsequent to OIG field work, the Executive Director<sup>2</sup> and Deputy Executive Director left Authority employment after serving in these capacities for 39 and 26 months, respectively. Mr. David New, hired as Procurement Director on September 26, 1994, and appointed as Director of Administration on February 1, 1996, served as Acting Executive Director from October 1996 until the Board appointed Mr. Jim Hargrove as Executive Director in February 1997.

The Authority administers the following HUD assisted housing programs:

## Austin Housing Authority 4,195 Units



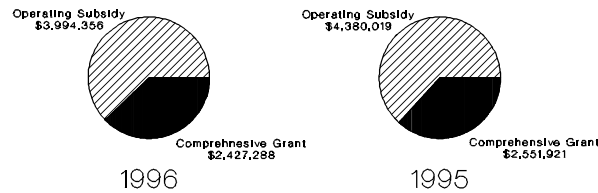
Low Rent has 19 projects ranging from 33 to 216 units and 22 scattered single family sites.

For 1995 and 1996, HUD provided the Authority with the following grants for the Low Rent Program:

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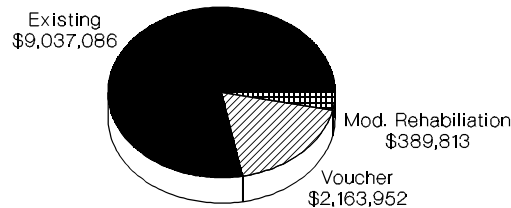
<sup>2</sup> Former Executive Director's term was 37 months.

### HUD Funding Fiscal Year Ending 3/31



During fiscal year 1996, the Authority reported earning the following HUD annual contributions for the Section 8 Programs:

### Austin Housing Authority Section 8 Funding



Reported Expenditure at 3/31/96

The Authority has its Section 8 offices at 6633 Highway 290 East, Suite 104, and Maintenance operations are centrally located at 205 Chicon. The Authority has its central office and maintains its records at 1640 East Second Street, Austin, Texas.

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#### Scope and Methodology

The objectives of our review were to determine whether the Authority met HUD requirements for: (1) properly administering the Section 8 Program to ensure selection and housing of tenants including annual recertifications and reinspection; (2) maintaining units in decent, safe, and

sanitary conditions including timely repair and renting of vacant units; (3) procuring goods and professional services including following the Authority's adopted procurement policy; and (4) administrative practices in reimbursing employee travel, using Authority vehicles and telephones, and accounting for personnel costs including tracking employee time, classifications under the Fair Labor Standards Act, and allocation to the various programs.

To accomplish these objectives, we obtained background information by:

- Reviewing relevant HUD regulations, guidelines, and the Annual Contributions Contract;
- Reviewing prior OIG and independent public accountant audit reports;
- Examining records maintained by the HUD San Antonio Area Office Public Housing Division and interviewed staff;
- Scanning the Authority's accounting records, financial reports, and policies, and interviewed staff; and
- Reviewing the minutes of the Board of Commissioners' meetings.

To determine if the Authority was properly administering the Section 8 Program to ensure proper selection and housing of tenants and performing annual recertifications and reinspection, we:

- Discussed program operations with the Authority's Executive Director, Director of Section 8, Senior Housing Counselor, Senior Housing Quality Inspector, Director of Housing Management/Admissions, Admissions Coordinator, and Staff Attorney;
- Reviewed Authority reports to HUD and analyzed the Authority's utilization of Section 8 funding from April 1, 1991, through March 31, 1996, for housing needy families;



- Randomly selected 20 of the 1,527 active Section 8 certificate holders to review the files for: (1) proper verification of family composition, tenant income, and social security numbers; (2) accuracy of the computation of the housing assistance payment, the utility payment, and the tenant's payment; (3) proper limitation of rent to no more than unassisted comparable units in the area; and (4) annual reexaminations and housing inspections;
- Since review of the selected 20 files did not disclose any that the Authority identified as having housing quality standards violations, judgmentally selected another 34 tenant files to evaluate the Authority's actions in requiring landlords to take corrective action for housing quality standard violations; and
- Reviewed the Authority's waiting list and procedures for selecting applicants for housing assistance. We judgmentally selected 20 families from the waiting list that the Authority housed before others, with an earlier application date, to review their files for valid federal preference.

To determine if the Authority was maintaining units in decent, safe, and sanitary conditions including timely repair and renting of vacant units, we:

- Reviewed the Authority's operating procedures for maintenance together with the reports and systems used to provide administrative control for maintenance operations;
- Reviewed the results of the Authority's inspection of units for meeting HUD quality standards and analyzed, at five projects, the preparation of repair work orders for failed units;
- Reinspected, within 60 days of Authority inspection, 40 judgmentally selected units to evaluate the quality of the Authority's inspections; and
- Reviewed housing manager operations to evaluate whether they were conducting housing quality

inspections in conjunction with annual reexaminations as was the Authority's procedure until January 1996.

To determine if the Authority was following HUD requirements for procuring goods and professional services including following the Authority's adopted procurement policy, we:

- Since the Authority did not have a system for tracking contract awards, reviewed Board minutes from January 1993 to May 1995, and vendor payment listings for the period December 1992 to August 1995, to identify contract awards in excess of \$10,000, which was the Authority's threshold for formal advertising;
- Judgmentally selected 21 of 66 identified contracts in excess of \$10,000 and reviewed available records for adequate documentation of the history of the award, the competitiveness of the procurement, and the contractual terms and provisions; and
- To identify any other contractors and evidence of bid splitting, we scanned a computer printout of vendor payments from December 1992 to August 1995, reviewing those that received cumulative payments of more than \$10,000.

To determine if the Authority was following HUD requirements for: (1) reimbursing employee travel; (2) using Authority vehicles and telephones; and (3) accounting for personnel costs including tracking employee time, classifications under the Fair Labor Standards Act, and allocation to the various programs; we:

- Compared the Authority's travel policy with the City of Austin's policy to determine if the Authority's practice was comparable, more restrictive, or more generous;
- Reviewed Authority practices for reimbursing travel expenses and compared them to the Authority's adopted travel policy;
- Scanned the cash disbursement journal from August 1993 to February 1995 to identify and select travel costs

for review of supporting documentation including advances, vouchers, and credit card statements;

- Scanned Authority telephone bills from April 1994 through March 1995, May 1995, June 1995, December 1995, and January 1996 for the Authority's main number at the administrative offices to identify long distance charges and judgmentally selected 24 long distance calls to determine if they appeared to be for official purposes;
- Reviewed Authority practices for assigning and controlling the operation of Authority owned vehicles and scanned supporting documents;
- Reviewed Authority practices for accounting for employee time and scanned supporting documents;
- Interviewed the Authority's Finance Director and staff to ascertain the Authority's methodology for allocating salaries of employees that work on more than one grant funded program and requested the Authority to provide documentation to support the allocation method; and
- Reviewed job descriptions for Section 8 Housing Counselors and Inspectors for assigned duties and compared those duties to Department of Labor criteria for classifying employees as exempt under the Fair Labor Standards Act.

We conducted the audit in accordance with generally accepted government auditing standards. The audit period generally covered the Authority's Section 8, procurement, and administrative operations for the period August 1993 through August 1995. The audit period for Low Rent maintenance operations covered the period April 1, 1995, through June 30, 1996. For selected items, we extended our period, as deemed appropriate, such as the analysis of employee turnover, which included activity through August 31, 1996. We performed the review from March 1995 through August 1996.

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# Authority Did Not Have Adequate Controls to Ensure Effective Management of HUD Funded Programs

**Management has generally not held Authority Departments and staff accountable for meeting assigned responsibilities for proper administration of the Authority in accordance with HUD regulations. This situation coupled with the high turnover in staff and low staff morale has resulted in management's inability to timely detect and correct problems in program activities. Until the Authority's management implements adequate controls for evaluation and accountability and takes action to properly train and retain employees the Authority will continue to experience serious problems in administering its programs. As a result the Authority was not: (a) serving the housing needs of low income families within its jurisdiction; (b) operating its programs in accord with HUD requirements; and (c) timely detecting and taking remedial action when problems occurred.**

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## HUD requirements

HUD regulations, 24 CFR 990.201 governing operating subsidies for the Low Rent Program notes that public housing agencies are to follow the administrative requirements set forth in 24 CFR 85.20, Standards for Financial Management Systems, and 24 CFR 85.40, Monitoring and Reporting Program Performance. The cited regulations state:

- Financial standards include requirements for accurate and reliable accounting records, effective control and accountability over assets, effective budget control of financial operations, and charging only allowable costs to federally assisted programs and
- Grantees are responsible for managing the day-to-day operations of each grant supported program, function, or activity to assure compliance with applicable federal requirements and that they are achieving performance goals.

Management has responsibility for establishing effective controls

Certain authoritative publications of the General Accounting Office and the American Institute of Certified Public Accountants note it is management's responsibility to implement effective controls over operations:

"The ultimate responsibility for good internal controls rests with management. Internal controls should not be looked upon as separate, specialized systems within an agency. Rather, they should be recognized as an integral part of each system that management uses to regulate its operations. In this sense, internal controls are management controls. Good internal controls are essential to achieving the proper conduct of Government business and full accountability for the resources made available. They also facilitate the achievement of management objectives by serving as checks and balances against undesired actions. In preventing negative consequences from occurring, internal controls help achieve the positive aims of program managers."<sup>3</sup>

Further, the General Accounting Office's auditing standards note that management is responsible for establishing effective management controls.<sup>4</sup> These standards state management controls include:

- In the broadest sense, the plan of organization, methods, and procedures adopted by management to ensure that they are meeting their goals;
- The processes for planning, organizing, directing, and controlling program operations; and
- The systems for measuring, reporting, and monitoring program performance.

The American Institute of Certified Public Accountants' auditing standards states that it is an important management

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<sup>3</sup> Comptroller General of the United States, 1983 publication, *Standards for Internal Controls in the Federal Government*.

<sup>4</sup> United States General Accounting Office By the Comptroller General of the United States, *Government Auditing Standards*, 1994 Revision.

responsibility to establish and maintain internal control.<sup>5</sup>  
These standards note:

- Internal control is a process - effected by an entity's board of directors, management, and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting; (b) effectiveness and efficiency of operations; and (c) compliance with applicable laws and regulations;
- The control environment sets the tone of an organization, influencing the control consciousness of its people; and
- Management monitors controls to consider whether they are operating as intended and that they modify them, as appropriate, for changes in conditions.

Authority did not have effective management controls

Generally, the Authority had not established or followed an effective management control system for administering its programs in four key areas which are crucial to a comprehensive and effective management control system:

- A planning process that critically assesses departmental operations and then establishes performance goals to measure the achievement of the department's desired objectives;
- A monitoring and evaluation system that keeps management apprised of performance and reasons for not achieving performance goals;
- A system to take timely corrective action at the appropriate level of management to ensure they correct undesired conditions; and
- An experienced, trained, and motivated staff to carry out the Authority's operations.

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<sup>5</sup> American Institute of Certified Public Accountant's Codification of Statements on Auditing Standards Section AU 319.06, 319.25, and 319.37.

The Executive Director assumed her duties in mid-1993 and the Deputy Director came on board in early 1994.<sup>6</sup> During their tenure, the Authority did not have adequate control systems to ensure the Authority:

- Was using all available resources to meet its primary function to house needy families (see Findings 2 and 3);
- Was providing all Low Rent tenants with decent, safe, and sanitary living conditions (see Finding 2);
- Had sufficient staffing resources available to conduct Authority operations (see Findings 2, 3, and 6);
- Was procuring goods and services at reasonable cost (see Finding 4); and
- Was complying with HUD requirements and other applicable laws and regulations (see Findings 2 through 7).

The Executive Director and her Deputy generally cited a lack of adequate monetary resources, conversion to an automated system, staff turnover, etc. as the cause of the problems. However, as noted in the findings, without adequate information systems to monitor activities, they were not in a position to: (a) detect problems when they occurred rather than when they became a significant problem; (b) make fully informed decisions on needed corrective action; and (c) know whether their directed actions corrected the problem, aggravated the problem, or resulted in additional problems.

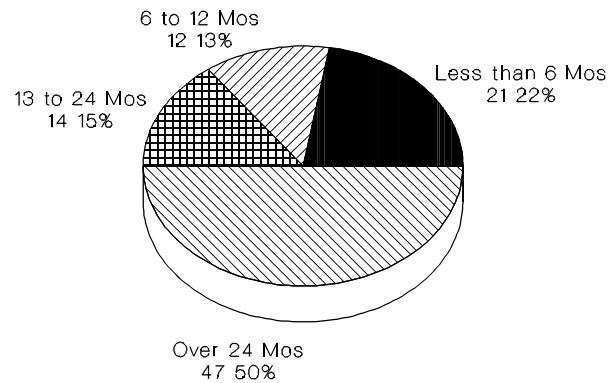
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<sup>6</sup> The Deputy Executive Director resigned in April 1996, and the Executive Director resigned in October 1996. The Authority's current Executive Director was hired subsequent to completion of OIG's audit field work.

Authority's failure to stem the high staff turnover is a contributing cause to the Authority's inability to solve existing problems

The Authority's high staff turnover has adversely impacted on Authority operations throughout the audit period. From January 1992 to August 1996, the Authority experienced a high turnover in staff. The Authority's personnel listing showed a total of 134 employees at August 31, 1996. The following shows that only half of the 94 employees involved in HUD funded housing activities had in excess of 2 years' experience with the Authority:<sup>7</sup>

### Length of Service Current Employees



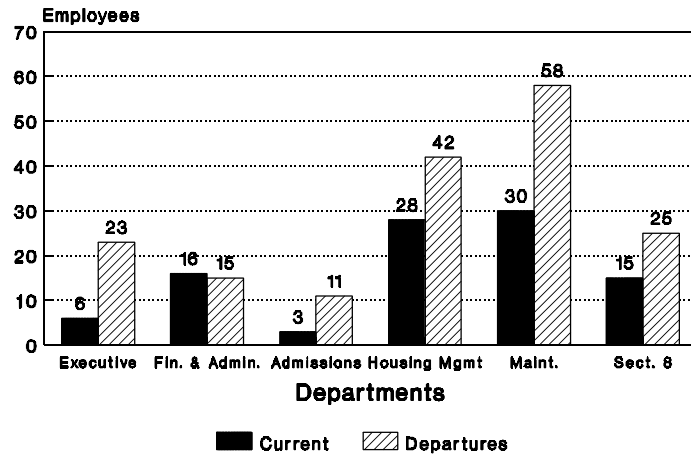
As of August 31, 1996

As noted in Findings 2, 3, 4, and 6, high turnover in employees has adversely impacted on the Authority's ability to carry out effectively its HUD funded programs. Although about half of the Authority's employees at August 31, 1996, had over 2 years' service, the following graph shows the significance of the turnover of employees since January 1, 1992:

<sup>7</sup> This graph omits employees the Authority shows involved in Resident Initiatives, Education, and HOPE VI activities since these activities were not within the scope of the OIG audit and staffing is also impacted by the availability of specific grants other than from the HUD funded Low Rent, Section 8, Development, and Modernization Programs.



