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Audit Case Number	98-FW-202-1005

TO: Diana Armstrong  
Acting Director  
Office of Public Housing, 6JPH

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

SUBJECT: Housing Authority of the City of San Antonio  
Public Housing Drug Elimination Grant Program  
San Antonio, Texas

As part of a nationwide review of the Public Housing Drug Elimination Grant Program, we performed an audit of the Housing Authority of the City of San Antonio, Texas. This report contains two findings.

Although not a part of our audit objectives, the review identified two areas of concern that merit further study. Therefore, these two areas, involving procurement and indirect cost allocations will be considered for future audits of the Authority's administration of HUD funded programs.

Within 60 days, please furnish this office, for each recommendation in this report, a status report on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

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

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# Executive Summary

We conducted an audit of the Public Housing Drug Elimination Grant Program administered by the Housing Authority of the City of San Antonio, Texas (Authority). Our review was to determine whether the Authority: (1) implemented its drug elimination program awards for Grant years 1994 through 1996, with satisfactory outcomes and benefits and (2) expended program funds for only eligible activities and in accordance with program requirements for Grant years 1994, 1995, and 1996.

The Authority did not maintain data or have a system to measure the satisfactory outcomes and benefits of its programs. Without this data, neither the Authority nor HUD can determine whether the Drug Elimination Grant Program has provided satisfactory outcomes and benefits.

The Authority spent about 83 percent of its Drug Elimination Program funds on eligible activities and costs. However, because the Authority management and staff either chose to ignore or did not understand Grant Program requirements, it spent \$899,000 in ineligible or questionable costs (17 percent of the \$5,249,000 expenditures for the 1994, 1995, and 1996 Grants) Also, the Authority received \$28,000 in program income but did not reduce its Grant costs by that amount.

The Authority also did not have a system for coordinated and effective Grant administration. The Authority had not assigned responsibility to any specific staff member to supervise, monitor, and coordinate the overall activities. This led to lack of coordination among staff and untimely reporting of Grant activities to HUD.

We are recommending the Authority strengthen and improve its administration of the Grant; repay its Grant Program for ineligible costs; and either support the questioned costs or repay the Grant program.

We discussed the findings and recommendations at an exit conference with Authority officials on July 9, 1998. Authority officials responded to the draft report in writing on July 31, 1998. The Executive Director requested another conference and that their response be kept confidential. We discussed the findings and auditee response at a second exit conference held on August 14, 1998. The Executive Director, by letter dated August 20, 1998, removed the confidentiality restriction for including their response in this report. We have summarized the Authority's response in the findings and included it without the attached documents as Appendix B.

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## Abbreviations

CFR	Code of Federal Regulations
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget

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# Introduction

The City of San Antonio established the Housing Authority of San Antonio, Texas, in 1937. The Mayor appoints a five-member Board of Commissioners to govern the Authority. The Board hires an Executive Director to manage the Authority's day-to-day operations. The Board of Commissioners hired Melvin Braziel as Executive Director on January 27, 1998. The Authority has 8,116 Low-Rent and 9,602 Section 8 units. The Authority keeps its records at its central office, 818 South Flores Street, San Antonio, Texas.

Congress authorized the Public Housing Drug Elimination Program in Chapter 2, Subtitle C, Title V of the Anti-Drug Abuse Act of 1988. Under the Act, HUD makes grants to authorities to eliminate drug-related crime in Low-Rent developments.

The goals of the Drug Elimination Program are to eliminate drug-related crime and associated problems in and around the public housing developments. Housing authorities can use grant funds for administration and conduct of activities related to drug prevention, drug intervention, law enforcement, and other activities intended to reduce drugs and drug-related crime.

HUD awarded \$5,943,474 in Drug Elimination Grants to the Authority for the 1994, 1995, and 1996 grant years. A grant year represents the federal fiscal year. However, the recipient may obligate and expend a specific grant year funds over the next 2 years and HUD can extend that 6 months. The Authority draws funds periodically from the HUD Line of Credit System. HUD records show the following authorization and draw down of funds for the Authority's 1994, 1995, and 1996 Grants as of June 25, 1998:

<u>Grant Year</u>	<u>Authorized</u>	<u>Drawn Down</u>	<u>Balance</u>
1994	\$1,948,474	\$1,948,474	\$ --
1995	1,981,750	1,875,323	106,427
1996	<u>2,013,250</u>	<u>292,496</u>	<u>1,720,754</u>
Totals	<u>\$5,943,474</u>	<u>\$4,116,293</u>	<u>\$1,827,181</u>

The Authority's general ledgers for these three Grants showed cumulative expenditures at June 25, 1998, of \$5,248,984.

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## Audit Objectives

The audit was part of a National review of the Public Housing Drug Elimination Program. The objectives of our audit of the Housing Authority of the City of San Antonio, Texas, were to determine whether the Authority: (1) implemented its Drug Elimination Program awards for Grant years 1994, 1995, and 1996, with satisfactory outcomes and benefits and (2) expended Program funds for only eligible activities and in accordance with program requirements for Grant years 1994, 1995, and 1996.

**Scope and Methodology**

To accomplish these objectives, we obtained background information by:

- Reviewing relevant HUD regulations, guidelines, grant agreements, and Notices of Funding Availability;
- Examining records and reports maintained by the HUD San Antonio Public Housing Division and interviewing HUD program staff;
- Scanning the Authority's accounting records, financial reports, policies, management reports, and interviewing staff; and
- Reviewing independent public accountant audit reports.

To determine if the Authority implemented its Drug Elimination Program with satisfactory outcomes and benefits, we:

- Reviewed the Authority's grant applications and the corresponding Notices of Funding Availability to identify activities, target developments, budgets, and time lines;
- Reviewed the Authority's Semiannual and Outcome Monitoring Reports for content and timely submission to HUD;
- Requested the Authority provide all available documentation showing program performance information for the period January 1995 through December 1997 and reviewed this documentation to evaluate the effectiveness of the activities to reduce drug-related crime; and
- Interviewed Authority and HUD staff regarding the Authority's Drug Elimination Program, goals and objectives, activities, and whether they assessed the progress and benefit of the activities.

