



U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
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July 7, 1998

No. 98-AT-206-1808

TO: Arthur L. Wasson, Director, Public Housing Division, Louisville, Kentucky, 4IPH

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Hazard Housing Authority
Hazard, Kentucky

We have completed a review of selected operations of the Hazard Housing Authority (HHA), Hazard, Kentucky. The review was requested by the United States Attorney for the Eastern District of Kentucky. We conducted the review under Operation Safe Home, with a primary objective of identifying illegal activities that detract from the integrity and effectiveness of the U.S. Department of Housing and Urban Development (HUD) programs.

BACKGROUND

HHA administers 274 units of low rent public housing. It is governed by a five member Board of Commissioners appointed by the Mayor, who also serves as a Board member. Day to day operations are the responsibility of I. H. Buchanan, Interim Executive Director (ED), who was appointed during our review. He is assisted by James Wooten, Interim Assistant ED, appointed at the same time. HHA offices are located at 100 Campbell Street, Hazard, Kentucky.

Prior to the appointment of Messrs. Buchanan and Wooten, HHA was managed by ED Ron Bersaglia and his wife, Assistant ED Lisa Campbell. Bersaglia had been on extended sick leave since October 1996, and his wife served as Acting ED. The prior ED and Assistant ED also managed the Manchester, Kentucky, Housing Authority through an agreement with Manchester's Board. The Manchester Housing Authority had 32 units of conventional public housing. The prior ED and Assistant ED owned a substantial number of area housing units privately, and rented some of them to low income persons through HUD's Section 8 Housing Assistance Program. The prior Assistant ED also served as ED of the local Airport Authority.

When we began our review in July 1997, the prior ED and Assistant ED were under investigation by the Federal Bureau of Investigation and Kentucky State Police for controlled substance violations. During that investigation certain matters related to their duties at HHA came under scrutiny, and an OIG Special Agent and our staff were asked to join the investigation.

During our review the prior ED and Assistant ED were indicted by a Federal grand jury for controlled substance violations. The HUD Kentucky State Office immediately issued a Limited Denial of Participation in HUD programs for both. HHA's Board then placed the Assistant ED on administrative leave, and appointed the Interim ED and Assistant ED. The prior ED remained on sick leave. The Manchester Housing Authority's Board also obtained new management. In January 1998, the prior ED and Assistant ED were convicted of multiple Federal controlled substance violations. On April 6, 1998, in Federal Court in Pikeville, Kentucky, they were each sentenced to 3 years probation and assessed criminal penalties totaling \$3,900.

OBJECTIVES AND SCOPE

We conducted a limited review of selected activities under Operation Safe Home. The primary objective of our review was to identify employees, contractors, vendors, or other officials involved in corruption, fraudulent activities, conflicts of interest or other illegal activities that detract from the integrity and effectiveness of HUD programs. Our review led us to an overall assessment of the Authority's operations. Specific areas covered in the review were:

- Cash receipts and disbursements
- Housing Quality Standards (HQS)
- Procurement
- Cash management
- Non-expendable equipment

We interviewed your staff, reviewed program files and records, interviewed HHA staff and reviewed their records, and inspected selected units. Our review did not include the operations of Manchester Housing Authority.

SUMMARY

Prior HHA management did not administer HHA's programs economically, effectively, or efficiently, and was not meeting its mission of providing decent, safe and sanitary housing. Attachment A has three findings:

Management of HHA under the prior administration was ineffective, inefficient and uneconomical resulting in wasted public funds. The prior ED and Assistant ED appeared to lack either the ability or desire to properly manage HHA, and lack of adequate Board oversight allowed conditions to deteriorate. The following deficiencies evidenced failure to fulfill responsibilities required of officials in public trust positions:

- Records in disorder or missing
- Questionable/unsupported salary payments
- Unnecessary payment of taxes and tax penalties

- Purchase of luxury vehicles
- Excessive number of vehicles
- Inadequate inventory controls and records
- Required audits not submitted
- Inaccurate information reported to HUD
- Nepotism
- Units not timely prepared for occupancy
- Inadequate rent collection
- Inefficient cash management
- Untimely physical improvements

HHA must improve the quality of its housing. Ninety-seven percent of the family units we inspected did not meet HUD's Housing Quality Standards (HQS). As a consequence, HHA was providing substandard housing and residents were living in indecent, unsafe, and unsanitary conditions. The excessive HQS failure rate and overwhelming evidence of deferred maintenance are indicative of poor management. HQS inspections were superficial, there was no preventative maintenance program, and in some cases indicated repairs had not been made or were of poor quality.

HHA management did not follow required Federal procurement procedures and, in some instances, attempted to conceal known deviations from required procedures. Management procured materials and services, in some cases from relatives, without obtaining required price quotes or following bid procedures. As a result, there is no assurance costs were reasonable, and certain individuals/firms were accorded preferential treatment over others.

We provided you draft findings on February 10, 1998, and received your written comments on March 23, 1998. We considered your comments and incorporated substantially all your proposed recommendations into the final report.

We discussed the findings at an exit conference with HHA's new management team, the Board Chairman, the Mayor of Hazard, and you on February 20, 1998. In general, HHA representatives were very receptive of the findings, and expressed a desire to work with HUD to repair the damage done by prior management. Since their appointment, interim managers Buchanan and Wooten began aggressively addressing long standing problems we identified, particularly with regard to resident living conditions. We appreciate their concern for the residents, and commend them for their efforts.

HHA management submitted written comments on March 4, 1998. Those comments also agree with nearly all our conclusions, and include details of corrective actions and planned actions by the Board and new management. We summarized the comments at the end of each finding and included them as Attachment D.

Within 60 days, please furnish this office, 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.

We provided HHA a copy of this memorandum.

Should you or your staff have any questions, please contact me (404-331-3369) or Rudy E. McBee, Assistant District Inspector General for Audit (423-545-4368).

Attachments:

- A - Findings and Recommendations
- B - Sample HQS Deficiencies
- C - Schedule of Unsupported Costs
- D - Auditee Comments
- E - Distribution

FINDINGS AND RECOMMENDATIONS

Finding 1 - MANAGEMENT WAS INADEQUATE

Management of HHA under the prior administration was ineffective, inefficient and uneconomical resulting in wasted public funds. The prior ED and Assistant appeared to lack either the ability or desire to properly manage HHA, and lack of adequate Board oversight allowed conditions to deteriorate. The following deficiencies evidenced failure to fulfill responsibilities required of officials in public trust positions:

- Records in disorder or missing
- Questionable/unsupported salary payments
- Unnecessary payment of taxes and tax penalties
- Purchase of luxury vehicles
- Excessive number of vehicles
- Inadequate inventory controls and records
- Required audits not submitted
- Inaccurate information reported to HUD
- Nepotism
- Units not timely prepared for occupancy
- Inadequate rent collection
- Inefficient cash management
- Untimely physical improvements

HUD requires HHA to “...at all times ... operate each project ... in a manner that promotes serviceability, economy, efficiency, and stability...” (Section 4 of Part A of Annual Contribution Contract (ACC)).

Records Were Missing, Inaccurate, and Disorganized

HHA prior management failed to maintain complete, accurate and organized records. Without proper record keeping, HHA lacked assurance it was operated in accordance with applicable laws and regulations. HHA is required to “...maintain complete and accurate books of account for the projects of the HA in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit” (Section 15(A) of Part A of ACC).