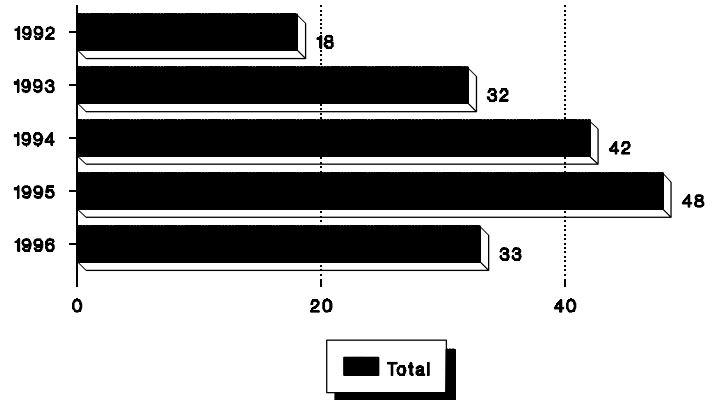
## Current Staffing vs Departures



Current # 8/31/96 - Departures from 1/92

Because of top management's concerns about staff turnover, the Authority conducted an employee survey in June 1994. This survey showed over 50 percent of the Authority's employees rated the Authority below average in the following areas: (a) motivation; (b) communication; (c) appreciation; (d) an enjoyable place to work; (e) adequate equipment; (f) when people talk-management listens; and (g) exceeds community expectations. The Executive Director said they followed up on specific complaints, such as equipment requests, but they took no additional action. However, as the following chart shows, turnover continued to escalate throughout 1994, 1995, and 1996 (33 employees left through August 1996 as compared to 29 for the same period in 1995):

## Employee Departures January 1, 1992 - August 31, 1996



Education Department Omitted

The Executive Director said she attributed the turnover primarily to employees being unable to cope with operational changes at the Authority. She and the Deputy Director also felt salaries paid may be too low for some positions. However, neither took any steps to confirm the accuracy of their opinions, determined whether there were other contributing factors, or took any specific action to lower staff turnover. The employee survey suggests that there may be factors other than organizational changes and salaries affecting staff turnover.

Auditee Response

The Authority is currently reviewing its policies and procedures to make sure effective controls are in place. The Authority, where needed, will rewrite or develop written procedures. Department heads have strengthened their responsibilities to monitor and enforce policies and procedures. The Authority has evaluated staffing levels and completed a reorganization which will help to ensure staff turnover is at a minimum and sufficient resources provided to meet workload.

OIG Evaluation of  
Auditee Comments

The Authority's new management has taken action to address the problems with ineffective controls and staff turnover. The Authority needs to continue this effort to ensure that the actions taken correct these longstanding problems.

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Recommendations

We recommend the San Antonio Office:

- 1A. Remind Authority officials of their continued responsibility to implement adequate and effective management controls to ensure they are effectively providing adequate housing to needy families in accord with HUD requirements;
- 1B. Instruct the Authority to continue to monitor staff turnover, if it continues, to identify the causes, and to take action to stem the high staff turnover; and
- 1C. Instruct the Authority to continue to review, evaluate, and monitor staffing levels in relation to workload to ensure that sufficient resources are available to administer its HUD funded programs effectively.

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## The Authority Needs to Improve Its Maintenance Program and Turnaround of Vacant Units

**The Authority has not properly maintained its Low Rent units and has experienced significant delays in fixing and leasing vacant units. Specifically, the Authority has not implemented an effective preventive maintenance plan or a system to ensure that the Authority schedules annual inspections for Housing Quality Standards, tracks work orders, and corrects identified deficiencies. Further, the Authority compounded the problem by its efforts to toughen tenant admission and management practices which resulted in significant increases in vacancies and unit turnaround time. As a result, the Authority has not provided its tenants with decent, safe, and sanitary housing or housed families in a timely manner. In addition, the Authority has lost rental revenues and incurred vandalism repair expense due to the lengthy time vacant units have gone unrented. Several factors contributed to these conditions, such as maintenance staff turnover and automated maintenance system problems. However, major contributors were the Authority's failure to give a high priority to meeting HUD's Housing Quality Standards and to adequately plan and monitor its operations.**

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### HUD requirements

HUD uses several weighted factors as a measure of a housing agency's performance which can result in HUD designating the agency as: (a) a high performer, which reduces HUD's monitoring of the agency; (b) standard performer, which continues HUD's normal monitoring of the agency; and (c) troubled, which requires HUD to closely monitor and assist the agency<sup>8</sup>. By statute, HUD is required to use the first 7 of the 12 indicators to measure an agency's performance. Four of the seven statutory measurement indicators are numbers:

- 1 - The number and percentage of vacancies within an agency's inventory;
- 5 - The average period of time that an agency requires to repair and turnaround vacant units;

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<sup>8</sup> HUD regulations 24 CFR 901.01, 901.10, and 901.115.

- 6 - The proportion of maintenance work orders outstanding; and
- 7 - The percentage of units that an agency fails to inspect to ascertain maintenance or modernization needs - this indicator has three components: (a) agency established system to track inspection and repair of units and systems; (b) annual inspection of units to meet HUD's Housing Quality Standards or equivalent; and (c) correction of unit deficiencies.

Section 4 of the Annual Contributions Contract states that the Housing Authority shall at all times develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes: (a) serviceability, economy, and efficiency, and stability of the projects and (b) the economic and social well-being of the tenants. Section 209 of the Annual Contributions Contract requires the Authority to maintain each project in good repair, order, and condition.

Paragraph 5-2b of HUD Handbook 7460.7 REV-1, Field Office Monitoring of Public Housing Agencies, requires that the Authority carry out a preventative maintenance program for mechanical, plumbing, heating, electrical, structural and roofing that includes timely repairs. Paragraph 5-2c requires the Authority to complete vacant unit turnaround on an average of no more than 30 calendar days and Paragraph 5-2e requires the Authority to operate and maintain its projects in a safe, effective, and economical manner.

HUD prescribes certain Housing Quality Standards,<sup>9</sup> which include requirements for each dwelling unit. These Standards require: (a) safe, fully working heating system, which provides heat for the entire unit; (b) ceilings, walls, and floors without any severe bulging or leaning, large holes, or loose surface materials; and (c) freedom from vermin and infestation. In addition, the site and neighborhood is to be free from noise and other hazards to the health, safety, and general welfare of the tenants, including excessive accumulation of trash.

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<sup>9</sup> HUD regulations 24 CFR 882.109.

Authority need a preventive maintenance plan

Although the Authority, in its Public Housing Management and Assessment Program certifications stated to HUD that they had a maintenance plan, one did not exist. Basically, the Authority did not have a plan to systematically inspect and timely repair a project's major components. Timeliness of repairs reflects the urgency of the repair and the consequences of delays. During the reinspection of units, discussed later, OIG noted that the exterior condition of some projects were in need of attention; not only to prevent damage to individual units but to bring properties to acceptable standards.

picture 1

This is an apartment building of the Booker T. Washington project. Throughout the complex the vinyl siding and soffits were falling off the buildings. Further, the apartment rear door frames were not properly aligned making it difficult for tenants to properly secure their apartment units.

Authority housing managers did not timely perform inspections for Housing Quality Standards

The Authority did not timely perform annual inspection of units for meeting Housing Quality Standards; thus, allowing deficient conditions to go undetected. The Authority attempted to have on-site project managers complete inspections as part of the annual tenant recertification process. However, this process of performing inspections failed to work, because annual recertifications were not being performed as required (see Finding 6). In January 1996, the Authority realized that it needed to perform a significant portion of its annual inspections in the remaining 2 months of the fiscal year, in order not to fail HUD performance requirements<sup>10</sup>. The Housing Management Department Director cited three reasons why the Authority had not performed so many inspections timely:

- The turnover of property managers during the year;
- Priority instructions given to property managers to collect back rent; and
- Enforcement actions necessary to evict tenants not paying rent and for other lease violations.

Authority maintenance eliminates the backlog of inspections

The Authority's top management tasked the Director of Technical services to identify and complete the annual inspections. The Director identified 910<sup>11</sup> units in need of inspection by March 31, 1996. In order to complete the backlog, the Authority hired a maintenance staff person to be the Housing Quality Standards inspector. This person's duties included inspection of units and coordination of inspections performed by others.<sup>12</sup> According to the Director of Technical Services, he thought the Authority performed an adequate job, given the number of inspections needed and the short time frame to accomplish the task.

OIG reinspection of Authority failed units still identifies failure to meet standards

OIG reinspected 40 apartment units, which the Authority showed did not meet Housing Quality Standards when the

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<sup>10</sup> The Authority would have failed HUD performance measures for annual inspections unless at least 90 percent of the units had been inspected by March 31, 1996, the fiscal year end.

<sup>11</sup> The Authority needed to inspect 1,850 total units during the fiscal year to meet HUD requirements. These 910 units represented 49 percent of the units to be inspected during the year.

<sup>12</sup> The backlog of inspections were performed by on-site managers, other Authority staff, and supplemented with the hiring of an outside contractor.

Authority inspected them in February and March 1996.<sup>13</sup> OIG noted that 15 of the 40 units still did not meet standards for decent, safe, and sanitary conditions some 60 days after the Authority identified housing violations. Also, the Authority had not created and entered a repair work order in the automated system for 8 of these 15 units. Further, in seven units, where the Authority did make repairs, the work was incomplete. Also, the inspections showed that in seven units, serious deterioration of the units resulting from tenant damage. The following chart shows the need for the Authority to manage its annual inspection and repair program better by: (a) instituting a systematic approach to plan and conduct inspections; (b) properly identifying needed work; and (c) completing repairs timely.

Results of OIG Reinspection				
	Units Inspected	Units Failed	Incomplete Repairs	No Repairs
Central Zone	20	8	3	5
Southern Zone	8	2	1	1
North Zone	12	5	3	2
Totals	40	15	7	8

During the reinspection, OIG observed Housing Quality Standards violations such as inadequate plumbing, heating, and air conditioning repairs. To illustrate:

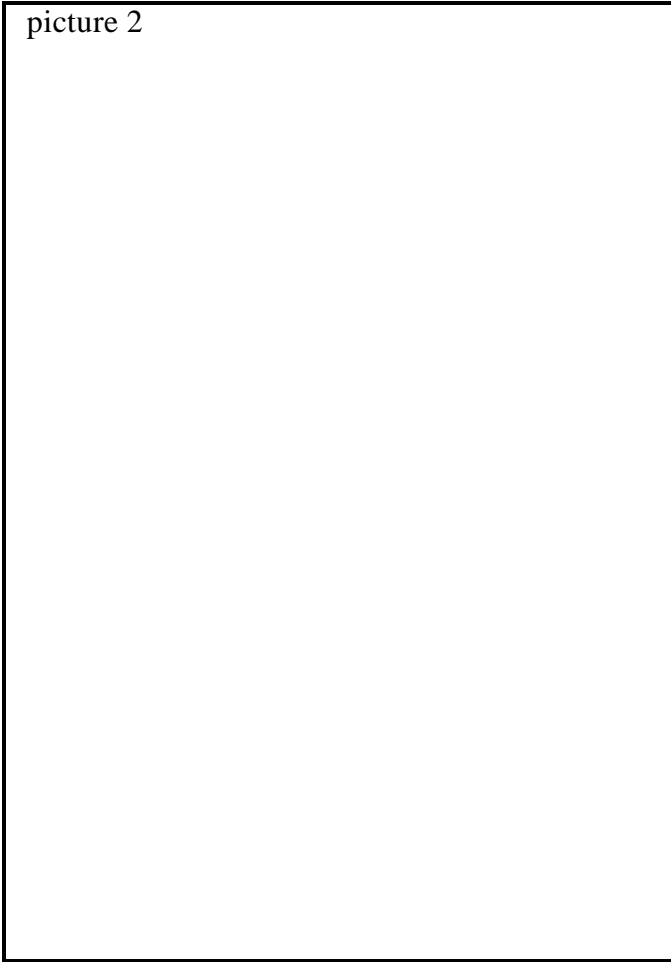
<sup>13</sup> OIG judgmentally selected the 40 units for reinspection from the Authority's "Control List of Housing Quality Standards Inspections", that failed inspections in February and March 1996. OIG reinspection took place the last week in May and June 1996.



## Finding 2

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picture 2



Unit No. 6140 at the Booker T. Washington Apartments had a 18-inch round hole in the living room ceiling. The hole has been there since September 1995, when the Authority's Maintenance staff repaired a leak in the upstairs bathroom plumbing. This condition also existed at two other apartments inspected. The Authority did not have an established maintenance procedure to require the person doing the plumbing work to prepare a work order to repair any damages resulting from plumbing or other repairs.



This is Unit 4125 at Meadowbrook Apartments. Maintenance staff repaired the thermostat but did not complete repairing the furnace. As a result, the tenant would turn on the kitchen gas stove to heat their apartment. Tenants use of gas cooking stove burners creates a safety hazard because the unvented burners can result in injury to the family through fire or fumes.

The reinspection noted a similar instance in Unit No. 1013 at Chalmers Apartments. In this two-story apartment, the tenant used the kitchen stove to heat the apartment and had their children sleep downstairs to keep warm. The project's housing manager stated there were quite a few tenants that had the same problem. The Director of Technical Maintenance stated maintenance personnel undergo in-house training annually on furnace repair. However, he acknowledged there was a problem that indicated a need for

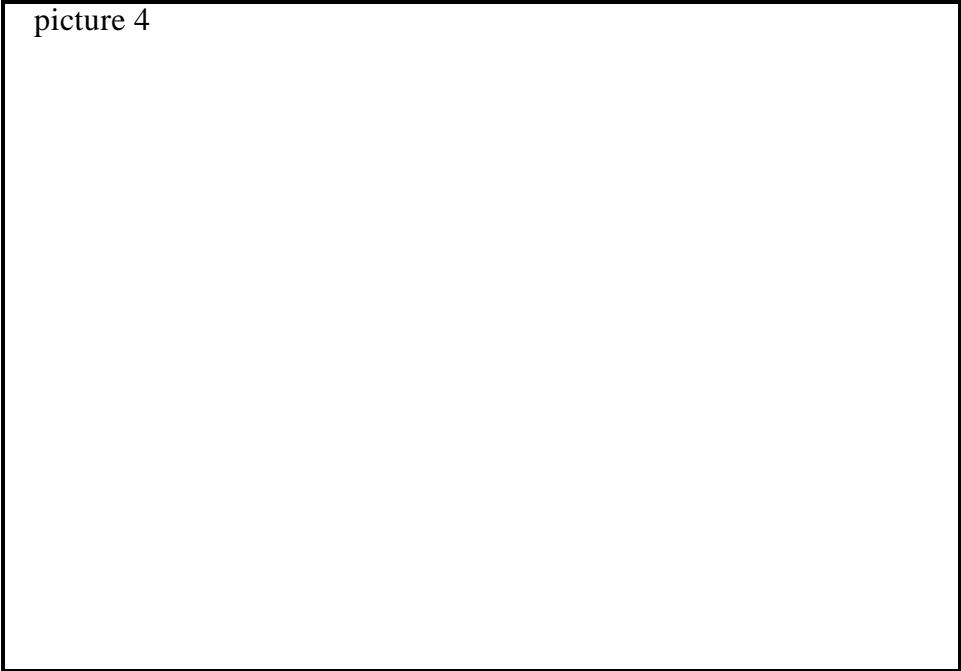
more training time to ensure repairs to furnaces were effective and provided heat to tenant apartments.

OIG reinspection notes  
tenant caused damage

The Authority had policies in place to coordinate the duties Housing Management and Maintenance practiced to identify and reduce tenant damage. On-site managers were to conduct annual housekeeping inspections, to identify instances of tenant caused damage or significant deterioration to apartments. In addition, maintenance staff were to complete a report form for the housing manager identifying any housekeeping problems they might observe during maintenance visits. The policy required the housing manager to resolve the problem with the tenant and ensure future compliance with the lease agreement.