To determine if the Authority expended program funds for only eligible activities and in accordance with program requirements, we:

- Compared the Authority's activities to its Grant applications, requirements of the Notices of Funding Availability, and governing Regulations to ascertain if the activities were eligible;
- Obtained and reviewed the Authority's general ledgers for the Grants for the period October 1994 through June

1998 to identify costs and evaluate the adequacy of the accounting records for meeting HUD requirements;

- We judgmentally selected and reviewed 61 transactions totaling \$694,055 for eligibility and supporting documentation (invoices, contracts, canceled checks, etc.);
- Reviewed the Grant general ledgers, payroll, and supporting accounting records for the Authority's employee payroll costs to identify the nature of the cost (direct or indirect) and reviewed supporting documentation for the allocation in accordance with federal cost principles; and
- Interviewed Authority staff on their method of allocating direct and indirect costs to the Grant Program, reviewed Authority allocation tables, and identified and totaled the accounts within the Grant general ledgers representing indirect costs totaling \$133,099.

We conducted the audit from January through June 1998 in accordance with generally accepted government auditing standards. The audit covered the Authority's operations of the 1994, 1995, and 1996 Grant Programs from October 1994 through June 1998.

We provided a copy of this report to the Executive Director of the Housing Authority of the City of San Antonio.

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# Authority Needs to Evaluate Grant Effectiveness and Improve Grant Administration

The Authority could not demonstrate the benefit or results of its drug elimination activities. This occurred because the Authority had not identified specific project crime statistics or monitored the results of the various activities it undertook to accomplish its goal. Without a system to measure the benefits and results of activities, neither HUD nor the Authority know if the activities have a beneficial impact. Further, the Authority cannot evaluate whether the amount of resources used for an activity are commensurate with the benefits received, thus allowing it to direct the resources to the most effective activities. In addition, the Authority did not have a system to coordinate between staff administering and accounting for Grant activities. Because the Authority had no system to measure and report grant activities, it did not meet HUD requirements to monitor and report on effectiveness.

## HUD Requirements

HUD regulations note that grantees are responsible for managing the day-to-day operations of the grant and must monitor each grant funded program, function, or activity to assure compliance with federal requirements and achievement of performance goals.<sup>1</sup>

HUD regulations also require grantees to provide semiannual reports to HUD setting forth actual accomplishments in comparison to the objectives established for the reporting period, including any change or lack of change in crime statistics, successful completion of strategy components, problems encountered, and evaluation of the rate of progress.<sup>2</sup>

## No baseline statistics or goals.

The Authority staff did not have crime statistics related for the developments targeted for Grant activities. The Authority had also not established goals or objectives for the activities. Authority staff said they could provide demographic data,<sup>3</sup> but had not used the information to identify target ages or groups for Grant activities.

<sup>1</sup> HUD regulations at 24 CFR §§85.40, §961.28 (applicable to 1994 and 1995 Grants) and §971.35 (applicable to 1996 Grant).

<sup>2</sup> HUD regulations at 24 CFR §961.28 (applicable to 1994 and 1995 Grants) and §971.35 (applicable to 1996 Grant).

<sup>3</sup> Number of families by development including data on the make up and ages of children.

**Authority cannot demonstrate the effectiveness of its activities.**

Without the foregoing data and information, the Authority did not have a baseline upon which to measure the effectiveness of its Drug Elimination Grant funded activities. In addition, the Authority did not have an adequate system to measure and evaluate the accomplishments of their activities. Therefore, the Authority could not readily obtain and provide information to show the effectiveness and benefit of its various Grant funded activities. Thus, the Authority is carrying out or continuing to carry out the activities without evaluation of their accomplishments and cost effectiveness in reducing drug-related crime in the targeted developments. To illustrate:

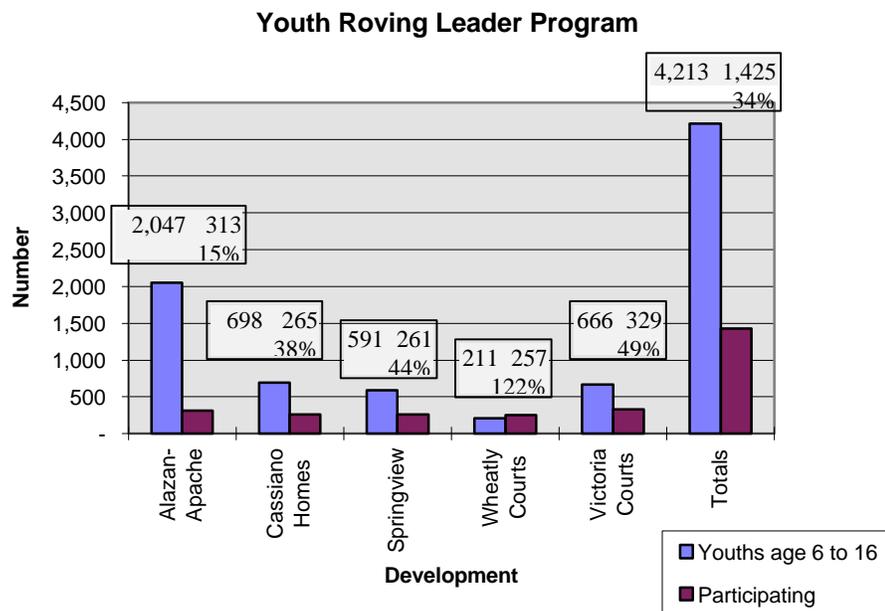
*Security Patrol and Investigative Activity*

The Authority primarily employs off-duty police officers to provide security patrols for all of its developments and investigation of drug related criminal activity. Although the Authority expended \$2.3 million of its Grant funds for these activities over 3 years, the Authority could not demonstrate the extent that the patrol and investigative activity have reduced drug-related crime in the targeted developments. The Authority has incident reports and other detail data, but has not established a management information system to summarize this information to evaluate the activity.

*Youth Activities for Drug Prevention*

The Authority spent over \$1.1 million over 3 years for several programs as drug prevention activities for the youth in its Low-Rent developments. These programs include various sports and recreation activities targeted to specific age groups. The Authority had copies of participant documents and rosters but did not summarize this and other information to show the results of these activities, such as: (a) the number of children in each development by age group (target population); (b) the number and age group of children participating in the various programs; and (c) any correlation to police/security reported gang and drug-related activity at the targeted developments. Thus, the Authority does not have information to show whether these activities are reaching the target population or are having the desired beneficial impact of providing an alternative to drug- and gang-related activity.

