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November 5, 1997

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MEMORANDUM FOR: E. Ross Burton, Director, Multifamily Housing Division, 6AHM

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

SUBJECT: Greater Muskogee Community Foundation
Up Front Grant
Muskogee, Oklahoma

At the request of Congressman Coburn, we looked into certain issues involving the operations of the Housing Authority of the City of Muskogee, Oklahoma (Authority). Since the allegations of wrongdoing included activities of the Greater Muskogee Community Foundation (Foundation), a nonprofit affiliate of the Authority, we also did a review of the Foundation's use of Up Front Grant funds. This review primarily involved the Foundation's: (1) procurement of architectural and engineering services, fencing contract, and security guard services; (2) requisition of grant funds from HUD; and (3) disbursement of grant funds. Through June 1997, the Foundation had disbursed \$339,365 from its checking account, including reimbursement of \$85,970 to the Authority. We reviewed \$309,128 of these expenditures.¹ We are including two recommendations for you to require the Foundation to obtain and provide supporting invoices for about \$36,908 of costs related to the architectural and security guard services.

Background

The City of Muskogee, Oklahoma, created the Muskogee Housing Authority in 1969 by the City of Muskogee, Oklahoma, pursuant to the laws of the State of Oklahoma. The City Mayor appoints the five-member Board of Commissioners (Board). The Board hires an Executive Director to manage Authority operations. The Authority has 400 low-rent units and 231 Section 8 units.

The Authority administers its housing programs from the Authority's main office in the Honor Heights Apartments at 200 N. 40th Street, Muskogee, Oklahoma. The Authority's records are located at the main office.

¹ A total of \$302,645 paid for architectural/engineering services, security guards contract, and fencing contract.

In August 1996, the Authority created a wholly-owned nonprofit corporation, Greater Muskogee Community Foundation. This Foundation was created to acquire, renovate, and operate a 100-unit, 2-story, multifamily apartment property. HUD owned this property, Shawnee Heights, through a deed in lieu of foreclosure of its Federal Housing Administration insured mortgage. Because of significant deferred maintenance, HUD provided the Foundation with an Up Front Grant to renovate the property. The Grant Agreement, dated September 30, 1996, set forth various conditions for the requisition and use of the funds. The Foundation has 2 years in which to renovate the apartment units. HUD also is providing Section 8 tenant based assistance through the Oklahoma Housing Finance Agency. The grant included the following cost breakdown:

Description	Amount
Repairs (Hard Costs)	\$2,321,100
Contingency	232,110
Overhead/General Requirement	<u>348,165</u>
Total Repair Cost	\$2,901,375
Relocation Cost	38,000
Operating Loss	<u>160,625</u>
Total Grant Award	<u>\$3,100,000</u>

Although the Foundation is a separate legal entity, the Authority's Executive Director managed its operations. As a result of two reviews² critical of the Authority's management and operations, the Board terminated their Executive Director in December 1996. The Board appointed the Executive Director's assistant as Acting Executive Director to manage the Authority until the Board hired a new Executive Director on May 28, 1997.

Results of Review

We reviewed the Authority/Foundation's contracting for goods and services in excess of \$10,000 and requisitioning of funds from HUD. We observed that the Authority/Foundation did not strictly follow the Grant Agreement in the award of contracts. Further, the former Acting Executive Director, in submitting requisitions for grant funds, did not fully explain or reconcile amounts to the supporting documents. However, as more fully discussed later, the procurement violations were technical in nature and do not appear to warrant any sanctions. Further, although the requisitions were not fully reconciled to the supporting documents, the Authority/Foundation had supporting documentation for the transactions we tested, except for: (1) \$2,290.82 in reimbursable expenses incurred by and paid

² A September 1996 monitoring review by HUD's Oklahoma State Office Public Housing Division and a December 1996 verbal report by an Authority hired consultant.

to the architect and (2) \$42,307.04 of \$61,663.04 paid to the security guard company which were not supported by invoices. Appendix A lists the specific checks that need to be supported.