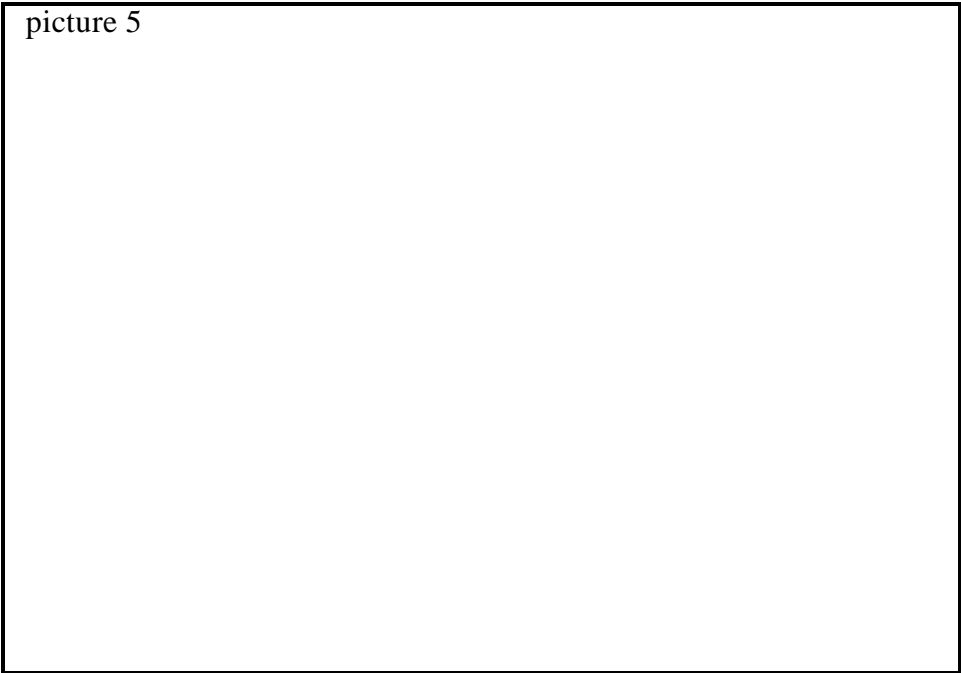
However, Authority management had not established any mechanism to ensure housing managers and maintenance staff followed this policy. Of the 40 units inspected by OIG, 7 showed tenant caused damage that seriously degraded the condition of the units. Damages included holes in the wall larger than a softball, broken windows, unsanitary conditions causing insect infestation, and an unreported fire that burnt a kitchen cabinet. To illustrate:

picture 4



This is unit 102 at Thurmond Heights Apartments. The resident had not reported fire damage to the kitchen cabinet. OIG also noted other deficiencies such as holes in the wall, roach infestation, and the tenant disabling the smoke detector.

picture 5



The Authority did not take steps to improve living conditions

This is unit 12003 at Georgian Manor apartments. The unit has pest infestation because of the tenant's poor housekeeping habits. The Authority's staff identified this condition in their March 27, 1996 inspection. However, it still existed some 60 days later. OIG's inspection also noted other problems such as holes in walls throughout the unit and an unsanitary kitchen area.

As a result of the deficiencies identified in OIG's reinspection, OIG analyzed the results of the Authority's inspections for the fiscal year ended March 31, 1996. The Authority found that 1,029<sup>14</sup> of the 1,850 units inspected did not meet standards. This analysis disclosed significant problems with the Authority's maintenance capabilities.<sup>15</sup> The Maintenance Department did not create repair work orders for 100 apartments that failed annual inspections. Further, although maintenance staff created work orders for 185 failed units, the Maintenance Department had not

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<sup>14</sup> Out of the 1,928 total Low Rent units, the Authority was required to inspect 1,850 units. The Authority inspected 910 (49%) within the last 2 months of the fiscal year.

<sup>15</sup> OIG's analysis consisted of reviewing the repair work noted in the Authority conducted inspections at five properties (501 inspections), and comparing the needed work to the Authority's Maintenance Housing Quality Standards Inspection Manual Work Order Log. This log listed all work orders and their current status.

completed the repairs as of June 30, 1996; more than 60 days after the inspection<sup>16</sup>.

OIG Analysis of Authority Conducted Annual Inspections				
Project Name	Number of Dwelling Units			
	Inspected	Failed	Repairs Not Completed	
			No Work Orders	Work Orders
Chalmers Courts	57	57	0	56
Rosewood	92	40	22	15
Booker T. Washington	184	140	9	112
Meadowbrook	73	69	69	0
North Loop	95	6	0	2
<b>Total Units</b>	<b>501</b>	<b>313</b>	<b>100</b>	<b>185</b>

Authority gives low priority to Housing Quality Standard repairs

Although annual inspections showed a substantial amount of deferred maintenance, the Authority gave priority to fixing routine repairs rather than repairs to bring units to acceptable living standards. From April 1, through June 30, 1996, the Maintenance Department completed 327 routine repair work orders. During this same 3-month period, the Maintenance Department completed only 57 of 736 work orders for repairs the Authority identified as needed to meet Housing Quality Standards. Although HUD does not dictate when and how Authorities are to perform their annual inspections, HUD provides guidance in HUD's Public Housing Management Assessment Program Handbook<sup>17</sup>. The Handbook states it's up to the Authority's discretion when it performs Housing Quality Standards inspections. However, it is the Authority's responsibility to plan inspections so related repairs can be completed timely and do not create an overload on the maintenance staff.

<sup>16</sup> Repairs not completed at June 30, 1996, based on the Maintenance Housing Quality Standards Inspection Manual Work Order Log.

<sup>17</sup> HUD's Public Housing Management Assessment Program, Handbook 7460.5, paragraph 6-2G3h(3).

Several factors contribute to the problem

According to the Technical Services Director, it was the policy to perform annual inspection repairs after emergency and urgent repairs, and the make-ready of newly vacated units. He further stated that it was difficult with existing staff to keep up with emergency and urgent repairs.

The Authority has a faulty and poorly managed automated work order system.

The Authority did not have written policies, procedures and controls necessary to adequately capture and input the results of its maintenance operations into their automated system. As a result, the Authority could not rely on the available information to manage its maintenance operations. The Authority's system did not ensure: (a) staff turned in completed work orders for processing and (b) the Authority properly trained its staff to enter timely, complete, and accurate information into the system.

Thus, the Authority could not effectively use the automated system to manage its maintenance operations. Authority management could not rely on, evaluate, or obtain desired reports on its maintenance operations because staff: (a) sometimes lost or misplaced work orders; (b) did not enter the information timely into the automated system; (c) did not capture key information for the system; and (d) entered inaccurate information and did not timely detect the error. The Director of Technical Services cited the frequent turnover in data entry personnel as the primary cause for unreliable data input (see Finding 1).

Prior to June 1996, the automated work order system did not produce standard system reports needed by the Authority to manage and report on its maintenance operations. The Authority could not obtain these maintenance reports since the inception of the system in February 1994. The Authority had not, until May 1996, seriously sought to contact the software company that provides the software systems to correct these system deficiencies. Before May 1996, the Maintenance Department lived with the frustration that the system did not produce useful reports and used the parts of the automated system they could to control work orders and maintenance

performance. The system did not produce reports regarding:

- Vacancies;
- Uncompleted work orders;
- Public Housing Management Assessment Program reports;
- Maintenance work by type of repair; and
- Employee performance.

In an attempt to manage the maintenance operations, Authority staff became creative and developed alternative methods of tracking needed information. For instance, the Director of Technical Services devised a spreadsheet report to track and report monthly vacancies. Also, the Maintenance Dispatcher manually tracked uncompleted work orders by annotating the automated work order log with the work order completion date received from Maintenance Supervisors. Other staff then manually created needed Public Housing Management Assessment reporting information from the dispatcher's report.

In May 1996, the Authority solicited and received assistance from the software company. At this time the software vendor advised Authority management that the initial installation of the computer reporting system was faulty. The software company corrected most of the problems.<sup>18</sup> Until the remaining reports become available, the Management Information Specialist can produce data from the automated system to support Public Housing Management Assessment reporting if Authority staff timely complete and enter work order data.

Authority's inadequate staffing of the Maintenance Department.

Also contributing to the problem is the apparent inadequate number of maintenance staff. HUD's Low Rent project monitoring Handbook<sup>19</sup> includes a guideline that there

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<sup>18</sup> The software company's system does not yet produce Public Housing Management Assessment reports as a menu selection. The software company is working to enable their system to do so.

<sup>19</sup> Paragraph 2-3d of HUD Handbook 7460.7 REV-1.



should be one maintenance staff person per 40 dwelling units to maintain dwelling units adequately. However, the Authority's maintenance staff was responsible for maintaining 62 units per staff person. A significantly higher ratio than HUD recommends. Also, although the Authority's budgeted for 39 people, as of June 1996, the maintenance staff consisted of only 31 people.

OIG compared the size of the Authority's maintenance staff to other large authorities. This comparison also indicates the Authority's understaffing in the Maintenance Department:

Name of Authority	Units	Budgeted Staff	Unit Staff Ratio
Austin	1,928	39	49
Houston	3,617	95	38
Corpus Christi	1,986	54	38

Also, other than for elevator repairs and pest control services, the Authority has not utilized outside contractors to alleviate the maintenance workload. Thus, Authority management did not use contractors for plumbing repairs, preventative heat and air conditioning maintenance, and other types of repairs. If the Authority used outside contractors for this type of work, it could have freed up staff to complete the outstanding repairs and allow management time to hire additional staff. Maintenance staff agreed that if the Authority used outside contractors for time and labor intensive repairs, Authority staff would devote their time to completing outstanding work orders.

The Authority's changes to the waiting list, tenant admission practices, and enforcement practices result in a significant increase in vacancies

In August 1995, a HUD monitoring report cited non-compliance in the Authority's Housing Admissions practices. To implement the changes to comply with HUD requirements, the Executive Director opted to cease filling unit vacancies until the staff developed a new waiting list. Further, at the time the staff were preparing a new list, the Authority also opted to toughen its admissions policy, seek

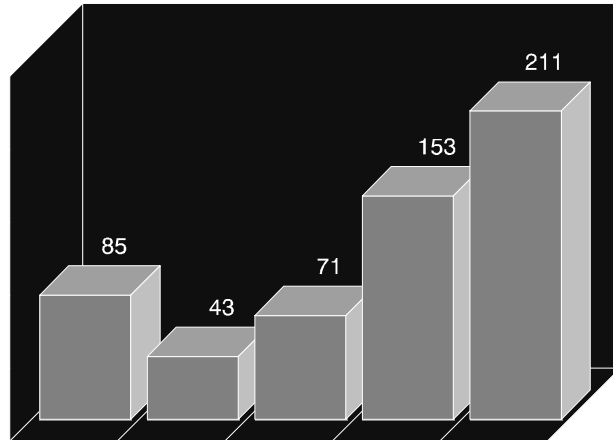
evictions for serious tenant lease violations, and to comply with the HUD's new "one strike" rule for Public Housing residents. Although the Authority should be commended for its position to make its housing a better place to live, it failed to properly plan for and react to the effect these changes caused in its vacancy rate and the length of time units remained vacant.

Authority did not employ adequate staff to reduce vacancies.

The Authority's increased applicant screening resulted in the Authority not accepting applicants, applicants not showing up for appointments, and applicants not accepting units offered by the Authority. The Admissions staff also did Section 8 intake interviews and processing (see Finding 3). To alleviate the problem, the Housing Management Director requested hiring two additional staff during the December 1995 budget process. The Executive Director denied the request. The Executive Director stated in retrospect that the number of vacancies was more than anticipated. The Authority did hire temporary personnel to help out, but acknowledged temporaries could not interview applicants, which was the significant aspect of the needed help. As a result, the Authority stopped the regular use of temporaries by June 1996.

Authority experienced a significant increase in vacant units.

During a 15-month period ending June 30, 1996, the Authority has been unable to fill its units to increase occupancy to acceptable levels. Vacancies during this time have gone from 43 to 211 units.



The Authority failed to house applicants in its public housing units even though it had an inventory of 211 vacant units, with 1,159 people on the waiting list<sup>20</sup>.

Days Units Vacant are Excessive and Costly to Authority Operations.

The number of days units stay vacant increased significantly. At April 1995, units were vacant an average of 50 days. However, at March 1996, this figure rose to an average of 139 days. The Housing Admissions Section's inability to qualify enough applicants to overcome the number of housing vacancies resulting from tenant moves or evictions caused the excessive vacancy days. The high

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<sup>20</sup> At March 31, 1996, the Director of Housing Management reported that the Low Rent Program waiting list contained the names of 1,159 people.


number of vacancies, and the length they were vacant also resulted in the Authority not realizing a significant portion of anticipated rental revenue. The Authority's March 31, 1996, Operating Financial Statement showed that actual tenant rental revenue was \$194,276 less than budgeted. Further, the first 2 months of fiscal year 1997, showed dwelling rental income was already \$56,772 less than budgeted.

Lengthy vacancies results in vandalism of units, which caused additional maintenance effort and increased repair costs.

The Authority has a serious and costly problem with vandalism to its vacant dwelling units. Damage to property is only a part of the larger problem, which is the safety of the other residents at the property, and the ability of the Authority to lease other units in the complex. The primary problems were the Authority's high number of vacancies and the length of time the units remained vacant. As a result, units stayed vacant longer, thus becoming targets of vandals. At June 30, 1996, about 40 percent of the units had been vacant for over 6 months. The fault was not with the Maintenance Department because they were making units ready for occupancy within the prescribed 30 days. The extensive time units were vacant was due to the Housing Admissions Section inability to qualify enough applicants to overcome vacancies due to tenant moves or evictions (see Finding 3 regarding problems with its waiting list).

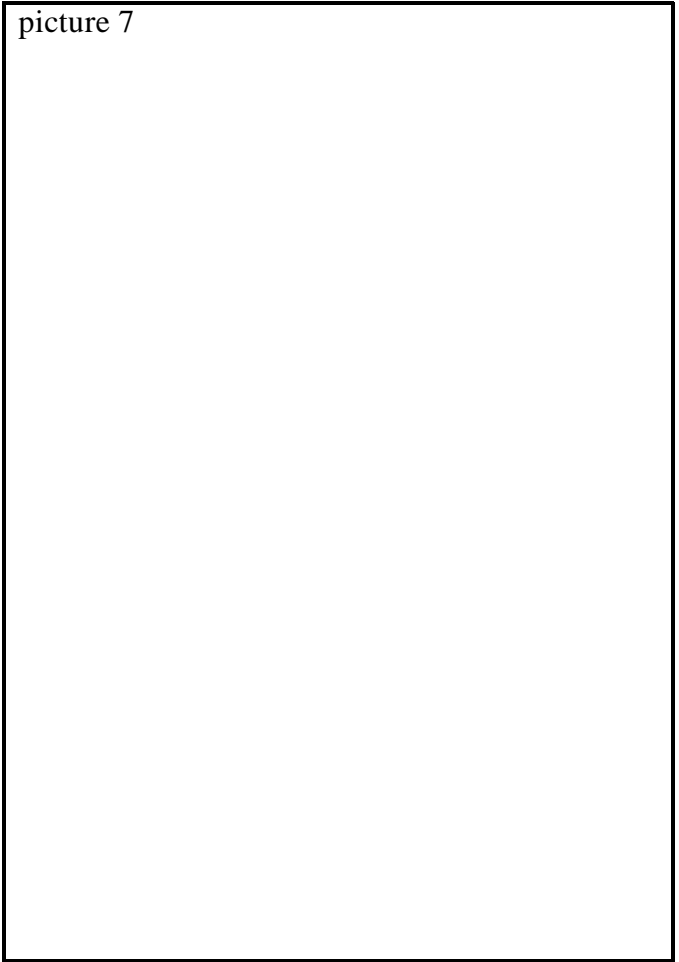
The Director of Technical Services estimated that his staff repaired about seven vandalized units a month, at an annual cost of about \$147,000. Inspection of eight vacant units showed damage by vandalism in four units. The pictures below illustrate the damage caused by vandalism.

picture 6



This Santa Rita apartment, unit 3016, was vacant 262 days (as of June 30, 1996). Vandals had broken the windows and rear door, clogged up the upstairs toilet, and sprayed graffiti throughout the apartment. The on-site manager stated units in the complex have been vacant for so long, units have been vandalized and repaired more than once. At June 30, 1996, 21 of the 97 Santa Rita Apartments were vacant.

picture 7



This Booker T. Washington apartment, unit 6152, had broken windows on both floors, plus vandals broke in and spray painted graffiti throughout. Although Maintenance generally boards up the units after they become vacant, vandals still break windows by throwing stones against the boards covering the windows. At June 30, 1996, 48 of the 216 units at Booker T. Washington were vacant.

