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1997-00842-01-02

MEMORANDUM FOR: Robert Vasquez, Director, Public Housing Division, 6IPH

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

SUBJECT: Housing Authority of Muskogee, Oklahoma
Congressional Inquiry Regarding Operations

At the request of Congressman Tom Coburn, M.D., we conducted a review of allegations of wrongdoing and violation of HUD requirements by the management of the Housing Authority of the City of Muskogee, Oklahoma (Authority). The primary allegations were that the Authority's management: (1) improperly hired and terminated employees; (2) had a conflict of interest in contracting with two companies; (3) deliberately reported incorrect occupancy information to HUD to increase their Section 8 administrative fees; and (4) improperly used Low Rent Program funds to support the Authority's Nonprofit Corporation and Drug Elimination Grant.

While we found that the Authority did not follow its adopted personnel policy in dismissing one employee, the other allegations of favoritism in hiring were not substantiated. Since HUD does not dictate the hiring, evaluation, and termination policies of a public housing authority, we are not recommending any action regarding this issue. Our review did not substantiate that the Authority improperly procured goods and services or deliberately reported incorrect occupancy figures to HUD. However, we did observe that the Authority does not have adequate controls to ensure the accuracy of their occupancy reports and claims for Section 8 administrative fees. The Authority also improperly used Low Rent funds to support the Authority's Nonprofit Corporation and to pay Comprehensive Grant expenses. The Nonprofit Corporation reimbursed the Low Rent Program. However, the Authority still needs to reimburse its Low Rent Program \$27,059 from its Comprehensive Grant.

In August 1997, your staff completed a PHMAP confirmatory review at the Authority. As a result, you have placed the Authority in the troubled category and required the Authority to take corrective action. The following summary of the results of our review is primarily to assist you and your staff in reviewing and monitoring the Authority's corrective action plan, since the issues were contributing factors in the Authority becoming a troubled agency. In addition, we are including five controlled recommendations regarding use of Low Rent funds and Section 8 Housing Quality Inspections.

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.

Background

The City of Muskogee, Oklahoma, created the Muskogee Housing Authority in 1969 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 its main office in the Honor Heights Apartments at 200 N. 40th Street, Muskogee, Oklahoma. The Authority's records are located at the main office.

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 a \$3.1 million Up Front Grant to renovate the property. Although the Foundation is a separate legal entity, Authority personnel managed its operations.

As a result of two reviews¹ 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.

¹ 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.

Results of Review

A. Board of Commissioners Did Not Take an Active Role to Monitor Operations

Oklahoma State law vests the powers of housing authorities in the Board of Commissioners. They have the authority to carry out the Authority business through individuals they employ or through decisions of a majority of the Board².

The Board's lack of oversight in prior years contributed to the Authority's ineffective operations. Through December 1996, the Board generally relied on the Executive Director and Assistant Director to operate the Authority in accord with HUD requirements. During 1996, seven Board meetings were rescheduled because of lack of attendance.³ However, because of a critical HUD monitoring review in 1996 coupled with a consultant's report on problems in administration of the Authority's Drug Elimination Grant, the Board terminated the Executive Director and took a more active interest in monitoring the Authority's operations.

Although the Board has been more actively involved during 1997, the Board still generally relies on the Authority management staff to administer their programs properly in accord with HUD requirements. The Board has not established an adequate system to monitor management performance. Therefore, the Board, in providing certain required certifications to HUD regarding Authority operations, such as the PHMAP score, has no assurance of their accuracy.⁴

Our review noted that Board members generally were not familiar with the respective requirements of HUD's Annual Contributions Contracts and Grant Agreements. Further, when the Board terminated the former Executive Director and made the Assistant Director the Acting Executive Director, they apparently did not consider the impact of the added duties on performance. Thus, for the 5 months prior to hiring a new Executive Director, one person was handling duties that were previously handled by two people.