We also noted that, in accord with the instructions from your Office, the Authority has retained the services of an accountant to prepare future requisitions. Our review also confirmed that the Foundation's reimbursement to the Authority of \$85,970 in January 1997 and \$15,099 in August 1997 represented funds the Authority used to pay expenses related to Shawnee Heights. Since the Grant Agreement requires the final costs be audited by an independent certified public accountant, the Authority will need to ensure that it has all supporting invoices including those paid with Authority funds.

Within 60 days, please furnish this office, for each recommendation in this memorandum, a status on: (1) the 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 review.

If you or your staff have any questions, please contact Darrel M. Vaught, Assistant District Inspector General for Audit.

Procurement of Goods and Services in Excess of \$10,000

Article IB of the Up Front Grant Agreement (Agreement) states that HUD will not increase the grant amount for any reason; cost overruns, and other unanticipated increases must be funded from other sources. Article VI, Paragraph C, of the Agreement requires the grantee to obtain three quotes for any type of goods or services that cost \$10,000 or more. However, if the grantee documents a reasonable basis for doing so, it may obtain a lesser number of quotes and may obtain the goods and services from other than the vendor/contractor with the lowest quote. Article VII of the Up Front Grant Agreement permits the grantee to increase or decrease hard cost line items by up to 10 percent without prior HUD approval.

The following summarizes the Authority/Foundation's actions in procuring goods and services in excess of \$10,000.

1. Architectural and Engineering Contract

The Authority/Foundation selected an Architectural and Engineering firm (joint venture) using noncompetitive negotiation on the basis the firm assisted in the grant application and was most familiar with the planned renovation. Further, the contract award of \$175,467 was based on a contract between the Authority and the firm, rather than the Foundation and the firm. The Authority's former Acting Executive Director said this was done because the Foundation, at the time of the contract was signed, October 10, 1996, had just been incorporated but did not yet have officers appointed.

The Authority used a HUD proforma contract but deleted certain standard provisions which are included as protection for the Authority. The Authority deleted requirements for: (1) errors and omissions insurance; (2) warranty inspection; (3) as-built drawings; and (4) limitation on reimbursable expenses. Although the Authority/Foundation did not document a basis for determining the price was reasonable, we contacted HUD technical staff and other housing entities doing similar work to ascertain the normal fee range. The contract amount was within the normal range for such services. We also observed that the joint venture had not followed state requirements by registering with and obtaining a Certificate of Authority from the State Board of Architecture.

Although the Architect and Engineer formed a joint venture and executed one contract, each billed the Authority separately. Through June 1997, the Foundation had paid the Architect, as follows:

Architect		
Activity	Amount	Questioned
Initial Cost estimates and meeting with HUD	\$ 2,963.26	
Design Services Contract:		
Scheduled Payment	68,933.75	
Expense Reimbursement	2,307.00	\$2,290.82
Subtotal	\$71,240.75	\$2,290.82
Total	\$74,204.01	\$2,290.82
Engineer		
Activity	Amount	Questioned
Initial Cost estimates and meeting with HUD	\$ 2,906.96	
Design Services Contract:		
Scheduled Payment	\$77,846.35	
Expense Reimbursement	-0-	
Subtotal	\$77,846.96	
Topographic Work	\$2,800.00	
Total	\$83,553.31	

The Architect billed \$2,307 for reimbursable expenses under the design services contract. However, the Architect did not adequately identify or provide supporting documentation for \$2,290.82 of this amount.

Recommendations:

We recommend that you:

- 1A. Require the Foundation to obtain adequate documentation from the Architect to support \$2,290.82 as necessary and reasonable reimbursable expenses and
- 1B. Ensure that any reimbursable costs not adequately supported by the Architect are not included in the final grant cost audit.