Auditee Response

The Authority is in the planning stages for a preventative maintenance plan. The Authority has transferred the two Low Rent inspectors to the Section 8 Department inspection unit. The Section 8 inspection unit will be responsible for both Low Rent and Section 8 Program Housing Quality Inspections. The Authority's past management failed to properly identify and utilize major segments of the Authority's computer system. The Authority has revamped or is in the process of revamping all steps of the work order system.

The Authority has reorganized its maintenance operations for more efficient operation, better coordination, and staff accountability. The Authority has decentralized by assigning its maintenance staff to specific properties. The maintenance staff will operate under the direction of the property's housing manager. Authority management expects this to lead to an assigned property's staff taking responsibility for its condition.

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OIG Evaluation of  
Auditee Comments

The Authority's new Executive Director has taken steps to improve the overall maintenance operations. The Authority needs to ensure its management control system monitors these changes, evaluates their effectiveness, and allows for additional corrective action to ensure the Authority houses tenants in decent, safe, and sanitary conditions.

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Recommendations

We recommend that the San Antonio Office:

- 2A. Require the Authority to prepare and implement a Preventative Maintenance Plan for its Low Rent Housing;
- 2B. Require the Authority to develop a Housing Quality Standards program that: (a) gives high priority to unit repairs to meet standards, (b) identifies units to be inspected, (c) identifies and tracks work orders until completion, and (d) reports status to top management;

- 2C. Ensure the Authority develops written management procedures and controls for work orders to include their handling, and timely and accurate entry into the automated system;
- 2D. Require the Authority to develop and implement a plan to reduce vacancies, and the length of time units are vacant to acceptable levels.



## The Authority Can Be More Effective in Providing Section 8 Housing and Needs to Follow HUD's Requirements

Because of the large number of families on its waiting list, the Authority has not allowed any new applicants for Section 8 housing since 1992. However, during the past 6 years, the Authority accumulated and did not use over \$10 million of available Section 8 funding. Although Authority management attributed the problems to converting to a computerized system in 1993 and going to a single waiting list for the Section 8 and Low Rent Programs in 1994, these events were only contributory. The Authority's top management did not: (a) take an active interest in Section 8 operations; (b) adequately monitor lease up activity; and (c) take timely action to use available HUD funds to assist additional needy families. In addition, Authority management was either not aware of or did not take action to ensure that it was meeting all of HUD's Section 8 Program requirements. As a result, the Authority was not: (a) admitting applicants in proper sequence based on federal and local preferences; (b) properly verifying family composition and social security numbers; (c) timely performing annual reviews for continued eligibility, housing assistance amount, and unit meeting housing quality standards; and (d) determining that rents were reasonable.

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### HUD requirements

HUD's regulations governing the aspects common to the Existing and Voucher Programs are in Parts 5, 813, and 982 of Title 24 Code of Federal Regulations (24 CFR). Parts 882 and 887 govern the aspects unique to the Existing and Voucher Programs, respectively.

To ensure housing agencies fairly house eligible applicants in properly maintained units with HUD providing a fair subsidy, HUD regulations:

- Require housing authorities to adopt a written administrative plan that establishes local policies for administration of the program in accordance with HUD requirements including selecting applicants, issuing certificates or vouchers, and establishing occupancy requirements (24 CFR 982.54 - Prior to October 1995, these requirements were in 24 CFR 882.204(b)(3) and 887.61).

- Places specific responsibilities on the housing authority (24 CFR 982.153 - prior to October 1995, these requirements were in 882.116 and 887.105). These responsibilities include:
  - Complying with the Annual Contributions Contract, the application for funding, HUD regulations, other HUD requirements, and the Authority's administrative plan;
  - Receiving applications; determining eligibility; maintaining the waiting list;<sup>21</sup> selecting applicants;<sup>22</sup> issuing a voucher or certificate; examining<sup>23</sup> and verifying<sup>24</sup> family income, size and composition at admission and at least annually thereafter;
  - Inspecting the unit before assisted occupancy and at least annually thereafter including taking action if the owner does not maintain the unit in accordance with HUD's housing quality standards (24 CFR 982.405 and 982.453(b) - prior to October 1995, these requirements were in 24 CFR 882.211, 887.257, and 887.261); and
  - For the Existing Program, determining the amount of the housing assistance payment and the maximum rent to the owner including whether the rent is reasonable - not more than comparable unassisted housing in the market or the owner's other comparable unassisted rental units (24 CFR 882.106(b)). HUD allows annual rent increases based on HUD published annual adjustment factors or, if insufficient to cover increase in certain types

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<sup>21</sup> HUD regulations at 24 CFR 982 Subpart E sets forth specific requirements for maintaining and using the waiting list (prior to October 1995, the applicable regulations are at 24 CFR 882.209(a)(7) and 887.153).

<sup>22</sup> HUD regulations provided for certain federal preferences in the selection process as set forth in 24 CFR 5 Subpart D (prior to October 1995, the applicable regulations are at 24 CFR 882.219 and 24 CFR 887.157).

<sup>23</sup> HUD regulations at 24 CFR 813.109(a), 882.212, and 887.355.

<sup>24</sup> The Authority is required to obtain and verify social security numbers for family members over the age of 6 (24 CFR 5 Subpart B - prior to October 1995, the applicable regulations are at 24 CFR 750).

of expenses, special rent adjustments (24 CFR 882.108).

HUD also published additional instructions in Handbook 7420.7, Public Housing Agency Administrative Practices Handbook of the Section 8 Existing Housing Program. On January 23, 1995, HUD cancelled all provisions of the Handbook except for Paragraph 4-5.d.(1), *Third-Party (Independent) Verification*, and Chapters 5 and 8, *Housing Quality Standards, Unit Inspections, and Eligible Types of Housing and Financial Management*, respectively.

**A. Authority was not effective in using Section 8 funding to assist needy families**

The Section 8 Existing, Moderate Rehabilitation, and Voucher Programs assist low and very low income families in obtaining decent, safe, and sanitary housing in private accommodations.<sup>25</sup> HUD enters into contracts with local public housing agencies to administer the programs. The agency receives fees for administering the programs. The agency makes assistance payments to the private owners who lease their rental units to assisted families. The units must meet HUD prescribed housing quality standards. In the Existing and Voucher Programs, the agency issues rental certificates or vouchers to eligible families, which are free to locate suitable rental units that meet their needs. In the Moderate Rehabilitation Program, the public housing agency sets the rents, within the maximum rent for the area established by HUD. The landlord(s) agree to rehabilitate units and make them available for assisted families. The primary differences between the programs are:

- Existing and Moderate Rehabilitation - The assistance payment makes up the difference between what the household can afford and the approved rent for the dwelling unit. The rents must be reasonable in relation to rents charged for comparable unassisted rental units in the market area, and at or below the fair market rent for the area as determined by HUD.
- Voucher - The assistance payment on behalf of the family is a fixed amount that makes up the difference between what the family can afford and the Authority

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<sup>25</sup> *Programs of HUD*, 1992, U.S. Department of Housing and Urban Development.

established payment standard for the area. There are no rent limits.

The Authority does not use all available funding

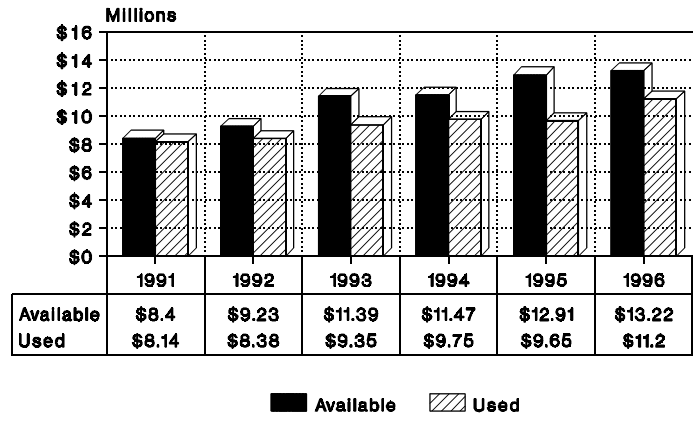
At March 31, 1990, the Authority's audited financial statements show it had over \$5 million in its Project Reserve Account.<sup>26</sup> From April 1, 1990, through March 31, 1996, HUD made available another \$66 million in funding for the Section 8 Existing Certificates and Voucher Programs. Thus, the Authority had about \$70 million available to house needy families. However, the Authority only used \$56 million to house families. Thus, during these 6 years, the Authority's Project Reserve Account has increased over \$10 million, going from \$5.7 million to \$15.9 million.

In 1991, the Authority was using over 95 percent of available funding. However, in the succeeding 5 years, the gap increased between HUD's annual funding and the Authority's use of those funds. In its fiscal year ending March 31, 1996, the Authority used only 85 percent of its annual funding. The following graph compares the Authority's use of program funds to house families to the funding available for this purpose:

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<sup>26</sup> The amount of annual funding not used is recorded as a reserve, which could be used in future years as an additional source of funding needed to cover increased assistance payments resulting from increases in contract rents or decreases in family incomes (24 CFR 982.4, formerly covered by 24 CFR 882.104 and 887.101). Until August 1996, HUD permitted public housing agencies to use the reserve to provide housing units in excess of the number authorized in the Annual Contributions Contract.

## Section 8 Funding Annual Contributions

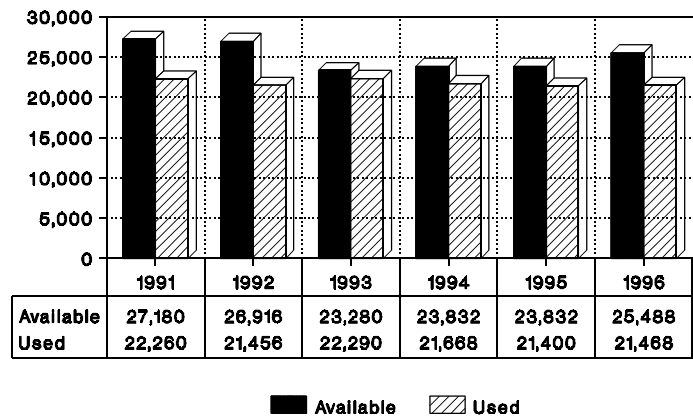


Fiscal Years Ending 3/31

Since the amount of rent impacts the number of families that can be assisted with available funding, another measure of effectiveness is the number of units leased, which represents the number of families assisted. The following graph depicts the number of units under lease

for the fiscal year in comparison to the number of authorized units:<sup>27</sup>

### Section 8 Funding Unit Months Under Lease



Fiscal Years Ending 3/31

Although the graph shows the Authority leased 95 percent of available units in 1993, it does not represent

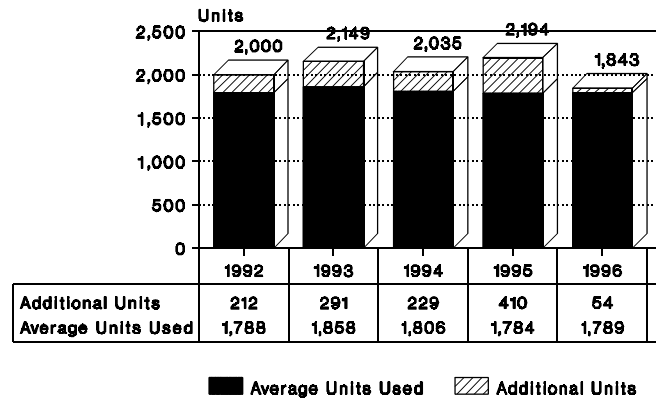
<sup>27</sup> Unit months available was calculated by multiplying the maximum number of units authorized by the Annual Contributions Contract times 12 months. The unit months used is based on the number reported in the Authority's HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement* (represents the number of units under lease at the beginning of each month totaled for the 12 months of the fiscal year).

The Authority could have assisted more families

improved operations. In 1993, the number of authorized units decreased from 2,265 to 1,940.

In 1992, because of the large number of needy families on its waiting list, the Authority ceased taking new applications from additional families in need of affordable housing. Although, as reported later, the Authority's waiting list was inaccurate and outdated, it still indicated that there was a significant number of applicants in need of affordable housing. If the Authority had used 95 percent of its annual funding in 1992 and thereafter, it could have housed another 200 families.<sup>28</sup> The following graph compares the number of units assisted to the number the Authority could have assisted in each of the past 5 fiscal years:<sup>29</sup>

**Existing & Voucher Programs  
Estimate of Additional Units**



A comparison of 1995 to 1996 information shows an increase in use of annual funding with a decrease in units that could be assisted. This is the result of increased

<sup>28</sup> Appendix A shows how OIG estimated the additional units.

<sup>29</sup> Information for 1992 through 1995 is based on the Authority's annual audited financial statements. The information for 1996 is based on the Authority's unaudited HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement*.

assistance payments rather than an increase in the number of families assisted.<sup>30</sup>

Had the Authority's top management been tracking Section 8 leasing activity and taken effective corrective action shortly after March 31, 1994, the Authority, by using available annual funding and at least 50 percent of its Reserve Accounts, could have assisted over 1,000 additional families in 1995 and 1996. However, HUD eliminated the option for housing agencies to use Reserve Account funds to assist more families than HUD has authorized in the Annual Contribution Contract.<sup>31</sup> Thus, because the Authority's top management did not take effective action to correct the situation, the Authority has lost the opportunity to use its Reserve Account funds to assist additional families.

The following table shows OIG's approximation of the additional units the Authority could have funded by using 50 percent of the available reserves at March 31, 1994, to assist additional families:

Description	Assistance Program	
	Voucher	Certificates
Reserve Account Balance	\$ 4,380,846	\$ 6,198,117
50 % of Reserve Account	\$ 2,190,423	\$ 3,099,059
Average Assistance Payment	\$ 417	\$ 400
Additional Units	437	645

**B. Authority does not effectively implement its automated system**

The Authority hired its Executive Director in mid-1993 and its Deputy Executive Director in early 1994. These individuals did not establish a good management control system. Good effective management controls allow

<sup>30</sup> The comparison for 1996 shows annual funding for 54 additional units which indicates a shortfall if the Authority had assisted 200 additional families in 1992. However, the Authority had the ability to continue funding because of its large Project Reserve account balance.

<sup>31</sup> HUD Notice 96-68, dated August 25, 1996, prohibits using reserves to fund additional units. However, it allowed public housing agencies to continue to fund those "excess" units already being assisted but prohibited the issuance of new certificates or vouchers until these agencies could, through attrition, do so within available annual funding.



Authority's top management did not fully recognize operational problems or take effective corrective action

executive management to: (a) recognize significant problems when they occur; (b) evaluate the problems for the underlying causes; (c) arrive at solutions to correct the problems; (d) monitor staff implementation of corrective action; and (e) obtain feedback on whether the action adequately corrected the problem.

However, the Authority did not have a good system of management controls over the Section 8 Programs. Further, the Executive Director and Deputy Director did not take action to improve the control system. Thus, when they decided to automate the Authority's operations, they did not adequately consider how the Authority could best implement the computer system or whether employees would be willing and able to use the system.

In 1993, the Authority was converting to a computerized system. Authority management noted:

- The Authority hired temporary employees to key in historical housing assistance data and waiting list data into the system;
- Because these temporary employees keyed in either inaccurate data or zeros when data was not available in the files, the Authority terminated their employment; and
- Because Section 8 Department employees used a manual system to update files during the data conversion, when the Authority started using the system for regular operations, the system's data was already outdated.

Although the Authority had problems with unreliable and outdated data, management did not take action to correct the problem. Over a year later, Authority staff continued to blame the system's unreliable and outdated data for problems in using the system for daily operations. These problems, according to staff, increased their workload because of the need to verify information from the individual tenant files.