To further illustrate, the Authority used \$135,000 in 1994 and 1995 Grant funds for its Roving Leader Program. This program included nine different activities targeted to youths aged 6 to 16 at five of its Low-Rent developments. However, the Authority had not developed overall statistics to determine the number of youths, by project, that were participating in the program. The following chart shows the result of OIG’s analysis of the Authority’s available information. The chart shows, by development and in total, a comparison of the estimated number of the targeted age group, the number in the age group participating, and the percentage participating to the total target population:<sup>4</sup>



The chart shows that overall, the program had about one-third participation by the targeted age group. However, a per development analysis shows the program reached only 15 percent of the target group in the development with the largest population. Had the Authority done this type of analysis, it would indicate a need to investigate the reasons the program was not attracting a greater number of the target population from its largest Low-Rent development.

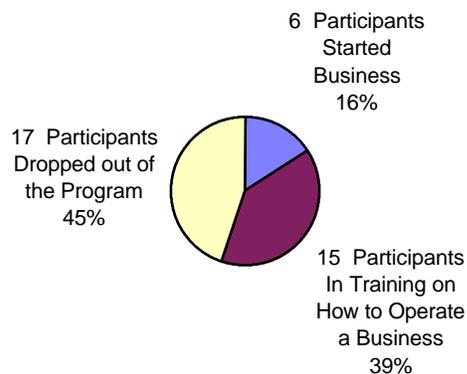
<sup>4</sup> The target population is based on Authority property manager estimates. The Authority also permitted non-residents from the surrounding neighborhood to participate. Since the Authority did not identify which participants were residents and which were non-residents, the actual number of participants from the development would be lower than shown (e.g., participants for Wheatly Courts exceeds the manager’s estimate of youths in the target group).

*Resident Owned Business Program*

The Authority expended \$325,000 of 1994, 1995, and 1996 Drug Elimination Grant funds for the Resident Owned Business Program as a drug prevention activity. The Authority's noted on its Grant applications that its economic development activity intended to recruit and train tenants to set up and operate their own businesses. However, the Authority had not established any baselines for evaluating and/or measuring the beneficial impact this activity would have in preventing drug activity at the targeted Low-Rent developments. The Authority's internal auditors completed a review of the activity in April 1997. Although the internal auditors did not specifically review the cost benefit of the program, their report did note a large drop-out rate and recommend better screening of potential resident business owners. The Authority's semiannual reports to HUD did not identify any problem with this program's progress. However, the Authority's report for the period ended December 31, 1997, sent to HUD on April 30, 1998, did note that the program had undergone some major restructuring, without explanation as to reason for the changes.

The following chart shows the status of the 38 tenants that participated in the programs:

**Participants in Resident Owned Business Program**



All six residents that started businesses left the program before completing all parts of the training. However, the

Authority had not established any specific criteria for program completion until it revised its policies in October 1997. The Economic Development Coordinator stated that the Authority implemented these revised policies in March 1998.

As shown, this program, with an average cost of about \$8,500 per participant, has a 45 percent drop out rate and an apparent minimal success rate during the past 4 years it has been funded with 1994, 1995, and 1996 Drug Elimination Grants. Although the Authority plans to continue the program under the revised policies, it has not measured the cost benefit of the program with other activities that might be more effective in meeting the goal of preventing drug activity in the targeted developments.

**Authority did not provide for effective overall management and coordination of its Grant-funded activities.**

The Authority did not provide for effective overall management and coordination of the staff carrying out Drug Elimination funded activities. This deficiency led to poor fiscal recordkeeping, poor cash management practices, ineligible and questionable costs totaling \$899,008, and lack of budgetary controls over the Grant program (see Finding 2).

Although the Authority had a Drug Elimination Coordinator position, the assigned individuals indicated that they did not receive top management support for obtaining baseline statistics and records to measure the effectiveness of the activities. Further, they noted that the Authority's top management decided what activities to include in the Grant applications, which were generally activities that continued from year to year.

The Authority has also been chronically late in submitting its semiannual reports to HUD. The days late ranged from 12 to 127 days. As a result, HUD sanctioned the Authority by prohibiting draw down of Grant funds until the Authority submitted the delinquent reports. The Authority's accountant usually prepared requests for funds without consulting with program managers and did so when he thought the amount expended had reached a significant enough level to justify the paperwork (see Finding 2). On several occasions, when attempting to draw down funds, the accountant discovered that HUD had "locked" the

Authority out of the system because the Authority had not timely submitted their semiannual reports.

HUD did not accept the Authority's December 31, 1997 semiannual report, received on April 30, 1998, because it lacked sufficient information on the Authority's accomplishments. HUD expressed a concern because the Authority did not cite any problems with the progress of its \$2 million 1996 Drug Elimination Grant when the Authority had drawn down only 15 percent of the Grant due to expire on October 31, 1998.

**Authority plans to correct measurement and coordination problems.**

On February 1, 1998, the Authority's new Program Monitoring Officer assumed the responsibility for administering all aspects of the Drug Elimination Program. As of June 30, 1998, this individual was in process of reviewing HUD's governing regulations and is reviewing 1996 and 1997 activities to ensure they are eligible for Grant funding. She stated she plans to help the program managers define goals, identify target populations, and establish evaluation criteria.

#### Auditee Comments

The Executive Director's response generally agreed that the Authority had not established a management information system to evaluate its activities (see Appendix B). Further, the Executive Director acknowledged that management and coordination of the various activities were lacking. His response notes the recent and planned actions the Authority has taken or will take to improve administration and evaluation of the drug elimination program. The Executive Director also notes that the crime statistics now being kept on an automated "run cops" system along with data on the "one strike, you're out" policy will provide information on crime and drug activity by site.