Throughout our review we found records missing or in such disarray they were useless in evidencing the history of transactions, and therefore were in unauditible condition. In some cases we had to first search for records and put them in order before we could review them. We found records in such places as under stacks of paper on desks, in book cases, or in desk drawers. In some cases, HHA records were mixed with Manchester Housing Authority or Airport Authority records. In addition, annual unit inspections (Finding 2) and procurement documentation (Finding 3) were missing.

The Comprehensive Grant Program (CGP) was unauditible because of incomplete records. We were unable to trace some CGP general ledger amounts to supporting documentation or to locate CGP payment vouchers. Prior management apparently did not retain copies of either. Over half a million dollars in CGP funds approved in 1995 and 1996 were not on HHA's books and had not been included in Independent Accountant (IA) audits. Even though the grants were not on the books, HUD's records showed HHA used \$5,894 of the 1995 funds. According to the fee accountant, prior management did not inform him of the receipt of either grant.

CGP salary charges greatly exceeded HUD approved amounts. The 1993 and 1994 budgets included a total of \$13,000 for salaries, but at August 31, 1997, \$72,473 had been charged for salaries. We did not attempt to determine the nature of all charges due to time constraints and lack of an audit trail. However, analysis of the charges for 1 month suggested they were allocated in error; they represented salaries for regular operations. The prior Assistant ED's entire base salary and an extra salary payment, a check to the local police chief for security, and a portion of the financial manager's salary were all charged to the CGP. It was not clear from available documentation why the CGP was charged. The IA noted excessive charges during his audit and asked the prior Assistant ED to resolve the issue with the fee accountant, but this was never done.

Documentation for \$82,029 in CGP disbursements between May and August 1997 was missing. The CGP cash account was overstated at August 31, 1997, because it did not reflect the transactions. Prior management did not provide the fee accountant the necessary documentation to update the general ledger. The new ED hired an IA to reconstruct CGP expenditures for the 1996-1997 fiscal year so year-end statements could be prepared. To do so, the IA had to obtain records from the HUD Kentucky State Office and HHA's fee accountant. The IA's work was ongoing when we left the audit site.

Leave records for the prior ED had not been updated. The prior Assistant ED stated he used all his leave after an injury in 1996. However, his leave record still showed leave available. Other employee files were also incomplete. Only one of the files for the summer employees contained even a job application.

Questionable and Unsupported Salary Payments

The prior ED and Assistant ED paid themselves extra salary totaling \$13,627 from CGP funds between 1995 and 1997 and, with the exception of one \$349 payment, we found no documentation other than payroll check copies to support the payments. The prior Assistant ED stated the payments were for time spent on the CGP. The CGP is part of HHA operations and the ED and Assistant ED's regular salary would cover such time. Drawing undocumented extra salary, without permission from the Board, was an improper use of HHA resources. Prior management should have retained documentation in the files to support the payments.

Payment of Internal Revenue Service (IRS) Penalties and Sales Taxes

During 1995 and 1996, HHA paid at least \$5,151 in penalties to IRS for repeatedly failing to timely and accurately pay employee withholding taxes. In September 1997 IRS assessed HHA an additional \$18,102 penalty for failing to file W-2 forms with the Social Security Administration. HHA files do not show whether W-2 forms were submitted for either 1995 or 1996; therefore, IRS may assess additional penalties. Also, prior management incorrectly calculated employee tax withholding for an unknown but extended period of time. Either the employees or HHA will have to pay additional taxes to IRS. New HHA management hired a local Certified Public Accountant to resolve the tax problems with IRS. HHA had not paid the \$18,102 penalty, and they were hopeful IRS will abate it.

HHA is exempt from sales taxes, but it paid Kentucky sales tax for some purchases. In addition to miscellaneous small purchases, it paid sales tax on utility bills. We estimated the payments were at least \$5,000 annually. Unnecessary payment of sales tax by prior management was also reported as a finding in the 1995 IA audit and by a 1997 HUD Kentucky State Office review. The result is funds wasted and less funds available for HHA's primary mission of providing decent, safe, and sanitary housing.

Purchase of Luxury Vehicles

HHA purchased two luxury, four-wheel drive, sport utility vehicles for use by the prior ED and Assistant ED, a Chevrolet Blazer LS and a Ford Explorer Eddie Bauer Edition with amenities such as leather seats, towing packages and custom running boards. Even with competitive bidding, and the fact one of the vehicles was slightly used, the vehicles cost over \$53,000. HHA justified the purchase of the Blazer in 1995 for the Resident Initiatives Program, but gave no explanation why that program needed a luxury sport utility vehicle. A Dodge mini van purchased new in 1994 for the Resident Initiatives Program was reportedly seldom used. Luxury vehicles are not necessary to economically and efficiently administer a housing authority. Such extravagant purchases not only result in less funds for housing, they also damage the credibility of public agencies and public officials.

Excessive Number of Vehicles

Including the above two vehicles, HHA had twelve vehicles, more than one each for the 10 full-time employees. Each full-time maintenance employee had an assigned vehicle they drove home at night. As there were relatively few after-hours emergency maintenance calls, about one per week on average, and most of those were handled by the Maintenance Director, there was little justification for the expense of assigning each employee a vehicle. Also, as noted in a recent review by HUD, HHA employees were purchasing premium fuel for the vehicles. All the vehicles are designed to operate on regular fuel. Several of the vehicles were not readily identifiable as HHA property. Some older vehicles had signs, but neither the sport vehicles nor other newer vehicles were so identified. The absence of adequate identification may encourage unauthorized personal use of government vehicles.

Inadequate Inventory Controls and Records

HHA had not established and maintained adequate inventory controls for non-expendable equipment. Housing authorities are required to maintain detailed property records, take a physical inventory and reconcile it to property records at least once every 2 years, and develop controls to ensure adequate safeguards to prevent loss, damage, or theft (24 CFR 85.32(d)). Specifically, HHA had not:

- Conducted or documented a physical inventory of equipment and appliances since 1986.
- Established complete and accurate inventory records. Records were missing for most equipment except stoves and refrigerators, and those records did not show acquisition and disposition dates. Multiple inventory cards existed for the same dwelling units showing different appliance serial numbers.
- Adjusted the general ledger to remove the cost of equipment no longer at HHA, such as vehicles, appliances, maintenance and office equipment.

Cards used in the inventory control system were either missing, outdated, or so incomplete they were virtually useless. Management disposed of a number of vehicles, appliances, and maintenance and office equipment in an unknown manner, but left them on the books giving the appearance HHA still owned them. We established that two vehicles on the books had been traded in on one of the sport utility vehicles. However, we found no Board resolutions or other documentation to establish proper disposition of the other equipment.

HHA had computer software for maintaining an equipment inventory, but did not use it. As early as 1991 the HUD Kentucky State Office asked HHA to improve its accountability for assets. HHA's prior managers and Board did not take corrective actions needed to resolve HUD's concerns. The new ED was working to resolve the violations.

Audits Not Submitted Timely

At the time of our audit, the last annual IA audit submitted to HUD was the 1994 audit submitted February 24, 1997. Despite repeated requests from HUD, prior management had not submitted either the 1995 or 1996 audits. The audits were completed November 18, 1996, and April 25, 1997, respectively. HUD finally obtained copies of the audits from the new Interim ED in September 1997. The audits were not favorable to prior management. They collectively contained 21 findings revealing serious management problems that would have alerted HUD to act had they been submitted timely.

Housing authorities must obtain annual audits, which must be submitted no later than 1 year after the end of the audit period (24 CFR 44.4 and 44.10(f)).