Also, in 1994, because of changed HUD requirements, the Authority combined its Low Rent and Section 8 applicants into one combined waiting list. After combining the waiting list, the Authority transferred responsibility for maintaining the waiting list and verifying eligibility from the Section 8 Department to the Admissions Coordinator. Under this reorganization, the Admissions Coordinator reported to the Director of Housing Management, who was primarily responsible for managing the Authority owned Low Rent units. The separate Section 8 Department continued to: (a) issue Certificates and Vouchers; (b) inspect and lease units; and (c) perform annual reexaminations and reinspections.

This changeover caused problems in coordination between the Admissions section and the Section 8 Department. Further, as previously experienced by the Section 8 Department, the unreliable data in the system resulted in problems in selecting tenants from the waiting list. Although the Admissions Coordinator considered she was understaffed for this added workload, the Director of Housing Management said that the Section could handle the workload because they had dropped "home visits"<sup>32</sup> from the Section's workload. However, the Authority did not have a system in place to monitor the impact of these changes to ensure that the Section 8 Department did have the necessary staff resources to effectively carry out their duties.

**C. Authority was not in full compliance with HUD requirements**

The Authority was generally admitting qualified families that met the required income limits, properly computing the amount of assistance; and ensuring units admitted to the program met HUD's housing quality standards. However, the Authority had significant problems in meeting HUD program requirements for: (1) housing families from their waiting list in proper sequence; (2) verifying family composition and family member social security numbers; (3) performing annual reexamination of tenant eligibility and reinspection of units for housing quality; and (4) ensuring they restricted unit rents to no more than would be paid for comparable non-assisted units.

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<sup>32</sup> Admissions staff had been reviewing Low Rent applications by visiting the homes of the applicants to obtain information.

### Finding 3

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Authority was not housing applicants in proper sequence or verifying applicant's federal preference for available certificates and vouchers

The Authority was not housing applicants in proper sequence. Rather than having the computer system generate a waiting list on a monthly basis, sorted by federal preference and by date of application, the Authority had only one combined listing, sorted only by application date, run in December 1994. Thus, in June 1995, Admission staff were still using this 5-month-old computer listing of applicants. The Admissions Coordinator said that when selecting applicants from the waiting list, staff had to go through the list to try to identify those with federal preference since they had priority for issuance of certificates or vouchers.

The first few pages of the listing contained handwritten notations on the applicant's status. When the Authority's Computer Specialist reprinted the waiting list<sup>33</sup> sorting it first by whether the applicant had a federal preference and second by date of application, the new listing showed there were over 80 applicants with federal preferences and application dates earlier than the most recent applicants to receive Section 8 certificates.

Also, the Admission section was not properly verifying federal preferences claimed by applicants. OIG reviewed 15 randomly selected certificates from those the Authority awarded to families in 1995. The Authority awarded 8 of the 15 certificates to families that did not have valid preferences. The review showed errors in the following categories:

Category	Number	Description of error
Involuntary Displacement	2	Both applicants were living with family members and not forced to vacate as required for this preference.
Expending more than 50 percent of income for housing	4	Insufficient information to calculate (2) housing expense or information showed they were expending less than 50% (2).

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<sup>33</sup> OIG inquiries with the Authority's Computer Specialist as to capability to print a sorted waiting list resulted in this listing.

Occupying substandard housing	2	No certifications from government agencies, landlords or shelter facilities as required for this preference.
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The Admissions Coordinator explained that the waiting list included names of people who had already received housing assistance or who the Authority had terminated from the program. She blamed part of the problem on the Section 8 Department. She said the Section 8 Department did not properly input codes into the system when they housed an applicant. She also said the Admission staff, when making a selection, took the first name they could find on the waiting list who claimed a federal preference. She also blamed the problems on under staffing and staff turnover. She said that she did much of the work herself and she did not monitor the work of her subordinates.

The Director of Housing Management said he knew there were some problems with the accuracy of data input into the system, but he did not know they were serious. He also said he did not monitor the work of his subordinates and that he was not aware that his staff were housing applicants out of sequence or that his staff were not verifying federal preferences. Further, he disagreed with the Admission Coordinator's belief that the Authority had understaffed the unit (see Finding 1). Further, he noted that his Department does not have a formal training program and that neither he or his staff keep track of any training they receive.

In August 1995, the Authority's top management took action to purge the waiting list and bring the data up to date. In doing so, they directed the Section 8 Department's Housing Counselors to work long hours and on the weekend to assist the Admissions staff (see Finding 1 regarding staff turnover and morale problems). It took this concerted effort through September 1995 to purge the waiting list. The Authority also changed its occupancy manual to require a purge of its waiting list every 6 months.

The manual also contains the specific documentation necessary to verify federal preferences.<sup>34</sup>

This subsequent purging of the waiting list by Authority staff disclosed additional problems with the waiting list, such as duplicate listings, names of deceased persons, and names listed for which the Admissions staff could not find the applicant's file. In addition and of more significance, during the purging process, Authority staff found applicant files for individuals whose names did not appear on the waiting list.

Authority did not always verify family composition and social security numbers

OIG randomly selected 20 Section 8 certificate files for review of eligibility and assistance payment calculations. In 5 cases, Authority staff had not verified family composition and in 16 cases had not verified social security numbers for all family members.<sup>35</sup>

The Admissions Coordinator explained the errors by saying:

- In either January or February 1995, the Director of Housing Management told her they had to get 200 files over to the Section 8 Department.
- She was trying to verify eligibility, but the Director of Housing told her to just verify the preferences. Therefore, she considered that her section only needed to verify preferences rather than all aspects of eligibility.

The Section 8 Director commented on the errors by saying:

- In January 1995, when he found out the Authority was only utilizing 84 percent of HUD funds for certificates and 50 percent for vouchers, he stepped up efforts to use these funds by requesting the Admissions Section send him names of qualified applicants.

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<sup>34</sup> HUD Notice 96-7, February 13, 1996, advised housing agencies that the requirement for use of federal preferences in housing applicants has been eliminated.

<sup>35</sup> HUD income limits for eligibility are based on the number of family members. HUD requires social security numbers for family members to facilitate the Authority's ability to compare applicant reported family income with sources such as confirming reported income to that reported to state agencies.

- He did not request a specific number or place any pressure on the Admissions section to provide files, but as a result, in March 1995, he received over 100 files from Admissions.
- He knew that there were problems with Admissions not verifying information but because of the number of files, his staff did not have time to correct all the problems.

The Director of Housing Management said he felt there was a lack of coordination with the Section 8 Director. Further, he didn't know why the Admissions Coordinator was not aware she had responsibility to determine applicant eligibility. However, the Authority's Staff Attorney said that the Director of Housing told the Admissions Coordinator to just send Section 8 files as long as her section verified the federal preferences. Further, the staff Attorney said she had met with both the Director and Admissions Coordinator several times to tell them to stop sending files to Section 8 without verifying eligibility.

In May 1996, Authority management stated they had implemented corrective action by requiring Admissions staff to use a checklist to ensure their files are complete. The checklist requires the admissions aide to obtain copies of the social security cards for all family members and birth certificates for all persons under age 18. The Admissions Coordinator must review the files and sign off on the accompanying checklist before files may be submitted to the Section 8 Department for housing assistance. The Director of Housing Management also spot checks the files. The Section 8 Department has also implemented the use of a checklist for the annual reexamination of tenant income and family composition. To ensure that, in the event verification not done at initial admission to the program, the checklist also includes checking for or obtaining social security cards and birth certificates.

Authority has fallen behind in doing annual reexaminations and housing quality inspections

OIG randomly selected from the most recently completed recertifications a sample of 20 Section 8 certificate files. Of the 20 files reviewed, the Authority had not done 19 reexaminations and 17 housing quality inspections within the 1 year anniversary date. The delinquencies ranged from

as little as 1 month to as many as 10 months late. Since the housing counselors request inspections of housing units at the same time they begin the recertification process, the housing inspections are also late.<sup>36</sup>

The Section 8 Senior Housing Counselor said when she started about a year ago, they were 4 months behind. She attributed the problems to outdated data in the automated system, which necessitated keeping manual records and her staff reviewing files for correct information. She said she felt there was a lack of planning for the automation: (a) they received only 2 days of training on the system which was inadequate because most counselors had no prior computer experience; (b) counselors were resistant to the changeover because of their lack of experience and prior system problems; and (c) increased counselor workload since they now had to key in data. She also noted that the September check run was late, which resulted in landlords bombarding her staff with calls about their checks. Further, previous understaffing and overwork contributed to the problem.

The Section 8 Director said the Authority was not timely reexamining tenants when he took over in May 1994. He stressed that the Department had a lot of other problems including high staff turnover, only partial automation, late payment of portabilities and poor landlord relations.

The Executive Director stated that she was not sure what was happening in the Section 8 Department and needed to spend some time there. However, she felt the problems related primarily to a staff being resistant to change and under utilization of the computer system. She also noted the Section 8 Department never worked overtime, which she expects all staff to do.

As of May 1996, almost a year later, the Department has still not caught up. The Senior Housing Counselor noted that in August and September 1995, a significant amount of staff resources went into assisting the Admissions staff in getting the waiting list problems corrected. Because of the unpaid overtime required for this effort and executive

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<sup>36</sup> Generally, the housing inspectors average performing the housing quality inspections within 15 calendar days from the date of the request.

management's attitude toward employees, such as firing one staff member and suspending another for not working through the Labor Day weekend, staff turnover has continued and morale is low.

Authority did not ensure rents were reasonable in relation to rents for comparable nonsubsidized units

The Authority did not take action to ensure Section 8 rents are comparable to rents paid for unassisted units in the market place. Further, the Authority does not operate the program economically because they encourage landlords to request rent increases.

The housing inspectors are responsible for determining the rents paid to landlords for Section 8 housing units. Federal regulations require the Authority to certify that it approves rents that are reasonable. The Authority must certify that the rents charged by the landlord are not more than the rents other landlords charge for comparable housing units that do not receive any rental assistance. The regulations also require the Authority to maintain for 3 years sufficient documentation to show they used valid comparables.

OIG reviewed 20 randomly selected recertifications. The Authority determined rent reasonableness based on only one comparable unit instead of the three required by the Authority's Administrative Plan. Also, for 18 files, the Authority could not demonstrate the comparable's validity because the Authority did not have sufficient information about the unit they used as a comparable.

The Senior Housing Quality Inspector felt they were doing the best they could because it was difficult to obtain comparable information. The inspector said that landlords and tenants of unassisted housing units often do not want to provide any information regarding their housing units.

The Section 8 Director said he allowed the housing inspectors to just get one comparable because of time constraints, but said he had assumed the inspectors were obtaining adequate information for the one comparable. The Director said he felt they needed an additional inspector to do the inspections right.

In May 1996, Authority management indicated it has decided to continue with obtaining only one comparable



Authority recertification procedures encourages owners to increase rents

which is acceptable under HUD regulations. Further, the Authority has implemented a new rent reasonableness certification form, which when properly completed, will contain sufficient information to show the housing unit is comparable.

HUD regulations and the Housing Assistance Payments Contract with the Authority allow landlords to request and obtain rent increases within annual adjustment factors, so long as the rent does not exceed the reasonable amount for a comparable non-assisted unit. However, the Authority's letters to the landlords routinely ask them if they want no rent increase, an annual adjustment factor rent increase, or a rent increase above the annual adjustment factor.

The Section 8 Director said the Authority implemented this procedure to avoid delays in the recertification process caused by the landlords making last minute demands for higher rents. The director said they previously had a lot of trouble with landlords waiting until it was time to sign the lease to request a rent increase or to demand an even higher rent increase. The director said the mail out requires the landlords to put their rental rate request in writing and commits them to the specific amount requested.

Although HUD does not specifically prohibit an Authority from asking landlords whether they want a rent increase, doing so would encourage a landlord to ask for a rent increase that he or she might not otherwise request. Thus, it represents uneconomical operation of the program funded with tax payer dollars. As previously noted, the Authority has not effectively used its available funding. However, encouraging rent increases only increases the cost of the program, it does not provide funding to assist additional families. HUD's July 21, 1995 monitoring review also questioned this practice as well as noting the problem with documenting the comparables used for certifying rent reasonableness.

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### Auditee Response

The Authority reopened its Section 8 waiting list in June 1996. A system is in place to ensure the Authority houses applicants in proper sequence. The Authority, as of

May 16, 1997, has issued substantially all of its Section 8 certificates and vouchers. The Authority's goal is to have 95 percent or better of its authorized units under lease. The Authority has also established verification procedures for Admissions staff to use. Further, the Section 8 Department also ensures the Authority has verified all required information before issuing a certificate or voucher. The Authority has implemented management/monitoring tools to make sure staff perform reexaminations timely. Housing inspectors utilize a checklist to ensure Authority approved contract rents are comparable to unassisted units. The Authority is in the process of updating its administrative plan which will include procedures for determining rent reasonableness.

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#### OIG Evaluation of Auditee Comments

The Authority's response shows current management recognizes the need for effective controls and monitoring of Section 8 activity. The Authority's new management has taken action to address the problems. The Authority needs to continue this effort to ensure that the actions taken correct these longstanding problems.

#### Recommendations

We recommend the San Antonio Office:

- 3A. Require the Authority to establish a corrective action plan with appropriate administrative controls that will ensure the Authority leases up and continues to lease up available Section 8 units;
- 3B. Obtain documentation to verify the Authority has implemented adequate administrative controls over selecting applicants from its waiting list;
- 3C. Obtain documentation to verify the Authority has implemented effective procedures to ensure the Authority properly verifies family composition and social security numbers;

- 3D. Require the Authority to establish a corrective action plan that will eliminate the reexamination backlog within a reasonable period of time or take appropriate action to reduce the administrative fee; and
- 3E. Obtain documentation to verify the Authority has implemented administrative controls that will ensure the Authority adequately supports its certifications for rent reasonableness.

## Authority Has Continuing Problem in Procuring Goods and Services

Although a 1991 OIG audit and a consultant's follow-up review noted the Authority was not following HUD and its own policy in procuring goods and services, these problems still remain. These problems continued to occur because the Authority does not have written operating procedures to ensure continuity of operations whenever changes in management and personnel occur. The Authority: (a) awarded contracts without adequate competition; (b) did not have required contract clauses; and (c) did not maintain adequate records detailing the complete history of each procurement. In 9 of 21 procurements, the Authority could not locate a copy of any written contract with the vendor. Because the Authority did not ensure there was adequate competition, HUD and the Authority do not have assurance that the Authority is paying reasonable prices. Further, the Authority cannot demonstrate that it was giving all qualified vendors an equal opportunity to provide goods and services. Also, without executing or maintaining a complete written contract with the vendors, the Authority may not be able to enforce federal requirements or contract terms in the event of nonperformance or dispute.

### HUD requirements

Administrative Requirements for Grants and Cooperative Agreements with State, Local and Federally Recognized Indian Tribal Governments (24 CFR Part 85 Subsection 36) contains federal procurement requirements. These regulations require that grantees:

- Have and use their own procurement standards that reflect applicable state and local laws and regulations, provided that the standards also conform to applicable federal laws and standards (85.36(b)(1));
- Conduct all procurements in a manner to provide full and open competition (85.36(c)(1));
- Maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders (85.36(b)(2));
- Maintain records sufficient to detail the significant history of a procurement to show the rationale for the method of procurement, selection of contract type,

contractor selection or rejection, and the basis for the contract price (85.36(b)(9));

- Perform a cost or price analysis in connection with every procurement action including contract modification (85.36(f)(1)); and
- Incorporate several specific provisions, such as: (a) administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and (b) termination for cause and for convenience (85.36(i)).<sup>37</sup>

In addition, these HUD regulations outline the methods of procurement to be followed. Procurements may be made by small purchases, sealed bids, competitive proposals and noncompetitive proposals. The regulations also set forth the specific conditions that must be met for each type of procurement (85.36(d)).<sup>38</sup> The regulations also provide for the awarding agency to place a grantee on pre-award review when the grantee's procurement system fails to comply with the procurement standards (85.36(g)(2)).