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#### OIG Evaluation of Auditee Comments

The actions taken or planned by the Authority will improve and strengthen the Authority's administration of the Grant Program. In addition to the actions taken and planned, the Authority should develop in their management information system an overall summary and trend analysis of the crime statistics. This will provide Authority management and staff with information to evaluate the beneficial impact of its

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activities. For example, if crime and drug offenses decline at each site, this indicates a positive impact. Also, comparison of the trends by site should provide Authority management with essential information as to the effectiveness of its activities at each site, and in the event of adverse trends, take informed action to correct the problems.

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## Recommendations

We recommend the San Antonio Public Housing Division require the Authority to:

- 1A. Obtain and summarize baseline crime statistics to use as a benchmark for measuring the effectiveness of the Drug Elimination Program activities;
- 1B. Implement a system for measuring the effect of its Drug Elimination Grant funded activities including for each of its targeted developments: (a) identification of specific goals and objectives; (b) identification of target populations for each activity; (c) preparation of periodic summary of crime incident reports from its own security/investigative efforts and local police department; (d) periodic comparison of the crime statistics to the benchmark figures; and (e) evaluation of the cost benefit of its activities;
- 1C. Provide timely semiannual reports to HUD describing program progress and accomplishments in sufficient detail to allow HUD to assess the Authority's effectiveness in administering the Drug Elimination Grant Program; and
- 1D. Ensure appropriate management of the Drug Elimination Grant Program through effective coordination among and accurate reporting by the program managers and the fiscal department for Program accomplishments and fiscal operations.



# Fiscal Administration Needs Improvement

The Authority has charged at least \$219,631 in ineligible costs, cannot support the propriety of another \$679,377 it charged to the Drug Elimination Grants, and has not reduced recorded costs by \$28,043 in program income. The Authority's fiscal administration of the Drug Elimination Grant Program does not meet HUD requirements for ensuring: (a) Grant funds are obtained on a timely basis; (b) accounting records are accurate and supported by appropriate and complete source documentation; (c) program expenditures are eligible and are properly allocated; (d) program income is used to offset costs; and (e) budgetary controls are implemented and followed. This occurred primarily because Authority management did not ensure that staff assigned to administer the program are fully familiar with administrative requirements for federally funded programs and Grant restrictions on the types of cost that are eligible for funding. Consequently, the Authority cannot readily support costs charged to its Grants and has not obtained Grant funds timely.

## HUD Requirements

HUD regulations require the Authority's Financial Management Systems to meet specific standards.<sup>5</sup> Further, HUD sets forth specific eligibility requirements in the Notice of Funds Availability for each Grant funding year.<sup>6</sup> These standards and requirements provide that Grantees must:

- *Establish good cash management procedures.* Cash Management is the process of managing cash flow to optimize its use of funds. This process involves the timing of receipts and disbursements to assure the availability of funds to meet expenditures. Effective cash management calls for organized planning. The regulations require grantees to minimize the time elapsing between the draw down and disbursement of funds.
- *Compare actual expenditures or outlays with budgeted amounts for each Grant.* Grantees must relate financial information to performance or productivity data. Grantee records must ensure that HUD funds specifically budgeted and/or received for one program are not used to support another.<sup>7</sup>

<sup>5</sup> HUD regulations at 24 CFR §85.20 Financial Management Standards.

<sup>6</sup> HUD published the Notices in the Federal Register as follows: 1994 - Vol. 59, No. 63, April 1, 1994; 1995 - Vol. 60, No. 3, January 5, 1995; 1996 - Vol. 61, No. 68, April 8, 1996.

<sup>7</sup> Drug Elimination Grant Agreement, Article II, Sub-Article A, paragraph 10.

- *Maintain controls to assure Grant funds are used solely for authorized purposes.* Grantees must follow applicable OMB cost principles, agency program regulations, and the term of the grant agreements in determining the reasonableness, allowability, and allocability of costs. Although cost principles allow grantees to charge indirect costs to grant programs, some grant awards specifically prohibit such charges. HUD's regulations for the Drug Elimination Grant Program do not permit charging indirect costs, as defined in OMB Circular A-87, to the Grant.<sup>8</sup>
- *Adequately identify the source and application of funds in their accounting records and financial reporting must be accurate, current, and provide complete disclosure of financial results.* Grantees must support costs charged to the grants with adequate source documentation including canceled checks, paid bills, payrolls, time and attendance records, and contracts. Grant program regulations also state that the grantee must establish an auditable system to provide adequate accountability for funds awarded to the grantee.<sup>9</sup>
- *Account for and use program income for eligible Drug Elimination Program Activities.* Program income results from various sources including the use or rental of real property acquired with grant funds. The regulations state grantees shall use program income, which the grantee did not anticipate at the time of the award, to reduce the federal agency and grantee contributions rather than to increase the funds committed to the project.<sup>10</sup>

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<sup>8</sup> HUD regulations at 24 CFR §961.10(c)(2) and 24 CFR §761.15(b) issued in March 1996. The HUD Notices of Funding Availability for 1994, 1995, and 1996 also specifically prohibited grantees from charging indirect costs.

<sup>9</sup> HUD regulations at 24 CFR §961.26(c) and 24 CFR §761.30(c) issued in March 1996.

<sup>10</sup> HUD regulations at 24 CFR §961.5, §961.26(f), §761.5, and 24 CFR §85.25.

**Authority uses Low-Rent operating funds in lieu of timely obtaining Grant funds.**

The Authority does not have an effective cash management system to ensure the timely draw down of Grant funds to meet program expenditures. HUD Grant procedures allow grantees to obtain funds up to 7 days before their disbursement for Grant activities. The Authority generally pays all Grant expenditures from its General Fund cash account, which includes its Low-Rent operating and other HUD grant funds.<sup>11</sup> However, the Authority does not make corresponding draw down of Grant funds to cover the expenditures. Authority's fiscal staff stated that it was their normal practice to accumulate a significant amount of costs before requesting funds from HUD for the Drug Elimination Program. Authority records show draw down requests generally ranged from 1 to 6 months and from a low of \$16,000 to a high of \$866,000. Further, the Authority has not drawn down Drug Elimination Grant funds since December 30, 1997.<sup>12</sup> A comparison, as of June 25, 1998, of the cumulative costs the Authority charged to the 1994, 1995, and 1996 Drug Elimination Grants to the funds drawn down from the Grants, shows recorded costs exceed funds drawn by \$1,132,691.