Inaccurate Information Reported to HUD

HHA reported inaccurate Public Housing Management Assessment Program (PHMAP) information to HUD, precluding badly needed HUD oversight and assistance. PHMAP is HUD's system for tracking housing authority performance and identifying areas needing improvement and assistance. Through PHMAP, HUD concentrates limited resources on under-performing authorities. Unfortunately, the accuracy of PHMAP scores relies heavily on the accuracy and integrity of information authorities submit to HUD. Since prior management submitted PHMAP information showing HHA was well managed, HUD classified HHA as a high performer. As such, HHA received only limited HUD oversight. However, in July 1997 a HUD review team attempted to confirm PHMAP information HHA submitted, and could not do so in many cases. As a result, the State Office downgraded HHA in nearly every reporting area due to either incorrect data, unverifiable data, absence of systems to generate verifiable data, or lack of supporting documentation.

Nepotism

HHA had no policy prohibiting nepotism and several employees were related. In addition to the prior ED and Assistant ED (husband and wife), the Assistant ED's mother was the secretary/receptionist and her brother-in-law was a maintenance employee. Also, during 1997, the Assistant ED hired her teenage son as a summer employee.

Nepotism is generally an inappropriate personnel practice as it gives the appearance of favoritism. Section 19(B) of Part A of HUD's new ACC, signed by HHA in 1996, specifically prohibits managers of housing authorities from hiring family members. The prior Assistant ED claimed she followed the City of Hazard nepotism policy; however, that policy also prohibits nepotism.

Units Not Timely Prepared for Occupancy

A number of units which had been vacant for several months had not been cleaned and prepared for occupancy. Some units were filled with trash and roach infested. As there were persons on HHA's waiting list, not only was HHA losing income, but people were unnecessarily being denied housing.

Rents Not Collected

Overall tenant accounts receivable were within acceptable limits, but several current and former residents owed HHA an excessive amount of past due rent. Five current tenants and 13 former tenants owed in excess of \$500 each. One current tenant owed \$4,566 and his son, also a former tenant, owed \$2,173. HHA's rent collection efforts consisted largely of written notices to tenants who fell behind. In some cases HHA executed repayment agreements with delinquent tenants, but the tenants were generally not complying with the agreements. Prior management made little or no effort to collect funds owed by former tenants. Delinquent accounts were written off annually as uncollectible, and no further effort was made to collect them, even though such effort is required by HHA's rent collection policy.

The prior Assistant ED, a former HHA resident, owed \$165 in back rent, and a maintenance employee residing in HHA owed \$800. Failure of HHA employees to pay amounts owed presents

a poor public image. HHA's rent collection policy was generally adequate, but prior management was not enforcing it.

Inefficient Cash Management

HHA maintained either excessive or insufficient cash balances in checking accounts, resulting in either non sufficient funds charges by the bank, or lost income from funds not invested. The IA noted the cash management problem with the payroll account in both the 1995 and 1996 audits. In a sample 9 month period during 1996, HHA paid \$665 in bank charges for continually overdrawing the payroll account. The account was overdrawn 38 times, in 7 of the 9 months. Prior management either made the deposits late, after distributing payroll checks, or made insufficient deposits to fund the payroll.

Although they under-funded the payroll account, HHA maintained excessive cash balances in the operating account. At the time of our review an excess cash balance in the operating account of at least \$100,000 had existed for some time. Investing the excess funds would at a minimum provide an additional \$3,000 annually for HHA's programs. HHA maintained neither a cash receipts/disbursements journal nor a checkbook which undoubtedly contributed to the cash management problem. Cash management accounts were available on the Tenmast computer system but they were not used. The prior Assistant ED said she called the bank to determine cash balances.

Physical Improvements Were Slow

HHA received CGP funds totaling \$1,231,357 between 1993 and 1996. At July 24, 1997, HUD records showed HHA had used only a third of the funds, nearly all from the 1993 and 1994 grants. At August 31, 1997, over \$80,000 of the 1993 grant and \$200,000 of the 1994 grant was still unspent. The amount of unspent funds will likely increase after the IA's audit of CGP expenditures, due to errors in allocating salaries or other misallocations. Given the poor physical condition of HHA units, the delay in spending funds was apparently caused by lack of initiative and ineffective planning by prior management, not lack of need.

Conclusion

Prior HHA management failed to fulfill the fiduciary responsibility required of officials in public trust positions. HHA's Board, through lack of effective oversight, contributed to the mismanagement and must also bear responsibility. The prior ED and Assistant ED were either incapable or uninterested in adequately managing HHA. The prior ED had been on sick leave since October 1996, and we were told he spent little time at HHA before that. The prior ED and Assistant ED owned housing rented in the private market, or as HUD Section 8 units, and HHA's computers and files contained information related to this and other private business interests. These interests likely detracted from managing HHA and contributed to the conditions we found.

Although HHA's Board reviewed and approved expenditures, and a Board member cosigned checks, HHA suffered from lack of effective Board oversight. The Board met only twice in 1995 and three times in 1996. The annual IA audits disclosed many deficiencies, but were not acted on. As a result, the interests of HHA, the public, and HUD were not well served.

We concluded that the prior ED and Assistant ED should be debarred. They were convicted of Federal drug crimes in January 1998. Federal regulations provide for debarment from participation in Federal programs based on (a) conviction of or civil judgment for commission of fraud or a criminal offense in connection with performing a public agreement, or any offense indicating a lack of business integrity, or (b) violation of the terms of a public agreement so serious as to affect the integrity of an agency program, such as a history of failure to perform or of unsatisfactory performance of a public agreement, or a willful violation of a statutory or regulatory provision or requirement applicable to a public agreement (24 CFR 24.305 (a) and (b)).

Auditee Comments

HHA's interim ED generally agreed with the finding and conclusions, but he defended HHA's ownership of 12 vehicles. He said three are special purpose vehicles, and the Board believes the policy allowing maintenance employees to drive vehicles to/from work is reasonable and consistent with City of Hazard policy. He cited numerous management improvements already instituted by new management and the Board. He admitted past Board oversight was ineffective and insufficient, and said the Board relied too heavily on claims made by the prior managers. He stated the Board has taken a much more active role in management oversight by instituting regular monthly meetings, and plans to institute procedures for more effective monitoring of management's compliance with HUD requirements.

OIG Evaluation of Auditee Comments

HHA's comments were generally responsive to the finding. However, we disagree with comments regarding the number and usage of vehicles. Other housing authorities comparable to HHA require fewer vehicles. Unless justified by need, such as after-hours calls, we believe providing all employees vehicles to commute to work is an unnecessary and inefficient use of taxpayer funds. Whether the policy is consistent with City policy is not determinative. The standard of comparability with local public practice was dropped from the "new" ACC. Standards now are generally limited to efficiency and economy of operations and compliance with state and Federal law.

Recommendations

We recommend that you:

- 1A. Debar the prior ED and Assistant ED from participation in Federal programs and ensure HHA's Board terminates both.
- 1B. Assist HHA in timely obtaining new management and provide them training and technical assistance in housing authority operations.