#### Authority requirements

The Authority's Board of Commissioners adopted a Procurement Policy in September 1990. This policy required:

- Use of formal advertising for all purchases and contracts for equipment, materials, supplies, and non-personal services in excess of \$10,000;
- Use of competitive proposals for the procurement of personal services;
- Non-competitive purchases only when an emergency exists or when only one source of supply is available; and

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<sup>37</sup> Certain required provisions are dependent upon type and dollar amount of the contract, such as compliance with the Davis-Bacon Act for construction contracts in excess of \$2,000.

<sup>38</sup> Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under the other methods and certain specific criteria are met (24 CFR 85.36(d)(4)).

- Documentation for all procurement of equipment, materials, supplies, and personal services.

Prior OIG Audit identified procurement problems

In September 1991, OIG issued an audit report concerning the Authority's Comprehensive Improvements Assistance Program and other administrative matters. The audit report found that the Authority was not following federal regulations in procuring professional service contracts. Specifically, the report found that: (a) the Authority did not competitively bid its contracts for development manager, legal and auditing services; (b) there was a general lack of records, including contracts; and (c) the Authority lacked a system to adequately monitor the contracts it administered.

The Authority hired a consultant to help resolve the audit's findings. The consultant's August 1992 report observed the Authority did not properly adhere to HUD and Authority procurement policies and lacked a recordkeeping system. To correct the identified problems, the consultant recommended the Authority: (a) establish a mechanism to ensure that Authority staff followed procurement policies and procedures; (b) annually review its procurement policies; (c) implement changes to ensure that the Authority maintains files in a logical, complete, and readily accessible manner to facilitate reference in the event of a review or audit; and (d) review its contract administration policies and procedures to ensure the Authority follows all HUD regulations.

Authority promised corrective action

In resolving the audit findings, the previous Executive Director provided written assurances to HUD that all future procurements would comply with federal regulations and that a system for contract monitoring would be implemented. However, the Authority did not carry out the promised action because of turnover in management and staff (see Finding 1). Although the Authority has a written procurement policy, it did not have adequate management controls to ensure its staff followed the policy, such as: (a) written operating procedures providing guidance to Authority personnel on how to carry out the procurement policy; (b) recordkeeping procedures that would identify and track contract activity; or (c) training new staff in the technical aspects of contracting to meet HUD and Authority

Authority does not have an adequate system to track contract activity

procurement requirements, e.g., performing price and/or cost analyses.

The Authority's staff cannot readily access information about who it has contracted with, for how long, and for how much. Authority staff are not always aware of whether contracts have "self renewing" clauses, or when the contracts expire. Because the Authority lacked a contract register, log, or similar system, neither Authority staff or management have a clear picture of how many contracts the Authority has awarded, the full amount of the contracts, the amount of any progress payments, or the balances due under the contract.<sup>39</sup> The Authority has no internal policy or procedure requiring the maintenance of a contract register or similar management information system for tracking contract activity.

In 1993, an outside consultant was generally responsible for contracting the Authority's Comprehensive Grant Program activity.<sup>40</sup> After ending this consultant's contracts, the Authority moved Comprehensive Grant Program contracting in-house. The Purchasing and Planning and Development staff began to keep logs of contracts after January 1995. However, these logs contain limited information and include only contracts the Authority awards for Comprehensive Grant Program activity. Thus, Authority management continues to lack an adequate information system. In addition, the Authority has experienced continued turnover in staff positions (see Finding 1). Under such circumstances, it was even more critical to have adequate and accurate information systems to provide knowledge and continuity. To illustrate, the Purchasing Manager was unaware that their 24-month contract for maintenance uniforms, executed in December 1993, had an automatic renewal clause and would do so for another 24 months at an increased price unless the Authority took action to terminate the contract 60 days prior the expiration date.

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<sup>39</sup> HUD Handbook 7510.1, prior to revision in May 1996, required housing authorities to maintain contract registers or logs for this purpose.

<sup>40</sup> The procurement of this consultant's contracts was the subject of the previous OIG audit report.

Authority continues to violate HUD and Authority procurement requirements

To determine whether the Authority was properly following HUD and its own requirements, OIG selected for review contracts in excess of \$10,000, which required formal competition and Board approval. Since the Authority did not have a system to track contract activity, OIG attempted to identify the number of large contracts awarded during the period January 1993 through May 1995 by reviewing: (a) Board of Commissioner's minutes for approval of contracts; (b) the Comprehensive Grant Program contract logs; and (c) vendor payment listing for payments over the \$10,000 threshold. Although this methodology does not ensure the audit identified all contracts, it should identify most of the contract activity. Based on this review, during this period, the Authority has entered into at least 66 contracts in excess of \$10,000 for construction, professional, and other services. In addition OIG also reviewed the records to determine whether the Authority had properly executed a contract before making payment on the contract or that the Authority's payments did not exceed the amount of the contract award.

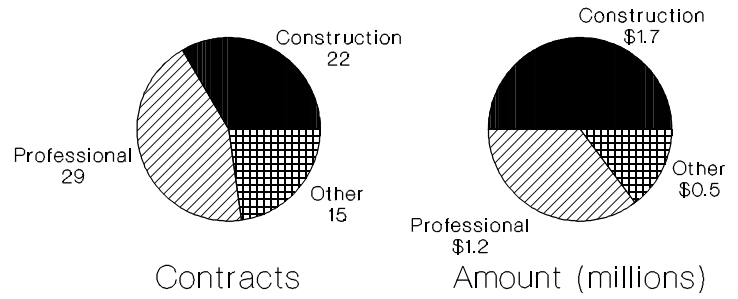
The following graphs show the number of contracts and the approximate dollar amount:<sup>41</sup>

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<sup>41</sup> The dollar amounts shown in the second pie chart do not include 19 of the 66 procurements shown in the first pie chart because the minutes did not show the amount (17 of 63) or the Authority could not locate contracts for vendors they were paying (2 of 3 identified from vendor payment listing).



## Contract Activity January 1993 - May 1995

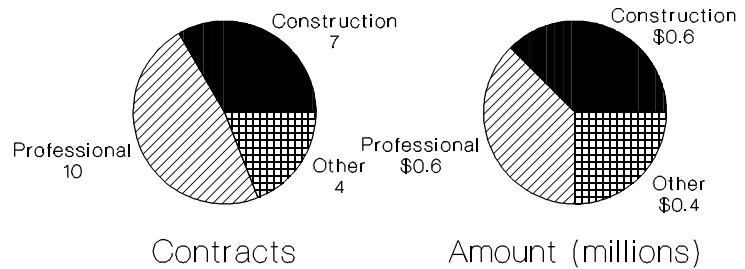


OIG estimate based on available records

OIG judgmentally selected approximately 30 percent of each type of contract for review. The selection included contract awards made in 1993 (8 of 33), 1994 (3 of 7), and

1995 (8 of 23). The following chart shows the number and dollar amounts of contracts:<sup>42</sup>

### Contracts Reviewed January 1993 - May 1995



The following graph summarizes the number of violations identified in the review:

### Violations Federal Requirements

#### Missing or Incomplete



HUD Regulations 24 CFR 85.36

<sup>42</sup> The dollar amounts shown in the second pie chart do not include 4 of the 21 procurements shown in the first pie chart because the Authority did not have or could not locate written contracts or other documentation to show the total dollar obligation.

HUD requires governmental recipients of HUD funds to maintain records sufficient to show the history of the procurement, including the basis of award, contractor selection, etc. However, in 19 of 21 cases, the records were inadequate. For example, in: (a) 7 cases, the Authority did not have a request for proposal/invitation to bid package and (b) 11 cases, the files lacked evidence of Authority required formal advertisement.

Although the Authority's Procurement Policy requires staff to document all procurement activity, the Authority does not have internal operating procedures to provide guidance to staff in the retention of contracting records. Authority staff agreed that files were incomplete and stated that missing information occurred due to: (a) change over from the outside development consultant to Authority Planning and Development staff and (b) high staff turnover in the Authority's Purchasing and Planning and Development Departments.

The following illustrates the Authority's procurement violations and problems:

- The Authority's Board of Commissioners awarded a contract for legal services in December 1993. The minutes show the Board reviewed and made its decision in executive session. The Authority has no evidence of soliciting proposals or performing a cost analysis to determine price reasonableness. Further, the Authority did not have a written contract showing the scope of services, payment terms, or other requirements. During 1994 and 1995, the Authority paid the law firm \$36,433 for services.
- The Authority used competitive proposals to select an independent public accountant to perform its annual audit for the fiscal year ended March 31, 1992. However, without soliciting new proposals or obtaining Board approval, on April 27, 1993, the Authority's former Executive Director entered into a contract with this firm to conduct the next three fiscal year audits for an overall price of \$26,740.<sup>43</sup> However, the Authority's

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<sup>43</sup> The contract showed the price for the audits to be \$8,590, \$8,900, and \$9,250 for 1993, 1994, and 1995, respectively.

payment records show the Authority paid the firm \$51,167. Further review showed:

- On September 16, 1993, the Executive Director, entered into a letter agreement with the firm for special accounting services. There is no evidence the Authority: (a) solicited other proposals for the additional accounting work; (b) included any terms for termination or remedies for breach; (c) performed a cost analysis for this noncompetitive procurement; or (d) restricted the hourly rate contract to an upset amount. The Authority paid \$15,327 for the additional services.
- The Authority paid an invoice in May 1995 which exceeded the contract terms for the 1994 audit by \$5,073. The Authority paid the accountant's full billing on the basis of the accounting firm's representation that it had overrun the audit time budget because the authority revised the financial statements on two occasions. The Authority had no evidence of any formal amendment to the contract or of a price or cost analysis for determining reasonableness of the increased cost.
- On July 13, 1995, the Executive Director executed an amendment to the contract for the 1995 audit to increase the contract amount by \$4,590 without evidence of a cost or price analysis.
- The Authority's Board approved the award of a \$17,750 construction contract on June 30, 1994. Although the file contained a request for bids, there was no evidence the Authority formally advertised the contract as required by Board policy (HUD required formal advertising if over \$25,000). Further, although the Authority received only one bid, Authority staff did not do a cost analysis to determine the reasonableness of the bid. Also, the bid package required the contractor provide a bond; but, there was no evidence the Authority received a bond.
- The Authority's Board approved the award of a \$200,000 construction contract on January 26, 1995.

Although the Authority advertised for bids, the advertisement was only in the local newspaper and published for 1 day. As a result, the Authority received only one bid. The Authority also did not have evidence that it performed a cost analysis to determine the reasonableness of price.

- Also on January 26, 1995, the Board approved the award of a security contract for \$144,000. As with the independent auditor contract, it appears the Authority decided to continue using a vendor after the initial competitively procured contract had expired. The Authority records do not show any solicitation for proposals or a cost analysis. In addition, the contract, executed in March 1995, did not contain required clauses regarding remedies for breach or federal agency access to records.
- The Authority's award of an \$11,640 contract for printing services was an improvement over prior awards. This May 1995 procurement generally met all requirements except for evidence of a price analysis. However, during this same month, the Authority allowed its insurance agent to handle the award for employee insurance coverage. The insurance agent's letter to the Authority, dated May 14, 1995, states, "I am comfortable with not having bid this coverage this year. As other networks grow and mature we can entertain quotes for maybe next year or year after next." Thus, the Authority's procurement of insurance coverage represented a sole source procurement. Further, the Authority did not do a cost analysis to determine price reasonableness.

Authority makes payments to vendors without evidence of proper procurement or a written contract

The Authority's vendor payment listing showed the Authority made payments totaling over \$97,000 to two entities. The Authority paid one entity \$71,065 for construction services and paid the other \$26,123 for legal services. The Authority could not provide any evidence of solicitation, basis of contract award, or written contracts showing the services to be provided or the amounts to be paid.

Thus, because of the continued failure of the Authority to properly procure contracts, it cannot always assure the prices paid were reasonable and, in many cases, is in a precarious position to properly administer its contracts. To illustrate the latter, in October 1995, the Authority's attorney was looking for a contract with its computer software provider. The Authority's attorney said the Authority was attempting to obtain upgrades to its software by open competition, but the vendor said if they did, the Authority would have to pay a \$50,000 penalty and lose their free upgrades. The Staff Attorney did find a copy of a contract with the vendor, which did not contain such restrictive language. However, the vendor had not signed the copy of the contract found by the Authority's attorney.

Authority needs to strengthen accounting controls over payments

The Authority needs to improve its controls over payments on contracts. OIG's review of contract payments, where contracts existed, disclosed two vendors that the Authority paid in excess of their contract amount. One was the 1994 audit cost previously discussed. The second involved a construction contract. The contractor requested a \$4,200 increase in the \$20,900 contract price. The Authority's review concurred but limited the increase to \$3,000. However, the contractor billed the Authority \$25,100 (\$20,900 plus \$4,200). The Authority paid the amount billed. Thus, the Authority did not have adequate accounting controls to prevent such overpayment.

The Authority's Finance staff does not compare invoices to the contract amount and/or have a schedule of any partial/progress payments to ensure current invoices, when added to prior payments, do not exceed contract limits. Thus, an overpayment could occur without detection. In 1995, the Planning and Development Coordinator did implement a payment authorization form to accompany payment requests. This form identified contract award amount, amount of any change orders, and the amount of payment requested. However, the Authority only used this payment authorization form for Comprehensive Grant Program contract payments. The Authority could enhance its controls by using the form or a similar document for authorization of all contract payments.

Auditee Response

The Authority rewrote its procurement policy in January 1996. The Authority is currently making changes to this policy to clarify procedures and to strengthen the procurement program. The director of Corporate Services will review the entire procurement policy with the Purchasing staff and the Modernization and Planning Coordinator to ensure they understand and adhere to the policy.

The Authority is entering new contracts into a data base for tracking purposes and the Authority is putting management controls in place to ensure the Authority does not exceed contract amounts. The Authority is ensuring procurement personnel receive appropriate training.

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OIG Evaluation of  
Auditee Comments

The Authority needs to ensure that new policies and procedures are effective in correcting the cited deficiencies. Further, the Authority needs to develop written procedures to ensure staff and management turnover will not continue to adversely impact on its following HUD and Authority procurement requirements.

Recommendations

We recommend that the San Antonio Office:

- 4A. Require the Authority to establish and implement written operating procedures that will ensure the Authority is procuring goods and services in accord with HUD regulatory requirements;
- 4B. Require the Authority to establish adequate management controls to track contract activity and ensure payments do not exceed contract limitations;
- 4C. Place the Authority on a post award review for a representative sample of contract awards in excess of \$15,000;<sup>44</sup> and

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<sup>44</sup> State law requires formal advertising for procurements exceeding \$15,000 other than professional services contracts which under State law do not have to be bid.

- 4D. Place the Authority on a pre-award review if the post award review shows the Authority is still not in compliance with HUD requirements and continue such pre-award review until such time the Authority demonstrates it has implemented adequate procedures and controls over procurement of goods and services.



## Authority May Not be in Compliance with the Fair Labor Standards Act

**The Authority has classified most of its housing counselors and inspectors as exempt from the overtime requirements of the Fair Labor Standards Act. Although these employees are classified as administrative, it does not appear that their duties fall within the exempt category. If the employees are improperly classified and not compensated for overtime work, the Authority is subject to retroactive claims for such compensation. Thus, the Authority needs to ensure it has properly classified its employees to preclude a potential liability for such compensation.**

### HUD requirements

HUD sets forth wage requirements for maintenance staff and requires the Authority to pay maintenance staff for overtime work. However, HUD has no specific requirements for administrative employees.

### Department of Labor requirement

The implementing regulations for the Fair Labor Standards Act provide for employers to pay overtime for employees that work in excess of 40 hours per week (29 CFR Part 541). The regulations also provide exemptions from the requirement including an administrative employee exemption. However, as noted in a commercially published guide, the administrative exemption relates to the employees' duties rather than classification.<sup>45</sup> The guide makes a distinction between "production" duties (non-exempt) and "administrator" duties (exempt).