**Project managers are not familiar with federal cost principles and grant eligibility requirements.**

Although HUD requires grantees to have a system to ensure costs charged to Grant programs are eligible and allocable thereto, the Authority has not ensured that its staff responsible for administering the Drug Elimination Grant Programs are familiar with these requirements. The Senior Vice President for Housing Operations and other staff administering activities were either not familiar with or, in the case of purchase of police equipment, chose to ignore federal cost principles and the Drug Elimination Grant Program requirements for cost eligibility and allocability. As a result, the Authority has charged \$219,631 for ineligible police equipment, youth entertainment, and indirect costs, which HUD specifically cites as ineligible activities in the Notice of Funding Availability. The following summarizes these ineligible costs:

<sup>11</sup> The Authority's June 30, 1997 financial statements shows the Low-Rent Program has an Operating Reserve Balance over \$5 million which shows the Authority has sufficient cash reserves to fund the Drug Elimination Grant expenditures, prior to obtaining funds from HUD.

<sup>12</sup> The Authority has not satisfied HUD reporting requirements, resulting in HUD "locking" the Authority out of being able to draw down funds until they provide acceptable reports (see Finding 1).

*Police Equipment*

The HUD Notices of Funding Availability for the 1995 and 1996 Grants<sup>13</sup> contained the following language:

Funding is not permitted to purchase or lease any military or law enforcement clothing or equipment, such as vehicles, uniforms, ammunition, firearms/weapons, military or police vehicles; including cars, vans, buses, protective vests, and any other supportive equipment.

The Authority charged the following purchases to its 1995 and 1996 Grants for police equipment:

Date	Description	Amount
11/14/97	Purchase of Police Vehicles	\$36,000
1/6/97	Modifications to Police Vehicles	6,840
April 1998	Radios for Patrol Cars	<u>2,744</u>
	Total	<u>\$45,584</u>

The Authority’s Executive Director stated:

*“. . . decision to purchase police supportive equipment was not due to a lack of knowledge of grant restrictions, but rather on our firm commitment to combat crime and the sale of drugs despite the obstacles of current Texas legislation, which prohibits the San Antonio Housing Authority to be recognized as a full fledged Police Department . . . The fact of the matter is that the HUD regulations do not address our particular situation..”<sup>14</sup>*

*Youth Entertainment*

The Authority has spent \$40,948 for tickets to amusement parks, theaters, and professional sports events. The Authority’s Senior Vice President for Housing Operations and Youth Sports Manager stated that these events were part of the Youth Sports Incentive Reward Program for resident youth who participated in the Youth Sports

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<sup>13</sup> The 1996 Notice contained an exception for housing authorities with HUD authorized police departments and listed those authorities (the San Antonio Authority is not listed as having an authorized police department).

<sup>14</sup> Statement made in July 31, 1998 response to the draft report (Appendix B).

Program as well as rewards for other resident youth for their academic achievement and good behavior in school.

The HUD Notices of Funding Availability for the 1994, 1995, and 1996 Grants contained the following language:

Funding is not permitted for costs of entertainment, amusements, or social activities, and for the expenses of items such as transportation related to these ineligible activities.

Section 18, Attachment B, OMB Circular A-87, states:

Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events and transportation) are unallowable.

Therefore, the following charges to the Grants are ineligible:

Description	Amount
Professional basketball, baseball, and hockey games (San Antonio Spurs, Missions, and Dragons)	\$26,415
Amusement Parks and Theme Parks (Fiesta Texas, Splashtown San Antonio, Laser Quest, and a haunted house)	13,220
Theaters and movies	<u>1,313</u>
<b>Total</b>	<b><u>\$40,948</u></b>

In addition, the Authority’s Sports Manager said the Authority paid for transportation costs to these events, usually by chartered bus. The Authority’s records did not identify the amounts expended for transportation costs associated with these events versus transportation cost to eligible activities.

*Indirect Cost*

The Authority uses a complex method of allocating indirect costs to all of its programs, including the Drug Elimination Grants.<sup>15</sup> Both the HUD regulations governing the Drug

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<sup>15</sup> OIG did not evaluate the indirect cost methodology for compliance with OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, because indirect costs are not eligible for Drug Elimination Grant funding.

Elimination Grant Program and the Notices of Funding Availability specifically state that grantees may not charge indirect cost to the Program. Although the Authority initially did not allocate indirect costs to the Drug Elimination Grants, the Authority started doing so with its fiscal year beginning July 1, 1995.

The Authority's Comptroller identified the specific expense accounts within the general ledger that contained the charges for the Authority's allocation of indirect salaries and other indirect general administrative expenses.<sup>16</sup> As of June 25, 1998, the Authority's general ledger included indirect costs in these accounts totaling \$133,099. However, the Authority's Drug Elimination general ledger accounts for employee benefits included total costs attributable to both direct and indirect salaries. Therefore, total indirect costs will exceed the \$133,099.<sup>17</sup>

**The Authority did not maintain complete and appropriate source documentation to support expenditures.**

The Authority generally had source documentation to support its charges to the Grant program. However, the Authority did not maintain the required documentation for allocating employee salaries and to support some of its contract services. In the case of security guards and investigators, the Authority could not properly support the propriety of salary costs to the Grant programs. Further, OIG estimates that \$469,998 of security guard salaries and \$160,629 of investigator salaries were not allocable or allowable costs of the Grant program. The Authority also did not have sufficient source documents to support payment of \$48,750 contract services charged to the Grants. Thus, the Authority did not have adequate supporting documentation for \$679,377 as more fully discussed below.

#### *Salaries for Security and Investigative Staff*

The Authority employs off-duty police officers to provide security guard and investigative services for all of its

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However, in accord with government auditing standards, the propriety of the Authority's indirect cost system is included in this report as an issue needing further study and consideration.

<sup>16</sup> The Authority allocates executive, fiscal, purchasing, warehouse, and management information salaries plus general administrative expenses such as legal, telephone, data processing, consultants, computer maintenance, etc.

<sup>17</sup> The Authority's Drug Elimination general ledgers included over 11,000 entries. Numerous line item entries for indirect costs were for less than \$10. Therefore, OIG did not attempt to identify the indirect cost line items in the employee benefit accounts.

properties, including apartment properties owned by its nonprofit affiliates. The Authority charged \$2,278,853 for these salaries and benefits to the 1994, 1995, and 1996 Drug Elimination Grants.