We also recommend that you require HHA to:

- 1C. Provide you copies of Board meeting minutes until you are satisfied an appropriate level of oversight is being provided.
- 1D. Advise you when HHA records and files, including CGP records, have been brought into complete, accurate and auditable condition.
- 1E. Submit documentation supporting \$95,656, consisting of unsupported CGP costs (\$82,029) and extra salary charged to CGP (\$13,627). If the costs cannot be supported, we recommend you declare them ineligible and require HHA to seek their recovery. The extra salary may be recoverable under HHA's employee dishonesty policy.
- 1F. Recover, to the extent possible, sales taxes paid unnecessarily, and institute necessary controls to ensure (a) such taxes are not paid in the future, and (b) employee withholdings are paid promptly to IRS.
- 1G. Ensure personnel files include all necessary documentation and employee leave records are posted and updated regularly. Leave records for management personnel should be periodically reviewed by the Board.
- 1H. Revise its personnel policy concerning nepotism to be consistent with the ACC.
- 1I. Submit for your review and approval a policy regarding vehicle needs and usage. The Board should be required to justify providing employees vehicles to drive to/from home on the basis of official need, such as after hour emergency calls. The policy should also require all vehicles to be clearly identified as HHA property.
- 1J. Provide evidence of a completed physical inventory of non-expendable equipment, reconciled to equipment records, with Board approval for assets written off, and a policy to repeat the process at least once every 2 years.
- 1K. Advise you of steps taken to improve rent collections and cash management and ensure vacant units are timely readied for occupancy.
- 1L. Provide evidence of plans to make more effective use of CGP funds.

Finding 2 - HOUSING QUALITY WAS POOR

HHA must improve the quality of its housing. Ninety-seven percent of the family units we inspected did not meet HUD's Housing Quality Standards (HQS). As a consequence, HHA was providing substandard housing and residents were living in indecent, unsafe, and unsanitary conditions. The excessive HQS failure rate and overwhelming evidence of deferred maintenance are indicative of poor management. HQS inspections were superficial, there was no preventive maintenance program, and in some cases indicated repairs had not been made or were of poor quality.

HHA's principal mission is to provide decent, safe, and sanitary housing for eligible families (ACC, Part A, Section 4).

Results of Inspections

In September 1997 we inspected a judgmentally selected sample of 64 of HHA's 159 family units. Sixty-two, or 97 percent, failed HQS, most with multiple violations.¹ Deficiencies for individual units averaged about 5 and ranged up to 16, despite the fact the units had been inspected by HHA in July and August. In addition, the nature of some of the deficiencies suggested a long standing deferred maintenance problem. Holes in walls, ceilings and floors were the predominate fail conditions, and some had clearly existed for years. Other frequently encountered conditions included missing or broken door hardware, hazardous worn out floor covering, water leaks and electrical hazards. Appendix B contains photographs of both interior and exterior conditions in the developments.

We observed hazardous conditions both inside units and around common areas. Most exterior hazards concerned balcony and walkway deterioration at the 88-unit Highland Heights development. Highland Heights was built as rows of buildings up the side of a mountain. Deterioration of balconies providing access to the top level of buildings presented the most potentially dangerous conditions. All balconies showed signs of structural deterioration and some balcony railings were loose or broken. Due to the height of the balconies and the slope of the mountain, results could be tragic should balconies or railings give way.

Uneven and deteriorated sidewalks, broken and inadequate guard rails, and unsecured access to utility tunnels added to hazards at Highland Heights. Residents said children had been hurt tripping on sidewalks and falling through guard railings. Entrances to utility tunnels, which have a drop of several feet to hot water pipes, had unlocked access covers. Serious injury could result from children falling into tunnels.

The Liberty Street development had a potential hazard due to exposed sewer lines. Sewer lines from residences above Liberty Street emptied into the City sewer system at the bottom of a hill behind Liberty Street residences. The sewer line was simply plastic pipe on top of the ground. Leaks in the lines could pose a public health threat to Liberty Street residents. The HUD State Office identified the problem in a July 2, 1997, report to HHA saying the lines have a history of breaking and discharging sewage onto residents' lawns.

¹ In addition, we inspected 5 of 115 elderly units, and all passed.

Stray cats presented a hazard which had apparently existed for some time. Several residents indicated concern about children playing around the cats. Building foundation vents do not have grills, and cats used the uncovered vents to hide beneath residences.

The most serious interior hazards involved hazardous electrical wiring, tripping hazards due to worn out floor covering, and falling hazards due to broken stairwell brackets. Serious electrical hazards existed in 24 (37 percent) of the 64 units inspected. HHA permitted some tenants in Liberty Street to patch into the electrical system to install 220 volt wiring for air conditioners and clothes dryers. The wiring was clearly unprofessional and presented an extremely hazardous condition to all residents. None of the wiring was in conduit and some was hanging loose inside the unit or alongside the building exterior. In one case it was taped across the hallway floor. The wiring likely presents a fire or electrocution hazard to persons both inside and outside the units.

A number of the Highland Heights units also had hazardous wiring. Kitchen pantries of some units have electric hot water transfer pumps which feed the heating systems of several units. None of the wiring was in protective conduit. Some was hanging loose, taped or cut. Some residents with young children were using child security gates to keep them away from the wiring.

Floor covering was deteriorated throughout Liberty Street and Highland Heights. In 16 inspected units it had deteriorated badly and presented a tripping hazard. Some conditions had existed for years as confirmed by residents. Also, loose, missing or detached stair railings existed throughout family developments. Small brackets used by HHA are not strong enough and tend to break easily. Also, in some cases, there was nothing solid behind the wallboard to attach brackets to. The condition was prevalent at Liberty Street.

Another condition which presented a potential hazard was louvered closet doors at the Gorman Hollow development. The original sliding mechanisms are not heavy enough to support extremely heavy solid wood doors. Nearly all were worn and some were partially or completely detached creating a falling hazard.

We were unable to inspect some units because tenants had removed HHA locks and installed their own. As a result, HHA staff cannot easily enter the units for maintenance, routine inspections, or emergencies.

Deferred/Ineffective Maintenance

HHA units had clearly not received adequate care. Residents complained that conditions had existed in units for months or years. Scaling paint on metal railings, wood trim and exterior doors throughout the developments exemplified deferred maintenance. In Highland Heights nearly every storm door observed needed maintenance. Most needed a closer, stop or latch. Worn out floor covering, deteriorated interior paint, badly deteriorated kitchen cabinets and a multitude of unpatched holes in walls and ceilings exemplified deferred maintenance.

HHA had no preventative maintenance plan and apparently little or no management oversight of the maintenance function. Some repairs performed by HHA maintenance staff were inadequate. In several cases, walls or ceilings had been patched with tape and painted over. In numerous other cases, plumbing repairs had been made months earlier, but resulting holes in walls or ceilings had not been repaired. Some occupied units had not been painted in many years. Also, although HHA had recently undertaken a clean-up effort at Liberty Street due to a HUD inspection, the Highland Heights development still had areas of undergrowth needing clean up.

Inadequate Inspections

HQS inspections were inadequate. HHA inspected units in July and August, but wrote up few deficiencies. They ignored serious electrical wiring violations and tripping hazards due to worn out floor covering. Our inspection of 19 Liberty Street residences in September resulted in 76 HQS violations. HHA found only 19 violations in the same units in July. Although the prior Assistant ED claimed she and the Maintenance Director inspected the Highland Heights development in August 1997, no one could locate the inspection forms. Also, inspection forms for the Gorman Hollow development were filed away without generating work orders for repairs. As a result, when we inspected Gorman Hollow, we found the same deficiencies shown on HHA's inspections. The 1995 annual inspection forms were missing. The prior Assistant ED claimed inspections were performed, but the forms were misplaced during the 1996 renovation of HHA offices.