The Board Chairperson stated that the Board did rely on the Executive Director. Board members were not paid for the job and did not have the time to get into the detailed operations of the Authority. However, the Authority's Board has a responsibility to ensure the Authority's management staff are properly performing their duties. Thus, it is their responsibility to ensure that they have established appropriate performance measures and obtain information on which to evaluate management performance.

² Sections 1058 and 1061, Volume 63, Chapter 40 of the Oklahoma State Code.

³ Only four of the seven rescheduled meetings were held.

⁴ Although the Board Chairperson is supposed to sign the certifications to HUD, this responsibility has generally been relegated to the Vice Chairperson.

The results of HUD's PHMAP confirmatory review conducted from August 25-29, 1997, illustrates the need for the Board to have an effective management monitoring system. HUD's review found the information reported to be inaccurate. The Authority's PHMAP assessment was overstated and/or unsupported in the areas of the number of vacancies, the length of time to recondition and release vacant units, and tenant accounts receivable performance. The review resulted in HUD lowering the PHMAP score and designating the Authority as troubled which requires closer monitoring and supervision.

B. Authority Did Not Have Adequate Records, Procedures, and Controls to Ensure Accuracy of Information Systems

The Authority has not established and implemented procedures, controls, and records to meet HUD requirements for accurate records and reports. Further, the Authority did not have adequate controls and records to ensure that it was operating its programs effectively and in accord with HUD requirements. Primarily, our review noted the following problems:

- The Authority's Section 8 staff were using a rolodex file in lieu of a HAP register and did not have procedures to reconcile the manual information with their automated system. Our review noted some minor differences in the units actually under lease at the first of the month and the ones used by the Authority to calculate its administrative fee.
- There is no historical (backup) record kept to reconstruct the Section 8 automated records in the event of computer problems or loss of computer files.
- The Authority did not have written procedures for its on-site managers and did not exercise adequate control over its automated system to ensure accurate reporting and control over occupancy and vacancy information. Thus, the Authority did not have a system to ensure its rent roll information, used to calculate its Performance Funding Subsidy, and its PHMAP assessment were accurate.
- The Authority's former Executive Director had not established adequate financial records or internal controls to ensure accuracy of Authority Performance Funding Subsidy and PHMAP. The Authority did not have written operating procedures for on-site project managers; controls for data input into the Authority's automated rent register; and did not reconcile automated system rent register information with the on-site managers' activity reports.
 - The Authority's managers operated under verbal instructions which were passed along from employee to employee as needed. Our review noted that the Authority had recently promoted an individual to be the manager at Honor Heights. This individual did not have a clear understanding of the Authority's practices for managing the property.

- The Authority's automated rent register tracked only occupied units. To track vacancies, Authority management relied on weekly activity reports prepared by the project managers, which showed the vacant units. However, Authority staff were not reconciling the automated information to the weekly activity reports. Since project managers were not always timely submitting move-in and move-out data and Authority staff were not reconciling the automated information to the weekly activity reports, the Authority was not ensuring the accuracy of its automated system.
- Also contributing to the problem was the Authority not having software that incorporated adequate edit controls for the data. This condition may have resulted in the Authority not receiving the correct amount of operating subsidy for 1997. Rental information required for the Performance Funding Subsidy calculation could not be accurately determined from the Authority's December 31, 1996 Rent Register. Although the total charges and units occupied shown on the Register were not significantly different from the amount reported, a closer examination of the units on the Register disclosed unexplainable errors. For example there were seven instances where two families were reported to be occupying the same unit.

C. The Authority Improperly Used Low Rent Program Funds to Support Other Activities

The Authority used \$101,069 of Low Rent Program funds to pay costs associated with its renovation of Shawnee Heights Apartments. The Authority also used \$27,059 of Low Rent funds to pay Comprehensive Grant costs.

HUD Regulations require public housing authorities administering the Low Rent Program to follow the cost principles set forth in OMB Circular A-87.⁵ These principles provide that costs may be charged to a grant program only to the extent such costs are allocable thereto and that they benefit the program.