The Authority allocated \$1,701,518 for security guard salaries to the Grants based on predetermined percentages in a similar manner to its allocation of indirect salary costs. The Authority based the percentages on an estimate of the amount of time the security guards devoted to Low-Rent and other properties. The Authority charged all of its Investigator salaries, totaling \$577,335, to the Grants.

To be allowable, OMB Circular A-87 requires the following as supporting documentation for compensation of personnel services, in addition to normal standards documenting payroll costs:

- For employees that work solely on a single federal award, a periodic certification to that effect, prepared at least semiannually and signed by either the employee or a supervisory official *having first hand* knowledge of the work performed by the employee.
- For employees that work on multiple activities, the grantee must support the charges with *personnel activity reports or equivalent documentation* meeting all of the following standards: (a) reflect an after-the-fact distribution of the actual activity of each employee; (b) account for the total activity for which the employee is compensated; (c) prepared at least monthly and coincide with one or more pay periods; and be signed by the employee.

Further, the cost principles do not allow budget estimates or other distribution percentages the grantee establishes before the employee performs the services.<sup>18</sup>

The Director of Security as well as officers confirmed that both security guards and investigators performed duties at Low-Rent and other properties. Further, they acknowledged that they did not keep *personnel activity reports or equivalent documentation* to show the amount of time/activity involved at the different locations. Therefore,

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<sup>18</sup> Grantees may use such methods for interim accounting purposes subject to specific requirements, which include at least quarterly comparisons to actual costs on a monthly basis and an adjustment of the accounting records to reflect actual cost.

the Authority did not maintain the required documentation to support the portion of the security guard and investigator salaries they charged to the Grants.

#### *Security Guard Salaries*

Since security guards patrolled all the properties, OIG analyzed available information to ascertain the reasonableness of the security guard salaries allocated to the Drug Elimination Grant Program as shown in Appendix C. Based on this analysis, it appears that \$469,998 (28 percent) of the \$1,701,518 allocated to the Drug Elimination Grants do not represent an appropriate or reasonable allocation of costs attributable to patrolling the Low-Rent properties.<sup>19</sup>

#### *Investigator Salaries*

Investigators, unlike the security guards, investigate specific incidents rather than patrolling the properties. In May 1997, the Supervisory Investigator started preparing a weekly report on investigative activity. Although the activity report did not fully meet federal standards for supporting documentation, it did provide some information on investigative activity by location and date. The Authority had not summarized this or other information to identify the amount of investigator salaries and benefits that the Authority should have charged to its nonprofit activities.

Analysis of these reports showed the investigators spent about 70 percent of their activities on incidents at the Authority's Low-Rent housing sites and the remaining 30 percent on other activities.<sup>20</sup> Therefore, the Authority should have been allocating investigator salaries and benefits on the basis of activity reports, rather than charging all such costs to the Drug Elimination Grant Program. Thus, applying 30 percent to the total investigative salaries

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<sup>19</sup> HUD regulations at 24 CFR §961.1 and §761.1(a) note the purpose of the Grants are to eliminate drug-related crime and associated problems in and around the premises of federally assisted low-income housing and public and indian housing developments.

<sup>20</sup> Investigations included incidents involving other properties, Section 8 participants, and internal Authority activities.

and benefits of \$535,429,<sup>21</sup> identifies an overcharge to the Drug Elimination Grants of \$160,629.

*Insufficient supporting documents for contract services*

The Authority could not provide sufficient source documents to show that the following costs charged to the Grants were proper and for eligible activities:

Date	Vendor	Amount	Remarks
4/20/95	Boys & Girls Club	\$11,794	Advance for first month of cost reimbursable contract -- no evidence of actual cost to support the advance.
5/17/95	YMCA	5,700	No contract or other documentation to show the activity or scope of services.
10/9/95	Boys & Girls Club	8,081	Outside scope of contract without a written modification as required by the contract
2/15/96	S. A. Sports Foundation	23,175	Outside scope of contract without a written modification as required by the contract
Total		\$48,750	

**Authority did not properly account for program income.**

The Authority used \$52,819 Drug Elimination Grant funds to purchase equipment (\$37,819) and software (\$15,000) for use in the economic development and education components of its drug prevention activities.

The Authority provided the equipment to participants for their training and subsequent use in their business. The Authority required the participants to enter into pay back agreements for the cost of the equipment. The Authority's records, as of June 3, 1998, showed the Authority collected

<sup>21</sup> The Authority assigned some of its investigators to work with HUD OIG in investigating drug activity in and around the housing authority's public housing developments. These investigators' salaries through 6/25/98 were deducted from the total salaries charged before calculating the improper charges.

\$24,593 from the participants. Further, the records show the Authority has a receivable from participants of \$13,226.

The Authority also acquired a skills assessment computer software package to assist residents in identifying their vocational skills. The Authority entered into a contract on March 24, 1997, and another on April 14, 1998, to provide training for a federally funded organization.<sup>22</sup> The Authority included in the contracts a per participant charge of \$115 for assessing the skills of 15 individuals. Thus, a total of \$3,450 (30 x \$115) received from the two contracts is attributable to assets acquired with Drug Elimination Grant funds (software and associated workbooks). The Grant regulations and OMB cost principles require such income derived from Grant purchased assets be treated as a reduction in Grant costs.

In both cases, because Authority personnel were unfamiliar with Federal requirements for treating program income, the Authority did not use the amount it collected to offset the costs of the Drug Elimination Grant Program.

**Authority managers do not use budget controls in administering their respective activities.**

Although the Authority has given responsibility to carry out Drug Elimination Grant funded activities to their Youth Sports Manager, Economic Development Coordinator, Drug Education Coordinator, and Director of Security, these managers stated that they did not review or compare their obligation of funds to the budgets for the activities they administer. The operating managers stated that they rely on the Fiscal Operations Division to monitor costs in relation to their budgeted amounts. An accountant in the Authority's Fiscal Operations Division maintains a record of line item amounts per budget compared to cumulative expenditures for use in drawing down funds. The accountant stated his schedules will not necessarily coincide with the general ledger since he may make adjustments to eliminate budget overruns. Further, he generally makes these adjustments to reclassify the costs to another Grant at the time of Grant close-out.