Conclusion

HHA was not achieving its primary mission of providing decent, safe, and sanitary housing. The poor housing quality and hazardous living conditions expose HHA and HUD to both public criticism and potential legal action. There is no excuse for the poor conditions, as HHA did not lack resources. It had a seven man, full-time maintenance staff for only 274 units, with extra maintenance workers in the Summer. Furthermore, it had nearly one million dollars in unspent CGP funds, some going back to 1993, plus nearly one-half million dollars in operating reserves.² Rather, HHA lacked effective management. Ignoring such serious conditions reflects serious management indifference to the living conditions of residents.

Auditee Comments

HHA acknowledged some residences suffered deplorable deterioration due to lack of timely and adequate maintenance. They stated improvement of maintenance is a priority, and substantial corrective measures have already been taken. Among other measures, they inspected all residences, completed some needed repairs we identified, and completed a 5 year plan through which CGP funds will be used to substantially improve the housing stock. The new Assistant ED was given primary responsibility for oversight of the maintenance department.

² Operating Reserves were \$466,144 at September 30, 1996. As of July 24, 1997, HHA had \$831,447 of unspent CGP funds.

OIG Evaluation of Auditee Comments

HHA's comments were responsive to the Finding.

Recommendations:

We recommend that you require HHA to:

- 2A. Review and plan improvements to the maintenance function, including (1) personnel evaluations, (2) inspection procedures, (3) a tracking system to ensure repairs are completed timely, (4) written policies and procedures for a preventative maintenance program, (5) staff training, and (6) management oversight.
- 2B. Provide evidence it has corrected the HQS deficiencies we identified.
- 2C. Certify it replaced all tenant installed door locks with HHA mastered locks.
- 2D. Determine whether any units should be demolished or reconfigured, especially at Highland Heights due to its inaccessibility and major systems obsolescence.

We recommend that you:

- 2E. Monitor HHA's progress and provide technical assistance in upgrading the maintenance program.

Finding 3 - REQUIRED PROCUREMENT PROCEDURES WERE CIRCUMVENTED

HHA management did not follow required Federal procurement procedures and, in some instances, attempted to conceal known deviations from required procedures. Management procured materials and services, in some cases from relatives, without obtaining required price quotes or following bid procedures. As a result, there is no assurance costs were reasonable, and certain individuals/firms were accorded preferential treatment over others.

HHA is required to operate in a manner that promotes economy and efficiency (ACC, Part A, Section 4). HHA is also required to follow Federal procurement regulations in 24 CFR Part 85 and its own procurement policy.

Conflicts of Interest

HHA management engaged in several conflict of interest procurements. In 1994, 1995, and 1996, the prior ED obtained repair services for HHA vehicles from a business owned and operated by his brother. Also, in 1997 the prior Assistant ED contracted with the ED's brother, her brother-in-law, to obtain fencing for a playground.

No housing authority employee can participate in the selection, award, or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved (24 CFR 85.36(b)(3)). HUD prohibits procurements between HHA management and family members as conflicts of interest (Section 19(A) of Part A of ACC), as does HHA's procurement policy (Section III(J)(A)).

The history of the auto repair procurements was not documented in HHA files. There were no invoices, only copies of checks. However, we obtained invoice copies from the IA. The IA said some invoices were missing from HHA's files when he did his audits, but they were furnished by the prior Assistant ED at his request. One invoice suggested an attempt to conceal the identity of the vendor. The brother's name, which was part of the business name, had been obscured on the invoice. Also, HHA checks paying for the services excluded the individual's name from the business name. The total paid the ED's brother for auto repairs was \$3,910.

In June 1997 the prior Assistant ED contracted with Sand Manufacturing Company to supply steel tubular fencing for a playground at the Highland Heights development for \$4,750. The fence was built, delivered and stored at HHA. After the prior ED and Assistant ED were suspended from participation in HUD programs, the new HHA managers discovered the fence had been supplied by the prior ED's brother. We found no Sand Manufacturing Company, but the phone number on the company's letterhead was the same as the phone number for the brother's auto repair shop. File documentation for the procurement contained one other price quote of \$5,250, but the quote was not comparable because it included installation of the fence while the Sand Manufacturing quote did not. HHA's procurement policy required quotes from three vendors.

The new HA interim managers asked the ED's brother to install the fence, but he refused because his price did not include installation. Installation will result in a significant additional expense since the fence posts have to be set in concrete and numerous steel sections have to be welded together. Also, the fence may have to be modified because, in the opinion of the new interim Assistant ED, the posts were manufactured too short to adequately support the fence.

Contracts Split to Avoid Bid Solicitation

Several contracts apparently were split up to avoid advertising for bids.

Procurements in excess of \$10,000 must be made through formal newspaper advertisement and sealed bids, but procurements from \$1,000 to \$10,000 only require three price quotes (Part III (A,B) of HHA's procurement policy).

In 1997 the prior Assistant ED contracted with a local builder, Scott Adams Construction, Inc., to install new entrance and storm doors at the 32-unit Liberty Street development. Total value of the work was \$21,679. However, HHA did not advertise the work or even obtain price quotes from competitors. Instead, management awarded three separate contracts to the same contractor, each for less than \$10,000. The three contracts were signed within days of each other. One contract was for front (entrance) doors, another for rear (entrance) doors, and a third for storm doors.

Similarly, parking lot paving totaling \$16,224 at Gorman Tower was divided into three contracts with Professional Paving, Inc., all signed within a few days of each other, two of them on consecutive days. On June 2, 1997, HHA contracted to pave the front portion of the lot (\$5,500), and on June 3, 1997, they contracted to pave the entrance side of the lot (\$8,124). A May 22, 1997, contract (\$2,600) paved the rear of the lot. There is only one parking lot and all areas of the lot are contiguous. The prior Assistant ED obtained only one competing quote for the paving work, which was slightly less (\$15,724) than the Professional Paving, Inc. contracts. Files were not documented as to why Professional Paving was selected.

Lack of Price Quotations

HHA files for the following additional contracts/payments lacked evidence competing price quotations were obtained:³

<u>Payment/Contract Date</u>	<u>Vendor/Contractor</u>	<u>Amount</u>
8/04/95	D.F. Contracting	\$ 1,175
8/07/95	A & M Contracting	1,150
9/22/95	A & M Contracting	1,950
6/13/96	T.D. Construction	4,488
4/30/96	Scott Adams Construction	4,720
5/20/96	Scott Adams Construction	9,625
6/07/96	Scott Adams Construction	2,893
7/28/97	Scott Adams Construction	15,000
5/16/97	Professional Paving	<u>2,200</u>
	Total	<u>\$43,201</u>

For the Professional Paving contract, a note in the file indicated two other contractors had been contacted, but one had no insurance, and HHA did not consider the other because he could not do the work before July 15. There was no explanation why the work had to be completed before July 15. Also, except for Professional Paving and Scott Adams Construction, there was no evidence the contractors were qualified or even licensed. Neither T.D. Construction, D.F. Contracting, nor A & M Contracting appeared in the local phone book. We were told the Maintenance Director's son did the work described in the T.D. Construction contract.

Apparently in an attempt to justify circumventing the bid solicitation process, the \$15,000 procurement from Scott Adams Construction was described as "emergency" work on the check voucher.⁴ The work was in response to a June 1997 HUD State Office site visit. It consisted of cleaning undergrowth from a drainage ditch, plus related concrete work, behind the buildings at the Liberty Street development. HUD recommended that HHA clean out the drainage ditch, but they did not direct HHA to ignore required procurement procedures. Also, while the work needed to be done it was hardly an emergency.

