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September 29, 1997

97-FW-202-1808

MEMORANDUM FOR: Lorraine Walls
Acting Director Office of Public Housing, 6EPH

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

SUBJECT: Review of Expenditures
Tenant Opportunities Program Grants
Galveston, Texas

During our audit of Housing Authority of the City of Galveston, Texas the Authority's Board of Commissioners expressed concern over: (1) the progress of grant activity; (2) the propriety of grant expenditures; and (3) the appropriateness of the councils' contract with the Authority's finance director.

In February 1997, you determined the resident councils were in default because of lack of progress and you suspended any future grant activity until the councils addressed their performance problems. To resolve the remaining two issues, we reviewed the grant expenditures and the contract with the finance director to determine whether any irregularities were indeed present. Our review did disclose irregularities, primarily the failure of the resident councils to keep appropriate records. However, we did not note any expenditures that were ineligible and the contract with the finance director did not violate any HUD rule.

Background. HUD awarded TOP grants to four resident councils at the Housing Authority of the City of Galveston, Texas: \$35,000 to Magnolia Homes in November 1993 and \$100,000 each to Cedar Terrace, Holland House, and Oleander Homes in December 1994. The grants were originally for 2 years, but HUD extended them for an additional 3 years. The councils have drawn \$72,500 and expended \$57,670 of their \$335,000 in grants. The following shows the percentages of time expired and funds drawn and expended:

Council	Grant		Funds	Funds
	Period	Expired	Drawn	Expended
Magnolia Homes	63%		18%	15%
Cedar Terrace	43%	19%		15%
Holland House	43%		25%	22%
Oleander Homes	43%		22%	16%

Expenditures. Based on our review, the councils had sufficient supporting documents to show eligibility of the grant expenditures. Authority staff actually did the request for proposals, thus, the councils properly advertised for procurement. However, they did not retain documentation on the results of the solicitation, determination of reasonableness of price, and basis for selection; required by the Grant Agreement and HUD Regulation.¹ Thus, we could not review the procurement for adherence to bidding requirements. The expenditures were primarily for administration and support, rather than activities set forth in the grants. The expenditures consisted of:

Type of Expense	Amount
Accounting & Financial Consultant	\$20,282.86
Office Equipment & Supplies	12,204.52
Travel and Training	9,265.78
Grant Coordinator Salary	7,067.38
Ceramics	4,979.75
Other	<u>3,722.62</u>
Total	<u>\$57,670.87</u>

Contract with Finance Director. There is no evidence suggesting the contract with the finance director was inappropriate. Further, the finance director performed the services set out in the contract. The contracts were for \$9,500 each (\$28,500 total) to be paid over an 18-month period. As with other procurement, Authority personnel did the advertisement for the contract, but the councils did not retain documentation on the results of the solicitation, determination of reasonableness of price, and basis for selection. However, in this instance your office had information noting only one proposal was received -- that from the finance director. The Board terminated the finance director in February 1997.

This report does not contain any controlled recommendations. If you have any questions, please contact Mr. Darrel Vaught, Assistant Inspector General for Audit.

¹ The resident councils are required to follow OMB Circular No. A-1 10..