A comparison of the 1995 Drug Elimination Grant general ledger showed the Authority had continued to charge costs after April 30, 1998, the expiration date of the Grant. Further, the total costs recorded at May 19, 1998, showed

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<sup>22</sup> The April 1998 contract expired June 30, 1998.

\$2,357,387 in total costs. Since the total 1995 Grant was \$1,981,750, the Authority had exceeded its total budget for 1995 by \$375,637. On June 25, 1998, the Authority's accountant recorded adjusting journal entries to move substantially all the excess cost to the 1996 Grant general ledger.

Therefore, the Authority is not exercising budgetary control over Drug Elimination Grant activities. Instead, the Authority makes after the fact adjustments to bring expenditures in line with the maximum authorized Grant and the HUD approved budget categories. Although the Authority can charge a particular Grant for costs incurred over a 2-year period, after the fact reclassification from one Grant year to another to agree with the budget negates the purpose of budgetary controls over operations.

To ensure good fiscal control over operations, the managers administering the activities as well as upper management should have a comparison of expenditures to budget on a regular basis. The Authority needs such controls to ensure: (a) they operate within the budgets established by Authority management; (b) they do not exceed HUD approved budget categories without first obtaining HUD approval; and (c) subordinates provide information to upper management of any budget changes and the need therefore. Further, as noted in Finding 1, this information coupled with performance data will allow the operating and upper management to analyze the cost effectiveness of their activities.

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## Auditee Comments

The Executive Director's response (see Appendix B) noted planned corrective action to ensure the future timely draw down of funds and exercise of budgetary controls. Further, the Authority will identify and offset costs for the program income. However, the Executive Director did not agree that Authority staff were unfamiliar with HUD requirements or that the Authority's charges were ineligible or questionable. The following summarizes the Executive Director's disagreement with the finding.

*Knowledge of HUD Requirements* - Housing Authority staff responsible for administering the Grant program have complied with all the federal regulations and OMB Circulars which defined the expenditure of funds for activities,

including cost principles governing allocation and allowability of costs charged to Grant programs.

*Police Equipment* - HUD regulation treats all PHAs as if they have an option to create a police department and therefore be eligible for expenditures for vehicles and other police equipment. HUD should not penalize those housing authorities who have organized and equipped departments, and staffed them with licensed peace officers because states, such as Texas, will not acknowledge housing authorities as candidates for the establishment of police departments. HUD should weigh all these factors, which create the unique situation of the Authority, and grant a waiver from this particular regulation.

*Youth Entertainment* - Drug Elimination funds are permitted for training and education activities directly related to drug prevention programs. The Authority selected children for the events who had perfect attendance and consistently improved their grades. Further, it was not the Authority's intent to simply provide entertainment or amusement for the children, since it was tied directly to their participation in anti-drug activities and their drug-free behavior.

*Indirect Cost* - HUD's Drug Elimination Grant requirements do contain language prohibiting the charging of indirect costs. However, the Authority should be able to charge indirect costs since such costs are allowable under federal cost principles.

*Security Guard Salaries* - The Authority did not group Low-Rent and nonprofit projects for security patrols until July 1997. Before July 1997, the Authority used contract security at its nonprofit projects and none of its security guards worked at the projects. The Authority asserts that its method and support for allocating security guard salaries is consistent with federal cost principles and that it is OIG insisting that time sheets should be the supporting documentation.

*Investigator Salaries* - The Authority also states that its investigators should not be restricted to HUD's definition for "in and around" a Low-Rent project since they are San

Antonio Police Officers, who must pursue a case when it is not “in and around” a Low-Rent project.<sup>23</sup>

Unsupported Contract Cost - The Authority has developed a plan of action to eliminate the occurrence of unsupported contract costs in the future, including a tickler system for contract renewals. Further, the Authority has located and attached the necessary supporting documents.

## OIG Evaluation of Auditee Comments

The Authority’s planned actions should ensure timely draw down of funds, use of budgetary controls, and accounting for program income. The following sets forth OIG’s evaluation of the Executive Director’s disagreement with the finding.

### Knowledge of HUD Requirements

The Authority’s response to specific items of ineligible cost and failure to keep the documentation required by federal cost principles for allocating salaries further illustrates that Authority management and staff do not understand HUD requirements governing the allocation and allowability of Grant cost.

Police Equipment - Since the Authority could have requested a waiver in advance, but chose to ignore the regulatory prohibition, the Authority has incurred ineligible cost for the purchase of such equipment.

Youth Entertainment - The Authority states that its purpose in providing youth entertainment was to provide rewards to certain children. However, the Authority claims this was part of its training and education activities. The Authority could not provide any evidence showing how the entertainment events were part of a drug prevention education activity or that the children selected to attend these events were in fact participating in such activities.

Indirect Cost - The Authority’s response cites the terms and conditions for the Drug Elimination Grant award, which

<sup>23</sup> The Authority notes that it has assigned five investigators to work with HUD-OIG in an Operation Safe Home effort. Further, that these Safe Home Investigators follow-up on leads and conduct investigations other than on and adjacent to Low-Rent projects. However, the Authority does not note that this assignment occurred in early 1998 and that this unit has provided the documentation required by federal cost principles to support the allocation.

state that indirect cost, as permitted under OMB Circular A-87, cannot be charged to the Grant. The Authority then notes that such costs are permissible under OMB Circular A-87, and therefore, should be considered allowable indirect cost. As stated in the finding, the Circular notes that to be allowable, costs must conform to any limitations or exclusions set forth in the terms and conditions of the federal award.