³ The universe of procurements over \$1,000 is unknown. There was no contract register and no files for some procurements. We found some contracts in monthly disbursement files attached to check vouchers. We reviewed all we found but there were likely others. In addition to procurements detailed in this finding, we found only two others. Both appeared to have been properly performed.

⁴ We were unable to locate a contract. There was no explanation for the method of procurement other than the reference to "emergency work" on the check voucher. We found the check voucher in a stack of paper atop a filing cabinet.

Other large purchases from local businesses were not supported with price quotes from competing vendors. One purchase for nearly \$10,000 should have had at least three competing price quotes. Local businesses from which HHA made such large purchases were East Kentucky Carpet Center (carpeting and other floor covering) and Home Lumber Company (various building materials and supplies). Several other vendors for carpeting and building materials were available locally and in nearby towns. The prior Assistant ED stated she preferred to use local vendors. However, HHA cannot direct business to favored vendors without regard to its procurement policy.

Conclusion

The deficiencies resulted from prior HHA staff disregard, or intentional circumvention, of Federal procurement regulations and its own procurement policy. The procurements represent an improper use of Federal funds, but were attributable solely to the prior ED and Assistant ED, who are no longer employed by HHA. Corrective action should concentrate on preventative measures.

Auditee Comments

HHA's interim ED agreed with the finding. He said the Board intends to exercise vigorous oversight of procurement, and new staff had already attended HUD-sponsored training. He said the Board intends to adhere strictly to Federal and state procurement guidelines in the future.

OIG Evaluation of Auditee Comments

HHA's comments were responsive to the finding. Although the deficiencies were caused by prior management staff, lack of Board oversight was a contributing factor. The stated intent of the Board is encouraging; however, since HHA's procurement policy is silent regarding the Board's role in procurement, written formalization of Board oversight into the policy is advisable.

Recommendation:

- 3A. We recommend that you suggest that HHA's Board revise its procurement policy to incorporate Board oversight functions. Suggested procedures are (1) review and approval of all procurements and contracts over a dollar threshold, including review of bid tabulations, or (2) review and approval of all procurements.

Sample HQS Deficiencies



Balconies providing access to Highland Heights units showing signs of potentially dangerous structural deterioration.



Hazardous broken balcony stair rail at 116 Highland Heights. Note height from ground.

Sample HQS Deficiencies



Serious walkway deterioration at Highland Heights.



Example of unprotected wiring in Highland Heights pantries. Exposed wiring must be in conduit.

Sample HQS Deficiencies



Badly deteriorated floor covering in unit 325B Liberty Street - a tripping hazard.



Cabinet floor fallen out, missing cabinet parts in unit 350B Liberty Street.

Sample HQS Deficiencies



Hole in wall not repaired following plumbing repair in unit 108B Highland Heights.



Commode leak from bathroom above kitchen in unit 156D Highland Heights.

SCHEDULE OF UNSUPPORTED COSTS

<u>Finding/Recommendation</u>	<u>Unsupported Costs</u>⁵
1E	\$ 95,656

⁵ Unsupported amounts do not obviously violate law, contract, HUD or local agency policies or regulations, but warrant being contested for various reasons such as lack of satisfactory documentation and HUD approval.

Auditee Comments



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Re: February 1998 Draft of Report of survey of operations of Hazard Housing Authority

Dear Mr. Butcher:

This letter contains our comments regarding the February 1998 Draft of Report of survey of the operations of the Hazard Housing Authority which Mr. McBee furnished to us on February 9, 1998. As you will note, much of this material was covered during the recent exit interview. We have numbered our comments for ease of reference.

Finding No. I --General Management was Inadequate

I - Records were Missing. Inaccurate, In Disorder. The HHA recognizes that there were numerous record keeping deficiencies under the prior administration. These deficiencies complicated HUD efforts to audit the use of public funds during the recent audit which generated the audit related memorandum. HUD's perception of disorganization and inadequate record keeping is in part due to the unavailability of the former Executive Director and Assistant Executive Director to locate applicable records and otherwise assist throughout the audit and Safe Home Survey. The HHA believes that one of the shortcomings of prior management -was the centralization of knowledge regarding accounting procedures at the Executive Director and Assistant Executive

HEART OF THE GREAT APPALACHIAN COALFIELDS

Director level with the effect that clerical personnel were not sufficiently knowledgeable with certain record keeping and reporting procedures. The departure of the Executive Director and subsequent departure of the Assistant Executive Director left staff inadequately trained to assist HUD in the audit process and to continue day to day operations of the HHA. The new Executive Director and his Assistant could not rely upon HHA staff to the degree necessary to assure continuity of operations during their own familiarization with HHA policies and procedures. In the future, the current administration has set a goal of insuring that clerical staff are trained in record keeping procedures adequately to guarantee smooth transition in the event of further management changes. The training of clerical personnel to familiarize them with record keeping requirements will also be beneficial by broadening the base of personnel with knowledge of accounting procedures for purposes of internal checks and balances.

The finding in regard to the missing annual residence inspections is reasonable in light of the subsequent HUD and HHA follow-up inspections and needs assessment studies which disclosed various conditions within public housing which require repair and modernization. Affirmative steps are underway to utilize modernization funds previously made available but unused to correct these deficiencies. The circumstances surrounding the missing records were addressed in the HHA's September 22, 1997 correspondence to Mr. Art Wasson in response to HUD's PHMAP Confirmatory Review for the fiscal year ending September 30, 1996. Since the September 22 letter, the HHA has substantially modified its procedures for inspections and needs assessments, and HUD is aware of these changes. Records of future inspections required by HUD should be properly maintained in accordance with HUD policy.

The HHA believes that the Report finding regarding missing documentation for procurements is reasonable under the circumstances. The HHA has adequate policies and procedures in place to govern procurement which are more stringent than required by federal law, but these policies were not uniformly followed as noted in the Report. The new Executive Director and Assistant Executive Director has recently attended a federal seminar on procurement, and the Board of the HRA will intensify oversight of procurement to insure compliance with federal requirements and our own more stringent local requirements.

Record keeping with respect to the CGP funds, especially for FY 1995 and 1996, was inadequate, and the findings of the Report to such effect are reasonable. Subsequent to the completion of the audit by Mr. Butcher, the HHA has successfully compiled and submitted records reflecting CGP activities since 1993 (excluding the documentation substantiating the \$82,029 in CGP disbursements between May and August 1997). Appropriate entries have been made upon the books and records of the HHA properly to reflect receipt of 1995 and 1996 grants. All HUD year end statements have been

properly submitted except for the 1996-1997 audit. The noted deficiencies in general ledger amounts for CGP salary charges for 1993 and 1994 have been reconciled by reconstruction of account transactions by HHA personnel and IPA to correct allocation errors and the results have been tentatively approved by HUD.

The finding of the Report with regard to leave records for the former ED and other employees is reasonable. Due to the separation of the former ED and Assistant ED from the HHA, it is not possible to reconstruct the previous employment records, and the HHA does not believe that an attempt should be made to reconstruct those files or records pertaining to temporary summer employees. All records relating to current employees have been reviewed for accuracy by HHA personnel and are believed by the HHA to be complete and accurate with regard to availability of sick time, administrative leave, vacation days and comp time.

2. Questionable/Unsupported Salary Payments. Due to the pending criminal prosecution of the former ED and Assistant ED, the Board and current administrative officers of the HHA have been unable to interview the former administrators as to their rationale, if any, for the additional salary payments noted in this finding. The current Executive Director has reviewed the minutes of Board meetings during the period of 1996-1997 but has not located any references to approvals of additional salary for CGP related activities. The HHA's current policy is not to pay any extra salary associated with performance by the Executive Director or Assistant Executive Director for any work regularly done in regard to CGP requirements. Any additional salary for any other work to be performed will be subject to HUD notification and will be submitted to the Board for prior approval. The HHA will supplement its response to this finding in the event additional information is forthcoming in regard to this activity.