The Authority initially used \$85,970 of Low Rent funds to cover the start up costs associated with its acquisition of Shawnee Heights from HUD's Fort Worth Multifamily Division. Although the Authority, in January 1997, reimbursed the Low Rent Program \$85,970 from its HUD Up Front Grant, it used \$15,099 in Low Rent funds from January to June 1997 to pay salaries associated with the Shawnee Heights' operation. The former Acting Executive Director stated that because of her additional workload, she had not been able to keep up with the amounts that needed to be repaid. In August 1997, the Authority used its Nonprofit Corporation funds to reimburse the Low Rent Program for these salary costs.

⁵ HUD regulations at 24 CFR 990.201 and 24 CFR 85.20.

Also, the Authority did not have an adequate system to ensure it properly coded and recorded expenses to its Comprehensive Grant Program. As a result, the Authority disbursed \$27,059 from Low Rent Program funds which should have been paid from Comprehensive Grant funds.

Recommendations:

We recommend you require the Authority to:

- 1A. Reimburse the Low Rent Program \$27,059 from its Comprehensive Grant funds and
- 1B. Cease using Low Rent funds to support other activities and to establish controls to ensure it charges costs in accord with OMB cost principles.

D. Authority Does Not Follow HUD Requirements for Section 8 Housing Quality Inspections

Although Authority staff were properly verifying participant information, determining participant eligibility, and calculating the monthly housing assistance payment, the Authority was deficient in inspecting units for meeting HUD's Housing Quality Standards. Further, Authority management was not making periodic supervisory reinspection of Section 8 units, as HUD requires.

HUD regulations⁶ require the Authority to inspect each Section 8 housing unit at least annually to determine that the unit meets HUD's Housing Quality Standards. If a unit fails the inspection, HUD requires the Authority to take action to have the landlord make the necessary repairs to bring the unit up to standard. HUD requires the Authority to reinspect the unit. If the landlord has not brought the unit up to standard, HUD requires the Authority to abate the Section 8 Housing Assistance Payment and, if necessary, move the participant to another unit. HUD also requires the Authority to conduct supervisory quality control reinspection of at least 10 percent of its units.

A review of 60 participant files disclosed 17 deficiencies (28 percent) related to the Authority's inspection for Housing Quality Standards (see Appendix A). The Authority had not inspected five of the units for meeting standards at the time of recertification. For the other 12, the Authority had failed the unit, but there was no evidence the Authority did a follow-up inspection to ensure the owner corrected the violations. The Authority's Section 8 manager also stated that the Authority had not established a quality control system for supervisory reinspection of units.

⁶ HUD regulations are at 24 CFR 982.153, 404, and 405.

Recommendations:

We recommend you require the Authority to:

- 2A. Establish a tickler system to identify units in need of inspection or reinspection;
- 2B. Follow up on the 17 units and any other similar cases to ensure the units meet Housing Quality Standards or abate the Housing Assistance Payments until they meet standards;
and
- 2C. Establish a quality control system that provides for supervisory reinspection of at least 10 percent of the Authority's Section 8 contracts with landlords.

Audit List of Section 8 Tenant Addresses that Failed
Housing Quality Standard Inspection upon Recertification

Deficiencies Identified During OIG File Review July 23, 1997				
	Certificate Number	Unit Address	Date	
			Failed Inspection	Recertified -Not Inspected
1	280	3749 Club Estates #2	3/97	
2	24	719 N. 5th		12/96
3	62	825 Park Place	6/97	
4	112	2615 1/2 Elgin		10/96
5	72	1308 S. 40th #72		6/97
6	304	1515 Denison	6/97	
7	84	322 1/2 Alley South 7th	4/96	
8	284	2601 Airline	4/97	
9	138	1309 S. 39th Street #35	2/97	
10	148	1704 N. Aberdeen		5/96
11	87	2708 Williams		10/96
12	257	315 S. 9th St.	11/96	
13	109	704 Irving	6/97	
14	303	134 Independence	6/97	
15	131	519 N. F. Street	5/96	
16	301	319 N. 13th St.	6/97	
17	158	2901 Keetoowah #16	7/97	

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