### Authority classifies housing counselors and inspectors as exempt from overtime pay

The Authority's April 1996 job descriptions for housing counselors and inspectors as exempt from the overtime provisions of the Fair Labor Standards Act. The Authority's personnel policy, adopted in September 1990, showed these positions to be non-exempt. As noted in Findings 1 and 3, the Authority required housing counselors to work a

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The Authority's Human Resources Manager has a commercially published guide, "Public Employer's Guide to FLSA Employee Classification," Thompson Publishing Group, 1995, for use in classification of employees under the Act. The guide cites Department of Labor regulations and court cases in providing guidance in classifying employees as exempt.

substantial amount of uncompensated overtime to bring their waiting list current.

The Human Resources Manager said when she began working for the Authority in June 1995, she found the Authority's personnel policies to be out of date and not strictly enforced. She added that she had reviewed some old personnel files and did not find any evidence that the Authority classified inspectors or counselors as non-exempt. She further said that she believes the Authority has properly classified the counselors and inspectors under the guidelines.

Guidelines indicate the Authority has misclassified housing counselors and inspectors

The Authority's new personnel policy, adopted in September 1995, is silent as to the positions' status under the Fair Labor Standards Act, but job descriptions prepared in April 1996 show these positions to be exempt.

The Authority's job description for housing counselor, dated April 1996, shows the classification is exempt but goes on to state:

- The employee receives work assignments from the Senior Housing Counselor. Priorities and time frames are usually established by the supervisor. The supervisor monitors the employees work for thoroughness, neatness, and compliance with procedures and guidelines. The employee has no supervisory responsibilities.
- The employee performs a variety of related tasks that are repetitive and mostly routine in nature. Occasionally, the employee is required to exercise personal judgment in making decisions in accomplishing assignments. Non-routine situations are usually referred to the supervisor for resolution.
- The employee's personal contacts are with applicants, residents, other employees, and community social service agencies. The purpose of such contacts is to obtain information and documentation needed by the Authority for housing families and providing assistance to families.

The Authority's April 1996 job description for Section 8 Inspector also classifies this position as exempt but goes on to state:

- Recommends abatement, detainment, and termination of housing assistance payment contracts;
- The employee receives assignments and instructions from the Senior Inspector. Work to be done is usually determined by existing or may be specified by the supervisor. The employee performs routine daily tasks with minimal or no supervision. Situations not covered by instructions or procedures are usually referred to the supervisor for resolution. The employee's work is reviewed regularly for thoroughness, accuracy, and compliance with inspection requirements;
- Work performed by the employee is repetitive and mostly routine in nature. Work to be performed is easily determined, but above average technical and communication skills are required to accomplish tasks. The employee routinely plans, coordinates, and performs the work; and
- The employee's contacts are primarily with housing owners and residents. Such contacts require the ability to establish and maintain good working relationships on a long-term basis. The purpose of such contacts is to provide information, guidance, and assistance, in maintaining dwellings that are decent, safe, and sanitary.

Therefore, the job descriptions show that housing counselors and inspectors perform routine work that requires the application of skills but does not provide for discretion and independent judgment. The "Public Employer's Guide to FLSA Employee Classification" notes that a key factor in determining if the administrative exemption can be applied is the degree of discretion and judgment exercised by the employee.

The guide notes that in one recent court case, the court explained that the distinction between production and administrative employees is that employees whose primary

duty is administering the business affairs of an enterprise are "administrators," and those who provide the commodity of commodities of the organization, whether that be goods or services, are 'producers.' The guide states that in determining whether an employee is exempt under the administrative provisions, the employee must meet each and every requirement of the regulations, not just one or some of them. The guide notes that Department of Labor regulations state:

"To qualify as an exempt administrative employee, one must customarily and regularly exercise discretion and independent judgment. . . For example, employees for whom a significant portion of their work is routine or clerical in nature are *not* exempt. . .the person has the authority or power to make an independent choice, free from immediate direction or supervision and with respect to matters of significance."<sup>46</sup>

The guide notes that the Department of Labor regulations make a distinction between the application of knowledge and skill (non-exempt) and discretion and independent judgment (exempt) and cites the following:<sup>47</sup>

"Inspectors normally perform specialized work along standardized lines involving well-established techniques and procedures. . .Such inspectors rely on techniques and skills acquired by special training or experience. They may have some leeway in the performance of their work but only within closely prescribed limits. Employees of this type may make recommendations on the basis of the information they develop in the course of their inspections. . . , but these recommendations are based on the development of the facts. . . In such cases the decision to depart from the prescribed standards or the permitted tolerance is typically made by the inspector's superior. The inspector is engaged in

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<sup>46</sup> The comment regarding power and authority is shown by the guide as coming from the Department of Labor's definition in 29 CFR 541.207(a).

<sup>47</sup> Guide shows this is a quote from 24 CFR 541.207(c)(2) of the Department of Labor's implementing regulations.

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exercising skill rather than discretion and independent judgment within the meaning of the regulations in Subpart A of this part."

The guide cites recent court case law that decided the following jobs were not exempt positions:

- Probation officers and child treatment counselors were not administratively exempt because they did not perform work related to the management policies or general business operations of the employer;
- Environmental conservation officers are production workers as well as a bookkeeper who did not spend over 50 percent of her time in work directly related to management; and
- T.V. producers are production employees as are also insurance claim investigators.

Thus, it appears from the regulatory and case law cited in the guide, that the Authority may have misclassified its employees as exempt. Since the decision involves court application of statutory and regulatory requirements to employee classification, it appears the Authority should have their legal counsel review their classification of employee positions as exempt or non-exempt.

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### Auditee Response

The Authority made many changes in its organizational structure in February 1997 requiring new or revised job descriptions. The Authority is in the process of performing a job analysis of each position within the Housing Authority. The Authority's Human Resource Department will review each description to ensure the duties meet the tests for exempt or non-exempt status.

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### OIG Evaluation of Auditee Comments

Since the classification involves legal interpretation, the Authority should have their legal counsel review those job descriptions the Authority's Human Resources Department classifies as exempt.

Recommendations

We recommend the San Antonio Office advise the Authority:

- 5A. Of their potential liability if the Authority has misclassified any employees as exempt under the Fair Labor Standards Act and
- 5B. They should review their exempt and non-exempt classifications with legal counsel and take action to properly classify their employees and pay overtime when required by law.

## Authority Needs to Improve the Performance of Housing Managers

**The Authority's Housing Managers are not: (a) timely reexamining Low Rent tenants for continued occupancy and adjustment to rents and (b) providing timely information to the Finance Department on tenant rental activity. These deficiencies are primarily attributable to inadequate staffing, staff turnover, and inadequate training. As a result of late tenant reexaminations, the Authority cannot assure HUD that tenants are paying the appropriate level of rent or occupying the appropriate size unit. Because Housing Managers are not submitting necessary information timely and accurately, the Authority cannot rely on its automated system for tracking tenant rents. Also, without good controls that ensure accurate information, the Authority's Executive Director and Board cannot be assured that their certifications to HUD on compliance with HUD requirements is true and correct.**

### HUD requirements

HUD regulations state:

- The agency must reexamine the income and composition of all tenant families at least once every 12 months and: (a) determine whether the family's unit size is still appropriate and (b) make appropriate adjustments in the total tenant payment and tenant rent (24 CFR 960.201 and 209).
- The income of each family must be reexamined at least annually and agencies must be in compliance to be eligible for full operating subsidy (24 CFR 990.115 - redesignated 24 CFR 990.113 in April 1996):
  - The agency must, with each operating budget for a fiscal year, certify that the agency is in compliance with the annual income reexamination requirement and that rents have been or will be adjusted in accordance with HUD requirements.<sup>48</sup>
  - If the agency is not in compliance, the agency must submit to HUD a copy of the procedures it is using

<sup>48</sup>

In April 1996, the requirement was changed from operating budget submission to each submission of the calculation of operating subsidy eligibility.

to attain compliance and a statement of the number of families that have undergone reexamination during the preceding 12 months.

- If HUD determines that the agency is not substantially in compliance, HUD shall withhold payments operating subsidy equal to HUD's estimate of the loss of rental income to the agency resulting from failure to timely reexamine tenant income.
- HUD will use uncollected tenant accounts receivable as a measure of agency performance, which when combined with other rating factors, could result in HUD designating the agency as: (a) a high performer, which reduces HUD's monitoring of the agency; (b) standard performer, which continues HUD's normal monitoring of the agency; and (c) troubled, which requires HUD to closely monitor and assist the agency (24 CFR 901.01, 901.10(b)(3), and 901.115)

Authority incorrectly certifies it is in compliance with annual reexamination requirements

The Board Chairperson, as part of the 1996 budget submission for the fiscal year ending March 31, 1997, certified the Authority met all regulatory and statutory requirements including the timely performance of annual tenant recertifications. However, the Authority was not current in performing annual recertifications. Authority records show that as of June 30, 1996, there were about 727<sup>49</sup> overdue reexaminations. In some instances, the Authority had not reexamined the tenants since 1994.

Had the Authority advised HUD that they were in noncompliance, they would have had to inform HUD of the actions the Authority was taking to remedy the problem. Also, because of substantial noncompliance, the Authority would also have been subject to a reduction in operating subsidy. Because the Executive Director was not periodically advising the Board of the status of reexaminations, the Board Chairperson was not aware that the certification was incorrect.

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<sup>49</sup> Represents 39 percent of units not undergoing Comprehensive Grant renovation.



Reexaminations are untimely because of limited staff at large projects and staff turnover

Staff turnover is a major cause of the problem (see Finding 1). Housing Managers would quit, leaving reexaminations in-process, which then did not get completed timely. The Authority did not have a method to ensure continuity of management so that Authority staff continued to complete these in-progress reexaminations.

Another contributing factor was an apparent lack of sufficient staff including clerical support for the Housing Manager at larger projects. The Authority uses one on-site manager at its larger projects. However, other authorities and commercial management companies staff larger projects with a manager and clerical assistant, as follows:

- The Housing Authority of Corpus Christi, Texas, also uses on-site Housing Managers to perform reexaminations. This Authority employs one Housing Manager for projects of 140 to 200 units. However, the managers have a part-time clerical aide that works at the project for 2 to 3 days each week.
- The Housing Authority of the City of Houston has two projects that have 100 units. Each project has an on-site manager and clerical aide to handle operations. These on-site staff do not perform annual tenant reexaminations (this Authority has centralized the process).
- Two commercial management firms staff projects of 150 units similar to the Housing Authorities of Corpus Christi and Houston. Both of these San Antonio firms employ an on-site manager and a full-time clerical assistant for properties of 150 units or greater (these projects receive HUD housing assistance which require similar reexamination of tenant eligibility).

Authority reports incorrect level of tenant accounts receivable to HUD

The Authority's certification of rents collected for HUD's Public Housing Management Assessment Program was also incorrect. This occurred because the Authority did not have accurate records on tenant accounts receivable. The Program provides for Authority self-assessment and certification to HUD for certain indicators. HUD requires

the Authority to keep supporting documents available for HUD review.<sup>50</sup>

Because the Authority could not rely on the accuracy of its automated system, the Authority had Housing Managers report their tenant accounts receivable based on tenant ledger cards the managers kept at the project site. The Authority had Housing Managers examine the automated detail reports and compare the balances to their on-site records. The Housing Managers decided the amount tenants actually owed, then completed and signed the Tenant Accounts Receivable report. However, Authority management did not monitor or otherwise ensure that the ledger cards were accurate. The Authority does not require Housing Managers to submit a monthly trial balance of their tenant ledger cards to the Finance Department or the Director of Housing Management.

The Authority reported that tenant accounts receivable were 9.99 percent of rents to be collected for the year. However, the individual project reports, when totaled, showed the correct rate to be 10.27 percent. Although this is only a slight difference, HUD's performance indicator for this factor calls for a failing grade (no points) when the accounts receivable exceed 10 percent of rents to be collected.

Housing Managers do not submit timely information to update the automated system

The Housing Managers' detail tenant accounts receivable balances maintained at the project site do not agree with the balances shown in the Authority's automated tenant account receivable system. These differences occur because Housing Managers did not provide timely information to the Finance Department on move-outs, move-ins, and interim reexamination changes for entry into the automated system.

The automated tenant account receivable system produces monthly tenant statements. The Authority sends these statements to the tenants. The statements show the amount of the previous balance, cash received, current tenant charges, and any adjustments the computer has added to the

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<sup>50</sup> HUD regulations 24 CFR 901.100(b)(2) states that PHAs shall maintain documentation for 3 years verifying all certified indicators for HUD on-site review and 901.100(b)(3) states that sanctions such as suspension and debarment will be imposed for intentional false certification.

tenant's account (tenant damage charges or late charges). If a tenant moves, the on-site manager is supposed to notify the Finance and Accounting Department. The Finance and Accounting Department enters this data into the automated system. The system will not permit another tenant, that has moved-in, to be entered into the automated system without the former tenant move-out information being entered. Further, a new tenant does not receive a monthly statement and Authority staff cannot enter payments received from the new tenant into the automated system. At June 30, 1996, there were 21 receipts totaling \$5,253 received from tenants not entered into the tenant accounts receivable system because Housing Managers did not provide completed move-in data to Finance and Accounting for entry into the automated system.

Authority needs to provide adequate written operating procedures for managers

To improve operations, the Executive Director has taken certain steps by:

- Increasing Housing Manager salaries in October 1995 in an effort to reduce staff turnover;
- Revising and implementing in January 1996 a new occupancy policy handbook for use by Housing Managers (provides information on what needs to be done to comply with HUD regulations);
- Hiring a person in April 1996 to train Housing Managers in an effort to improve performance (duties include taking over a property when a manager leaves employment, identifying the reexaminations in-process, and informing the new manager of in-process matters as part of their orientation); and
- Installing, in April 1996, computer terminals and fax machines at each project (computer terminals allow Housing Managers to enter payment data into the automated tenant accounts receivable system).

However, the Authority does not have written operating procedures for the on-site managers to assist them in implementing the occupancy policy, entering data into the automated system, and other operating functions of their jobs. Although the Authority installed computer terminals

at all sites, which permit Housing Managers to enter payment data directly into the automated system, it will not correct the problem of the system not accepting data until Housing Managers submit documents to Finance and Accounting for move-outs, move-ins, rent changes, and other adjustments.

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**Auditee Response**

The Authority's response notes that a lack of thorough staff training and high staff turnover resulted in the overdue reexaminations. The Authority has reorganized its operations which has resulted in more appropriate staff levels. The Authority now staffs each development over 120 units with a manager and an assistant manager. The Authority is training housing staff in the use of the automated system and developing a standard operating procedure manual.

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**OIG Evaluation of Auditee Comments**

The Authority's new Executive Director has taken steps to improve housing operations. The Authority needs to ensure its management control system properly monitors housing manager activity and that the Authority takes appropriate corrective action when needed.

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**Recommendations**

We recommend the San Antonio Office:

- 6A. Require the Authority to submit an accurate report on the number of tenants that are overdue for reexamination and take action to reduce the operating subsidy if the Authority is still in substantial noncompliance;
- 6B. Require the Authority to provide a plan of action on their efforts to meet HUD requirements for timely reexamining tenants including periodic progress reports;

- 6C. Require the Authority to submit an accurate report on tenant accounts receivable and an action plan to reduce the number of uncollected accounts; and
- 6D. Closely monitor the reports, provide assistance, if needed, and take appropriate action including permitted sanctions if the Authority does not improve its operations for timely reexamining tenants and collecting rents or future certifications are inaccurate or misleading.