3. IRS Penalties, Sales Taxes Paid. The finding in regard to payment of penalties for failing timely and accurately to file employee withholding during 1995 and 1996 is reasonable. All payments owed to the IRS, less penalties, have been made for the period for which the IRS assessment was made. A request for abatement of the penalties is pending. Despite verbal assurance from the Service Center of the IRS that the penalties referenced in the Report will be abated, the H14A has yet to receive formal notification from the Collections Branch of the IRS that the obligation to pay such penalties has been discharged. Additional assessments for other time periods by the IRS may be possible. Accurate and timely employee withholding statements and payments are now being submitted by the current administration of the HHA.

The finding in the Report in regard to the payment by the HHA of Kentucky sales taxes for some utility purchases is reasonable. The current Executive Director has

secured a copy of the HHA's tax exemption certificate and has already secured certain refunds of sales taxes on AEP electric utility bills. Additional refunds are anticipated for state sales taxes. In the September 22 letter, the HHA requested HUD assistance in determining exemption from school tax and/or city franchise taxes on utility payments. The HHA would appreciate similar assistance in determining liability for, or the potential for refunds, of federal excise taxes for utility taxes as well.

4. Purchases of Luxury Vehicles. The details surrounding the purchase of the Ford Explorer Eddie Bauer Edition and Chevrolet Blazer LS was explained in depth in the HHA's September 22 letter. So far as the HHA's Board and new administration is aware, the response in the September 22 letter is accurate and the Board has no new information to add at this time. The vehicles continue to be an important part of the HHA fleet. In the future, all vehicle purchases will be submitted to HUD for approval consistent with its policies.

5. Excessive Number of Vehicles. The HHA has already implemented a policy of utilizing regular rather than premium gas on ten of the twelve vehicles. Two Chevrolet Blazers appear to run more efficiently on medium octane gasoline rather than regular gas. Three of the twelve vehicles referenced in the Report are older, specialty use vehicles. One truck, the 1978 GMC pickup truck is equipped with a snowplow and is only used to clear snow from HHA parking lots and streets to supplement City efforts during inclement weather. The HHA believes that maintaining this older vehicle for such purpose is preferable to refitting an existing vehicle with the snow plow for each snowstorm. Permanent attachment of the plow to any existing vehicle would be impractical. A second vehicle, the 1993 Ford F-350 dual wheel lift truck is equipped with a hydraulic tailgate and is used by the maintenance staff for transportation of equipment, appliances, furnishings and heavy materials. It is more expensive to operate than other vehicles, would be costly to replace and is therefore not regularly assigned to any particular employee but is available for use when needed by all employees. A third vehicle, the 1994 Chevrolet S-IO pickup truck is equipped with side body tool boxes and is assigned to the HHA's primary maintenance mechanic and electrician so that tools are readily available for response to maintenance and emergency calls. The HHA provided additional information pertaining to authority vehicles and after hours activities in its September 22 letter to HUD. The HHA understands that its policy regarding vehicle usage is consistent with City policy for other municipal employees. The Board believes that its policy regarding PHA vehicles for its employees is justifiable based upon these considerations.

6. Inventories Not Performed. The findings in the Report with regard to inventory control are reasonable. The new administration of the HIM has now

completed a full inventory of all appliances, equipment and other assets which has been properly entered into the Tenmast computer accounting system. This inventory has been furnished to the fee accountant for updating of financial statements. A copy of the inventory printout is attached to this response. The Board has taken action based upon the revised inventory to write off abandoned or obsolete assets so as to maintain a current, credible, inventory listing and will continue to adhere to HUD policies regarding inventory in the future.

7. Required Audits Not Submitted. The findings in the Report with regard to the submittal of required audits is reasonable. All audits currently due to have been submitted have now been submitted and processed by HUD. All findings as a result of such audits have, to the best of HHA's knowledge, been adequately addressed and cleared.

8. Inaccurate Information Reported to HUD. The HHA addressed several indicators relating to the PHMAP confirmatory review in its September 22 letter to HUD and has no additional information pertaining to the review at this time. A new PHMAP report has been completed consistent with HUD requirements and under the supervision of HUD personnel and has been submitted for review by HUD. No scoring information has been received to date.

9. Nepotism. The finding in the Report with regard to the employment of the former Assistant ED's teenage son is reasonable. The HHA is bound by the provisions of Section 19(B) (1) of HUD's new ACC which was signed by the HHA during 1996. The HHA is also bound under the provisions of Chapter 39 of the Hazard Code including Section 39.50 relating to nepotism. The HHA is aware that the prior ED and Assistant ED were married after employment by the HHA and this marriage and the hirings of the personnel referenced in the Report (other than the Assistant ED's teenage son) occurred prior to the adoption of the new ACC and prior to the City of Hazard's adoption of Chapter 39 of the Hazard Code. The records of the HHA pertaining to the employment of the Assistant ED's son are incomplete and do not indicate whether the HUD prescribed policy relating to waivers of conflict of interest in employment was followed in this instance. The current ED has been unable to secure any information from the former ED or Assistant ED to confirm the circumstances surrounding his employment. In the future, the Board will strictly enforce hiring procedures mandated by HUD under its ACC and follow the City's provisions relating to nepotism to the extent the same is more stringent than required by HUD. HHA plans to update its current personnel policies as soon as practicable and will incorporate a provision relating to nepotism in hiring which will require compliance with both ACC and Chapter 39.

10. Units Not Timely Prepared for Occupancy. The finding in the Report with regard to the delay in preparation of units for occupancy is reasonable. The Board believes that the situation regarding preparation of units for occupancy has dramatically improved since September. The Board continues to have a number of units at the highest level in the Walkertown project which are undesirable for occupancy and have significant structural problems which will affect the overall occupancy and turnaround rates of the HHA unless PHMAP guidelines provide flexibility in scoring for such units. The modernization plan for CGP funds will significantly improve the desirability of all of the older units and particularly those in Walkertown and should enhance overall turnaround time for the HHA as a whole.

11. Rents Not Collected. The findings of the Report with regard to rents not collected are generally reasonable. The HHA's records indicate that certain tenants are delinquent in repayment agreements for significant sums of money. The HHA's current policy is to undertake to collect all but de minimus delinquent rents. The current practice is for HHA personnel to make personal contact with and provide written notice to delinquent tenants. Tenants who leave owing rent are notified and collection efforts by HHA personnel are directed to those tenants. When the amount of delinquent rent will justify use of the HHA's legal counsel, letters are written by counsel to current and former tenants followed by legal proceedings if necessary. The HHA does not believe that it would be a prudent use of HHA resources consistently to attempt to collect all delinquent sums particularly those sums falling below a threshold amount of approximately One Hundred Dollars (\$100.00).

12. Inefficient Cash Management. The findings of the Report with regard to cash management are reasonable. Current management believes that the cash management of the HHA has significantly improved since September. With the exception of amounts owed to the IRS and discussed in the Report, the HHA is current with regard to its payables and has a positive cash balance in all of its accounts. The HHA has received no NSF notices or charges in any account in several months. The operating account is now maintained at a level consistent with anticipated monthly disbursements. Excess funds are maintained whenever practicable in certificates of deposit which do not require penalties for early withdrawal should the funds be needed. The HHA has ordered software for its Tenmast program to implement a cash receipts/disbursement journal which it will commence as soon as practicable upon receipt.