Security Guard Salaries - Contrary to the Authority's assertion that only contract security was used at its nonprofit projects prior to July 1997, the general ledgers for 13 nonprofit projects show that in addition to contract security, the Authority charged salary cost for at least 26 of its security guards to those projects from July 1996 to June 1997. OIG interviews with 14 security guards confirmed they worked at or patrolled nonprofit projects before July 1997; one noted they had been assigned to a nonprofit project as their home base for the past 5 years and another similarly noted they had been assigned to a nonprofit project for the past 3 years. A third noted that they had two nonprofit projects added to their patrol route in December 1996. Further, as noted in the finding, federal cost principles, not OIG, requires time activity reports to support allocation of salaries to more than one cost objective.<sup>24</sup>

Investigator Salaries - During the audit, investigators, their supervisors, and the Authority's Senior Vice President for Housing Operations, all stated that the investigators conducted investigations at Low-Rent projects, nonprofit projects, Section 8 housing units, and some internal investigations, such as employee theft. Further, the investigators and their supervisors confirmed that their investigations did not always arise from complaints that originated in or around the Low-Rent projects. They cited Section 8 tenant cases as an example. HUD regulations governing the Drug Elimination Program note that Grant-funded activities cannot involve the Section 8 Program.

Unsupported Contract Cost - The Authority's attached support consisted of copies of contract agreements with the entities. The Authority did not submit any evidence of the reimbursable cost for the advance or a contract that covered

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<sup>24</sup> OMB Circular A-87 states: "Cost objective" means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

the payment to the YMCA. As noted in the finding, the other two questioned payments involved services outside the time (scope) of the written contracts. The contracts the Authority provided for these two payments did not cover the time period for which the Authority made the payments.

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## Recommendations

We recommend the San Antonio Public Housing Division require the Authority to:

- 2A. Provide appropriate training to its program managers and fiscal staff administering the Drug Elimination Grant Program to ensure they are knowledgeable of eligible Grant activities and requirements of the federal cost principles;
- 2B. Cease using other HUD funds to pay for Drug Elimination Grant activities and to establish an effective cash management system for the timely draw down of Grant funds to meet expenditures;
- 2C. Cease charging indirect costs to the Drug Elimination Grant Program;
- 2D. Repay to the Drug Elimination Grant Program \$219,631 used for police equipment, youth entertainment, cash awards, and indirect costs;
- 2E. Identify amounts of transportation cost for youth entertainment and indirect costs for employee benefits and repay the Drug Elimination Grant for that amount;
- 2F. Review and repay to the Drug Elimination Grant Program any other ineligible expenditures made subsequent to June 25, 1998;
- 2G. Cease charging the Drug Elimination Grant Program for direct salaries that are not supported in accordance with the documentation standards of federal cost principles;

- 2H. Either satisfactorily demonstrate and support the reasonableness of the security and investigative salaries and benefits charged to the Drug Elimination Grant Program or repay the Grant Program \$630,627 (\$469,998 and \$160,629, respectively);
- 2I. Provide satisfactory documentation and/or justification to support the propriety of the \$48,750 paid for contract services;
- 2J. Establish an appropriate financial management system that identifies and properly accounts for Drug Elimination Program income;
- 2K. Reduce Grant costs by the \$24,593 of program income collected and any subsequent collections from participants in the Resident Owned Business Program;
- 2L. Reduce Grant costs by the \$3,450 the Authority charged for use of assets purchased with Drug Elimination Grant funds; and
- 2M. Establish an effective system of budgetary control over Drug Elimination Grant funded activities.

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# Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Management Controls

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

- Performance evaluation system
- Reporting program performance
- Activity and cost eligibility
- Fiscal management system

We assessed all of the relevant control categories identified above, to the extent they impacted on our audit objectives.

## Significant Weaknesses

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses:

- The Authority has not established well-defined goals or objectives for its activities or implemented a system to measure their effectiveness (see Finding 1).
- The Authority did not have a system to ensure proper cash management, use of budgetary control over expenditures, and appropriate accounting for program income (see Finding 2).
- The Authority did not have a system to ensure costs incurred were for eligible activities, properly supported by appropriate source documentation, and were allocable as Grant expenditures (see Finding 2).

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# Issues Needing Further Consideration

In conducting the audit, we identified two issues, which were not within the specific objectives of our review, needing consideration for future audit of Authority operations. Primarily:

## *Procurement of Goods and Services*

In reviewing supporting documents for contract services, it appears the Authority may not be following the provisions of 24 CFR §85.36, which requires free and open competition in the award of contracts for goods and services and certain specific contract clauses.

## *Allocation of Indirect Cost*

HUD requires for most of its federal grant awards that public housing authorities follow the requirements of OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments. This Circular prescribes certain standards for the identification and allocation of indirect costs. The Authority's system is not sufficiently well documented to show the Authority fully conforms to these standards.

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## Schedule of Ineligible and Unsupported Costs

<u>Recommendation Number</u>	<u>Ineligible</u> <sup>1</sup>	<u>Unsupported</u> <sup>2</sup>
2D	\$219,631	
2H		\$630,627
2I		48,750
2K		24,593
2L	<u>          </u>	<u>3,450</u>
TOTALS	<u>\$219,631</u>	<u>\$707,420</u>

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<sup>1</sup> Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or federal, state, or local policies or regulations.

<sup>2</sup> Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

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# Auditee Comments















































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## OIG Methodology in Computing Reasonable Security Guard Cost

OIG obtained the total salaries and benefits from the Authority's payroll records and then computed an allocation based on the percentage of low-rent and other units patrolled by the Security Guards, with the following results:

Calendar Year	Total Compensation	Low-Rent Units	Other Units	Percent Low-Rent	Allocable Salary
1995 <sup>25</sup>	\$ 210,592	7,938	3,476	69.5	\$ 146,361
1996	510,314	7,938	3,520	69.3	353,648
1997	722,408	7,569	3,516	68.3	493,405
1998 <sup>26</sup>	<u>348,108</u>	7,628	3,516	68.4	<u>238,106</u>
Totals	<u>\$1,791,422</u>				<u>\$1,231,520</u>

OIG then compared this computation to the total \$1,701,518 the Authority charged to the Drug Elimination Grants, resulting in an apparent over-allocation of \$469,998 to the Grants.

<sup>25</sup> The Authority Security Guard salaries and benefits for 1995 totaled \$421,184. However, the Authority did not begin allocating Security Guard salaries to the Grants until July 1, 1995. OIG used 1/2 of the 1995 total, since the Authority's Payroll Accountant noted there was low-turnover and the salaries were paid uniformly throughout the year.

<sup>26</sup> Through June 25, 1998

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