## Authority Needs to Strengthen Internal Controls to Ensure the Propriety and Reasonableness of Administrative Costs Charged to HUD Programs

**Because the Authority had not implemented an adequate system of controls for incurring and allocating administrative costs, neither HUD nor the Authority can be assured that costs charged to HUD funded programs are allowable and proper costs for administering those programs. Primarily, the Authority did not have time distribution records to support its allocation of administrative salaries among its various programs. The Authority was also using HUD program funds to pay for business luncheons in violation of federal cost principles and had not exercised adequate control over telephone costs to ensure they were proper, reasonable, and necessary costs for administration of its HUD funded programs. Also, the Authority's former Finance Director, without Board approval, changed the Authority's travel policy for reimbursing employee meal expense.**

### HUD requirements

HUD regulations<sup>51</sup> state g<sup>r</sup>antees:

- Must maintain records that adequately identify the source and application of funds provided for financially assisted activities;
- Must maintain effective control and accountability for all grant cash, real and personal property, and other assets;
- Will follow applicable OMB Cost principles,<sup>52</sup> agency program regulations, and the terms of grant agreements

<sup>51</sup> HUD regulations are contained 24 CFR Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments. Standards for financial management systems are set forth in 24 CFR 85.20.

<sup>52</sup> Cost principles applicable to state, local, or indian tribal governments are contained in OMB Circular No. A-87 (24 CFR 85.22(b)).

in determining the reasonableness, allowability, and allocability of costs;

OMB Circular No. A-87, Cost Principles for State and Local Governments, sets forth the principles and standards for determining costs applicable to federally funded programs. These principles provide the general criteria necessary for costs to be allowable under federal awards. These principles state:

- Costs must be necessary and reasonable for proper, efficient performance and administration of federal awards and be allocable thereto under the federal cost principles (Attachment A, Part C.1.a. - 1995 revision added C.1.j., which requires grantees adequately document cost);
- A cost is allocable to a particular cost objective to the extent of benefits received by such objective (Attachment A, Part C.2.a.)<sup>53</sup>;
- Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records and the method used should produce an equitable distribution of time and effort (Attachment B, Part B.10.b.)<sup>54</sup>; and
- Costs of entertainment, including meals and gratuities, are unallowable (Attachment B, Part D.4 - Attachment B, Paragraph 18, in the 1995 revision).

Part A, Section 15(A) of the 1995 Annual Contribution Contract states that the Authority must maintain complete and accurate books of account for the projects of the

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<sup>53</sup> The 1995 revision to OMB Circular No. A-87 notes that costs, to be reasonable, involves whether: (a) the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government; and (b) significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost (Attachment A, Part C.2.d. and e.).

<sup>54</sup> The 1995 revision changed the requirement to maintaining personnel activity reports, signed by the employee, prepared at least on a monthly basis, and reflect after the fact distribution of the actual activity of each employee (Attachment B.11.h.).

authority in such a manner to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit.<sup>55</sup>

The Authority's policies:

- State that costs of meals include gratuities for meals (Personnel Policy Chapter VI, Section P(3)(g)(7) and Travel Policy for Commissioners Section I(C)(8)(g)).
- Prohibit the use of public housing operating funds for business luncheons (Personnel Policy Paragraph VI(P)(3)(g)(8)).
- State that long distance service is for Authority business only. It requires department directors to furnish written justification monthly for all long distance calls made. It also states that the Authority will conduct monthly audits of all long distance charges (Personnel Policy Chapter 6, Part K).

Authority lacks support for the allocation of salaries

OIG's 1991 audit noted that the Authority was allocating salaries to its modernization and development programs based on the approved budget rather than time distribution records as required by OMB Circular A-87. The Authority's former Executive Director's August 30, 1991 reply to the draft audit noted that the Authority had changed its practice and was currently allocating costs on the basis of time distribution records.

Although the Authority ceased using budgeted amounts for allocating salaries, it now uses a standard percent allocation. This method also does not meet federal cost principles, which require grantees to allocate employee salary that benefits more than one program on the basis of time distribution records.

The Authority did not retain documentation to show it was properly allocating salaries of employees whose activities

<sup>55</sup> Part 2, Section 307(C) of the 1969 Annual Contribution Contract requires the Authority to maintain complete records of employee leave, authorizations of overtime and official travel, and vouchers supporting reimbursement of travel expense. Section 307(A) of the 1969 Contract required the Authority to adopt personnel policies comparable with pertinent local public practice. The 1995 Annual Contributions Contract does not require Authority practices to be comparable to the local government practice.



benefit more than one program. The Deputy Director said the Authority allocated salaries using percentages based on actual time reports the Authority kept in 1993. However, he said he could not find the 1993 time reports. Federal cost principles require grantees to allocate salary cost on the basis of the benefit to the federal program. Further, the principles require such allocation to be based on time distribution records. Therefore, even if the Authority could locate the time records, they would not support that they were valid for distribution of salaries in subsequent time periods. The September 1995 revision to the federal cost principles now require grantees to allocate joint salary costs on the basis of monthly personnel activity reports, prepared after the fact, and signed by the employee.

Top management violates Authority and HUD requirements by charging Authority for business luncheons

Contrary to Authority and HUD requirements, from August 1993 to February 1995, the Executive Directors and Deputy Director charged \$2,083 in business luncheons to the Authority. The Executive Director indicated she was unfamiliar with Authority policies on business luncheons and did not know that she could not charge such luncheons to the Authority. However, the Authority's Senior Accountant said although he considered business luncheons improper, Authority management told him to pay the bills.

Executive Director's car allowance appears excessive

The Executive Director receives a bi-weekly car allowance of \$250, which averages out to \$540 a month. When the Board authorized this allowance, the HUD Annual Contributions Contract required Authority policies be comparable to local public practice. The Austin City Manager receives a car allowance of \$350 a month and city directors receive \$230 a month. Thus, the Authority was violating its Contract with HUD by authorizing a car allowance in excess of local public practice. Although HUD's 1995 revision to the Annual Contributions Contract eliminated the specific requirement, the Authority still must ensure any such allowances are reasonable. Based on comparable local practice, the allowance appears unreasonable.

The Executive Director said the board of commissioners based her car allowance on the last past history of what the Authority had provided previous Director (\$400 per month) plus another \$100 as an inflation adjustment. Thus, the

Authority did not have any studies or other documentation to show that the \$540 per month allowance represented reasonable reimbursement for personal automobile expenses incurred by the Executive Director.

Authority records show the Executive Director, in addition to receiving the car allowance, charged \$155 in gas purchases to her Authority credit card. The Executive Director said she purchased gas when she used Authority vehicles and not when she used her vehicle. She said she recalled using an Authority vehicle assigned to her for two trips to San Antonio.

Since the Authority assigned a vehicle for the Executive Director's use, it further raises a question as to the need for and/or reasonableness of an allowance exceeding \$500 per month for use of the Executive Director's personal vehicle. In addition, the Authority did not establish appropriate controls to ensure officials did not abuse their use of Authority credit card by requiring they note the official purpose of purchases.

Finance Director changed travel reimbursement policy without Board approval

The Authority's former Finance Director established a practice of providing employees an additional 15 percent of the per diem rate established by Board policy for meals. The reason the Finance Director changed the policy is unclear, since he apparently never explained the basis for the change or otherwise had to justify the change to top management.

Thus, the Authority can show no basis to justify the need for increasing its employee per diem for meals. However, the more serious violation of good internal controls was that the Finance Director could change a Board policy without being challenged by top management, required to justify the change, and getting the Board's approval.

Authority incurs long distance telephone charges that may not relate to Authority business

The Authority did not have a system to ensure that employees were not making personal long distance calls at the Authority's expense. The Authority's Senior Accountant stated that the Finance Department reviewed telephone

charges only for flagrant problems, such as when they discovered several calls to 900 numbers.<sup>56</sup>

The Authority's long distance telephone bills included calls to telephone numbers including out of state locations that did not appear to be for official business (two calls were to Hawaii).<sup>57</sup> The numbers called were either unlisted, personal residences, or businesses that do not appear to be normal vendors of goods and services to a housing authority.

The Senior Accountant stated the telephone bills do not show the particular extension from which employees are making long distance calls. Therefore, it is not possible to identify a particular employee that may have made an improper call.

The Executive Director said the Authority was in the process of establishing a mechanism to identify the maker of long distance telephone calls. She said the system will require: (a) employees to enter a four-digit code, which will be shown on the telephone bill along with the called number and cost of the call and (b) Department heads will review the long distance charges made by their staff to ensure they were for official purposes.

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## Auditee Response

The Authority is currently allocating salaries to various programs based on time studies and interviews with Department Directors and staff. The Authority no longer pays for business luncheons and the Authority currently abides by its travel policy. Further, the Authority no longer provides a car allowance for the Executive Director and employees use gasoline credit cards only to purchase gasoline for Authority vehicles. Authority management has instituted controls over long distance telephone calls. Only authorized employees with an assigned access code can

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<sup>56</sup> These type calls involve fees for services which are charged to the calling party's telephone bill.

<sup>57</sup> OIG scanned telephone billings for the fiscal year ended March 31, 1995, and for the subsequent months of May, June, December 1995, and January 1996. OIG judgmentally selected 23 calls made to numbers outside of Texas. A total of 18 appeared to be non-official calls.

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now make long distance telephone calls. The Authority's telephone bills contain the access code the employee used in making a long distance call.

OIG Evaluation of  
Auditee Comments

The Authority's response shows the Authority is taking appropriate action to control expenditures and follow Board policy. However, federal cost principles do not permit the allocation of joint salaries on the basis of time studies and interviews. As noted in the finding, since September 1995, federal cost principles require grantees to allocate joint salary cost based on monthly activity reports, prepared after the fact, and signed by the employee.

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Recommendations

We recommend the San Antonio Office require the Authority to:

- 7A. Establish and implement a cost allocation system for joint costs in conformance with federal cost principles;
- 7B. Cease paying for business luncheons with HUD program funds, which violates federal cost principles;
- 7C. Justify the necessity for a car allowance to the Executive Director and, if needed, limit the allowance to reasonable amount based on appropriate study and documentation;
- 7D. Implement appropriate controls over use of Authority credit cards to ensure that Authority staff in making purchases, such as gasoline, adequately identify the nature of the charge and its official purpose; and
- 7E. Implement appropriate controls over long distance telephone calls to ensure that such calls are for official purposes and that provide for appropriate disciplinary action including recovery of cost against personnel for improper calls.



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# Internal Controls

In planning and performing our audit, we considered the internal controls of the management of the Housing Authority of the City of Austin, Texas, to determine our auditing procedures and not to provide assurance on internal controls. Internal control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Internal controls consist of interrelated components, including integrity, ethical values, competence, and the control environment, which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

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We determined the following internal control categories were relevant to our audit objectives

- Procurement of goods and services
- Housing Quality Standards for Low Rent and Section 8 units
- Selection and housing of Section 8 tenants including annual reexamination
- Allocation of salary costs to federal programs
- Travel reimbursement, use of Authority vehicles and telephones
- Classification of administrative employees under the Fair Labor Standards Act

We evaluated all relevant control categories identified above, to the extent they impacted on our audit objectives, by determining the risk exposure and assessing control design and implementation.

A significant weakness exists if internal control does not give reasonable assurance the entity's goals and objectives are met; resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

The Authority's management generally did not exercise adequate control over each of the relevant internal control categories as more fully discussed in Finding 1.

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## Follow Up on Prior Audits

On September 11, 1991, OIG issued an audit report on the Housing Authority of Austin, Texas. The report covered the Comprehensive Improvement Assistance Program, the Housing Development Program, and administrative practices. The audit noted that the Authority did not: (1) follow proper procurement and contracting practices for professional services; (2) properly allocate salary costs to the Comprehensive Improvement Assistance Program; and (3) always follow its adopted travel policy. Because of staff turnover, including top management, the Authority has continued to violate HUD requirements in these areas as more fully discussed in Findings 3 and 7 of this report.

This audit covered the same time period as that covered by the latest independent public accountant's audit report. The independent public accountant's report also identified deficiencies in the areas of verification of tenant information, annual reexamination of tenant eligibility, annual reinspection of units, and certification of rent reasonableness. These deficiencies are also noted in Findings 3 and 6 of this report.

## Additional Units that Could be Funded with Annual Contributions

Description	Assistance Program <sup>58</sup>	
	Voucher	Certificates
1992		
A. Maximum Annual Contributions	\$1,835,970	\$8,009,461
B. 95 percent of Maximum	\$1,744,172	\$7,608,987
C. Annual Contributions Used by Authority	\$1,209,847	\$7,174,454
D. Additional Annual Contribution Available (B - C)	\$534,325	\$434,533
E. Average Housing Assistance Payment and Administrative Fee	\$368	\$ 396
F. Additional Units that Could Have Been Funded (D ÷ E ÷ 12 months)	121	91
1993		
A. Maximum Annual Contributions	\$2,684,735	\$8,702,204
B. 95 percent of Maximum	\$2,550,498	\$8,267,094
C. Annual Contributions Used by Authority	\$1,640,098	\$7,713,576
D. Additional Annual Contribution Available (B - C)	\$910,400	\$553,518
E. Average Housing Assistance Payment and Administrative Fee	\$419	\$420
F. Additional Units that Could Have Been Funded (D ÷ E ÷ 12 months)	181	110

<sup>58</sup>

OIG obtained the Assistance and Provision for Project Account 1992, 1993, 1994, and 1995 amounts from the Authority's independent auditor's reports. OIG obtained the 1996 amounts and number of units used (for all 5 years) from the Authority's HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement*.



Appendix A

Description	Assistance Program	
	Voucher	Certificates
1994		
A. Maximum Annual Contributions	\$3,028,540	\$8,439,192
B. 95 percent of Maximum	\$2,877,113	\$8,017,232
C. Annual Contributions Used by Authority	\$1,619,850	\$8,130,274
D. Additional Annual Contribution Available (B - C)	\$1,257,263	\$(113,042)
E. Average Housing Assistance Payment and Administrative Fee	\$420	\$457
F. Additional Units that Could Have Been Funded (D ÷ E ÷ 12 months)	249	0
1995		
A. Maximum Annual Contributions	\$2,725,226	\$9,234,512
B. 95 percent of Maximum	\$2,588,965	\$8,772,786
C. Annual Contributions Used by Authority	\$1,209,847	\$7,902,130
D. Additional Annual Contribution Available (B - C)	\$1,379,118	\$870,656
E. Average Housing Assistance Payment and Administrative Fee	\$463	\$448
F. Additional Units that Could Have Been Funded (D ÷ E ÷ 12 months)	248	162

Description	Assistance Program	
	Voucher	Certificates
1996		
A. Maximum Annual Contributions	\$1,671,290	\$9,430,262
B. 95 percent of Maximum	\$1,587,726	\$8,958,749
C. Annual Contributions Used by Authority	\$1,190,805	\$9,037,086
D. Additional Annual Contribution Available (B - C)	\$396,921	\$(78,337)
E. Average Housing Assistance Payment and Administrative Fee	\$496	\$531
F. Additional Units that Could Have Been Funded (D ÷ E ÷ 12 months)	67	0

## Distribution

Secretary's Representative, 6AS  
State Coordinator, 6JS  
Comptroller, 6AF  
Director, Accounting, 6AAF  
Director, Public Housing, 6APH  
Director, Public Housing, 6JPH (4)  
Assistant to the Deputy Secretary for Field Management, SDF (Room 7106)  
Public Housing Comptroller, PF (Room 5156) (3)  
Acquisitions Librarian, Library, AS (Room 8141)  
Chief Financial Officer, F (Room 10164) (2)  
Deputy Chief Financial Officer for Operations, FF (Room 10166) (2)  
Director, Hsg. & Comm. Devel. Issues, **US GAO**, 441 G St. NW, Room 2474  
Washington, DC 20548 **Attn: Judy England-Joseph**  
Mr. Pete Sessions, Govt Reform & Oversight Comm., U.S. Congress,  
House of Rep., Washington, D.C. 20515-4305  
The Honorable Fred Thompson, Chairman, Comm. on Govt Affairs,  
U.S. Senate, Washington, D.C. 20510-6250  
The Honorable John Glenn, Ranking Member, Comm. on Govt Affairs,  
U.S. Senate, Washington, D.C. 20510-6250  
Cindy Sprunger, Subcomm. on Gen. Oversight & Invest., Room 212,  
O'Neill House Ofc. Bldg., Washington, D.C. 20515  
Auditee