13. CGP Improvements Were Slow. The findings of the Report with regard to the delay in CGP Improvements and use of CGP funding is reasonable. See the reply of the Board in reference to Finding No. 2 below for further information regarding current management's efforts to alleviate this condition.

14. Cause. The findings of the Report with regard to prior management as outlined in the specific areas discussed more completely above were, on the whole, entirely reasonable. Board oversight of prior management was ineffective in the particular areas and less than sufficient in many respects. The reliance by the Board on the former ED and Assistant ED to initiate meetings rather than insistence upon adherence to a regular schedule contributed in a significant way to the problem of lack of oversight. Regular meetings have been implemented since the appointment of the current ED and Assistant ED and will be strictly adhered to by the Board. By and large, the Board was given the same information for oversight purposes as was furnished to HUD by prior management during the applicable time periods. Prior management assured the Board on numerous occasions that the private activities of the ED and Assistant ED were not at variance with any regulations or policies of HUD and posed no conflict of interest. The information furnished regarding accounting procedures may have been all of the available information in light of HUD's findings regarding lack of record keeping, but the information was incomplete at best and management's characterization of that information appears to have been inaccurate in material ways. Assurances by prior management of the continued status of the HHA as a "High Performer" obscured the Board's focus upon day to day management to the detriment of the residents and the community. The Board's sympathetic posture toward the health condition of the former ED may have been initially a reasonable and compassionate response, but the Board believes that it should have taken affirmative steps after a short time to fill the position on at least an interim basis to insure continuity and accountability of operations. Certainly, the concentration of expertise in the former ED and Assistant ED and lack of adequate training of clerical personnel in accounting procedures limited accountability of former management and compounded the difficulties of transition to new management. The Board will make every effort to provide appropriate oversight of management in the future. The Board plans to require management to prepare for the Board's use a calendar depicting a schedule of significant dates for submission of HUD required documentation or activities such as audits, CGP applications, ACC adoption, annual inspections, PHMAP reports and similar requirements. If HUD has existing documentation which would depict the scheduling of annual activities by all housing authorities or which would otherwise delineate the expected oversight activities of the Board in this regard, the HHA Board would appreciate receiving such material.

Finding No. 2--Housing Quality is Poor

1. Housing Conditions as of September 1997. The new management of the Housing Authority of Hazard and the Board of Commissioners both agree with the findings of this report. Housing conditions as of September were deplorable in some

units and the Walkertown and Liberty Street developments had no doubt been allowed to deteriorate from lack of timely and adequate maintenance.

The new management with the Board's approval and directions have set out to rectify these conditions. Some of the identified problems with the developments and units have already been addressed such as faulty wiring, and others are still under repair. Many conditions have passed beyond the scope of normal maintenance and will be addressed by the modernization work funded under the Comprehensive Grant Program.

The modernization work will address the following activities over the next five years: installation of a new roof on Gorman Tower, which is currently under way; installation of storm doors at Liberty Street and Gorman Hollow; repair of concrete decks and railing at Walkertown and Liberty Street; foundation replacement on modular units on Liberty Street; kitchen and bathroom renovations at both Walkertown and Liberty Street; window replacement at Liberty Street; drainage improvements at Walkertown, Liberty Street and Gorman Hollow; remodeling of public restrooms at Perkins Tower and Gorman Tower per APA requirements; asbestos abatement with boiler and pipe replacement at Walker-town and the 432 building of Liberty Street; roof replacement or repair at Walkertown and two units at Liberty Street; mansard replacement at Walkertown and painting of all units at all developments.

2. Sanitary Sewer Line. The problem of exposed sewer lines in back of certain of the Liberty Street residences is longstanding and has no ideal solution. Due to topography, certain exposed lines from residences along Oakhurst Drive and other streets above the project have for many years utilized sewer lines running down toward Liberty Street. Some of these lines may have even predated or coincided with the Liberty Street development. There are areas in Hazard in which even City sewer and/or gas pipelines may be exposed for brief intervals due to rock cliffs or other topographic or geologic conditions. One particular line which lies in back of Building 432 in the Liberty Street complex is more recent in origin and the Board has learned that it serves a private apartment complex on the upper street which was developed by the former ED and Assistant ED. This complex is now in the hands of the construction lender as a result of foreclosure proceedings. The Board has been unable thus far to locate any board minutes or formal easement granting rights of way for construction of any portion of this line which might cross HHA property. The Board believes that it may be reasonable for he apartment complex to have access through Board property for this purpose since the only City sewer collector reasonably accessible to the apartment complex is the Liberty Street line. However, portions of this line are laid on the surface which may be able to be buried or otherwise protected from damage, and the Board has contacted the City's Building Inspector to review the site to determine compliance with applicable standards.

It is unclear at this time whether primary oversight authority lies with the City's Building Inspector or with the state's plumbing inspection program or the local state health department.

3. Maintenance Program. The findings of the Report with regard to deferred and inadequate maintenance are reasonable. The current administration has established a priority for improvement in maintenance. The Assistant ED currently maintains close contact with maintenance personnel and has implemented new record keeping procedures and cost controls which should improve accountability of expenditures and resources utilized. The HHA has attempted to improve efficiency during regular hours to minimize after hours calls. The HHA has attempted to do a better job of classifying after hours calls so as to avoid overtime work except in cases of true emergency. The maintenance supervisor has been directed to dispatch the most qualified employee to respond to particular work orders with a goal of increasing expertise and specialization among the maintenance staff. The effect of the policy is anticipated to be greater efficiency and lower cost since much work requiring low or no special skills can be performed by lower paid personnel.

4. Inadequate Inspections. The findings of the Report with regard to inadequate inspections are reasonable. The new ED and Assistant ED have already completed inspections of all units, and these inspections have been used to generate work orders to date to address the most serious of the safety concerns. Work has been completed on the first phase of the repairs needed to correct safety considerations with the exception of certain work which is anticipated to be done in conjunction with the early phases of the modernization program. Additional work orders for maintenance personnel are being generated currently to deal with the remaining HQS deficiencies in order of priority set by HHA. Any deficiencies which cannot in appropriate fashion be corrected through normal maintenance activities will be dealt with through the CGP amendments as previously disclosed to HUD officials in the proposed five year plan.

5. Inaccessible Units. The findings of the Report with regard to inaccessible units are reasonable. Since the inspection, the HHA has implemented a policy of changing all locks to HHA approved locks to insure future accessibility of units. Subsequent tenant violation of the new policy has resulted in HHA charges to tenants for the cost of replacement of new locks. Currently, all exterior locks are changed whenever a unit is vacated. These locks are not discarded but are randomly installed elsewhere within the HHA to save money and maintain security of units.

Finding No. 3--Required Procurement Procedures Were Circumvented

In general, the HHA feels that all of the findings with respect to procurement procedures are reasonable. The Board is unable at this time to obtain information from the former ED and Assistant ED to help to locate any missing documentation or to offer justification, if any, for any of the referenced transactions since the matters remain under investigation by HUD and other federal authorities. The Board intends in the future to exercise vigorous oversight of procurement matters. Regular Board meetings will make a positive contribution to this effort as noted above. The new ED and Assistant ED have already attended training sponsored by HUD in the area of procurement, and the Board intends to adhere strictly to procurement requirements under applicable federal and state guidelines.

Sincerely,



I. H. Buchanan III
Executive Director

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