2. Security Guard Services Contract

The Authority/Foundation obtained only two quotes for security services and awarded the contract on November 26, 1996. The Authority/Foundation solicited bids but received only two quotes. The Authority/Foundation did not document their reasons for awarding the contract without obtaining three quotes. The former Acting Executive Director said the reason for not soliciting more bids was that they didn't want to further delay obtaining security guard services to protect the tenants and property.

In June 1997, after incurring costs of \$61,663, the Authority/Foundation discontinued the guard service because of a lack of remaining funds in their budget for Operating Loss Reserve. At the time, the security fence and gate was not yet fully operational. The Authority/Foundation had supporting invoices for only 5 of its 12 payments to the security company. Therefore, the Authority/Foundation did not have invoices for \$34,617 of the \$61,663 paid (see Appendix A).

Recommendations:

We recommend that you:

- 2A. Require the Foundation to obtain adequate documentation from the security company to support the \$34,617 and
- 2B. Ensure that any security costs not adequately supported by an invoice are not included in the final grant cost audit.

3. Fencing Contract

The Authority/Foundation contracted on January 23, 1997, to put a fence around the project for

\$159,394³ which was based on only one quote and it exceeded the HUD approved budget of \$102,110 (56 percent). The Authority/Foundation did not document the reason for obtaining only one quote and did not obtain prior HUD approval for exceeding the budget line item more than 10 percent. The former Acting Executive Director did not document the reason for obtaining only one quote. However based on her explanations and our discussion with HUD staff and the architect, the Authority/Foundation appears to have a valid reason because: (1) HUD wanted them to get the fence installed as quickly as possible; (2) the Authority/Foundation did solicit bids; and (3) awarded the contract to the only company that submitted a bid rather than continuing to delay fence construction while rebidding the work.

Although the Authority/Foundation did not get prior HUD approval to exceed the budget, HUD did provide after the fact approval with the additional cost to be taken from the General Overhead budget line item. We tested the \$83,225 paid on the contract through June 1997 with no exceptions.

4. Renovation Construction Contract

The Authority/Foundation obtained five quotes for the renovation work. The Authority/Foundation awarded the contract on June 27, 1997, to the low bidder for \$2,158,600. At the time of our review, the Foundation had made no payments on the contract.

³ One change order for \$1,823 on March 26, 1997, increased the contract cost to \$161,217.

Payments for Architectural Services					
Source	Check No.	Date	Amount	Questioned	Comment
Authority	6126	11/07/96	\$13,786.75		
Authority	6321	12/11/96	13,896.84	110.09	No supporting documentation
Foundation	003	01/06/97	13,808.44	21.69	No supporting documentation
Foundation	136	02/04/97	13,802.93		
Foundation	184	03/26/97	13,804.75	18.00	No supporting documentation
Foundation	295	06/06/97	2,141.04	2,141.04	No supporting documentation
Totals			\$71,240.75	\$2,290.82	

Security Guard Services					
Source	Check No.	Date	Amount	Questioned	Comment
Authority	10327	12/25/96	7,780.50		Invoice No. 001
Foundation	005	01/06/97	7,488.00		Invoice No. 002
Foundation	013	01/13/97	6,552.00	6,552.00	No supporting invoice
Foundation	117	02/04/97	7,488.00	7,488.00	No supporting invoice
Foundation	146	02/20/97	7,020.00	7,020.00	No supporting invoice
Foundation	150	02/28/97	6,084.00		Invoice No. 006
Foundation	182	03/20/97	5,460.00	5,460.00	No supporting invoice
Foundation	192	04/01/97	2,964.00		Invoice No. 008
Foundation	221	04/15/97	2,652.00	2,652.00	No supporting invoice
Foundation	259	05/15/97	2,792.54	2,792.54	No supporting invoice
Foundation	269	05/15/97	2,652.00	2,652.00	No supporting invoice
Foundation	293	05/29/97	2,730.00		Invoice No. 0012
Totals			\$61,663.04	\$34,616.54	

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